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Dear Mr Smith

Consultation on the technical legislative implementation of the EU Audit Directive and Regulation

We welcome the opportunity to comment on BIS's Consultation on the technical legislative implementation of the EU Audit Directive and Regulation.

Overall we agree with the Government's decision not to define additional PIEs for the purpose of the application of the Regulation and the provisions of the Directive applying to audits of PIEs. However, we are concerned about measures which are likely to make the UK uncompetitive, such as differing requirements in the area of continuous audit engagements, or which will further concentrate the UK market, for example, where newly designated PIEs are audited by firms without previous experience of the regulatory requirements and inspection regime facing auditors of PIEs.

Our responses to the specific questions included in the consultation are set out in Appendix 1.

If you would like to discuss any aspect of this response further please do not hesitate to contact Derek Lemay on 0141 285 3900.

Yours faithfully

RSM UK Audit LLP

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APPENDIX 1 - RESPONSES TO SPECIFIC QUESTIONS

1. **Do you agree with the approach the draft implementing regulations take given the Government's conclusions as set out in these chapters? Why?**

We agree with the Government's decision not to define additional PIEs for the purpose of the application of the Regulation and the provisions of the Directive applying to audits of PIEs. We do not agree with the requirement set out in Section 7 that where the auditor has been re-appointed following one or more tender processes, the maximum duration of a continuous audit engagement including joint audits should be 20 years. The Regulation refers to a 24 year period where there is a joint audit. We are concerned that differing requirements in this area will make UK auditors uncompetitive.

In relation to section 8 on standards and standard setting we are commenting separately to the FRC on their consultation on the implementation of the EU Regulation and Directive into UK auditing and ethical standards. In that response we did not agree with the approach taken by the FRC to copy out EU requirements and paste them into UK standards without seeking to eliminate duplication or embed them more cohesively into the existing requirements. Whilst we understand this is the approach recommended by BIS we question whether this makes for high quality UK standards that can be capable of being implemented by the auditing profession and if this is the approach to be taken going forward we are concerned about the quality and ease of implementation of future standards.

We do not have any further comments to make on Chapters 5, 6, 7 and 12.

2. **Do you agree with the Government's proposals on amendments to the Companies Act to reflect Articles 15 and 18 of the Regulation and the amendments to Articles 23, 45 and 47 of the Directive? Do you agree that these are all that is needed to reflect the provisions of the new Directive and Regulation on cooperation, transferring information and confidentiality? Why?**

We agree with the Government's proposals as listed above. We do not consider that anything further is required to reflect the provisions of the new Directive and Regulation on cooperation, transferring information and confidentiality.

3. **Given the analysis of costs and benefits in the Impact Assessment in general, do you have any comments on how our estimates or underlying assumptions might be improved? Please explain your answer.**

We have reviewed the estimates and assumptions included in the Impact Assessment and note that it has been assumed that audit fees and non-audit fees are broadly similar across all PIEs. As potentially smaller entities such as unlisted insurers are now captured by the new Directive, we challenge whether this assumption is appropriate.

4. **Responses to our Discussion Document suggested that familiarisation and implementation costs to:**

- newly designated PIEs; and,
 - audit firms that become auditors of PIEs for the first time...
- ... would be disproportionately higher. We propose that in the final IA we should uplift the estimated costs for such businesses by a percentage to reflect the additional resource costs to such firms arising from their lack of experience of the requirements of the Regulation and of those provisions of the Directive applying to audits of PIEs. For each category listed above, what do you consider to be a reasonable percentage?**

We anticipate that the familiarisation and implementation costs to newly designated PIEs and audit firms that become auditors of PIEs for the first time will be disproportionately high, principally due to the additional reporting requirements which PIEs are subject to and the increase in regulation that those firms will be subjected to. There is a danger that audit firms will be driven out of the market for those

newly designated PIEs and that the competition in the audit market will suffer as a result which was not the aim of the regulation but may be an unintended consequence. The complexity of the PIEs concerned will affect the extent of the incremental costs incurred. For this reason we are unable to provide an estimated percentage. Additional costs will also be incurred as a result of regulatory visits and reports.

5. **In the consultation IA we have estimated the direct costs to PIEs of having to tender the audit engagement every 10 years. In our final analysis, we also plan to include an estimate of the additional costs that would be incurred by a new auditor that has to familiarise itself with the business of a new PIE client. We propose that the additional familiarisation cost to auditors engaged in a new audit could be estimated is an additional 10-30% of the cost of the audit in the first two years. Is this reasonable?**

Based on our experience, additional costs in the first two years of an audit engagement are towards the higher end of the 10-30% range specified above. There are a number of factors which impact this including the complexity of the PIE itself.

6. **Our preliminary analysis suggested that the costs and benefits of the measures in the new Directive affecting audits of non-PIEs would be negligible. This has been assumed in the consultation IA. Is this reasonable? If not, what do you estimate will be the main changes giving rise to costs and benefits for non-PIEs and their auditors? Can you provide quantitative estimates?**

We agree that the costs and benefits of the measures in the new Directive affecting audits of non-PIEs would be negligible.

7. **It is particularly important to assess the costs and benefits arising from the new Directive for non-PIE LLPs and their auditors as the implementation of the new Directive is not required by EU law for these audits. Would your answers to question 6 differ for non-PIE LLPs? How and why?**

Our answer to question 6 would not differ for non-PIE LLPs.

8. **Do you think that the Government should:**
- **implement the changes required by the new Directive for audits of non-PIE LLPs alongside those same changes for entities (such as companies) that are required to be audited by EU law; or,**
 - **implement some or all of the changes required by the new Directive for audits of non-PIE LLPs at a later stage?**
- ... please give reasons for your answer.**

We consider that the Government should implement the changes required by the new Directive for audits of non-PIE LLPs alongside those same changes for entities that are required to be audited by EU law. This would mean that practitioners will only need to adhere to one set of requirements for PIEs and one set for non-PIEs which will assist them from both a compliance and efficiency perspective.

9. **Do you think there would be cost savings from implementing the changes required by the new Directive for non-PIE LLPs at the same time as for entities (such as companies) whose audits are subject to EU law? Please give reasons for your answer. Can you provide any estimate of the extent of these savings?**

Please see our response to Question 8 above.