

9 December 2015

Paul Smith Esq.
Corporate Frameworks, Accountability and Governance Team
Department of Business, Skills and Innovation
1 Victoria Street
London
SW1H 0ET

Our Ref: SJG

Dear Mr Smith

Auditor Regulation: Consultation on the technical legislative implementation of the EU Audit Directive and Regulation (ADR)

We are pleased to provide the views of Crowe Clark Whitehill LLP on the questions set out in the consultation document.

Crowe Clark Whitehill is a mid-tier accountancy firm with eight offices and approximately 650 people. We will be signatories to the combined submission from the Group A accounting firms and certain members of the Association of Practicing Accountants. The comments we provide in this submission should be read in conjunction with that response.

We are pleased that the Government is committed to a "minimum implementation approach" as regards the ADR whereby it will seek to apply only the mandatory changes required by the EU reforms and other changes of benefit to the business environment in the UK.

As you are aware, the Financial Reporting Council (FRC) which will be the Single Competent Authority (SCA) is also consulting on changes to ethical standards for auditors and auditing standards arising from the ADR. We are disappointed to note that the FRC's approach is somewhat divergent from the approach of Government and that it has not taken the opportunity presented to align some of its requirements with those that will be enacted through the draft regulations. The FRC will continue to have requirements that are in excess of those required by the ADR and other relevant international standards (such as the International Ethics Standards Board for Accountants) which we believe is regrettable and represents a missed opportunity to bring the UK on to a level playing field with the rest of Europe without compromising on financial reporting or audit quality.

On the following pages we set out our responses to the individual questions in the consultation paper.

Yours sincerely



Steve Gale
Head of Professional Standards
Crowe Clark Whitehill LLP

Consultation questions	Crowe Clark Whitehill response
1. Do you agree with the approach the draft implementing regulations take given the Government's conclusions as set out in these chapters? Why?	<p>On the whole we support the approach taken which, in our view, seems to be in line with the stated objectives of the "minimum implementation approach".</p> <p>We support the proposed delegation of functions from the FRC (as the SCA) to the Recognised Supervisory Bodies (RSBs). It is important, however, that as well as delegating the conduct of inspections and investigations to the RSBs for non-PIEs, any resultant disciplinary process must be similarly delegated.</p>
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?	<p>We believe the Government's approach to be sensible and, indeed, should bring added clarity on a number of matters currently dealt with under professional regulatory requirements.</p>
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.	<p>We have no specific comment on this point.</p>

Consultation questions	Crowe Clark Whitehill response
<p>4. Responses to our Discussion Document suggested that familiarisation and implementation costs to:</p> <ul style="list-style-type: none"> • newly designated PIEs; and, • audit firms that become auditors of PIEs for the first time... <p>... 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?</p>	<p>It is difficult to estimate a percentage with any degree of accuracy given the circumstances will be different for all the newly-designated PIEs (a number of whom will already have governance arrangements in place which will require little substantial amendment) and the range of audit firms that become PIE auditors for the first time.</p> <p>From a broad perspective, however, we believe 50% would be a reasonable estimate for both categories.</p>
<p>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?</p>	<p>As with our response above, we believe this is inherently difficult given the wide range of audit assignments that will be covered but we suggest the additional familiarisation costs would be at the upper end of the range indicated.</p>

Consultation questions	Crowe Clark Whitehill response
<p>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?</p>	<p>Overall we concur with the preliminary analysis.</p>
<p>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?</p>	<p>The audit and financial reporting regime for LLPs is broadly similar to that for private companies. On this basis, we do not foresee why our answer to 6 above would differ for non-PIE LLPs and their auditors.</p>
<p>8. Do you think that the Government should:</p> <ul style="list-style-type: none"> • 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. 	<p>We believe Government should implement the changes for the audits of non-PIE LLPs at the same time as the changes for other entities. Failure to do so could cause unnecessary confusion and complication for groups which contain a mix of LLPs and companies.</p>
<p>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?</p>	<p>We do not believe there would be cost savings from implementing the changes for non-PIE LLPs at the same time as for other entities but we foresee additional costs if they are not.</p>