

Auditing Practices Board

Amendments to the APB Ethical Standards for Auditors

Feedback paper: December 2011

1. In November 2011 the APB invited responses on two specific proposed amendments to ES 1 and ES 5. Fifteen letters of comment were received to this consultation. These are listed in the Appendix to this paper and the letters are available on the APB web-site at <http://www.frc.org.uk/apb/publications/pub2658.html>.
2. All commentators agreed that an extension of the transitional period for tax advisory engagements provided on a contingency fee basis was appropriate. All fourteen commentators who included a view on the illustrative template for use when communicating information on audit and non-audit services provided to a group considered that the revised appendix to ES 1 was appropriate.
3. APB's responses to more detailed comments that were included in the letters of comment are set out below.

Tax services provided on a contingency fee basis

4. APB's proposed amendment to ES 5 extended the transitional period for tax advisory engagements that would otherwise be prohibited under paragraph 95 to 31 December 2014. Two commentators suggested that this period should be extended further or at least reviewed before this date. APB will not be revisiting this decision at a later date as it believes that this provides sufficient time for audit firms to undertake an orderly process of terminating or amending prohibited contracts which will not have been completed by this date.
4. One commentator felt that it could be made clearer that the conditions in paragraph 171 of ES 5 relate to both sub-paragraphs (a) and (b). This has been achieved in the final version by moving the conditional statement in paragraph 171 to a separate line from sub-paragraph (b).

Disclosure of auditor remuneration regulations

5. APB's proposed amendment to the illustrative template for communicating information on audit and non-audit services in the case of listed companies took advantage of the revisions to disclosure regulations published by the Department for Business, Innovation and Skills. The revisions enabled the reconciliation of services disclosed to the audit committee with those disclosed in the notes to the financial statements to be simplified.
6. Two commentators believed that non-audit services in respect of the audited entity provided to a third party should be deleted from the illustrative template. While APB notes that the fees for such services would not necessarily be disclosed in the notes to the financial statements, APB concluded that such fees should be included in the auditor's communication with those charged with governance disclosing those facts and matters that bear upon on the auditor's objectivity and independence. Under paragraph 12 of ES 5, services provided to another entity in respect of the audited entity are non-audit

services for the purposes of the ESs. The relevance of this information for the purposes of the Ethical Standards has been clarified in the footnote to the illustrative template.

7. One commentator noted that it would be helpful to mirror legislative wording in all cases. The wording used in respect of corporate finance services has been amended from that included in the consultation paper. However, no footnote has been added to this line (as was also suggested by this commentator) since it is already thought to be clear that this includes both corporate finance and transaction related services, but not assurance or tax services, which are both included in a category above this line.
8. APB has not included other examples of ‘other assurance services’ as suggested by one commentator. There are many examples of such services and to list additional examples suggests that others may have been purposely excluded. A cross reference to the definition of an assurance engagement, which is provided in APB’s Compendium of Standards and Guidance, has been included in the footnote. APB notes that while this definition would include reporting in accordance with *Standards for Investment Reporting 2000 (Revised): Investment reporting standards applicable to public reporting engagements on historical financial information*, it would not include all the examples of work undertaken in connection with investment circulars.
9. As the template includes all fees from the perspective of the audited entity (i.e. a stand-alone company or a group), APB agrees with the commentator who highlighted that non-audit services in respect of the audited entity provided to a third party would include services provided to a parent company. However, it is not thought necessary to include this in a footnote.
10. One commentator suggested that guidance should be included to encourage the provision of supplementary analysis to audit committees where there was difficulty or judgment used in determining the appropriate category of a service. Whilst agreeing that this would be helpful to audit committees, APB does not consider that such guidance is necessary as part of the Ethical Standards.
11. One commentator suggested that it might be helpful to draw a box around the sub-totals to demonstrate the composition of each one and to highlight certain other sub-totals. In the final standard, APB has added a further sub-total in respect of ‘total other non-audit services’ to make it clearer that this sub-total and others are included in ‘total non-audit services’. However, as the template is illustrative, APB does not believe that further amendment is necessary. Auditors can, of course, add their own formatting to the information that is provided to audit committees as they believe would be helpful.
12. A footnote has been added to the note below the template which explains that legislative disclosures for the UK are indicated by the use of bold type. This footnote provides a cross reference to guidance on the Irish requirements on the disclosure of auditor remuneration, as suggested by one commentator.

Appendix: List of respondents

ACCA

Baker Tilly

BDO LLP

Chartered Accountants Ireland

Chartered Accountants Regulatory Board

Deloitte LLP

Ernst & Young LLP

Grant Thornton UK LLP

ICAEW

ICAS

Institute of Certified Public Accountants in Ireland

KPMG LLP

Mazars LLP

PKF (UK) LLP

PricewaterhouseCoopers LLP