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6 December 2011

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Your ref:

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Dear Ms O'Sullivan

Consultation on amendments to the APB Ethical Standards for Auditors

1. Ernst & Young LLP welcomes the opportunity to respond to the *Consultation on amendments to the APB Ethical Standards for Auditors* ("the Paper") issued by the Auditing Practices Board.
2. We are broadly in agreement with the changes proposed, but have raised a couple of specific comments below.

Tax services provided on a contingency fee basis

3. We start from the general principle that retroactive regulation is inappropriate and therefore we agree with the APB's proposal to extend the end date for the transitional arrangements in respect of the provisions set out in ES5, paragraph 95 from 31 December 2011 to 31 December 2014. In extending the end date, the APB is appropriately addressing the significant retroactive effect the revised standard would otherwise have had on existing contracts subject to contingent fee arrangements which pre-dated the December 2010 changes.
4. The one minor observation we have relates to the wording of the proposed paragraph 171 of ES5. It is not entirely clear that the conditions contained in that paragraph relate to both sub-paragraphs (a) and (b), if indeed that is what is intended. To avoid any confusion, it would be helpful if the APB would make the position clear.

Disclosure of auditor remuneration

5. In order to ensure consistency, we consider that the proposed line item "Corporate Finance Services" should be aligned to the wording used in the Regulations, namely "Corporate Finance Transactions". We believe it may be helpful to include a footnote to clarify that this will include Corporate Finance Services and Transaction Related Services (thus mirroring the categories in the Ethical Standards), but not engagements which fall to be classified as "other assurance services" or "taxation services".
6. We welcome the improved alignment between the Regulations and the proposed Appendix 1 and consider that this will lead to a greater degree of consistency of disclosure between companies. To enhance this further, we consider that the APB should provide further examples of "other assurance services" which are likely to be encountered in practice, as there is no such separate categorisation within the Ethical Standards.

7. The line "Non-audit services in respect of the audited entity provided to a third party" goes further than the requirements of the Regulations. We believe that footnote 6 should clarify that third party includes the parent of the company or any other group member that is not an associate.
8. Based on the above and the discussions summarised in the Explanatory Text that followed the publication of the draft regulations, we believe that the APB should consider encouraging auditors to provide supplementary analyses to the audit committee where there has been difficulty or judgement used in determining the appropriate category.

Concluding remarks

9. We are grateful for the opportunity to comment on the Paper and we hope that you have found our comments helpful. If you would like to discuss any of the points raised, please contact me or James Hilditch. For the avoidance of doubt, this is not a confidential reply.

Yours sincerely

Robert Overend
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