البنك الأهلي المتحد
ahli united bank

24 September 2019

To:
James Ferris
Financial Reporting Council

Topic:
Consultation paper – Post implementation review of the 2016 auditing and ethical standards.
Dated July 2019

Feedback Question 3
"Will the restructured and simplified Ethical standard help practitioners understand requirement better and deliver a higher standard of compliance? If not what further changes are required?"

We note the revision of the wording in paragraph 5.167R in relation to the highlighted text within the following extract:

"An audit firm carrying out the statutory audit of a public interest entity, or any member of the network to which the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings <u>within the Union</u> any prohibited non-audit services."

The removal of the text "within the union" would result in the application of the rule amendment being applied to all worldwide parent companies, irrespective of the size of the UK entity in relation to the parent. It is not clear if this was the intention, as the removal of the phrase "union" would appear to be in relation to the United Kingdoms planned exit of the European Union. It should be noted that within the consultation paper the wording references UK PIE Groups, for which the FRC has legislative responsibility to monitor. The planned wording change would imply that the FRC's monitoring responsibility would in effect become global and there is no confirmation to what agreement has been reached with other country/regional responsible authorities.

This wording change contradicts SI 2019/177[1], in which SI 537/2104 paragraph 4 has been amended to include the following wording after "parent undertaking":

- incorporated or formed in any part of the United Kingdom.

The immediate impact of such a rule change is that, as a UK PIE entity, Ahli United Bank (UK) PLC ("The Bank") would need to change auditors as it is not optimal to have a "wait and see" strategy. For the Bank it would not be realistic to directly influence what non-audit services can be provided by the group auditor in the wider AUB Group, irrespective to whether the use of that service has any bearing on the financial statements of the Bank.

Such a ruling change creates an unrealistic and impractical burden on the Bank for the following reasons:
- Additional complexity for the Bank, as the potential to leverage off audit procedures for centralised systems and functions would no longer be possible to achieve in an efficient and effective manner.

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[1] The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019

- The utilisation of the same audit firm auditing the entire group ensures oversight ("big picture" view) and dynamic real time communication. The Bank would no longer benefit from such a framework.
- If the proposed change is confirmed, as currently stated, the Bank will immediately start the tender process to appoint new auditors for the Bank. Our assumption is that impacted UK PIE's will also undertake a similar exercise, resulting in the possibility that the Bank having to use an audit firm outside of the Big-4, for which there is already a general impression that such audit firms do not have sufficient capacity or expertise in financial services to undertake such audits. The Bank previously used an audit firm outside the Big-4, who were criticised by the FRC for their auditing of the Bank resulting in the Bank using the current Big-4 audit firm.
- It is our opinion that such a change, for a small UK Bank, will create an inappropriate disruption with the organisation that would weaken the quality of the audit process between the Bank and audit firm.

<u>Conclusion</u>

We believe that the following is urgently required:

1. The wording of paragraph 5.167R should be amended as follows to reference only UK-parent groups:

   "An audit firm carrying out the statutory audit of a public interest entity, or any member of the network to which the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its UK-parent undertaking or to its controlled undertakings any prohibited non-audit services."

2. If the rule change does apply to non-UK group parents, the introduction of an exemption limit, which will ensure that UK PIE's that are under the limit are not subject to an unrealistic and impractical organisational changes that we believe does not enhance a higher standard of audit deliverables.

3. If the rule change does apply to non-UK group parents, the effective date for accounting periods starting after 15 December 2019 should be deferred, and the wording amended to accounting periods starting after 15 December 2020.

Yours sincerely

Andrew Harvey
Head of Finance
Ahli United Bank (UK) PLC

Ahli United Bank (UK) PLC
35 Portman Square, London, W1H 6LR
Tel: +44 (0)20 7487 6500 Fax: +44 (0)20 7487 6808
aubuk.info@ahliunited.com www.ahliunited.com

البنك الأهلي المتحد (المملكة المتحدة) ش ع م
٣٥ بورتمان سكوير، لندن، دبليو١ اتش ٦ ال آر
هاتف: ٦٥٠٠ ٧٤٨٧ ٢٠(٠) ٤٤+ فاكس: ٦٨٠٨ ٧٤٨٧ ٢٠(٠) ٤٤+
aubuk.info@ahliunited.com www.ahliunited.com