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24th March 2015

Dear Keith

**Consultation: Auditing and ethical standards – Implementation of the EU Audit Directive and Audit Regulation**

I attach our answers to the questions in the consultation document in the appendix to this letter.

Our general view, as fund management investors in mainly UK equities for UK retail funds, is that the UK audit regime is reasonably fit for purpose and does not need major fixes. However, all processes may be improved and we welcome this consultation opportunity to reply and provide some thoughts on where these improvements may be made. As indicated in the consultation meeting on 11th March, we do not believe the clock should be turned back and the FRC should keep the improvements they have made to date.

Other key points are:

- One set of standards should be set for all entities with the use of proportional application to provide practical flexibility
- A black list approach should be taken to prohibited non audit services
- The perception of threats to auditor independence should be further mitigated by audit committee approval of non prohibited non audit services and a cap of 70% of prior year's group audit fees.

If you need to discuss anything further or clarify our answers, please call me to discuss.

Yours sincerely

Charles

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**Appendix to 24th March 2015 letter - Consultation: Auditing and ethical standards – Implementation of the EU Audit Directive and Audit Regulation**

**Consultation Questions**

**Section 1 – Auditing Standards**

**Question 1:** Yes, so long as any imposed additional requirements to those adopted by the Commission are to address national law and add to the credibility and quality of financial statements. The stakeholders who should be consulted on and agree to the latter are equity shareholders. Current auditing standards that may be considered as additional requirements to those adopted by the Commission should be kept using this additional requirements provision in the interest of not turning back the clocks and not losing the improvements gained to date.

Out of interest and because of not knowing the detail of ISA 260, would the additional auditor report to audit committees of PIEs require its contents to be made public in either the PIEs' Audit Committee or Auditors' Reports? If it does not, making the contents public, subject to commercial sensitivity requirements, should be considered.

**Section 2 – Proportionate Application and Simplified Requirements**

**Question 2:** Yes. In the interests of simplicity, it is better to have one set of auditing standards and to use the principle of proportionality to adjust the application of these to smaller undertakings.

**Question 3:** No the FRC should not simplify the requirements and yes the requirements should apply to all relevant entities regardless of size, as long as judgements on their proportionate application can be made.

**Section 3 – Extending the More Stringent Requirements for Public Interest Entities to Other Entities**

**Question 4 (a):** Yes.

**Question 4 (b):** All and All.

**Question 5:** All and All.

**Question 6:** No.

## Section 4 – Prohibited Non-audit Services

**Question 7:** The best approach to reduce perceptions of threats to auditor's independence arising from the provision of non audit services will be one that is known, understood and accepted by the primary users of audited financial statements, equity investors. I believe that finding a majority consensus of the best approach among equity investors will be very difficult. However, I suggest that a black list of prohibited services will be a good starting point. As indicated at the consultation meeting on 11th March, this suggestion comes from ideas generated in relation to the FCA's use of dealing commission rules in COBS. The black list of prohibited services should be enhanced by audit committee or equivalent approval of other non prohibited services provided and the 70% of audit fees cap of these.

The black list of prohibited services should include remuneration committee reporting and policy consultancy services (as I could not see this in the Article 5 list in the consultation document).

While more related to section 5 of the consultation, the 70% cap should be of the prior year's group audit fees. This suggestion bears in mind keeping the requirements simple and thinking that the black list, approval of non prohibited services and the cap requirements should apply to the whole group of any relevant company.

**Questions 8 to 11:** In the context of our answer to question 7, these questions have not been answered as seen as not applicable.

**Question 12:** Yes; no other conditions should be established and my answer would be no different whether or not a white list approach was adopted.

**Question 13:** Yes.

**Question 14:** Yes.

From an investor's point of view, their investment in the top company is an investment in the business of its group and therefore it makes more sense to have the same standards apply to all levels of a group's audit.

## Section 5 – Audit and Non-audit Services Fees

**Question 15:** The 70% cap on fees for non audit services is sufficient. As mentioned above we think this should be 70% of the group's prior year audit fees rather than a three year average. In general, we would expect audit fees not to change materially year on year and to be set at a reasonable level to ensure a competent audit as auditors should be selected for other reasons than cost.

**Question 16:** No, as it is very difficult to envisage any exceptions.

**Question 17:** The cap should apply to non audit services provided by any firm auditing the PIE and its group entities.

**Question 18:** Not applicable – see answers to questions 7, 14, 15 and 17.

**Question 19:** No. On the basis that an auditor will be appointed for mainly non cost reasons and the group audit cost should be reasonably consistent year on year, we envisage it to be relatively straight forward to have the previous year's group audit fee as the denominator for a 70% cap.

**Question 20:** Yes, as we believe the improvements in auditing standards gained in the UK to date should not be reversed.

**Question 21:** Yes to all PIEs, for the same reason as answering 'no' to question 6 that widening the definition of a PIE beyond the three main criteria is not helpful and will require an appropriate body, if one can be found, to decide additional designated entities as PIEs.

**Question 22:** Yes.

**Section 6 – Record keeping**

**Question 23:** Yes and consistent with the ICAEW guidance of six years.

**Section 7 – Audit Firm and Key Audit Partner Rotation**

**Question 24:** Yes.

**Question 25:** Yes.

**Question 26:** Yes to all PIEs, for the same reason as answering 'no' to question 6 that widening the definition of a PIE beyond the three main criteria is not helpful and will require an appropriate body, if one can be found, to decide additional designated entities as PIEs.

We believe the improvements in auditing standards gained in the UK to date should not be reversed.

**Consultation Stage Impact Assessment**

**Question 27:** No.