

TRANSPARENCY REPORTING BY AUDITORS OF PUBLIC INTEREST ENTITIES: NEXT STEPS

1. The consultation document [Transparency Reporting by Auditors of Public Interest Entities](#) sought views on the statutory provisions which the Professional Oversight Board should make under its delegated powers to give effect to the requirements of Article 40 in the revised 8th Company Law Directive (2006/43/EC) for transparency reporting by some audit firms.
2. We set out in this document how we propose to take this issue forward. We also provide an analysis of the responses, with our preliminary conclusions on the four issues raised and publish the [twelve non-confidential responses received](#).

Next Steps

3. The DTI has announced that it plans to bring into force Part 42 of the Companies Act 2006 on 6 April 2008. That includes the power, expected to be delegated to the Oversight Board, to set requirements on transparency reporting by audit firms. We have concluded therefore that we should be ready to bring into effect Oversight Board regulations on transparency reporting as of that date. This is roughly three months ahead of the 29 June 2008 deadline on Member States to implement the Directive.
4. We expect to publish draft Oversight Board regulations later this year for comment. In particular we want to review the requirements in the light of any ideas on the greater transparency of audit firms emerging from the work under the auspices of the FRC on *Choice in the Audit Market*. We are also discussing our proposals with other member states to see if there is scope to harmonise the implementation of these provisions across the EU.

Results of Consultation

5. We invited comments from the auditors of public interest entities, professional accountancy bodies and other representative bodies. We also drew this to the attention of the Finance Directors of the largest 250 listed companies and asked them to bring this to the attention of the Chairs of their Audit Committees. The invitation to comment also went to the press and automatically to all those registered to receive notification of FRC publications.

6. There were fourteen responses to the consultation, of which twelve were non-confidential. **Table 1** shows respondents by type of stakeholder.

<i>Table 1</i>	
Accountancy Bodies	3
Members of Audit Committees	1
Finance Directors	3
Audit Firms	7
Total	14

7. The consultation document raised four issues:

- The scope - which audit firms, should be subject to mandatory transparency reporting?
- The form of reporting - in particular should be a requirement for a separately identifiable transparency report?
- The manner of transposition of the Directive requirements - should the detailed disclosure requirements be adopted as they appear in the Directive; or is there a need for specific adaptations?
- The need for additions - should there be statutory disclosure requirements over and above those required by the Directive?

Issue A **Should the requirement to prepare transparency reports be restricted to the auditors of fully listed companies - the minimum 8th Directive requirement - or should it be aligned with the slightly wider scope of the Audit Inspection Unit - that is to the auditors of all entities in which there is significant public interest?**

8. 10 respondents favour restricting the scope of transparency reporting to the minimum required by the 8th Directive, essentially on the grounds that this met the objective of minimum regulation. 3 respondents considered that it was more logical to align transparency reporting with the remit of the Audit Inspection Unit, which would then extend the requirement to all the auditors of public interest entities.

Preliminary conclusion: *We should restrict the scope to the minimum requirement of the Directive - that is to the auditors of listed companies ("companies which have issued transferable securities admitted to trading on a regulated market").*

Issue B **Should we specify the form or manner of publication beyond the requirement to publish on the firm’s web-site? In particular should we require a separately identifiable transparency report, either as a part of the firm’s Annual Report, or as a separate document? Additionally should audit firms be required to provide the Professional Oversight Board with an electronic copy, which could be placed on our web-site?**

9. There are mixed views on whether there should be an explicit requirement that the transparency report should be a separately identifiable report (either a free-standing document or a clearly identifiable part of a firm’s annual report). 6 respondents favour such a requirement, on the grounds that this would help interested parties to compare the reports of different audit firms. One professional body comments that the requirement in the Directive for a signature should in any event result either in a separate section of a document or a whole document that comprises the transparency report including any additional voluntary disclosures. However, 5 respondents consider that audit firms should have maximum freedom to decide how to communicate required information.

10. The consultation also invited views on whether the reports should be placed on the Oversight Board’s web-site. Most respondents do not favour an arrangement by which the principal source of the transparency report should be the Oversight Board web-site. First, it is argued that most interested parties would look first at the firm’s own web-site; secondly that there could be differences between the firm’s web-site and the Oversight Board web-site.; thirdly that such an arrangement could make it more difficult for firms to keep transparency information up to date; and finally that it could increase the likelihood of “boiler-plate reporting”.

11. On the other hand, most respondents believe that the Oversight Board should provide links to the transparency reports of all the relevant firms.

12. A number of the major audit firms also emphasise the considerable benefits of harmonisation across Member States with a view to a single EU transparency report for the information that is common to all firms in a network. One firm suggests that the Oversight Board, as perhaps the first body in the EU to consult on this, should take a lead within the EU in discussing implementation with a view to a harmonised approach. .

Preliminary conclusion: Transparency reports should be separately identifiable either as a separate document or as a clearly identifiable part of a firm’s Annual Report. Firms would be free, however, to include additional transparency information within this report on a voluntary basis. We should provide a link from our web-site to all available transparency reports and the relevant firms should let us know when a new transparency report is available.

Issue C **How should the detailed disclosure requirements in Article 40 be incorporated into UK statutory requirements? Should they be incorporated just as they appear in the Directive? Or are there specific adaptations which should be reflected in the UK implementation?**

13. There are mixed views in response on this issue. 5 respondents would like to see implementation of the detailed requirements by following the Directive wording exactly, and leaving individual audit firms free to interpret the requirements. The concerns are that efforts to add clarity to the requirements would in practice add cost and complexity, and may make a common approach across the EU more difficult to achieve,

14. On the other hand 8 respondents favour clarifying the requirement at least on some points. 3 respondents give detailed comments on the specific points raised for discussion in the consultation document. Most of these respondents also see a role for non-statutory guidance on the detailed requirements, to be given either by the Oversight Board or by the professional bodies.

Preliminary conclusion: In turning the Directive requirements into legal text we should aim to stick to the Directive wording other than where, taking into account detailed comments in the consultation, we consider that the requirement is unclear. We will seek views from other Member States on this aspect before taking a final decision. The Oversight Board should also consider developing non-statutory guidance, taking into account views from the professional bodies.

Issue D **Are there any “transparency” disclosures over and above those set out in Article 40 which we should require?**

13. Almost all respondents agree that there should **not** be mandatory disclosures over and above those specified in the Directive. One respondent suggests that audit firms should have to disclose additional information on an exception basis, if non-disclosure results in a misleading transparency report being issued.

Preliminary conclusion: While respondents to the consultation were clear that we should not impose requirements additional to those specifically required by the Directive, the greater transparency of the capabilities of individual audit firms is one theme reflected in the work on Choice in the Audit Market, on which the Market Participants Group will make recommendations to the FRC. We want to take this work into account before finalising the requirements to give effect to Article 40.