

Our ref PRM/AFE/00100000

19 March 2015

Keith Billing  
Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
London  
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Dear Sir

## **Consultation: Auditing and ethical standards**

Kreston Reeves LLP appreciates the opportunity to respond to the consultation document issued by the Financial Reporting Council in December 2014 on auditing and ethical standards.

Kreston Reeves LLP is a firm of Chartered Accountants that is amongst the top 30 largest firms in the United Kingdom. Based in London and the South East, we have a wide range of clients, including AIM listed companies, but predominantly we operate in the SME market providing audit and other accountancy services. We are a member firm of Kreston International, a global network of independent accounting firms.

We wish to specifically address two issues raised by the consultation document as these directly impacts upon the audit market in which we operate.

### **Proportionate application and simplified requirements**

*Q2. Do you believe that the FRC's current audit and ethical standards can be applied in a manner that is not proportionate to the scale and complexity of the activities of small undertakings? If not, please explain why and what action you believe the FRC could take to address this and your views as to the impact of such actions on the actuality and perception of audit quality.*

*Q3. When implementing the requirements of Articles 22b, 24a and 24b, should the FRC simplify them, where allowed, or should the same requirements apply to all audits and audit firms regardless of the size of the audited entity? If you believe the requirements in Articles 22b, 24a and 24b should be simplified, please explain what simplifications would be appropriate, including any that are currently addresses in the Ethical Standard 'Provisions Available for Small Entities', and your view as to the impact of such actions on the actuality and perception of audit quality.*

We would like to endorse the principle that a single set of standards should apply for all audits, regardless of the size and nature of the entity being audited. We are of the opinion however that more guidance could be provided by the FRC on the application of standards to the audit of smaller entities.

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SMEs differ fundamentally from PIEs in their size, complexity and impact. We would welcome any moves that would further facilitate the proportionate application of auditing standards that would help to simplify the audit process for smaller entities, reduce costs and thus lead to audit being a more attractive option for smaller entities. This is of particular relevance with the possible increase in thresholds that will see an increased number of entities able to take advantage of audit exemption for the first time, and may do so on the basis of reduced cost even where an audit may be the most appropriate course of action to meet the needs of the entity's stakeholders.

For example, for smaller entities it is uncommon to adopt an audit approach that relies upon the client having an effective system of internal control. In such circumstances we believe that simplification could be introduced to reduce the level of work the auditor must undertake on the design and implementation of controls which are not relied on for audit evidence.

With regard to ethical standards, at present we do not find the use of ES PASE to be of any significant practical benefit. We are of the opinion that the FRC should conduct a wholesale review of ES PASE to further its scope and become a truly useful simplification of ethical standards and their application to the audits of SMEs. For example, in many cases such entities expect that their auditor will be able to provide a full range of accountancy services, and greater clarity on the provision of low risk non-audit compliance services where the risk to audit objectivity is minimal would be appreciated.

#### **Extending the more stringent requirements for Public Interest Entities to other entities**

*Q5. Should some or all of the more stringent new requirements to be introduced to reflect the provisions of the Audit Regulation apply to some or all other listed entities as currently defined by the FRC? If so, which of those requirements should apply to which types of other listed entities?*

*Q6. Should some or all of the more stringent requirements in the FRC's audit and ethical standards and/or the Audit Regulation apply to other types of entity i.e. other than listed entities as defined by the FRC, credit institutions and insurance undertakings? If yes, which requirements should apply to which other types of entity?*

We are strongly of the opinion that the more stringent requirements of audit and ethical standards should only be applied to Public Interest Entities as defined by the Audit Regulation, with no extension to any other entities. We see no justification for the FRC to extend regulatory requirements to entities beyond that required by legislation.

With regard to entities listed on a non-premium market, such as the Alternative Investment Market, we believe that to extend the definition of PIEs would be disproportionate as such entities do not present the same level of systemic risk to the UK capital markets as those presented by entities with a premium listing.

Should you have any questions regarding the contents of this letter please contact Peter Manser at the address shown.

Yours faithfully

Kreston Reeves LV