



# Audit reform and the evolving role of audit committees

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# Key aspects of the Audit Reforms



**MANDATORY  
FIRM  
ROTATION**



**NON-AUDIT  
SERVICES**



**AUDIT COMMITTEES**

# Audit committee: Composition

## Audit Committee Composition



- Each PIE must have an audit committee.
- The committee should be composed of non-executive members
- At least one member of the audit committee shall have competence in accounting and/or auditing
- The committee members as a whole shall have competence relevant to the sector in which the company is operating
- A majority of audit committee members shall be independent of the audited entity

## Questions



- Does the audit committee, as a whole, have competence relevant to the sector in which the company operates?
- Don't forget subsidiaries that are PIEs

# Audit committee: Non-audit services

## Non-audit services



- Many NAS now prohibited
- Cooling in period for some services
- Audit committee approval needed before undertaking *all* permissible non-audit services
- Pre-approval allowed, but only for 'clearly trivial' services
- 70% fee cap on non-audit services

## Questions



- What NAS are prohibited in various parts of the group?
- What's our policy with respect to NAS? Is it well understood throughout the group?
- What is our appetite for the 70% NAS fee cap? Are there any planned projects that will likely require support from the audit firm?
- Is there an alternative supplier for the NAS which the auditor will no longer be able to provide?
- Has the interaction between audit tendering and the provision of NAS been thought through?
- Has consideration been given to the additional 'cooling in' period for work in connection with financial information systems/controls?

# Prohibited non-audit services

## Prohibitions on the auditor/network of a public interest entity

### A. Tax services relating to:

- i. Preparation of tax forms, \*
- ii. Payroll tax,
- iii. Customs duties,
- iv. Identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law, \*
- v. Support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law, \*
- vi. Calculation of direct and indirect tax and deferred tax;\*
- vii. Provision of tax advice \*

### B. Services that involve playing any part in the management or decision-making of the audited entity.

### C. Bookkeeping and preparing accounting records and financial statements.

### D. Payroll services.

### E. Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.(Also subject to 1 year "cooling-in")

### F. Valuation services, including valuations performed in connection with actuarial services or litigation support services.\*

### G. Legal services, with respect to:

- i. The provision of general counsel,
- ii. Negotiating on behalf of the audit entity
- iii. Acting in an advocacy role in the resolution of litigation;

### H. Services related to the audit entity's internal audit function.

### I. Corporate Finance type services:

Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the

issuing of comfort letters in connection with prospectuses issued by the audited entity;

### A. Promoting, dealing in, or underwriting shares in the audited entity.

### B. HR services:

#### Human resources services with respect to:

- i. Management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
  - a. Searching for or seeking out candidates for such positions; or
  - b. Undertaking reference checks of candidates for such positions.
- ii. Structuring the organisation design;
- iii. Cost control.



## Services subject to the derogation

A number of prohibited services (as identified by asterisks) may still be provided, subject to audit committee approval and after an assessment of threats, if the following requirements are complied with:

- No direct or, in the view of an objective, reasonable and informed third party, an inconsequential effect, separately or in aggregate, on financial statements.
- Estimation of the effect on the financials is comprehensively documented and explained in the additional report to the audit committee.
- In line with principles of independence.
- The audit firm would not place significant reliance on the work performed by the audit firm in performing these services for the purposes of the audit of the financial statements.



# Auditor appointment: Auditor committee duties

## Appointment: Audit committee duties



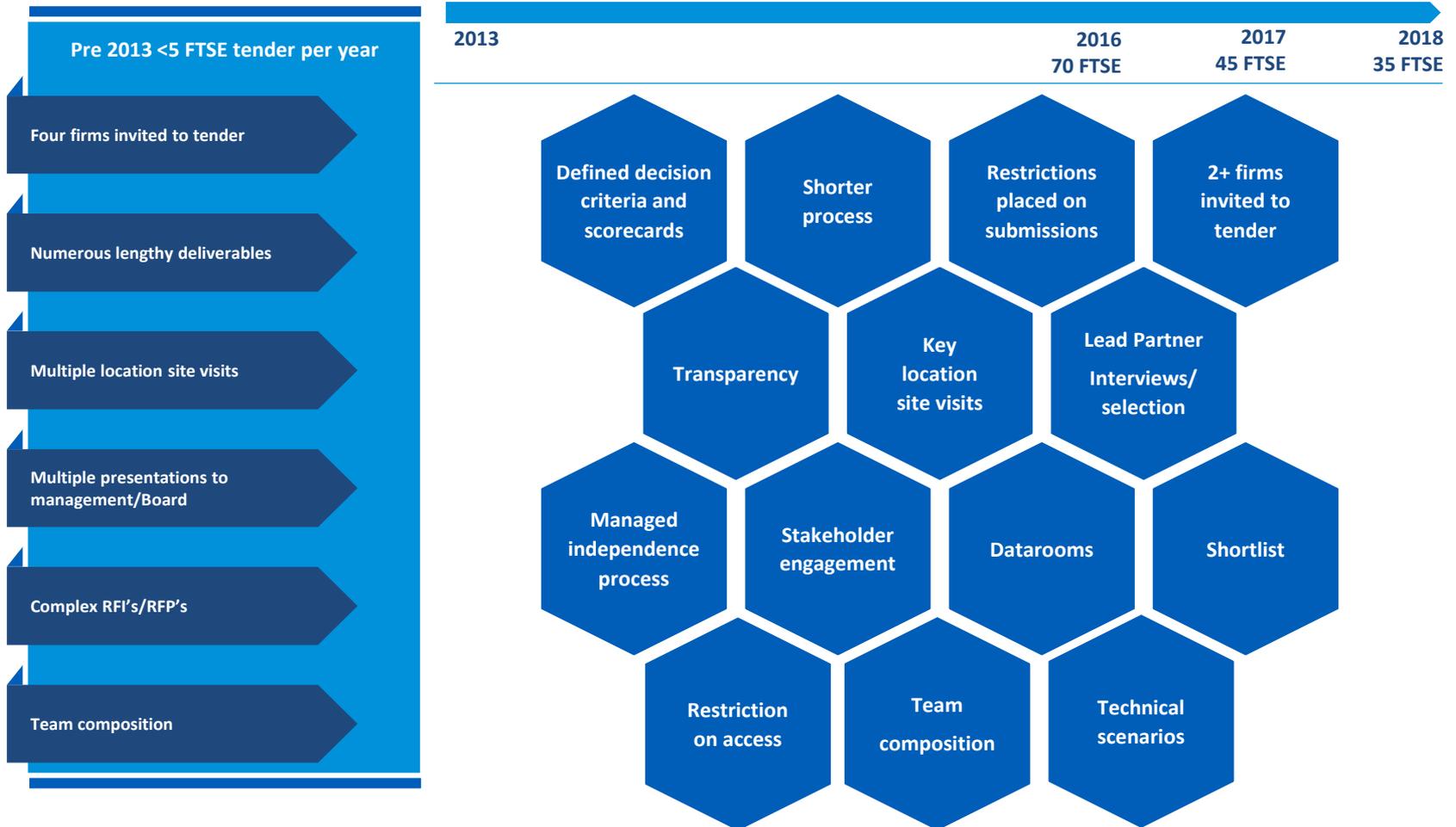
- Ensure the tender process does not in any way preclude the participation in the selection procedure of 'non-big 4 firms'
- Ensure the tender documents contain transparent and non-discriminatory selection criteria
- Ensure the proposals are evaluated in accordance with the predefined criteria
- Ensure a report on the conclusions of the selection procedure is prepared and validated by the audit committee
- Ensure the company is able to demonstrate to the competent authorities, upon request, that the selection procedure was fair
- Recommend to the board at least two audit firms with a preference for one (and give reasons for its choices)

## Questions

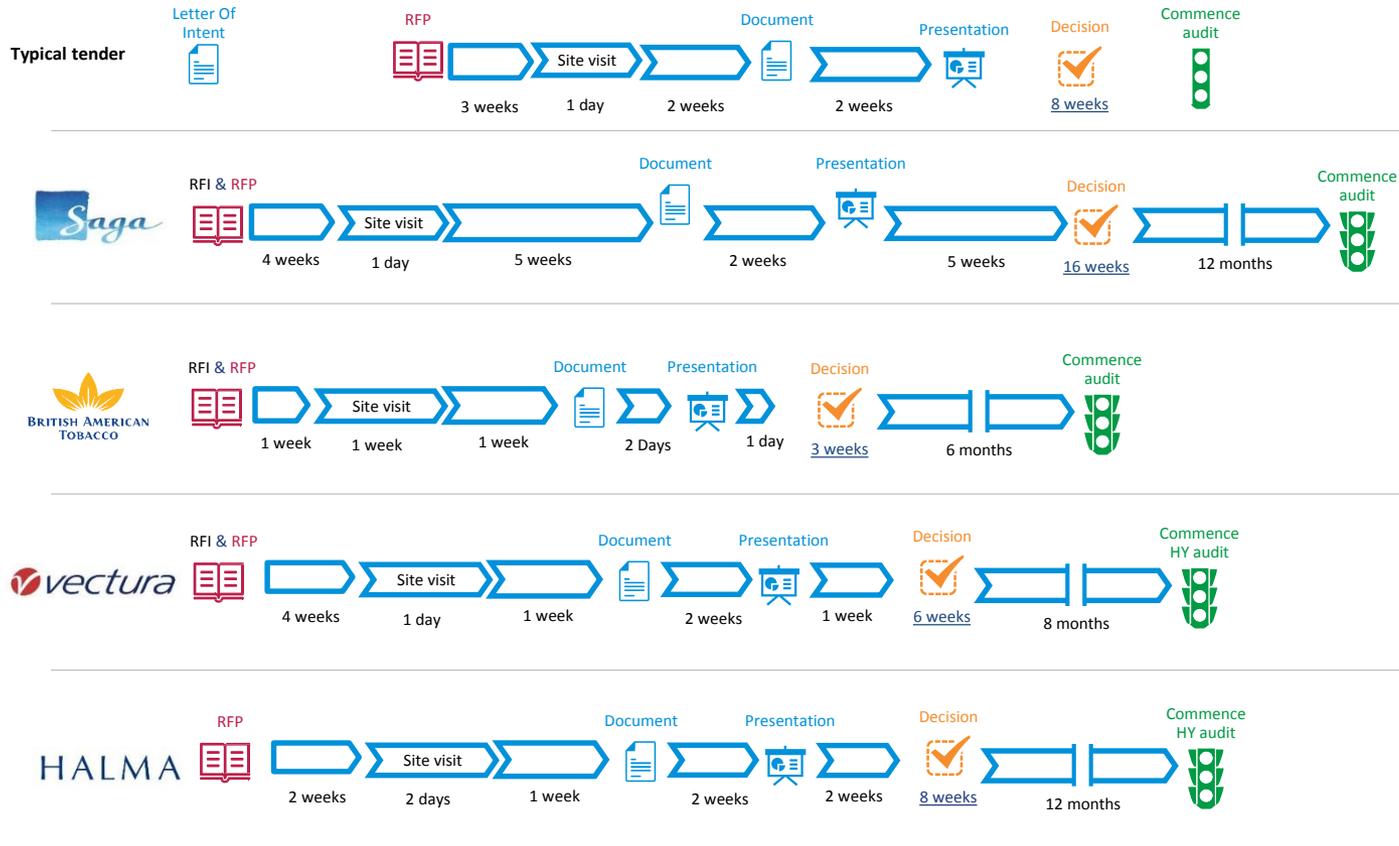


- How will the committee demonstrate that non-Big 4 firms have not been precluded?
- What selection criteria are most appropriate to the company and will they be as appropriate at the end of the process as at the beginning?
- Does the report provide a clear rationale to support the choice of two audit firms and the committee's preference for one?
- Would the report help demonstrate to the competent authority that the selection procedure was conducted in a fair manner?
- Should the selection procedure include three or more firms if the committee ultimately has to recommend two? How might any practicalities be overcome where only two appropriate firms are willing and able to tender?

# Emerging trends FTSE350



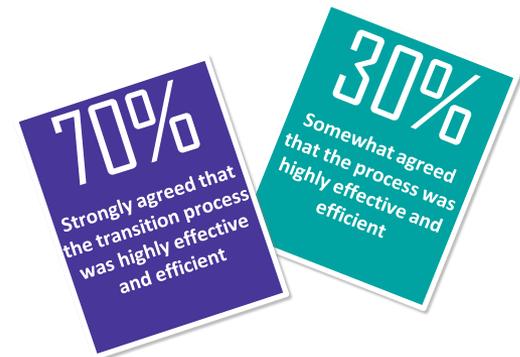
# Comparison of recent audit tender timelines



# Auditor appointment: Transition

## How was the transition process?

70% of respondents strongly agreed that the transition process was highly effective and efficient. 30% of respondents somewhat agreed that the process had been well run.



## Impact on the business

65% of respondents said they were well prepared for the impact of transition and 84% said the handover from the outgoing auditor to the incoming auditor was well managed.

## Delivery on audit tender 'promises'

66% strongly agreed that the new audit firm did deliver on the promises made in the audit proposal, 31% somewhat agreed and 3% disagreed,



## Final year of service delivery

94% of respondents said they received the same or an improved level of audit quality and service from the outgoing firm in their final year as auditor. 6% felt that the outgoing auditor allowed their service levels to fall during their final year.



Thank you