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Corporate Frameworks, Accountability and
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Dear Paul

Consultation on the technical legislative implementation of the EU Audit Directive and Regulation

The Investment Association represents the asset management industry in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of approximately £5.5 trillion of assets, which are invested in companies globally. In managing assets for both retail and institutional investors, our members are major investors in companies whose securities are traded on regulated markets. Therefore, as users of these companies' accounts they have an interest in the requirements governing the audit and the auditor's report.

We believe that the main purpose of accounts is to provide investors, the holders of ordinary shares, with the information they need for the purposes of deciding to buy, sell or hold their shares and fulfilling their responsibilities as owners – assessing company management and the strategies adopted, stewardship. High quality audits are pivotal to this and for ensuring that markets value the information reported and investors have confidence in the information reported.

The requirements of the EU Audit Regulation and Directive (ARD) seek to address a number of investors' concerns around audit. These include concerns around auditor independence and objectivity, which may be compromised by long term relationships with clients and non-audit services, the limited number of audit firms that can audit large multinational entities, and auditors' communications with investors.

We thus support the ARDs' objectives and welcome the opportunity to respond to BIS's Consultation Paper on implementation of the reforms. We set out below our key observations.

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- **Scope.** Public Interest Entities (PIEs) include credit institutions, insurance undertakings, issuers of securities admitted to trading on a regulated market, and entities designated by Member States as public interest entities as they are of significant public relevance. The Investment Association considers that this definition is sufficiently comprehensive and welcomes BIS not widening it for statutory purposes as to do so would only add complexity and cost.

We also support UCITS and AIFs being exempt from being required to have an audit committee. To have imposed such a requirement would have:

- been superfluous, given the current investor protections enshrined in the UCITS Directive which covers retail mutual funds, and the AIFM Directive which covers alternative investment funds. Both of these Directives require that the funds have an independent depositary that is responsible for safekeeping, oversight and monitoring of the fund's cash flows.
 - resulted in increased costs for investors and unintended consequences.
- **Audit tendering.** We support the extension to a maximum duration of 20 years as permitted by Article 17.4 (a) where a PIE has undertaken a tender. To require rotation after 10 years could be both costly and disruptive. We also welcome the clarification in Figure 7.1 such that PIEs are not penalised for more frequent tendering. Thus a PIE can retain the same auditor for up to 20 years regardless of how many tenders are undertaken, provided the 10 year maximum duration between tenders is maintained.
 - **Prohibited and capped non-audit services.** Non-audit services, particularly those of an advisory nature, can introduce a potential conflict of interest and impact an auditor's independence in that the auditor may identify himself with the interests of management rather than those of investors. Where there is a clear conflict then we support a 'black' list of services that firms are prohibited from providing to their audit clients and restrictions on the level of permitted non-audit services, i.e. a cap. The list should be open to amendment as requirements and services evolve.

We also agree that Government should not extend the list of prohibited non-audit services or introduce a lower cap for non-audit fees without a clearly identified need. It would be a concern to us if the UK exercised options that further limited the audit committee's ability to determine the best qualified firm for particular services and reduced the number of firms that are willing or able to tender for a particular audit.

In this context, Certain European countries, including the UK, require funds to detail taxable income per unit. This includes non-domestic funds registered for sale under EU passporting rights (e.g UCITS) or equivalent Swiss legislation. If this is not done, the fund will not have tax status in that jurisdiction and its investors will be required to pay tax on their holding. The calculation is generally undertaken by fund administrators, but audit firms can also be involved in that most asset managers ask for independent assurance on the figures from the fund auditor.

We consider such services should be permitted to be provided by the fund auditor or a member of its network. We are concerned that should this be prohibited, choice for this significant, high volume, specialised service would be reduced to an unacceptable degree. Nor does this assurance have any impact on a PIE's financial statements, or involve any advice or element of discretion in relation to the fund itself. Rather, the consumer is the

end investor, who uses the data to complete their tax return. Therefore, we would recommend that BIS clarifies that assurance by a fund auditor over taxable income per unit is not a prohibited service.



I trust that the above is self-explanatory but please do contact me if you require any clarification of the points in this letter or if you would like to discuss any issues further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Liz Murrall'. The signature is written in a cursive, flowing style with a long horizontal stroke extending to the right.

Liz Murrall, Director, Stewardship and Corporate Reporting