



Governance in brief

Auditor independence rules: new FRC consultation and a reminder for audit committees

Headlines

- The FRC published a consultation in July 2019 on revisions to ethical and auditing standards. The consultation period closes on 27 September 2019.
- It will be a very tight turnaround for companies to implement the changes proposed once the Revised Ethical Standard 2019 is finalised, as the proposal is for them to take effect for periods commencing on or after 15 December 2019, with no transitional arrangements currently proposed.
- There is also a substantial scope extension proposed, to bring new companies within the non-audit services restrictions. Previously these applied to UK incorporated EU PIEs (EU PIEs), plus their EEA parent companies and EEA subsidiaries (with minor restrictions for subsidiaries globally). The scope extension has two elements:
 - First, all entities that fall within the FRC's Audit Quality Review remit will be brought into scope as other entities of public interest.
 - Second, there is extraterritorial effect, proposing that all services provided by the firm and its network firms to worldwide parent companies and subsidiaries of those entities will also be subject to the non-audit services restrictions.
 - In addition, the FRC is consulting as to whether to apply the same non-audit services restrictions to certain private companies, making them other entities of public interest.
- Other key changes regarding auditor independence proposed in the consultation include:
 - Moving to a "whitelist" of permitted non-audit services for EU PIEs. These services will largely be those required by UK law and regulation to be carried out by an auditor or other assurance services required by UK law and regulation.
 - New prohibitions for all audited entities on internal audit services, secondments, and contingent fee arrangements. As currently drafted these new prohibitions also apply to reporting accountant engagements for non-audit clients looking to IPO or undertake a capital markets transaction.

- Introducing a “cooling in” period for internal audit services to EU PIEs and other entities of public interest, meaning a new external auditor cannot have provided these services in the twelve months prior to the start of the first period for which they are external auditor.
- Further clarification of the “objective, reasonable and informed third party test” for auditors, requiring the auditor to consider the perspective of public interest stakeholders.
- For EU PIEs and other entities of public interest, as currently drafted the FRC has narrowed the range of permitted reporting accountant work which can be carried out by the external auditor to those reports on the company’s own financial information which are required by UK law or regulation. Companies will need to appoint another firm who is independent to the same standard as its auditor to carry out all other reporting accountant work streams, including those in relation to a target company.
- Audit committees will be considering the range of service providers and level of non-audit services provided by the external auditor in the light of this consultation and therefore it is also worth a reminder that where the company has had the same auditor since 17 June 2016, audit committees will be conscious of the need to observe the 70% cap calculation in respect of non-audit services for their first accounting period beginning after 17 June 2019.

Background to the consultation

Changes implemented in the UK related to the EU Audit Regulation and Directive came into force from 17 June 2016, affecting audit tendering and rotation and introducing new restrictions on non-audit services provided by the external auditor, including a 70% cap on fees for non-audit services compared to the average statutory audit fee over the previous three years. It also incorporated the previously separate ethical standard for reporting accountants, although it specifically recognised a number of necessary “carve-outs” in the provisions due to the different characteristics of the role and the unique UK market for reporting accountant’s deliverables.

The changes in EU law have been directly implemented in the UK by amendments to the Companies Act, which in turn gives legal force to the Revised Ethical Standard 2016. Accordingly, they will continue to apply even after the UK’s exit from the EU.

During March 2019, the FRC published a Position Paper on its post-implementation review of the 2016 Auditing and Ethical Standards.

Of course this also comes about at a time when there is a great deal of activity around the area of audit, with an open consultation from the Government regarding the CMA’s recommendations on the statutory audit market and the Brydon Review into the future of audit ongoing. Supporting this level of activity is media interest following a number of high profile business failures, coupled with public and investor appetite for both auditors and company directors to be held more to account.

Consultation on Revisions to Ethical and Auditing Standards 2019

This current consultation asks about implementation of many of the changes contemplated in that Position Paper, including those coming about due to Brexit. It does not intend to propose changes that it believes could “cut across” the scope of the Brydon review, which is due to report to BEIS by the end of 2019.

The consultation seeks answers to 13 questions by **27 September 2019** and anticipates publishing in time for an implementation date for periods commencing on or after 15 December 2019.

This Governance *in brief* explores the proposed changes to auditor independence rules in the Revised Ethical Standard 2019 Exposure Draft, certain proposed changes of interest to directors in the Auditing Standards exposure drafts, and also includes reminders about current challenges for audit committees in respect of auditor independence.

We have also included an Appendix outlining the changes in the proposed whitelist of non-audit services and our assessment of how the 70% cap could apply to reporting accountant services, which are often provided by the external auditor (assuming the current drafting is amended to allow auditors to carry out reporting accountant work streams that are not required by law and regulation, in line with existing UK market practice).

Proposed changes to auditor independence rules

As the FRC acknowledges, in practice, auditors no longer perform large amounts of non-audit work and the majority of non-audit work relates to interim reviews and audit-related or assurance services. However, the existence in the 2016 Ethical Standard of exceptions and derogations may contribute to a public perception that auditors are still performing substantial non-audit services for audited companies.

Many audit committees of UK incorporated EU PIEs¹ already implement a stricter approach to non-audit services than that permitted by the 2016 Ethical Standard for auditors. In addition, increasingly, companies are choosing to appoint a firm other than their auditor to perform some or all of the reporting accountant role when they are undertaking capital markets fund raisings and/or transactions. For those entities, these changes may not have a significant impact (assuming that certain changes which we believe were unintended are reversed).

Key proposed changes	
Prohibited / permitted non-audit services	<ul style="list-style-type: none"> • Move to a “whitelist” of permitted services for EU PIEs¹ and “other entities of public interest”² (see Appendix for details of the whitelist). This has been analysed by the FRC into services that are not subject to the 70% cap on non-audit services and those that are subject to the cap. Tax and valuation services, which had already been heavily restricted for EU PIEs, will be completely banned, along with some services commonly provided by auditors such as advising on the application of accounting standards, due diligence, and provision of comfort letters for prospectuses. • For all entities (whether EU PIEs or not), internal audit services, secondments and any other services with a contingent fee arrangement will be banned.
“Cooling in” period	<ul style="list-style-type: none"> • Introduces a “cooling in” period for provision of internal audit services to EU PIEs and other entities of public interest of at least 12 months before the start of the first period of external audit. This adds to the existing “cooling in” periods for design and implementation of internal control and risk management and of financial IT systems.
Applicability of restrictions on non-audit services	<ul style="list-style-type: none"> • The new whitelist will also apply to “other entities of public interest”² as well as EU PIEs. It is worth noting that the FRC has not proposed that these entities should be subject to the 70% cap. • Other entities of public interest include: <ul style="list-style-type: none"> – Non-EEA companies audited by a UK auditor and listed on EEA regulated exchanges such as the “main market” of the LSE. – AIM or NEX (other than the Main Board) quoted companies incorporated in the UK with an average market capitalisation exceeding €200m. – Lloyd’s syndicates. • The FRC is consulting on whether private entities of significant public interest should also be subject to the EU PIE non-audit services restrictions as other entities of public interest, citing the BHS collapse. It has not proposed a level at which this might take effect. • As drafted, the whitelist has extraterritorial effect. In particular, it impacts the auditor and its network firms outside the EEA and applies the prohibitions to parent companies even where they are outside the EEA. This is a major change for global groups “headquartered” outside the EEA, as previously under the 2016 Ethical Standard network firms outside the EEA performing services for parent companies outside the EEA were not included in the restrictions. • The full whitelist will also apply to subsidiaries globally – under the 2016 Ethical Standard there were three specific restrictions on subsidiaries outside the EEA. In practice, many audit committees already include a more stringent set of restrictions in their non-audit services policies, (although not in respect of their parents outside the EEA).

¹ A “PIE” is a public interest entity, defined in EU law as being an entity governed by Member State law with securities (debt or equity) admitted to trading on an EEA regulated market (including LSE Premium or Standard Listing, not AIM), a credit institution (bank or building society in UK terms) or insurance undertaking.

² An other entity of public interest includes the other entities captured by the FRC’s Audit Quality Review scope laid out at https://www.frc.org.uk/getattachment/afa6e9e9-fa6b-4f15-90dd-a244da42792d/AQR-Scope-of-Retained-Inspection_.pdf. It may also include certain private companies depending on the outcome of this consultation.

Key proposed changes	
Other independence changes	<ul style="list-style-type: none"> • Extended description of the “objective, reasonable and informed third party test” for auditors, requiring the auditor to consider the perspective of public interest stakeholders (excluding audit practitioners). • This will need guidance for initial assessments of independence for reporting accountant engagements for non-audit clients given the suggestion to use the assessment criteria for audit appointments. • Amendments regarding the Ethics Partner function within audit firms, including a requirement for the firm to report to those charged with governance where the Ethics Partner’s advice is not followed.
Timing of changes	The Revised Ethical Standard 2019 is proposed to take effect for periods commencing on or after 15 December 2019. There is a consultation question on this timing.
Transitional provisions	There are no transitional provisions proposed in the Revised Ethical Standard 2019 Exposure Draft.

Key considerations – proposed changes to independence rules

- Non-audit services policies will need to be updated promptly following the finalisation of the standard, since in the absence of transitional provisions, they will need to be up to date for the start of the next financial year. For many companies this will be the year commencing 1 January 2020. There will be a particular challenge for any privately held companies that are newly introduced into the scope of the non-audit services restrictions only when the standard is published later in 2019.
- Previously the rules on non-audit services restrictions applied to UK incorporated EU PIEs, their EEA parent or EEA subsidiary, with three specific worldwide restrictions for global subsidiaries. Under the proposals, all of the restrictions will now apply to all parents and subsidiaries worldwide. Whilst many EU PIE audit committees have already banned services for worldwide subsidiaries, few impose restrictions upwards, particularly as the EU PIE can by definition not control its own parent. The FRC’s March position paper previously indicated that the upwards restrictions would only be for UK parents, on the basis that the auditors of those would be in the UK and already understand the UK rules.
- The introduction of a whitelist of permitted non-audit services has reduced complexity, however the proposed extension of scope to other entities of public interest and non-EEA parents may make the application of the rules much more complicated in practice. Careful thought may be needed in respect of choosing a reporting accountant, particularly where one is needed at short notice to report on a time critical and price-sensitive transaction.
- Where audit committees currently take advantage of the derogations on tax and valuation services, or require contingent fee arrangements, they will need to consider alternative providers to the auditor for future financial years.
- The whitelist does not permit additional assurance work to be provided by the external auditor on reporting outside the annual report, even where this is related to the contents of the annual report. In the light of investor and stakeholder focus on matters outside the financial statements, some companies are seeking additional assurance and some are taking material such as corporate social responsibility reporting out of the annual report to meet the “clear and concise” call from the FRC. Where companies wish to be innovative in their corporate reporting, therefore, the restriction in the whitelist could lead to them requiring a separate independent assurance provider.
- Audit committees should consider which services are being provided by which audit firms in advance of planning a tender for non-audit services and may wish to consider longer transition periods for the new auditor. The new prohibitions and the introduction of a 12-month “cooling-in” period for internal audit services, especially combined with the possibility of joint audit requirements, could otherwise lead to restrictions of choice or potential delay in changing external auditor. In the absence of transitional provisions, audit committees should consider whether upcoming audit tenders or planned appointments need to be reassessed.

Other proposed changes in the consultation

The FRC has proposed comparatively limited changes to International Standards on Auditing applicable in the UK (ISAs (UK)). The FRC explains that this is because it does not wish to “cut across” the Brydon review which is due to report to BEIS by the end of 2019. Therefore not all of the proposed changes the FRC trailed in its earlier position paper are being implemented here.

However, there are certain proposed changes that may be of particular interest to directors:

- The FRC acknowledges the interest of investors and stakeholders in information that sits outside the financial statements in the annual report (typically, strategic report, directors’ report and corporate governance statement). ISA (UK) 720, The Auditor’s Responsibilities Relating to Other Information has been updated to clarify the FRC’s expectations of auditors in this area and is consistent with their recent thematic review. Boards should also bear in mind that the FRC’s corporate reporting review team will be inspecting the whole annual report, including corporate governance statements and thus additional risk management and viability material, for the first time from December 2019 year ends.
- Audit committees will notice changes to audit reports under ISA (UK) 700, “Forming an Opinion and Reporting on Financial Statements”:
 - For listed companies, this will include reporting of performance materiality alongside financial statement materiality, to give insight into the strength of the control environment. One of the influencing factors in determining performance materiality compared to financial statement materiality is the level of misstatements expected by the auditor.
 - For all entities including companies that do not currently have an enhanced audit report, the FRC proposes a requirement for the auditor to explain to what extent the audit was considered capable of detecting irregularities – for example, fraud, error and non-compliance with laws and regulations. As drafted, this is not boiler plate disclosure and could mean that auditors will need to start reporting on key audit matters for all entities.
- The FRC has delayed a proposal to consult on whether all adjusted and non-adjusted misstatements raised by the auditor should be included in the audit report. If this is revisited in the future, one challenge will be establishing whether an adjustment was first identified by management or by the auditor.

Reminders for audit committees

Audit tendering and rotation

The first batch of companies subject to the transitional provisions set out in the Companies Act 2006 s494ZA are now approaching mandatory audit rotation requirements. This affects all EU PIEs where the current auditor was first appointed before 17 June 1994. The last period that can be audited by the current auditor is the financial year of the company to begin before 17 June 2020 – so for a December year end company falling into this category, a tender will need to take place in order for a new auditor to be appointed for the financial year commencing 1 January 2021.

For companies where the current auditor was first appointed after 2003, it is important to ensure that a suitable qualifying selection procedure, usually an external audit tender, has taken place in the past 10 years, so audit committees should take particular care where the auditor was first appointed for the 2010 year end.

Key considerations – Audit firm tendering and rotation

- Tendering and rotation requirements apply to all EU PIEs and need to be considered individually for each such entity within a group, bearing in mind that not all entities will necessarily have been incorporated or acquired at the same time.
- For those EU PIEs which are small and medium sized enterprises or companies with reduced capitalisation under the definition in the Audit Regulation, which includes many investment companies and debt listed entities, it is not obligatory to undertake a full external audit tendering process as described in the Regulation. However, a qualifying selection procedure still needs to be undertaken. Requirements laid out in the Companies Act include the audit committee making a recommendation to the board which identifies its first and second choice candidates for appointment, giving reasons for those choices, and stating that the recommendation is free of influence by a third party and that no contractual term regarding choice of auditor has been imposed on the company. The conduct of qualifying selection procedures (including tenders) may become subject to specific regulation under the CMA's proposals, so retention of suitable evidence is of increasing importance.

The "70% cap" on non-audit services

The 70% cap on non-audit fees for services provided by the external auditor to EEA PIEs has come into effect for the first companies and will be in effect in the next financial year for all EU PIEs where the same external auditor has served since 17 June 2016.

The cap is based on comparing the average of three consecutive years of statutory audit fees to the non-audit fees for services in the fourth year. The three years of statutory audit fees for the initial calculation start with the year commencing on or after 17 June 2016 and the first calculation will be for the year commencing on or after 17 June 2019, unless boards and audit committees choose to implement the cap earlier. For a calendar year end company, therefore, the non-audit fees for 2020 are compared with the average of audit fees for 2017, 2018 and 2019.

The cap does not apply to non-audit fees for services required by EU or national law. For example, an interim review is not normally required by law, although audit-related, and is therefore subject to the cap, whereas regulatory reporting to the PRA and FCA is required by law and therefore outside the scope of the cap. The Revised Ethical Standard 2019 Exposure Draft proposes narrowing the exemptions to services required by UK law or regulation.

The Appendix to this publication includes both the whitelist of non-audit services that can be performed by the external auditor and whether they are subject to the cap, and also our assessment of which reporting accountant services will be subject to the cap.

The Ethical Standard includes two separate calculations that need to be performed, one an individual audit firm calculation, the other the audit firm network calculation.

Individual audit firm

The average of three consecutive years of audit fees paid to the individual audit firm for its audit of the EU PIE and, where applicable, its parent and its subsidiaries, compared to fees for non-audit services paid to the individual audit firm in respect of the EU PIE, its parent and its subsidiaries in the fourth year.

Audit firm network

The average of three consecutive years of audit fees paid to the audit firm and its entire network for audits of the EU PIE and its subsidiaries, compared to fees for non-audit services paid to the audit firm and its entire network for non-audit services provided to the EU PIE and its subsidiaries in the fourth year.

Key considerations – Audit firm tendering and rotation

- It is not always clear which services fall within the exemption for services required by EU or national law (or, in future, UK law or regulation). It is worth bearing in mind that simply because work may be advised or required by an industry regulator does not mean it is pursuant to legislation – it will depend whether the industry regulator has statutory rights to require the work. Early discussion with the auditor is recommended for such services in order to avoid potential problems.
- For reporting accountant engagements (for listed entities making material acquisitions for example), the company's natural option is in many cases the statutory auditor because of their knowledge of the company and because they are independent to the required standard. However, the cap (and, unless it is changed, the whitelist), may mean that EU PIEs are not able to use their auditors for the private reporting aspects of reporting accountants' work that are not pursuant to regulation. Also see Appendix.
- Audit committees may wish to obtain a report on the average of three consecutive years of audit fees paid to the individual audit firm and to the audit firm and its entire network prior to the cap coming into force and assess this against continuing services or those that are regularly provided by the external auditor – bearing in mind that the proposed whitelist approach may in due course reduce the level further. Ongoing monitoring of the calculations relating to the 70% cap may help towards the audit committee's assessment of the independence of the external auditor. Some audit committees may wish to put a cap on the total of non-audit fees that can be approved by management without reference to the audit committee.

For further information

- Consultation on Revisions to Ethical and Auditing Standards 2019: <https://www.frc.org.uk/consultation-list/2019/post-implementation-review-of-the-2016-auditing-an?viewmode=0>
- Revised Ethical Standard 2019 Exposure Draft: <https://www.frc.org.uk/getattachment/e59e4038-1cf4-4021-aba0-bf4d267b69de/Revised-Ethical-Standard-UK-With-Cover.pdf>
- Changes to ISAs (UK) and ISQC (UK) Exposure Drafts: <https://www.frc.org.uk/getattachment/afdbcb93-ee55-462b-af87-19e399b7bcb9/ISA-Amendments-2019-With-Cover.pdf>
- The FRC's press release is available here: <https://www.frc.org.uk/news/july-2019/frc-consults-on-enhanced-ethical-and-auditing-standards>

Deloitte View

- We recognise the value of simplification and principles based standards.
- However, there is still work to be done to address certain inconsistencies, potential unintended consequences, and matters of interpretation in relation to these proposals. We anticipate there will be changes before the final version is published. In particular, and in the absence of transitional provisions, audit committees of large private companies will want to understand whether there will be restrictions on non-audit services starting from their next financial year.
- Audit committees of companies subject to the "whitelist" of non-audit services should communicate early with entities that will newly be subject to further restrictions, including non-EEA subsidiaries. As drafted, the restrictions will now also affect non-EEA parent companies, where it could be difficult to ensure the overseas parent company's Board engages with the new requirements.

- We consider this a missed opportunity to support smaller listed companies who will be most caught by these restrictions when addressing London market practice for fund raisings and Class One transactions. Companies who are likely to undertake UK capital markets fundraisings or corporate transactions and will require the services of a reporting accountant, potentially in time critical and price sensitive scenarios, will want to consider which firms (other than their auditor) would, from an independence perspective, be able to take on such a role and where necessary, plan for the implications of appointing more than one firm to perform different work streams.
- It is particularly important that audit committees should engage early and thoroughly with these changes where there is an upcoming tender, or has been a recent tender, as they may find that new restrictions regarding “cooling in” periods for internal audit services could limit their choice of external auditor.
- Finally, if the same auditor has been in place for at least three financial years since 17 June 2016 and the company plans to engage the auditor for any significant non-audit services, it is worth ensuring that the audit committee obtains and considers a regular report on non-audit fees compared to the 70% cap, bearing in mind that two calculations are required.

The Deloitte Academy

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Members receive copies of our regular publications on Corporate Governance and a newsletter. There is also a dedicated members' website www.deloitteacademy.co.uk which members can use to register for briefings and access additional relevant resources.

For further details about the Deloitte Academy, including membership, please email enquiries@deloitteacademy.co.uk

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Appendix – Proposed “whitelist” of non-audit services

Whitelist approach to non-audit services

The FRC’s proposed whitelist of non-audit services in the table that follows indicates where a type of service is expected by the FRC to fall within or outside the 70% cap on non-audit services under the network calculation explained above.

As currently drafted, this whitelist is an exclusive list describing the nature of services that can be provided by the external auditor and approved by audit committees. This does not contemplate that all audit committees will be willing to approve all such services. Further considerations laid out in the proposed Revised Ethical Standard include:

- Whether it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service.
- Whether the nature of the service would compromise independence.
- An assessment of threats to independence and the safeguards applied to counter those threats.
- Whether the audit committee and the auditor are confident that no element of the service would conflict with the previous EU “blacklist” of non-audit services (see previous *Governance in brief*: [Changes to auditor independence rules](#)).

For avoidance of doubt, the whitelist does not permit tax or valuation services. In addition, under the FRC’s proposed approach, all engagements involving a contingent fee, internal audit services or secondments will be banned for all audited entities.

Application of the EU PIE whitelist worldwide

The restrictions as drafted apply not only to the company itself but also to its parent and its subsidiaries, whether inside or outside the European Union.

Other entities of public interest

In addition to applying to EU PIEs, the application of the whitelist will be extended to all entities subject to review by the FRC’s Audit Quality Review team (AQR), which not only includes UK incorporated EU PIEs and other EEA incorporated PIEs with a UK registered auditor, which would already have been captured by the regime, but also entities described as “other entities of public interest”:

- Non-EEA companies listed on EEA regulated exchanges such as the “main market” of the LSE with a UK registered auditor.
- AIM or NEX (other than the Main Board) quoted companies incorporated in the UK with a market capitalisation exceeding €200m.¹
- Lloyd’s syndicates.

The consultation asks the question whether the definition “other entity of public interest” and thus the whitelist of non-audit services should also apply to certain privately held (unlisted) companies that are of significant public interest. There is no suggestion from the FRC where the line should be drawn in respect of application to unlisted companies. The FRC is not proposing to extend other aspects of the EU PIE regime (for example mandatory rotation and tendering and the 70% cap) to other entities of public interest.

Removal of SME listed reliefs

The consultation proposes removing the less onerous regime for SME listed entities (although in practice few companies could avail themselves of this regime – those traded on an EEA regulated market could not, and for other listed entities (e.g. those on AIM) the international code of ethics issued by IESBA contained equivalent restrictions).

¹ The mechanism for this calculation is set out in MiFID II and in the existing FRC Ethical Standard 5.47. It includes entities with an average market capitalisation of more than €200 million, on the basis of year end quotes for the previous three calendar years, or entities with exclusively non-equity financial instruments where the nominal amount of those financial instruments issued and outstanding exceeds €200 million and which also meet certain other size criteria.

Whitelist proposed in draft Ethical Standard

Type of non-audit service	Outside cap	Counts towards cap
Reporting required by a competent authority or regulator under UK law or regulation * for example: <ul style="list-style-type: none"> Reporting to a regulator on client assets; In relation to entities regulated under the Financial Services and Markets Act 2000 (FSMA), reports under s166 and s340 of FSMA; Reporting to a regulator on regulatory financial statements; Reporting on a Solvency and Financial Condition Report under Solvency II. 	Yes	
In the case of a parent undertaking or controlled undertaking incorporated and based in a third country, reporting required by law or regulation in that jurisdiction where the auditor is required to undertake that engagement (such services can only be provided by network member firms in that jurisdiction, not the group auditor).	Yes	
Reporting on internal financial controls when required by law or regulation. **	Yes	
Reports, required by or supplied to competent authorities / regulators supervising the audited entity, where the authority / regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider.	Yes	
Audit and other services provided as auditor of the entity, or as reporting accountant where the services are required by law or regulation. ***	Yes	
Services which support the entity in fulfilling an obligation required by UK law or regulation, where: the provision of such services is time critical and the subject matter of the engagement is price sensitive. ***	Yes	
Reviews of interim financial information; and providing verification of interim profits.		Yes
Extended audit or assurance work that is authorised by those charged with governance performed on financial or performance information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.		Yes
Additional assurance work authorised by those charged with governance performed on material included within the annual report.		Yes
Reporting on government grants.		Yes
Reporting on covenant or loan agreements which require independent verification.****		Yes
Services which have been the subject of an application to the Competent Authority.		Yes

* It is not always clear which services fall within the exemption for services required by EU or national law. It is worth bearing in mind that simply because work may be advised or required by an industry regulator does not mean it is pursuant to legislation – it will depend whether the industry regulator has statutory rights to require the work. Early discussion with the auditor is recommended for such services in order to avoid potential problems.

** This will permit any new requirements for auditors under the future BEIS consultation on internal controls to be out with the fee cap.

*** In each of these cases the whitelist emphasises that consideration should be placed on whether it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service, and whether the nature of the service would compromise independence.

**** This is cross referenced to the staff guidance note on providing services to lending syndicates so may bring in restructuring services to the extent provided in SGN 01/2018.

Application to reporting accountant engagements

In respect of reporting accountant engagements, based on our interpretation, the FRC has not sought to permit reporting accounting services more readily than they did previously.

Our current understanding of how the different elements of the reporting accountant engagement will be treated under the 70% cap calculation, which first applies in the fourth year of an auditor's appointment, is set out below. We hope that the FRC will clarify this further in the final drafting of the Revised Ethical Standard 2019 or accompanying guidance to make categorisation of these services simpler for audit committees.

As currently drafted private reporting accountant work streams are not on the whitelist at all and would therefore be prohibited. We have indicated with a footnote where work streams listed fall within this category. However we believe this may be an oversight and for the purposes of this table assume that all reporting accountant work will be permitted, but that which is not required by law or regulation (i.e. all private reporting) will count towards the cap. We have indicated where work streams fall within this category.

Reporting accountant service	Outside cap (required by UK law or regulation)	Counts towards cap
Public accountant's report or special purpose audit opinion (true and fair)	Yes	
Public reports on profit forecasts (proper compilation)	Yes	
Public report on pro forma statements (proper compilation)	Yes	
Public report on acquirer's GAAP regulation (proper compilation)	Yes	
Public report on quantified financial benefit statements (proper compilation)	Yes	
Consent letter	Yes	
Auditor's independence letter	Yes	
FRC Ethical Standard independence letter	Yes	
Long form report or other kinds of due diligence report carried out as part of a reporting accountant engagement		Yes*
Working capital opinion and supporting report		Yes*
Private reporting on profit forecasts / estimates		Yes*
Financial policies and procedures (FPP) comfort letter and supporting commentary report		Yes*
Private reporting on a synergy statement		Yes*
Comfort letters:		
- On extraction of financial information		
- On significant change		Yes*
- On reporting accountant's responsibilities to Sponsor or Nominated Adviser		
- On tax		
Pathfinder comfort letter		Yes*
Bring down comfort letter		Yes*

* As currently drafted these private reporting accountant work streams are not on the whitelist at all and would therefore be prohibited.



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