



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

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Our ref: ICAEW Rep 14/08

Your ref:

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By email: [AuditDirective@berr.gsi.gov.uk](mailto:AuditDirective@berr.gsi.gov.uk)

Dear Jim

**THE COMPANIES (DISCLOSURE OF AUDITOR REMUNERATION AND  
LIABILITY LIMITATION AGREEMENTS) REGULATIONS 2007**

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on the revised draft Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2007.

We are disappointed that the opportunity has not been taken to consider more fundamental changes to the Regulations which we have advocated in our responses to earlier consultations. We hope that this will be addressed once the Regulations have been in place for two full years.

An amendment has been made to the draft regulations to address the issue which we and other commentators highlighted about services supplied by 'distant associates'. We support this amendment but do not believe that it goes far enough. We would have preferred an approach which removed the 'distant associates' entirely from the definition of associates. While these entities remain within the definition of associates, audit firms will have to maintain records to identify all such entities (for example where a partner in the audit firm has a directorship unconnected with the firm) and make this information available to their clients to ensure that appropriate disclosures can be made. Although the proposed exemption will eliminate some 'trivial' disclosures, it will do little to ease the burden of compliance. It also makes the Regulations more complex by introducing an exemption rather than eliminating a requirement.

For larger accounting firms, it will be the £10,000 de minimis limit which will be relevant. This is a useful relaxation of the existing requirements although, as explained above, it will do little to ease the burdens imposed by the need for firms to identify the parties involved and communicate them to clients.

For those smaller audit firms whose clients must disclose fees for other services and where the 1% de minimis limit will be relevant, we see significant difficulties with the proposed exemption. The limit is expressed as '1% of the total remuneration receivable by the company's auditor in respect of the period to which the accounts in question relate for the auditing pursuant to legislation (including that of countries and territories outside the United Kingdom) of any accounts of any person'. We understand, from the reference to 'any person' and the wording of the Explanatory Note, this to mean 1% of all audit fees receivable by the auditor from all audit clients rather than from just the audit client in question. We suggest that this is made clear beyond doubt in the final Explanatory Notes.

If that interpretation is correct, it would require the auditors to be aware of, and communicate to their clients, the amount of audit fees receivable from all clients for a particular client's financial year, potentially before that year has ended. This is impracticable. If this limit is to be retained, we suggest that it should be linked to the total audit fees receivable by the auditor for the auditor's last completed financial year.

In addition, there is an inconsistency between the draft Regulations and the draft Explanatory Note in relation to whether the de minimis limits apply separately for each distant associate or in aggregate for all distant associates. The draft Regulations appear to be clear that each distant associate is to be considered separately because they refer to 'services supplied by that associate'. However, the draft Explanatory note refers to 'services supplied by distant associates ... where the total fees for those services ...' which suggests that they should be looked at in aggregate. We prefer the former approach but, at a minimum, the Regulations and Explanatory Note should be consistent.

The proposed exemption is limited to 'All other services' in paragraph 10 of schedule 2 although no explanation is given of the reason for this. We believe that the exemption should be based on the distance of the relationship rather than the nature of the services so this restriction should not be necessary. We accept that most of the services in question are likely to fall into category 10 although it should be noted that some services of an 'accountancy' nature could fall within category 10. For example, this category would include accounting advice unrelated to auditing the accounts. For further examples see paragraph 44.1 of TECH 06/06 (Revised) 'Disclosure of auditor remuneration' published by the Institute.

Please contact me if you would like to discuss any of the points raised in this response.

Yours sincerely



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