



# TECHNICAL RELEASE

TECH 04/11FRF

## **DISCLOSURE OF AUDITOR REMUNERATION**

Draft guidance on the disclosure of auditor remuneration for the audit of accounts and other (non-audit) services, in accordance with the requirements of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (Statutory Instrument 2008/489) as amended with effect from 1 October 2011.

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## INTRODUCTION AND INVITATION TO COMMENT

This Technical Release provides draft guidance on the application of the legal requirement for companies to disclose in their individual and group accounts the remuneration receivable by the company's auditor and the auditor's associates for the audit of accounts and other (non-audit) services. It aims to ensure that directors (or their equivalents for entities other than companies) and auditors understand the nature and purpose of the requirement and, in particular, the basis for deciding into which category a service provided by the auditor falls. The principal reason for updating the guidance at this time is that the underlying legal requirements have been amended for financial years beginning on or after 1 October 2011, with early adoption permitted.

The draft guidance is not viewed as contentious and may be applied before it is issued in final form. However, feedback from those adopting the new requirements early will be helpful and may enable further improvements to be made. If you have any comments on this draft guidance, please send them by 30 June 2012, preferably via email to [eddy.james@icaew.com](mailto:eddy.james@icaew.com). If you wish to comment by letter, please write to Eddy James, ICAEW, Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA.

The detailed legal requirements are set out in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (Statutory Instrument 2008/489)<sup>1</sup> ('the 2008 Regulations'). These requirements were amended by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 (Statutory Instrument 2011/2198)<sup>2</sup> ('the 2011 Regulations'). The list of categories into which 'other' services must be analysed was amended to align it more closely with the requirements of the EU Audit Directive and with the Auditing Practices Board's Ethical Standards. At the same time, the opportunity was taken to ensure that the amount disclosed for audit of the company's accounts includes such fees for services provided by the 'associates' of the auditor.

References in this Technical Release to 'the Regulations' are to the 2008 Regulations as amended by the 2011 Regulations unless the context requires otherwise.

This draft guidance supersedes TECH 06/06 *Disclosure of Auditor Remuneration* for those entities applying the 2011 Regulations. TECH 06/06 was issued in 2006 and revised in 2007 and continues to apply to those entities that have yet to apply the 2011 Regulations.

All companies are required to disclose the fees payable to the auditor for the audit of their financial statements. However, small and medium-sized companies ('SMEs') are exempt from the requirements relating to disclosures for other services.

In addition to legislative measures for disclosure, auditors are bound by the Auditing Practices Board's Ethical Standards. In particular, Ethical Standard 5 *Non-audit services provided to audit clients* imposes certain constraints and safeguards in relation to the provision of non-audit services. Ethical Standard 5 includes a definition of audit-related services which is reproduced in paragraph 39.1 of this Technical Release. Also, Ethical Standard 1 *Integrity, objectivity and independence* includes an illustrative template for communicating information on audit and non-audit services to those charged with governance. On 7 November 2011 the Auditing Practices Board published a consultation including a simplified illustrative template reflecting the effect of the 2011 Regulations. Comments were invited by 7 December 2011. References in this Technical Release to the illustrative template are to the proposed revised template.

References to 'the Act', or 'sections' or 'schedules' within this guidance are to the Companies Act 2006, or sections of, or to schedules to, that Act, unless otherwise stated.

References in this guidance to 'auditor' and 'auditors' are identical in meaning unless otherwise required by the context.

The Regulations use the term 'subsidiary' to mean a subsidiary undertaking as defined in section 1162; the same usage is adopted in this guidance.

This guidance should be read in conjunction with the Regulations. It does not purport to deal with all aspects of the Regulations, but only with certain areas where it is considered that additional guidance would be helpful.

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<sup>1</sup> [www.legislation.gov.uk/ukSI/2008/489/contents/made](http://www.legislation.gov.uk/ukSI/2008/489/contents/made)  
<sup>2</sup> [www.legislation.gov.uk/ukSI/2011/2198/contents/made](http://www.legislation.gov.uk/ukSI/2011/2198/contents/made)

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## The Regulations and other general issues

### Q1. When do the 2011 Regulations take effect

- 1.1. The 2011 Regulations apply to financial years beginning on or after 1 October 2011. Early adoption is permitted, enabling concurrent adoption of the 2011 Regulations and the APB's revised Ethical Standards.

### Q2. To which companies do the Regulations apply?

- 2.1. The Regulations apply to all companies, irrespective of whether their annual accounts are prepared in accordance with UK GAAP or EU-adopted IFRS. This includes SMEs. However, SMEs do not have to make such extensive disclosures as other companies, since they are outside the scope of the non-audit service disclosure requirements (see paragraphs 9.1 - 10.3 below).
- 2.2. Certain exemptions also apply to the accounts of companies in a group (see paragraphs 27.1 – 27.6 below).
- 2.3. The Regulations apply to companies incorporated in the United Kingdom, which includes Northern Ireland.

### Q3. To which other types of entity do the Regulations apply?

- 3.1. Entities that are incorporated under the Act (or previous legislation) and those entities that have to comply with the requirements of the Act because of other legislation have to comply with the Regulations. Examples include charitable companies incorporated under the Act, limited liability partnerships and qualifying partnerships under the Partnership (Accounts) Regulations 2008 (statutory instrument 2008/569).
- 3.2. References to 'company/ies' within this guidance should be read as encompassing such other entities.
- 3.3. The Regulations do not apply to registered overseas companies (ie, companies that have registered a UK establishment with the UK Registrar of Companies). The financial statements of such companies for filing with the Registrar of Companies will, depending on the circumstances, be either prepared in accordance with requirements applicable in their country of incorporation or prepared in accordance with the requirements of the Overseas Companies Regulations 2009 (Statutory Instrument 2009/1801). The disclosures specified in these Overseas Companies Regulations do not include auditor's remuneration. Furthermore, financial statements prepared under those Regulations need not be audited.

### Q4. Where does the information required by the Act have to be disclosed?

- 4.1. The Regulations require the information to be disclosed in the notes to the annual accounts. They are subject to audit. The Department for Trade and Industry (DTI) - which has since been replaced by the Department for Business, Innovation and Skills (BIS) - advised that the alternative of a cross-reference to information given elsewhere within the annual report would not be sufficient.

### Q5. Will comparative figures have to be given?

- 5.1. Yes. The Regulations are silent on the matter of comparative figures but, as the information is required to be given in the notes to the annual accounts (see paragraph 4.1 above), FRS 28 *Corresponding amounts* or IAS 1 *Presentation of financial statements* applies.

### Q6. How will the necessary information be obtained?

- 6.1. The directors of the company are responsible for ensuring the company's compliance with the Regulations. They will generally be able to do this from information available within the accounting records of the company and its associates that are subsidiaries.
- 6.2. The Regulations require the auditor to 'supply the directors of the company with such information as is necessary to enable the disclosure required by [the Regulations] to be made' (*Regulation 7*). For listed companies, Ethical Standard 1 requires the auditor to provide the audit committee with a

detailed analysis of audit and non-audit fees. For other companies, it generally should be sufficient to supply the directors with a list of the auditor's associates (see paragraphs 7.1 to 7.4 below). Some auditors may wish, as a matter of client service, to go further than required by law and supply their clients with the relevant amounts of fees for disclosure purposes.

- 6.3.** The directors will generally need to contact the trustees of associated pension schemes (see paragraph 16.1 below) to obtain the necessary information in respect of those schemes. Under normal circumstances, the list of the auditor's associates should be sufficient to enable the directors to obtain the information from the trustees. However, if the trustees refuse to provide the information to the directors, the auditor is required by Regulation 7 to supply the directors with the necessary information regarding services by it and its associates to the company's associated pension schemes, even though the pension schemes are not legally part of the group. ICAEW was advised by the DTI (now BIS) that this specific statutory obligation overrides any general legal or contractual duty of confidentiality owed by the auditor to its pension scheme client.

## Associates of a company's auditor

### Q7. What is an associate of a company's auditor?

- 7.1.** Associates of a company's auditor are defined in Schedule 1 to the Regulations. Associates of a company's auditor include bodies corporate and partnerships outside the UK. The definition is comprehensive and designed to capture a wide range of individuals and organisations with connections to the auditor. Associates include (but are not limited to) any entity controlled by the auditor or under common control or otherwise affiliated or associated with the auditor through the use of a common name or through the sharing of significant common professional resources.
- 7.2.** Paragraph 1(d) of schedule 1 to the Regulations includes as an associate 'any person who is party to an arrangement with the company's auditors, with or without any other person, under which costs, profits, quality control, business strategy or significant professional resources are shared.' This appears to cover a wide variety of arrangements and to have been intended to capture the concept of an auditor's 'network' which is now defined in the EU Audit Directive. It means the larger structure which is aimed at cooperation and to which a statutory auditor or an audit firm belongs and which is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality-control policies and procedures, a common business strategy, the use of a common brand name or a significant part of professional resources. As the intention of paragraph 1(d) is to capture something that should be considered as part of the auditor's network despite the lack of a common name, then an agreement with another party not part of the network to share costs or profits on a particular engagement would not appear to make the other party necessarily an associate of the auditor.
- 7.3.** Reference should be made to the definition of 'associates of a company's auditor' in the Regulations<sup>3</sup> which is not reproduced in this Technical Release. Some relationships are caught even where the degree of influence may be insignificant, for example any partnership which has a partner in common with the company's auditor is considered an associate of the company's auditor.
- 7.4.** Similarly, if a partner in an audit firm is also a director (such as a non-executive) of a company that supplies cleaning services to a client of that audit firm, payments for the supply of those services are required to be disclosed in that client's accounts, within 'All non-audit services not falling within paragraphs 2 to 7' (see paragraph 45.1 below). Each auditor will have to assess the specific circumstances in deciding whether an associate relationship exists. However, such services may be covered by the de minimis exemption for services provided by distant associates (see paragraphs 8.1-3 and 51.1-3 below). Also, as stated at paragraph 30.4 below, the Regulations require disclosure only of fees for services and therefore no disclosure is required of fees for any supply of goods.

### Q8. What is a 'distant associate' of a company's auditor?

- 8.1.** The 2008 Regulations introduced a new exemption from disclosure of certain fees for services supplied by a 'distant associate' of a company's auditors. However, the exemption is available only if:
- a. the associate meets the definition of a 'distant associate' (see paragraph 8.3 below);

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<sup>3</sup> See paragraphs 1-3 of Schedule 1 to the Regulations

- b. the services fall within 'All non-audit services not falling within paragraphs 2 to 7' (ie, they are not any of the seven specified categories described at paragraph 30.2 below, for example taxation compliance services etc.); and
- c. the fees in question do not exceed £10,000 or a lower limit in some cases (see paragraphs 51.1 to 51.3 below).

All three conditions must be met.

- 8.2.** The exemption was included in the 2008 Regulations in response to concern that the definition of associates of the auditor was too broad and included entities which would not ordinarily be thought of as connected with the auditor. However, rather than narrowing the definition of associates, the Government agreed to this limited disclosure exemption. The limited exemption from disclosure is described at paragraphs 51.1 to 51.3 below.
- 8.3.** Distant associates are a sub-set of associates and are defined in the Regulations<sup>4</sup> by reference to a list of numbered sub-paragraphs within the definition of associates. The definition is not reproduced here and is of limited relevance due to the narrowness of the exemption. However, the definition of a 'distant associate' includes, where the auditor is a partnership or an LLP, any body corporate of which a partner in the company's auditor is a director.

## Small and medium-sized companies

### Q9. What is the definition of a small or medium-sized company?

- 9.1.** A company is small in relation to a financial year if the small companies regime, as defined in section 381, applies to that financial year. A company is medium-sized in relation to a financial year if it qualifies as medium-sized in relation to that year under section 465 and is not excluded from being medium-sized under section 467(1) (*Regulations Reg 3(2)*). In addition to meeting the size criteria, it is important to consider whether the company might be ineligible for the exemption because it falls within one of the ineligible categories eg, members of a group containing public companies and certain financial services companies cannot qualify as small or medium-sized companies. In practice, the test is the same as the one that determines whether the company is entitled to file abbreviated accounts.

### Q10. What do SMEs have to disclose?

- 10.1.** In the accounts required to be sent to members under section 423, SMEs are required to disclose only the fee receivable by their auditor (including any benefits in kind) for the audit of those accounts (*Regulation 4*). This is the case whether those accounts are individual or group accounts. For SMEs, the amount disclosed excludes any services provided by associates of the auditor (see paragraph 11.2 below).
- 10.2.** If small companies prepare abbreviated accounts for filing with the Registrar of Companies, the abbreviated accounts need not include this disclosure. However, if a medium-sized company prepares abbreviated accounts, there is no exemption from disclosure of auditor's remuneration for audit services in those abbreviated accounts.
- 10.3.** For companies that are subject to the small companies regime, section 444(1) makes optional the filing with the Registrar of Companies of the directors' report and the profit and loss account and related notes. Such accounts should include the disclosure of auditor's remuneration for auditing the accounts because this disclosure is required by the Regulations and cannot be construed as a note to the profit and loss account.

## Other companies' individual accounts

### Q11. What do companies that are not SMEs have to disclose in their individual accounts if they are not a member of a group?

- 11.1.** Companies that are not SMEs must disclose in their individual accounts:

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<sup>4</sup> See paragraph 1-3 of Schedule 1 to the Regulations

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- a. the fee receivable by their auditor or associates of their auditor for the auditing of those accounts (see paragraphs 19.1 - 19.11 below) (*Regulation 5(1)(a)*);
- b. any fees receivable by their auditor or associates of their auditor for the supply of other services to the company or its associates (see paragraph 13.1 below – a company which is not a member of a group may still have an associated pension scheme for this purpose) (*Regulation 5(1)(b)*).

**11.2.** Prior to the amendments made to the Regulations in 2011, the disclosure of fees receivable for auditing of the accounts did not include fees receivable by the associates of the auditor. This anomaly was addressed by the 2011 Regulations. An equivalent amendment was not made in the case of SMEs (see paragraph 10.1 above), presumably because the issue is unlikely to be relevant to most SMEs.

**Q12. What do companies that are not SMEs have to disclose in their individual accounts if they are a member of a group**

**12.1.** Regulation 5 requires the disclosures to be made in a note to the 'annual accounts' which are defined in section 471 to include a company's individual accounts and any group accounts. This could be seen as indicating that separate disclosures are not required for the company and for the group. However, the fact that Regulation 6(2) provides an exemption for the individual accounts of a parent (subject to certain conditions – see paragraphs 27.1 to 27.6 below) confirms that separate disclosures are expected unless the exemption applies.

**12.2.** Separate disclosure is therefore required in the individual accounts and any group accounts of fees for auditing the accounts of the company. However, the amount to be disclosed will be the same because it relates to fees for auditing the 'annual accounts'. There is no requirement to disclose separately the fee for auditing the individual accounts of the parent company.

**12.3.** The disclosures about fees for other services relate to services supplied to the company or its associates, irrespective of whether group accounts are prepared. The amount disclosed will include (in Category 1) fees for auditing the accounts of subsidiaries. Where the exemption (see paragraphs 27.1 to 27.6 below) does not apply, the amounts to be disclosed will nevertheless generally be the same for the individual accounts and for the group accounts.

**Q13. What is an associate of a company?**

**13.1.** A company's associates for the purposes of the Regulations are its subsidiaries (except where its control over a subsidiary is subject to severe long-term restrictions) and associated pension schemes (*Regulation 3(2)(c)*) (in both cases including those outside the UK). The terminology in the Regulations is potentially confusing because it uses the term 'associates' to include subsidiaries.

**Q14. Is disclosure required of fees receivable by the company's auditor in respect of the company's 'associates' and 'joint ventures' as defined by accounting standards?**

**14.1.** Disclosure is not required of remuneration for work performed for 'associates' and 'joint ventures' as defined in accounting standards, whether equity accounted or proportionately consolidated. However, where any work performed by the company's auditor on such entities goes towards supporting an opinion on the group accounts (eg auditing accounting policy alignments), this will be part of the group audit and will fall to be included in the group audit fee disclosure. Additional voluntary disclosure of the audit fee of an 'associate' or 'joint venture' may be desirable as good practice if such interests are substantial.

**Q15. What about audit-assist fees?**

**15.1.** Work may be undertaken within the audit firm as part of the audit by non-audit professionals. For example, they may be involved in reviewing work such as tax computations, actuarial valuations or property valuations. Such work is regarded as 'audit-assist' and the fee for such work is included in the audit fee for disclosure purposes. Where tax work, for example, is carried out for a single fee covering both compliance and audit-assist work, then the fee should be apportioned between the two types of service.

## Pension schemes

### Q16. What is an associated pension scheme of a company?

- 16.1.** An 'associated pension scheme' is a scheme for the provision of benefits for or in respect of directors or employees (or former directors or employees) of the company or any subsidiary of the company where:
- a. the benefits consist of or include any pension, lump sum, gratuity or other like benefit given or to be given on retirement or on death or in anticipation of retirement or, in connection with past service, after retirement or death; and
  - b. either:
    - i. a majority of the trustees are appointed by (or by a person acting on behalf of) the company or a subsidiary of the company; or
    - ii. the company, or a subsidiary of the company, exercises a dominant influence over the appointment of the auditor (if any) of the scheme.

*(Regulation 3(1))*

The requirements apply equally to overseas pension schemes - for example, the pension schemes of overseas subsidiaries - and UK pension schemes. This definition includes both defined benefit and defined contribution schemes. Industry-wide schemes are not thought likely to fall within this definition.

- 16.2.** It is important to note that part (b)(i) of the definition is a test about potential influence over the appointment of auditors and does not refer to the way in which the company and the pension scheme trustees interact after the trustees' appointment.
- 16.3.** Under the Pensions Act 1995, the scheme auditor must be appointed by the trustees. In considering whether a scheme is an associated pension scheme under part (b)(ii) of the definition above, the company will need to understand the process adopted by the trustees in making the appointment of the scheme auditor and to assess the level of influence over that process exercised by the company (or by any of its subsidiaries). Since the company's other associates are its subsidiaries (other than those over which the company's rights are severely restricted), it might be helpful to the directors to consider the definition of 'actual exercise of dominant influence' given in FRS 2 *Accounting for subsidiary undertakings*:

*'The actual exercise of dominant influence is the exercise of an influence that achieves the result that the operating and financial policies of the undertaking influenced are set in accordance with the wishes of the holder of the influence and for the holder's benefit whether or not those wishes are explicit. The actual exercise of dominant influence is identified by its effect in practice rather than by the way in which it is exercised.'*

### Q17. What disclosure is required in respect of associated pension schemes?

- 17.1.** The Regulations require disclosure of fees receivable by a company's auditor and associates of the company's auditor from the company's 'associated pension schemes' for services supplied to those schemes. This applies irrespective of whether or not the company's auditor or any of its associates is the auditor of the pension scheme.
- 17.2.** The same information must be disclosed in respect of associated pension schemes as is required for the company (or group) – ie, using the same non-audit service categories. It must be disclosed separately from the information for the company and/or group.
- 17.3.** This might be achieved, for example, by the use of a columnar layout with separate columns for the group and associated pension schemes. However, where the range of services supplied to the pension schemes is limited, it may be more appropriate to provide the amounts and descriptions of services supplied in the form of a separate narrative paragraph.

**Q18. How will the information for associated pension schemes be obtained?**

- 18.1.** The directors of the company will generally need to contact the trustees of associated pension schemes to obtain the necessary information in respect of those schemes. Paragraph 6.3 above addresses this issue further.

**The audit fee for companies' individual accounts**

**Q19. What is included in the audit fee?**

- 19.1.** The audit fee includes all remuneration receivable for work carried out as part of the audit of the accounts of the company. It includes, for example, the fee for reporting on directors' remuneration for quoted companies, in accordance with regulations. It also includes fees for all work carried out to satisfy the auditor's responsibilities under the law and auditing standards in relation to material accompanying the accounts such as the directors' report and any corporate governance statements.
- 19.2.** When the company is a parent company, the audit fee to be disclosed is that for the annual accounts (ie, its individual accounts and, if prepared, any group accounts). There is no requirement to disclose separately the fee for auditing the individual accounts of the parent company. This will be included in the amount disclosed for the audit of the annual accounts. This is because Regulation 5 requires disclosure of the fees for auditing the 'annual accounts' which is a term defined in section 471 to include the individual accounts and, where required, the group accounts. See paragraphs 12.1 to 12.3 above.
- 19.3.** In the context of a group audit, work will often be performed on a subsidiary's accounts by both a head office audit team and a subsidiary audit team from the parent company's auditor or an associate thereof. For the purposes of disclosure, it will generally be reasonable to allocate the fee for all such work performed by the head office team to the group audit fee, and the fee for all such work performed by the subsidiary audit team to the subsidiary's audit fee, which will fall to be included in Category 1 under 'Other services' in the group's disclosure (see paragraph 38.2 below) and as the subsidiary's audit fee in its own individual statutory accounts (where it is a UK company).
- 19.4.** Where a subsidiary has been invoiced separately (ie, where the parent has not been invoiced with a single fee for the entire group (see paragraph 26.1 below)), the fee will generally relate to all the work performed at that subsidiary (including work common to both the consolidation pack and the local statutory accounts, work relating solely to the local statutory accounts and work relating solely to the audit of the consolidation pack). It will generally be reasonable to show the combined amount as being the subsidiary's audit fee for the purposes of disclosure in the subsidiary's own annual accounts and to be included in Category 1 of 'Other services' in the disclosures in the group accounts (see paragraph 38.2 below).
- 19.5.** However, in those cases where the fee for the work relating solely to the audit of the consolidation pack is clearly identifiable, its classification should be considered separately from that of the remaining subsidiary audit fee.
- 19.6.** In the group accounts, if the subsidiary is audited by the parent company auditor or an associate thereof, any clearly identifiable element of the subsidiary fee relating solely to the audit of the subsidiary's consolidation pack would be disclosed within the group audit fee because it relates to the audit of the parent company's annual accounts. Prior to the amendments made by the 2011 Regulations, the position was more complicated because fees for services supplied by associates of the auditor could not be included in audit services. The position is now the same irrespective of whether the services are supplied by the auditor or by an associate of the auditor.
- 19.7.** In the accounts of the subsidiary, any such clearly identifiable element of the subsidiary fee relating solely to the consolidation pack will be disclosed within Category 2 'Audit related assurance services' – although in practice, there may not be such a clearly identifiable element. This is because the services supplied are directly related to auditing the parent's accounts and not those of the subsidiary. Using the language of Ethical Standard 5 (see paragraph 39.1 below) these services are 'extended audit work'. They cannot be included in Category 1 because the parent company is not an associate of its subsidiary (see paragraph 30.6 below). The subsidiary will often be exempt from making disclosures about 'other services' (see paragraphs 27.1 to 27.6 below).

- 19.8.** The fee disclosed for the audit of the annual accounts is conventionally the fee for the year on which the auditor is reporting. This is confirmed in Regulation 5(1)(a) which requires the fee to be disclosed for 'the auditing of those accounts'. This is not a time-sensitive phrase, but rather calls for disclosure of the fee for a particular audit regardless of the year in which the work is performed or the fee is expensed. However, this is not intended to suggest that any necessary adjustment for over and under-accruals of previous year audit fees may not be included within the disclosure of audit fees for the current year (see paragraph 19.9 below). It may be helpful to disclose the effect of such adjustments when the amount is material to the fees disclosed or to the trend in disclosed audit fees.
- 19.9.** If the audit fee charged in the year includes an amount for work carried out in the previous year by the previous auditor (if, for example, the fee has been under-accrued), this amount should be disclosed separately as required by the Regulations. There is no explicit requirement for separate disclosure where there has been no change of auditors.
- 19.10.** In all cases, the disclosure of the audit fees will include payments to reimburse the auditor for expenses incurred in conducting the audit and any benefits in kind received by the auditor (*Regulation 3(1) – definition of remuneration*). Where remuneration includes benefits in kind, their nature and estimated money value must be disclosed in the notes (*Regulations 4(2) and 5(2)*).
- 19.11.** Fees paid to an associate of the auditor for the audit of a branch of the company are included in fees for audit services. Prior to the amendments made by the 2011 Regulations, the position was more complicated because fees for services supplied by associates of the auditor could not be included in audit services. The position is now the same irrespective of whether the services are supplied by the auditor or by an associate of the auditor.

**Q20. Is it permissible to provide a sub-total of audit fees together with the fees for the statutory audits of subsidiaries?**

- 20.1.** Sub-totals are permitted (but not required) by the Regulations. Sub-totals are, however, included in Ethical Standard 1's illustrative template for communicating information on audit and non-audit services provided to those charged with governance and companies may wish to include these sub-totals in their accounts. In any event, companies may wish to sub-total the fees for the audit of the accounts of the company itself together with fees for the audits of the accounts of its subsidiaries, which are required to be disclosed within the relevant category within 'Other services' in accordance with the Regulations.

## **More than one auditor**

**Q21. What is disclosed where there has been a change of auditor?**

- 21.1.** Where more than one person or firm has been appointed as a company's auditor during the period to which the accounts relate, separate disclosure is required in respect of remuneration of each such auditor (and of its associates in the case of a company that is not an SME) (*Regulations 4(3) and 5(5)*). This would, for example, apply where there had been a change of auditor.

**Q22. What is disclosed if the auditor is appointed after the year end?**

- 22.1.** Although the Regulations refer to a person appointed as a company's auditor 'during' the period, if a replacement auditor is actually appointed after the year end to conduct the audit of the year that has now passed, the fee receivable by that auditor or its associates in respect of the year in question should be disclosed separately from fees received or receivable (if any) in respect of the year by the auditor or its associates who served during that year.

**Q23. What is disclosed in relation to joint auditors?**

- 23.1.** Remuneration receivable by each joint auditor should be disclosed separately.

## **The audit fee for groups**

**Q24. What should be disclosed as the audit fee in group accounts?**

- 24.1.** In group accounts, the audit fee disclosed is the fee receivable by the auditor of the parent company or its associates in respect of the auditing of the accounts of that company including their work on

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the consolidated accounts. This includes the fee for work performed by the parent company auditor and its associates on consolidation returns from members of the group, although it will generally exclude the amount for work on those returns performed by a subsidiary's audit team from the parent company auditor (see paragraphs 19.3 to 19.6 above). Fees receivable by the parent company auditor or its associates in respect of the audits of subsidiaries, separate from the audit for group accounts purposes, should not be included here but instead should be disclosed within Category 1 of 'Other services' unless fees relating solely to the consolidation returns are clearly identifiable (see paragraphs 19.3 - 19.6 above and 38.1 below) (*Regulation 5(1)(a)*).

**24.2.** There is likely to be a significant variation in the way that different groups analyse the total cost of auditing the group between audit fees and Category 1 of 'Other services'. This will, in part, depend on the legal structure but will also be a matter of judgement about how fees are allocated. A group which has most of its operating subsidiaries in jurisdictions where there is no statutory audit requirement will disclose most of the cost of auditing the group as a whole as audit fees. Conversely, a UK based group where all of the subsidiaries are subject to statutory audit requirements will disclose most of the cost of auditing the group as a whole as Category 1 of 'Other services' if the approach suggested by paragraph 19.4 is applied. Consequently, the total of the two amounts is likely to be of interest to users of the financial statements. Companies may consider presenting a sub-total of the two separate amounts that are required by law (see paragraph 20.1 above).

**Q25.** If an auditor that is not an associate of the parent company's auditor performs the audit of a subsidiary, does that mean that the group has joint auditors?

**25.1.** No. Fees paid by subsidiaries to unassociated auditors (sometimes referred to as 'secondary auditors') are not disclosable, although voluntary disclosure is not prohibited.

**Q26.** What is disclosable if the parent company's auditor invoices a single fee to the parent for all the group company audits?

**26.1.** Where the parent company's auditor invoices a single fee to the parent for the audit of the entire group, the disclosure is as follows:

- Subsidiary – Regulation 5(1)(a) requires disclosure of the audit fee regardless of who has borne it. Therefore the appropriate fee needs to be allocated to each UK subsidiary for disclosure purposes in its annual accounts.
- Group – The fee for the audit of the group accounts needs to exclude amounts not in respect of the audit of the group/consolidated accounts (ie, in respect of the annual accounts of the subsidiaries).
- Where the group itself allocates fees around the group companies, this will often be an appropriate basis for disclosure.

**26.2.** It is necessary to apportion the group audit fee between the companies in the group for the purposes of disclosure even if the cost has not been recharged. A reasonable approximation is acceptable and this should not involve a great deal of work.

**Q27.** Are there exemptions for the accounts of companies in a group?

**27.1.** The fee for auditing the individual accounts of each company must be disclosed in that company's accounts (other than the parent itself (see paragraph 19.2 above)). However, it is not necessary to disclose in the **individual** accounts of a parent or of a consolidated subsidiary amounts receivable by the company's auditor or its associates in respect of other (non-audit) services, where the information is required to be given in the group accounts required to be prepared in accordance with the Act, and the individual accounts state that the group accounts are required to give that information. This applies whether those group accounts are Companies Act group accounts or IAS group accounts). (*Regulation 6(2)*) A consolidated UK subsidiary is eligible for the exemption even if its auditor is different from that of its parent.

**27.2.** As explained in paragraph 27.1 above, the exemption under the Regulations applies only where the group accounts upon which the exemption depends are prepared as a requirement of the Act. Therefore a company that is a subsidiary of a foreign immediate or ultimate parent and either has no subsidiaries or takes exemption from preparing group accounts under section 400 or section 401, is

not eligible for the exemption in Regulation 6(2)(b). It must therefore disclose in its individual accounts fees for other services under Regulation 5(1)(b) and thus has to give the full disclosure discussed at paragraph 11.1(b) above, including in respect of services to its (unconsolidated) associates, if relevant. This is because the foreign parent's group accounts will not be prepared in accordance with the Act. ('Foreign' includes both parents that are incorporated elsewhere in the European Economic Area and those that are not).

- 27.3.** The exemption under the Regulations is available only where the parent company is 'required to prepare' group accounts in accordance with the Act. This could be read as implying that the exemption is not available where the parent company is entitled to one of the exemptions under section 400 or section 401 but chooses voluntarily to prepare group accounts. This is not so provided that the group accounts are deemed to be required as described in paragraph 27.4 below. The exemption from disclosing 'other services' in the individual accounts will be available provided that group accounts are actually prepared and make the disclosures required by the Regulations, and that the individual accounts include the exemption statement that is a requirement for the exemption.
- 27.4.** An intermediate parent company is exempt under section 400 or section 401 from the requirement to prepare group accounts if, inter alia, it discloses in its individual accounts that it is taking advantage of that exemption. If it elects to prepare group accounts as part of its annual accounts and it does not make that disclosure it will therefore be preparing group accounts because it is required to do so, and not 'voluntarily' so far as the Act is concerned. The company and its consolidated subsidiaries will thus be eligible to take advantage in their **individual** accounts of the exemption from disclosing non-audit services in Regulation 6(2) discussed in paragraph 27.1 above (see paragraph 27.6 below for **group** accounts).
- 27.5.** If a subsidiary's accounts are approved before those of the parent, there can be no absolute certainty that the parent will prepare consolidated accounts and make the disclosures required by the Regulations. It may be reasonable, in some cases, for the subsidiary to assume that the parent will meet its legal obligations in due course and so the exemption from the Regulations should be available. This might be so, for example, where the parent is a UK listed company. However, the subsidiary's directors should in all cases make such enquiries as they consider necessary to establish that the exemption will be available. If they are in any doubt, the exemption should not be used. The UK parent company may be entitled to an exemption from preparing consolidated accounts under section 400 or section 401. Where this is the case, the subsidiary should establish whether or not the parent intends to use the exemption and consider the risk that any such decision might subsequently be reversed.
- 27.6.** The exemptions considered in this section are for the individual accounts of a parent and its subsidiaries. There is no exemption in relation to any **group** accounts. Therefore an intermediate holding company which is a subsidiary of another UK company but prepares group accounts (eg, because it has listed debt or because it falls into the circumstances discussed at paragraph 27.4 above) has no exemption from the disclosure in its **group** accounts of 'Other services'. This is so even though its parent prepares group accounts and makes disclosures in accordance with the Regulations.
- Q28. Can a parent company that takes advantage of the permission not to publish its individual profit and loss account/income statement under section 408 also not publish the information about its own audit fee and fees for other services?**
- 28.1.** Section 408 does not permit details of a company's audit fee and fees for other services to be excluded when advantage is taken of the exemption from publishing in its annual accounts the company's individual profit and loss account. The disclosures on audit fees and fees for other services are required specifically by the Regulations, rather than generally as a note to the profit and loss account/income statement. However, if a company is required to<sup>5</sup> prepare group accounts as part of its annual accounts, then it will be exempt from providing information about the fees for its individual accounts anyway (provided that it makes the necessary exemption statement), as discussed at paragraph 27.1 above. As also explained at paragraph 19.2 above, there is no requirement to disclose separately the fee for auditing the individual accounts of the parent company.

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<sup>5</sup> As explained at paragraph 27.1 et seq, a company may be 'required to' prepare group accounts when it makes use of certain exemptions.

## Other services

### Q29. Which entities and which auditors' fees have to be considered for inclusion?

- 29.1.** The stipulation in Regulation 6(1) to apply Regulation 5(1)(b) as if the undertakings included in the consolidation were a single company has the following effect. If, under EU-adopted IFRS, the consolidation includes an undertaking that is not a subsidiary undertaking as a matter of law, then the parent company's disclosure of the group's fees for other services will include services provided to that undertaking.
- 29.2.** The fact that the undertakings included in the consolidation are treated as a single company does not mean that fees other than those paid to the parent company's auditors and its associates are included in the disclosure (so fees paid to any 'secondary auditors' are excluded).

### Q30. What is included in 'Other services'?

- 30.1.** The aggregate amount receivable by the auditor (and its associates) for each of the eight categories of service set out in Schedule 2A to the Regulations must be disclosed by companies that are not SMEs (*Regulation 5(3)*).
- 30.2.** For ease of reference, the complete list of categories of 'Other services' set out in Schedule 2A to the Regulations is as follows:
1. The auditing of accounts of any associate of the company.
  2. Audit-related assurance services.
  3. Taxation compliance services.
  4. All taxation advisory services not falling within paragraph 3.
  5. Internal audit services.
  6. All assurance services not falling within paragraphs 1 to 5.
  7. All services relating to corporate finance transactions entered into, or proposed to be entered into, by or on behalf of the company or any of its associates not falling within paragraphs 1 to 6.
  8. All non-audit services not falling within paragraphs 2 to 7.
- 30.3.** Where one fee covers more than one category of service, some reasonable form of apportionment should be used to allocate the fee between the relevant categories.
- 30.4.** The Regulations require disclosure only of fees for services and therefore no disclosure is required of fees for any supply of goods that the auditor or its associates might make. However, the definition of remuneration in Regulation 3 includes payments in respect of expenses and benefits in kind.
- 30.5.** As explained at paragraph 19.8 above, the fee disclosed for the audit of the annual accounts is conventionally the fee for the year on which the auditor is reporting. The same approach should be used for any fees for auditing the accounts of the company's associates (which will be included in Category 1 of 'Other services') and for regulatory filings that relate to the signing of an audit opinion (which generally will be included in Category 2 of 'Other services'). Other fees which are unrelated to the audit for a particular year should be calculated on an accruals basis (ie, for work carried out in the period). The amount disclosed should be the amount charged to income or capitalised within assets (for example, fees relating to due diligence work) or included within issue costs of debt or equity during the company's reporting period.
- 30.6.** The Regulations require disclosure of 'any remuneration receivable by the company's auditors or [their associates] for the supply of other services to the company or its associates'. The associates of a company are defined in the Regulations as being most subsidiaries (see paragraph 13.1 above) and all associated pension schemes but do not include parent companies. Therefore, fees for

services that are supplied by a company's auditor (or its associates) to its parent company do not have to be disclosed in the subsidiary's accounts.

- 30.7.** For example, consider a company that is a subsidiary of a foreign parent. Its auditor may provide services which do not relate to the audit of the company but are necessary for the consolidated accounts of the foreign parent. For example, they might relate to the audit of a consolidation return under US GAAP. In this case, whether the services have been supplied to the parent or the subsidiary will depend on the facts. In some cases it will be clear that the services were supplied to the foreign parent although the work may physically have been carried out at the premises of the UK subsidiary company. Where this is the case, the fees for these services will not be included in the amounts disclosed by the subsidiary for 'Other services'. Factors to consider when determining which company the services have been supplied to include the addressee of the engagement letter and any reports. The identity of the company which paid the fees may be a relevant factor where the other evidence is unclear or conflicting about the identity of the company to which the services were supplied. But payment of fees is not itself the basis for disclosure where the services have clearly been supplied to another company. However, where such services have been supplied to the subsidiary and are clearly identifiable they generally will fall within the appropriate 'Other services' category. In relation to this specific example, they would be within Category 2 (see paragraph 19.7 above).
- Q31. What disclosure should be made if a single fee is agreed (and a single engagement letter is in place) for the audit and for the provision of services in addition to the audit of the accounts?**
- 31.1.** Where a single fee has been agreed for the audit and other services (for example, a review of the interim financial information) the auditor should provide a reasonable breakdown of the total fee into the different services.
- Q32. Will complying with the Regulations ensure compliance with the Audit Directive?**
- 32.1.** Yes. The EU Audit Directive (2006/43/EC) amended the Fourth and Seventh Company Law Directives to introduce requirements into EU law on disclosure of auditor's remuneration for audit and non-audit services. These requirements were implemented in the UK as part of the implementation of the Companies Act 2006 through the 2008 Regulations. One of the stated purposes of the revised classification of non-audit services under the 2011 Regulations is to link more clearly with the requirements of the amended Fourth and Seventh Directives.
- Q33. Are the categories consistent with those required by the US Securities and Exchange Commission (SEC)?**
- 33.1.** No. SEC registrants are required to conform to two similar but separate requirements, and are required to present additional information in order to comply with SEC requirements. Similarly, disclosures presented in accordance with SEC requirements do not fulfil the UK disclosure requirements.
- Q34. Is it necessary to disclose the eight services specified in Schedule 2A in the order in which they are listed in the Schedule?**
- 34.1.** Disclosing other services in the order in which they are listed is not a requirement. Companies may, however, wish to follow this order. Alternatively they may wish to use the order included in Ethical Standard 1's illustrative template for communicating information on audit and non-audit services to those charged with governance or some other order.
- 34.2.** However, care is required to ensure that the description of the categories is accurate. For example, the Ethical Standard's illustrative template lists 'other assurance services' immediately below 'audit related assurance services' but clarifies by way of footnote that the former excludes any tax or internal audit assurance services which would be included in those categories lower down the page.
- Q35. Are sub-analyses required?**
- 35.1.** Sub-analysis of the individual categories is not required, but may be desirable in some instances. For example, category 6 'All assurance services not falling within paragraphs 1 to 5' will include assurance engagements such as those which involve reporting on historical financial information which is included in an investment circular. It may be helpful to disclose such amounts separately

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because they might otherwise be expected to be included in Category 7 'All services relating to corporate finance transactions ...'. Similarly, it may be helpful to provide a sub-analysis of Category 8 'All non-audit services not falling within paragraphs 2 to 7' as this may include fees relating to a variety of services (see paragraphs 45.1 to 45.2 below).

### Q36. Is it necessary to disclose nil or immaterial amounts?

- 36.1.** Nil amounts do not have to be disclosed. Therefore, categories for which there are no amounts in the current year or the prior year may be omitted. However, there is no explicit exemption from disclosing immaterial amounts.
- 36.2.** Information in the notes to the financial statements is often reported in thousands or even millions of units of the presentation currency. IAS 1 paragraph 53 confirms that this may be acceptable so long as the level of rounding in presentation is disclosed (ie, it is clear that the amounts are, for example, thousands of pounds) and material information is not omitted. This is also acceptable under UK GAAP although there is no specific pronouncement on it. The same approach would appear to be acceptable for the disclosure of auditor's remuneration based on past practice unless, of course, the level of rounding renders the disclosure meaningless.

### Q37. Is it necessary to disclose the aggregated total of fees for other services?

- 37.1.** No.

### Q38. What is included in Category 1 'The auditing of accounts of any associate of the company'?

- 38.1.** Category 1 includes fees receivable by the auditor or its associates for the auditing of the accounts of subsidiaries and associated pension schemes (both inside and outside the UK). The reference to 'accounts' is not limited to statutory accounts and may include consolidation returns or non-statutory accounts. However, fees receivable by the parent company's auditor or its associates for work on the consolidated accounts will be included in the amount disclosed as the group audit fee (see paragraph 24.1 above). The group audit fee will generally include fees receivable for the parent company's auditor's head office team's review of consolidation returns of subsidiaries (and any clearly identifiable element of the subsidiary fee relating solely to the audit of the subsidiary's consolidation pack (see paragraphs 19.3 to 19.7)).
- 38.2.** Fees receivable by the parent company auditor or its associates in respect of the audit of subsidiaries, separate from their audit of the group accounts, should be disclosed in the group accounts within Category 1.
- 38.3.** A subsidiary will usually be exempt in its individual accounts from disclosing fees paid for 'Other services' as described in paragraph 27.1. However, where that is not the case, in a UK subsidiary's accounts, any clearly identifiable fee paid to the subsidiary's auditor for the audit of that subsidiary's consolidation return, to the extent that the auditor's work was not necessary for the audit of the subsidiary's own accounts, is disclosed under the appropriate category (see paragraph 19.7 above) unless the services have been supplied to the parent in which case no disclosure will be required in the subsidiary's accounts (see paragraph 30.7 above). The fee for this work may be material and clearly identifiable if, for example, the consolidation return and the subsidiary's own accounts are prepared using different accounting frameworks. Another example would be the audit of information at the subsidiary in support of hedge documentation prepared at group level in accordance with IAS 39 / FRS 26 *Financial instruments: Recognition and measurement* for the purposes of achieving hedge accounting in the group accounts but that was not relevant for the subsidiary as it may not have hedged the exposure or may have hedged in a different manner for the purposes of its own accounts.

### Q39. What is included in Category 2 'Audit-related assurance services'?

- 39.1.** The Explanatory Note to the 2011 Regulations explains that the categories have been updated to correlate with the requirements of APB Ethical Standard 5. Therefore, although the Regulations themselves do not include a definition of 'audit-related assurance services', it is appropriate to refer to Ethical Standard 5 which defines 'audit-related services' as 'those non-audit services ... that are largely carried out by members of the engagement team where the work involved is closely related to

the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied<sup>6</sup>.

Paragraph 55 of Ethical Standard 5 states that audit-related services are:

- reporting required by law or regulation to be provided by the auditor;
- reviews of interim financial information;
- reporting on regulatory returns;
- reporting to a regulator on client assets;
- reporting on government grants;
- reporting on internal financial controls when required by law or regulation; and
- extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where the work is integrated with the audit work and is performed on the same principal terms and conditions.

The APB do not include specific examples of extended audit work but work on auditing consolidation returns could fall into this category (see paragraph 19.7 above).

- 39.2.** Paragraph 57 of Ethical Standard 5 notes that some services other than those listed in paragraph 55 may be considered by the auditor to be closely related to an audit. However, paragraph 56 states that only those non-audit services listed in paragraph 55 are described as audit-related in communications with those charged with governance. This approach should be applied also to disclosures in financial statements.
- 39.3.** Some of the services listed in paragraph 55 of Ethical Standard 5 may not strictly involve giving assurance, for example an agreed upon procedures report in connection with a regulatory return or grant application. However, a footnote to Ethical Standard 1's illustrative template states that audit-related assurance services "will, and will only, include those services which are identified as audit related services in paragraph 55 of ES 5". Also, guidance issued by BIS<sup>7</sup> indicates that audit-related assurance services should include all those services listed in paragraph 55 of Ethical Standard 5. It therefore appears to be intended that category 2 is completely aligned with paragraph 55 of Ethical Standard 5.
- 39.4.** The services included in Category 2 are not restricted to those which are required by to be performed by the company's auditors except in relation to the first bullet in paragraph 39.1 above. It is sufficient that the services are those defined as audit-related services by the APB. However, such services are conventionally performed by the auditor.
- 39.5.** When performing an audit, an approach may be taken whereby work performed on internal controls forms an integral part of the audit procedures for the UK audit and is also sufficient for the signing of the report under section 404 of the US Sarbanes Oxley Act ('the section 404 report'). Consequently, in this case, the fees for work on internal controls will be included in the audit fee disclosure. If there is additional work performed on internal controls to give the section 404 report or on preparing the report itself that would not be required for the UK audit (eg, controls are tested that are not relied upon for the UK audit), any fee relating to this work also falls within Category 2.
- 39.6.** In the group financial statements, only the fees relating to work performed on internal controls within the parent company and over the consolidation process should be included in the group audit fee. To the extent that work is performed as part of the audit on the internal controls of a subsidiary, these fees form part of the fee for auditing the subsidiary. As such, from a group perspective, they will fall to be included in Category 1. However, if the work on the internal controls of the subsidiary is only carried out for the purposes of the section 404 report, the fees will fall to be disclosed within Category 2.

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<sup>6</sup> Ethical Standard 5 paragraph 54

<sup>7</sup> Explanatory text, paragraph 16.

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### Q40. Should fees for the review of the half-yearly report be included in Category 2?

- 40.1.** There is no statutory requirement in the UK for a review by the auditor of the half-yearly report. Where a review is performed the fees will be included within Category 2 because it is specifically listed by the Ethical Standards as part of the definition of audit-related services.
- 40.2.** Auditors may carry out work at the time of the review of the half-yearly report which is a necessary and integral part of the audit of the full year financial statements. Fees for such work are for audit services and should not be included within Category 2. It is only the incremental cost of reviewing the half-yearly report which will be included in Category 2.

### Q41. What is included in Category 3 'Taxation compliance services' and Category 4 'All taxation advisory services not falling within paragraph 3'?

- 41.1.** Fees for tax compliance services (for example, preparing and submitting tax computations, subsequent discussions and correspondence with HMRC etc.) should be disclosed under Category 3.
- 41.2.** Fees for tax work carried out as part of the audit of the accounts (for example, auditing tax provisions) should be included as part of the amount receivable in respect of the audit of the accounts of the company (or of its associates, as appropriate, in which case the fees would fall to be included within Category 1) (see paragraphs 15.1, 24.1 or 38.1 above, as appropriate).
- 41.3.** Fees for all other tax advisory services should be disclosed under Category 4. This will include, for example, fees for tax advisory services in relation to corporate finance transactions.

### Q42. What is included in Category 5 'Internal audit services'?

- 42.1.** Ethical Standard 5 paragraph 58 discusses what internal audit services might constitute.
- 42.2.** Internal audit services should be distinguished from extended audit work. Paragraph 68 of Ethical Standard 5 notes that if extended audit work on financial information and/or financial controls is authorised by those charged with governance, it will be considered an 'audit-related service' provided that it is integrated with the work performed in the audit and performed largely by the existing audit team, and is performed on the same principal terms and conditions as the audit.

### Q43. What is included in Category 6 'All assurance services not falling within paragraphs 1 to 5'?

- 43.1.** The following are examples of assurance services that generally would not fall into categories higher on the list, and which therefore fall into Category 6:
- assurance reporting on historical financial information which is included in an investment circular<sup>8</sup>;
  - non-regulatory reporting on internal controls or corporate governance matters;
  - environmental audits, providing assurance on corporate responsibility reports and similar services;
  - reports under sections 93 and 1150 concerning recent allotments of shares for non-cash consideration;
  - reports under sections 593 and 1150 concerning valuation of non-cash consideration for shares; and
  - reports under sections 599 and 1150 concerning transfer of non-cash asset in initial period.
- 43.2.** Paragraph 7 of the IFAC Framework defines an 'assurance engagement' as 'an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria'.

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<sup>8</sup> For example, the APB's illustrative template refers to reports prepared under SIR 2000 (Revised) *Investment reporting standards applicable to public reporting engagements on historical financial information*

**Q44. What is included in Category 7 ‘All services relating to corporate finance transactions entered into, or proposed to be entered into, by or on behalf of the company or any of its associates not falling within paragraphs 1 to 6’?**

**44.1.** As explained at paragraph 43.1 above, certain corporate finance services, for example relating to historical financial information may fall within the definition of assurance services and therefore be included in Category 6. Some other corporate finance services (ie, in addition to reporting on historical financial information) may involve assurance and therefore will be included in Category 6.

**44.2.** Other corporate finance services will fall within Category 7. For example this will include work on long-form reports, irrespective of whether the company is the vendor or purchaser.

**44.3.** Other examples of corporate finance services given in paragraph 126 of Ethical Standard 5 include the following but the provision of some of these services by auditors is prohibited or restricted:

- to identify possible purchasers for parts of the audited entity’s business and provide advisory services in the course of such sales; or
- to identify possible ‘targets’ for the audited entity to acquire; or
- to advise the audited entity on how to fund its financing requirements; or
- to act as sponsor on admission to listing on the London Stock Exchange, or as Nominated Advisor on the admission of the audited entity on the Alternative Investments Market (AIM); or
- to act as financial adviser to audited entity offerors or offerees in connection with public takeovers.

Such services, where permitted, would generally fall within category 7.

**Q45. What is included in Category 8 ‘All non-audit services not falling within paragraphs 2 to 7’?**

**45.1.** The following are examples of services that generally would not fall into categories higher on the list, and which therefore fall into Category 8:

- advice on accounting matters (where this is unrelated to the auditing of the accounts);
- provision of accounting services;
- secondments of the auditor’s staff to the audit client;
- financial and non-financial services provided by a company of which a partner in the audit firm is a director (see paragraph 7.4 above, in particular the cleaning services example);
- actuarial valuation services
- other valuation services;
- information technology services;
- litigation support services;
- legal services;
- recruitment and remuneration services; and
- restructuring services.

This is not intended to be an exhaustive list and the precise nature of the engagement may put individual fees into a different category. The provision by auditors of some of the services listed above is restricted by Ethical Standard 5, depending upon the exact nature of the services and whether the company is a listed company.

**45.2.** While it is not necessary to show individual amounts for the different services, narrative explanation of the nature of the services included in the category may be helpful to the user. This may be particularly useful when there are no amounts, or only immaterial amounts, disclosed in the earlier categories (eg, such that the largest single amount is described as ‘Other’).

## Other issues

### Q46. Are amounts receivable by the company's auditor from third parties ever disclosable?

- 46.1.** Fees may be payable by third parties to a company's auditor for work carried out by them under separate engagements unrelated to the audit and under instructions from a third party but nevertheless in relation to their mutual client. Examples include litigation support work, where the auditor may report directly to the solicitors; and credit investigation reports, where the report may be made to the bank. In each case, the fees may be payable by the third party, but the service is provided in relation to the audit client. Since the substance of the service is that it has been rendered to the audit client, the fee should be subject to disclosure. Such fees should be disclosed in the appropriate category or categories; in these examples, they would fall into Category 8 'All non-audit services not falling within paragraphs 2 to 7'.
- 46.2.** The key point is that disclosure does not depend on which company pays the fees but on which company the services are supplied to. These will often be the same but this will not always be the case.
- 46.3.** For example, banks sometimes require their customers to appoint accountants to prepare reports as a condition of continued lending. The bank's customer will normally pay the fees. The accountants appointed may coincidentally be the auditor of the bank. It would be unusual for the bank to require the work to be performed by their auditor although they may appear on a shortlist of approved firms. In many cases it will be clear that the services are being supplied to the bank's customer rather than to the bank itself. In fact, if the accountants were also the auditor of the bank's customer, it would be expected that the fees would be disclosed as 'Other services' in that company's accounts. Consequently, it would not be expected that the amounts would also be disclosed as 'Other services' in the bank's accounts. In each case, directors will need to consider the particular arrangements and form a view on whether the services are being supplied to the bank or to the bank's customer.

### Q47. Does information about other services performed after the period end need to be disclosed in the accounts?

- 47.1.** The Regulations do not require disclosure of information about any services performed after the period end or about any contracts for services not yet performed. However, such information will need to be reported internally where relevant corporate governance procedures are in place. As indicated in paragraph 19.8 above, audit work performed after the year end will generally relate to the audit of the annual accounts for the year just ended.

### Q48. Is any narrative disclosure required?

- 48.1.** The Regulations do not require any narrative disclosures. In the case of listed companies, if the auditor provides non-audit services narrative disclosure should be provided to explain how the auditor's objectivity and independence is safeguarded (*UK Corporate Governance Code provision C.3.7*).
- 48.2.** The Guidance on Audit Committees published by the Financial Reporting Council includes recommendations for the content of this explanation. Where the auditor provides non-audit services other than audit-related services, these include:
- an explanation for each significant engagement, or category of engagements;
  - what the services are;
  - why the audit committee concluded that it was in the interests of the company to purchase them from the external auditor (rather than another supplier); and
  - how auditor independence and objectivity has been safeguarded.

These disclosures are typically provided in a corporate governance statement or audit committee report rather than in the financial statements.

- 48.3.** Companies should consider whether additional footnote disclosure would help explain the nature of the non-audit services including Category 6 'All assurance services not falling within paragraphs 1 to 5' and Category 8 'All non-audit services not falling within paragraphs 2 to 7'.

- 48.4.** Where fees for non-audit services have changed significantly between years, companies should consider whether an explanation of the reasons for the changes may be helpful. This may be the case, particularly, where there are significant one-off services relating to a specific transaction. For example, in the year of an initial public offering (IPO), there will be significant reporting accountant fees that will not recur.
- 48.5.** Where a parent company has made a substantial acquisition and its auditor or an associate of the auditor has taken on the audits of the acquired companies for the first time, it may be useful to provide a comparison with the fees charged in the previous year by the previous auditor of these companies.
- 48.6.** Paragraph 22 of Ethical Standard 4 requires that, in the case of listed companies, the audit engagement partner should disclose to the audit committee, in writing, any contingent fee arrangements for non-audit services provided by the auditor or its associates. This is included on the illustrative template included in Ethical Standard 1. Consideration should be given to including similar disclosures in the financial statements or in the disclosures under the UK Corporate Governance Code described at paragraph 48.1 above.

**Q49. Where should transition fees be disclosed?**

- 49.1.** In most cases, the work performed by the auditor on IFRS transition would be necessary to enable them to give their opinion on the first IFRS financial statements, including the reconciliations required by IFRS 1. Where this is so, the fees are for the audit of the accounts and should be disclosed as audit fees. This is so even if they are billed separately. It is also the case where a separate report is provided on the transition work unless this significantly increased the scope of the auditor's work.
- 49.2.** Where the work performed by the auditor goes significantly beyond what would be required of them as auditors to give their opinion on the financial statements, the fees will most likely be included in Category 2 'Audit-related assurance services' because it will normally be extended audit work. This will depend on the exact nature of the services provided.
- 49.3.** The IFRS transition work may be done at the same time as the auditor's review of the company's first IFRS interim report. However, it will generally be disclosed as relating to the audit rather than the interim review because it would have been required irrespective of whether an interim review was performed.
- 49.4.** The same principles will apply for fees incurred when companies transition to the proposed new form of UK GAAP based on the IFRS for SMEs which is currently expected to replace existing UK GAAP for periods beginning on or after 1 January 2015.

**Q50. Should the amounts disclosed include irrecoverable VAT?**

- 50.1.** The amounts disclosed should exclude VAT, whether it is recoverable or not. This is because the focus of the Regulations is on what is receivable by the auditor.

**Q51. What is the exemption for 'distant associates'?**

- 51.1.** Disclosure is not required of remuneration receivable for the supply of services falling within paragraph 8 of Schedule 2A (ie, 'All non-audit services not falling within paragraphs 2 to 7') supplied by a 'distant associate' (see paragraphs 8.1 to 8.3 above) of the company's auditor where the total remuneration receivable for all of those services supplied by that associate does not exceed either:
- £10,000; or
  - 1% of the total audit remuneration received by the company's auditor in the most recent financial year of the auditor which ended no later than the end of the financial year of the company to which the accounts relate.
- 51.2.** For this purpose 'financial year of the auditor' means:
- the period of not more than 18 months in respect of which the auditor's profit and loss account is required to be made up (whether by law or by or in accordance with the auditor's constitution (if any)); or
  - failing any such requirement, the period of 12 months beginning with 1 April.

## DISCLOSURE OF AUDITOR REMUNERATION

- 51.3.** Also, 'total audit remuneration received' means the total remuneration received for the auditing pursuant to legislation (including that of countries and territories outside the United Kingdom) of any accounts of any person.

## APPENDIX

### Example of disclosure of services provided by the company's auditor and its associates

#### Background

X plc is a large trading company which has two smaller trading subsidiaries: Y Ltd, a company incorporated under the Companies Act and Z SA, a company incorporated in France. X plc also has a material joint venture, A Ltd and a pension scheme, the X plc pension scheme, which is operated for the benefit of staff employed by X plc and Y Ltd.

Each entity referred to above pays fees to X plc's auditor (D'Green & Co) and its associates as follows:

X plc pays D'Green & Co:

- £1 million to the audit practice for the year end audit, of which £200,000 is in respect of the audit of the consolidated accounts and £800,000 is in respect of the audit of the company's accounts.
- £400,000 to the audit practice for their review of the consolidated interim report.
- £500,000 to the tax practice, of which £200,000 is in respect of work performed by the tax department to assist the auditor in their audit of the tax numbers in the consolidated accounts and £300,000 is for tax compliance work for the company.
- £500,000 for corporate finance services which includes £200,000 for assurance services on historical financial information and £50,000 for taxation advisory services in connection with the transaction.

Y Ltd pays D'Green & Co:

- £67,000 to the audit practice, of which £60,000 is in respect of the year end audit, including both work on the statutory accounts of Y Ltd and work on the group consolidation pack and £7,000 is in respect of work performed contributing to D'Green & Co's review of the interim financial statements.
- £10,000 to the tax practice for tax compliance work.

Z SA pays the French firm of D'Green & Co (an associate of the UK firm):

- £25,000 to the audit practice for the year end audit, including both work on the statutory accounts of Z SA and work on the group consolidation pack.
- £7,000 to the tax practice for tax compliance work.

A Ltd pays D'Green & Co:

- £7,500 to the audit practice for the audit of the statutory accounts of A Ltd. No additional fees are paid by A Ltd for the audit of information to be included in the X Plc consolidated accounts: instead, this is included in the audit fee paid by X Plc.
- £5,000 to the tax practice for tax compliance work.

The X plc pension scheme pays D'Green & Co:

- £4,000 to the assurance practice for the audit of the pension scheme.
- £2,000 to the assurance practice for the audit of a return submitted to the pension regulator.

## DISCLOSURE OF AUDITOR REMUNERATION

### Disclosure in notes to accounts

The disclosure of auditor remuneration in X plc's group and individual accounts and Y Ltd's individual accounts will be as shown below. Comparative information has not been included in this example but is required for disclosure in accounts. The information has been given in tabular format but this is not required by the legislation and a narrative format for some or all of the information (for example, that relating to associated pension schemes) would be acceptable.

<b>X plc</b>	£'000s	
Fees payable to the company's auditor for the audit of the company's annual accounts	1,200	
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries <sup>9</sup> , pursuant to legislation	85	(Category 1) <sup>10</sup>
Audit-related assurance services	407	(Category 2)
Tax compliance services	317	(Category 3)
Tax advisory services	50	(Category 4)
Other assurance services	200	(Category 6)
Corporate finance services*	250	(Category 7)
Fees in respect of the X plc pension scheme:		
Audit	4	(Category 1)
Other services pursuant to legislation	2	(Category 2)

\* Excluding amounts included within tax advisory services and other assurance services.

Fees paid to D'Green & Co and its associates for non-audit services to the company itself are not disclosed in the individual accounts of X plc because the company's consolidated accounts are required to disclose such fees on a consolidated basis.

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<b>Y Ltd</b>	£'000s
Fees for the audit of the company	60

Fees paid to the company's auditor, D'Green & Co, and its associates for services other than the statutory audit of the company are not disclosed in Y Ltd's accounts since the consolidated accounts of Y Ltd's parent, X plc, are required to disclose non-audit fees on a consolidated basis.

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<sup>9</sup> Additional voluntary disclosure of fees paid by X plc's joint venture may be desirable, as good practice, if the associate is particularly material (see paragraph 13.1 of TECH [04/11]).

<sup>10</sup> References to categories of fees for other services are provided as a link to the 'Analysis of fees - working schedules' given below. Reference to the categories is not required by legislation nor is publication of the Analysis of fees.

## Analysis of fees - working schedules

The following table has been prepared to aid understanding of the disclosures shown above. There is no requirement to publish such an analysis.

The table analyses the fees paid by companies in the group to D'Green & Co and its associates and shows how the fees feed into the categories in the disclosure above. The audit fee disclosable in X plc's group and individual accounts is one and the same number (see paragraph 17.2 above). Although Y Ltd has taken the exemption from presenting information about fees (other than the statutory audit fee) paid to D'Green & Co and its associates, this table analyses them to show how they would fall to be disclosed if the exemption was not available or Y Ltd elected not to apply it.

	X plc group	Y Ltd
<b>Fees paid by X plc</b>		
Audit of group accounts - £200,000	Audit fee	
Audit of individual accounts - £800,000	Audit fee	
Interim review fee - £400,000	Category 2	
Tax audit fee - £200,000	Audit fee	
Tax compliance fee - £300,000	Category 3	
Tax advice on CF transaction - £50,000	Category 4	
Assurance services on CF transaction - £200,000	Category 6	
Other corporate finance services - £250,000	Category 7	
<b>Fees paid by Y Ltd</b>		
Year end audit of Y Ltd - £60,000	Category 1	Audit fee
Work contributing to the interim review by D'Green & Co of the consolidated accounts - £7,000	Category 2	Category 2
Tax compliance fee - £10,000	Category 3	Category 3
<b>Fees paid by Z SA</b>		
Year end audit of Z SA - £25,000	Category 1	
Tax compliance fee - £7,000	Category 3	

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