



## DISCLOSURE OF AUDITOR REMUNERATION

TECHNICAL RELEASE TECH 01/22 FRF

Last updated 20 April 2022

**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.**

The ICAEW Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

We are helping to build the economies of tomorrow, by defining the role that accountancy will play in delivering the future. We attract, develop and support current and future generations of accountants and finance professionals, nurturing both the skills and values they need to contribute to sustainable business success. We also work with governments, regulators and business leaders worldwide, to help economies thrive.

© ICAEW 2022

All rights reserved.

If you want to reproduce or redistribute any of the material in this publication, you should first get ICAEW's permission in writing.

Laws and regulations referred to in this ICAEW Technical Release are stated as at 20 April 2022. Every effort has been made to make sure the information it contains is accurate at the time of creation. ICAEW cannot guarantee the completeness or accuracy of the information in this ICAEW Technical Release and shall not be responsible for errors or inaccuracies. Under no circumstances shall ICAEW be liable for any reliance by you on any information in this ICAEW Technical Release.

**CONTENTS**

Introduction ..... 3

Table of questions..... 5

    The regulations and other general issues ..... 7

    Associates of a company’s auditor ..... 8

    Small and medium-sized companies ..... 10

    Other companies’ individual accounts ..... 10

    Pension schemes ..... 11

    The audit fee for companies’ individual accounts ..... 13

    More than one auditor ..... 14

    The audit fee for groups ..... 15

    Other services ..... 17

    Other issues ..... 24

Appendix ..... 28

    Example of disclosure of services provided by the company’s auditor and its associates ..... 28

        Background ..... 28

        Disclosure in notes to accounts ..... 29

        Analysis of fees - working schedules ..... 30

## INTRODUCTION

1. This Technical Release provides 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<sup>1</sup> a service provided by the auditor falls.
2. 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>2</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>3</sup> ('the 2011 Regulations'). The list of categories into which 'other' services must be analysed was amended to correlate with the revised Ethical Standard<sup>4</sup> published by the Auditing Practices Board of the Financial Reporting Council. 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. The requirements were further amended by the Statutory Auditors and Third Country Regulations 2016 (Statutory Instrument 2016/649)<sup>5</sup> ('the 2016 Regulations'), which deleted references to the requirement for small companies to disclose details of audit fees and narrowed the scope of the disclosure exemption available to subsidiaries included in group accounts.
3. References in this Technical Release to 'the Regulations' are to the 2008 Regulations as amended by the 2011 Regulations and the 2016 Regulations unless the context requires otherwise.
4. This guidance supersedes the draft guidance initially published in December 2011 as TECH 04/11 FRF and then updated in December 2013 to be TECH 13/14. This final guidance is substantively unchanged from the original technical release. However, additional guidance has been added to clarify the relationship between the requirements of the 2011 Regulations and the contents of the illustrative template for communicating information on audit and non-audit services to those charged with governance that is included in Appendix A of the Financial Reporting Council's Revised Ethical Standard. Guidance has also been updated to reflect the fact that small companies are no longer required to disclose auditor remuneration and to reflect changes to related pronouncements including the Revised Ethical Standard, the Companies Act 2006, UK Financial Reporting Standards and the UK Corporate Governance Code.
5. All companies, other than those that qualify as small, are required to disclose the fees payable to the auditor for the audit of their financial statements. Small and medium-sized companies are exempt from the requirements relating to disclosures for other services.
6. In addition to legislative measures for disclosure, auditors are bound by the Financial Reporting Council's Revised Ethical Standard. In particular, Section 5 *Non-audit / Additional*

---

<sup>1</sup> Auditor remuneration is categorised between fees relating to audit services and fees relating to other services. Fees relating to other services are further analysed into eight categories as discussed in paragraphs 28.1 to 28.3 below

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

<sup>3</sup> [www.legislation.gov.uk/ukSI/2011/2198/contents/made](http://www.legislation.gov.uk/ukSI/2011/2198/contents/made)

<sup>4</sup> [www.frc.org.uk/getattachment/601c8b09-2c0a-4a6c-8080-30f63e50b4a2/Revised-Ethical-Standards-2019-Updated-With-Covers.pdf](http://www.frc.org.uk/getattachment/601c8b09-2c0a-4a6c-8080-30f63e50b4a2/Revised-Ethical-Standards-2019-Updated-With-Covers.pdf)

<sup>5</sup> [www.legislation.gov.uk/ukSI/2016/649/contents/made](http://www.legislation.gov.uk/ukSI/2016/649/contents/made)

## DISCLOSURE OF AUDITOR REMUNERATION

*Services* imposes certain constraints and safeguards in relation to the provision of non-audit services. The Revised Ethical Standard includes a definition of audit-related services which is reproduced in paragraph 36.1 of this Technical Release. Also, as noted above, Appendix A to the Revised Ethical Standard includes an illustrative template for communicating information on audit and non-audit services to those charged with governance.

7. 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.
8. References in this guidance to 'auditor' and 'auditors' are identical in meaning unless otherwise required by the context.
9. The Regulations use the term 'subsidiary' to mean a subsidiary undertaking as defined in section 1162; the same usage is adopted in this guidance.
10. 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.

## TABLE OF QUESTIONS

### THE REGULATIONS AND OTHER GENERAL ISSUES

- Q1. To which companies do the Regulations apply?
- Q2. To which other types of entity do the Regulations apply?
- Q3. Where does the information required by the Act have to be disclosed?
- Q4. Do comparative figures have to be given?
- Q5. How is the necessary information obtained?

### ASSOCIATES OF A COMPANY'S AUDITOR

- Q6. What is an associate of a company's auditor?
- Q7. Are there any exemptions for 'distant associates' of a company's auditor?

### SMALL AND MEDIUM-SIZED COMPANIES

- Q8. What is the definition of a small or medium-sized company?
- Q9. What do SMEs have to disclose?

### OTHER COMPANIES' INDIVIDUAL ACCOUNTS

- Q10. What do companies that are not SMEs have to disclose in their individual accounts if they are not a member of a group?
- Q11. What do companies that are not SMEs have to disclose in their individual accounts if they are a member of a group?
- Q12. What is an associate of a company?
- Q13. Is disclosure required of fees receivable by the company's auditor in respect of the company's associates, joint ventures and joint arrangements as defined by accounting standards?
- Q14. What about audit-assist fees?

### PENSION SCHEMES

- Q15. What is an associated pension scheme of a company?
- Q16. What disclosure is required in respect of associated pension schemes?
- Q17. How will the information for associated pension schemes be obtained?

### THE AUDIT FEE FOR COMPANIES' INDIVIDUAL ACCOUNTS

- Q18. What is included in the audit fee?
- Q19. Is it permissible to provide a sub-total of audit fees together with the fees for the statutory audits of subsidiaries?

### MORE THAN ONE AUDITOR

- Q20. What is disclosed where there has been a change of auditor?
- Q21. What is disclosed in relation to joint auditors?

### THE AUDIT FEE FOR GROUPS

- Q22. What should be disclosed as the audit fee in group accounts?
- Q23. What fees should be disclosed where an auditor that is not an associate of the parent company's auditor performs the audit of a subsidiary?

## DISCLOSURE OF AUDITOR REMUNERATION

- Q24. What is disclosable if the parent company's auditor invoices a single fee to the parent for all the group company audits?
- Q25. Are there exemptions for the accounts of companies in a group?
- Q26. 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?

## OTHER SERVICES

- Q27. Which entities and which auditors' fees have to be considered for inclusion?
- Q28. What is included in 'Other services'?
- Q29. 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?
- Q30. Are the categories consistent with those required by the US Securities and Exchange Commission (SEC)?
- Q31. Is it necessary to disclose the eight services specified in Schedule 2A in the order in which they are listed in the Schedule?
- Q32. Are sub-analyses required?
- Q33. Is it necessary to disclose nil or immaterial amounts?
- Q34. Is it necessary to disclose the aggregated total of fees for other services?
- Q35. What is included in Category 1 'The auditing of accounts of any associate of the company'?
- Q36. What is included in Category 2 'Audit-related assurance services'?
- Q37. Should fees for the review of the half-yearly report be included in Category 2?
- Q38. What is included in Category 3 'Taxation compliance services' and Category 4 'All taxation advisory services not falling within paragraph 3'?
- Q39. What is included in Category 5 'Internal audit services'?
- Q40. What is included in Category 6 'All assurance services not falling within paragraphs 1 to 5'?
- Q41. 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'?
- Q42. What is included in Category 8 'All non-audit services not falling within paragraphs 2 to 7'?

## OTHER ISSUES

- Q43. Are amounts receivable by the company's auditor from third parties ever disclosable?
- Q44. Does information about other services performed after the period end need to be disclosed in the accounts?
- Q45. Is any narrative disclosure required?
- Q46. Where should transition fees be disclosed?
- Q47. Should the amounts disclosed include irrecoverable VAT?
- Q48. What is the exemption for 'distant associates'?

## THE REGULATIONS AND OTHER GENERAL ISSUES

### **Q1. To which companies do the Regulations apply?**

- 1.1 The Regulations apply to all companies, irrespective of whether their annual accounts are prepared in accordance with UK GAAP or UK-adopted IFRS. This includes SMEs. However, small companies do not have to disclose auditor remuneration and medium-sized companies 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 8.1 to 9.2 below).
- 1.2 Certain exemptions also apply to the accounts of companies in a group (see paragraphs 25.1 to 25.6 below).
- 1.3 The Regulations apply to companies incorporated in the United Kingdom, which includes Northern Ireland.

### **Q2. To which other types of entity do the Regulations apply?**

- 2.1 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. Examples include limited liability partnerships and qualifying partnerships under the Partnership (Accounts) Regulations 2008 (Statutory Instrument 2008/569).
- 2.2 References to 'company/ies' within this guidance should be read as encompassing such other entities.
- 2.3 The Regulations do not apply to registered overseas companies (ie, companies that have registered a UK establishment with the UK Registrar of Companies).

### **Q3. Where does the information required by the Act have to be disclosed?**

- 3.1 The Regulations require the information to be disclosed in the notes to the annual accounts and it will be subject to audit.
- 3.2 While this information should ideally be included in the notes to the accounts, it is acceptable for the disclosures to be given elsewhere in the annual report (eg, in the audit committee report) provided that the notes cross reference to where the disclosures are given. Moreover, the information should be clearly identified as audited information wherever it is shown.

### **Q4. Do comparative figures have to be given?**

- 4.1 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 3.1 above) the principles of paragraph 3.14 of FRS 102 *The Financial Reporting Standard Applicable in the UK and Ireland* or paragraph 38 of IAS 1 *Presentation of Financial Statements* apply.

**Q5. How is the necessary information obtained?**

- 5.1 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.
- 5.2 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 and other public interest entities, Section 1.58 of the Revised Ethical Standard 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 6.1 to 6.4 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.
- 5.3 The directors will generally need to contact the trustees of associated pension schemes (see paragraph 15.1 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.

**ASSOCIATES OF A COMPANY'S AUDITOR**

**Q6. What is an associate of a company's auditor?**

- 6.1 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.
- 6.2 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'. 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.
- 6.3 Reference should be made to the definition of 'associates of a company's auditor' in the Regulations which is not reproduced in this Technical Release. Some relationships are



## DISCLOSURE OF AUDITOR REMUNERATION

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, even where the individual holds no management role within either firm.

- 6.4 Similarly, if a partner in an audit firm (including a member of an LLP) is also a director (such as a non-executive) of a company that supplies services of any sort whatsoever (eg, 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 42.1 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 7.1-3 and 48.1-3 below). Also, as stated at paragraph 28.6 below, the Regulations require disclosure only of fees for services and therefore no disclosure is required of fees for any supply of goods.

### **Q7. Are there any exemptions for 'distant associates' of a company's auditor?**

- 7.1 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 7.3 below);
  - 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 28.2 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 48.1 to 48.3 below).

All three conditions must be met.

- 7.2 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 in more detail at paragraphs 48.1 to 48.3 below.
- 7.3 Distant associates are a sub-set of associates and are defined in the Regulations<sup>6</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.

---

<sup>6</sup> See paragraph 1-3 of Part 4 of Schedule 1 to the Regulations

## SMALL AND MEDIUM-SIZED COMPANIES

### **Q8. What is the definition of a small or medium-sized company?**

8.1 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.

### **Q9. What do SMEs have to disclose?**

9.1 As a result of the amendments made to the Regulations in 2016, small companies are not required to disclose auditor remuneration. This applied to accounting periods starting on or after 1 January 2016.

9.2 In the accounts required to be sent to members under section 423, medium-sized companies 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 medium-sized companies, the amount disclosed excludes any services provided by associates of the auditor (see paragraph 10.1 below).

## OTHER COMPANIES' INDIVIDUAL ACCOUNTS

### **Q10. What do companies that are not SMEs have to disclose in their individual accounts if they are not a member of a group?**

10.1 Companies that are not SMEs must disclose in their individual accounts:

- a) the fee receivable by their auditor or associates of their auditor for the auditing of those accounts (see paragraphs 18.1 to 18.9 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 12.1 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)).

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

11.1 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 25.1 to 25.6 below) confirms that separate disclosures are expected unless the exemption applies.

## DISCLOSURE OF AUDITOR REMUNERATION

- 11.2 Separate disclosure is therefore required in the individual accounts of the parent company 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.
- 11.3 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 25.1 to 25.6 below) does not apply, the amounts to be disclosed will nevertheless generally be the same for the individual accounts and for the group accounts.

### **Q12. What is an associate of a company?**

- 12.1 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. Paragraphs 15.1 to 15.2 below include more detail about associated pension schemes.

### **Q13. Is disclosure required of fees receivable by the company's auditor in respect of the company's associates, joint ventures and joint arrangements as defined by accounting standards?**

- 13.1 Disclosure is not required of remuneration for work performed for associates, joint ventures and joint arrangements as defined in accounting standards. 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 be part of the total audit fees disclosed in the group accounts. Additional voluntary disclosure of the audit fee of an associate, joint venture or joint arrangement may be desirable as good practice if such interests are substantial.

### **Q14. What about audit-assist fees?**

- 14.1 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

### **Q15. What is an associated pension scheme of a company?**

- 15.1 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:

## DISCLOSURE OF AUDITOR REMUNERATION

- c) 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
- d) 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.

15.2 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).

### **Q16. What disclosure is required in respect of associated pension schemes?**

16.1 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.

16.2 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.

16.3 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.

### **Q17. How will the information for associated pension schemes be obtained?**

17.1 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 5.3 above addresses this issue further.

## THE AUDIT FEE FOR COMPANIES' INDIVIDUAL ACCOUNTS

### **Q18. What is included in the audit fee?**

- 18.1 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, the strategic report and any corporate governance statements.
- 18.2 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 11.1 to 11.3 above.
- 18.3 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 35.2 below) and as the subsidiary's audit fee in its own individual statutory accounts (where it is a non-small UK company).
- 18.4 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 24.1 below), the fee will generally relate to all the work performed at that subsidiary (including work relating to the local statutory accounts and work relating to the audit of the consolidation returns<sup>7</sup>). 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 35.2 below).
- 18.5 However, in those cases where the fee for the work relating solely to the audit of the consolidation returns is clearly identifiable, its classification should be considered separately from that of the remaining subsidiary audit fee as explained in paragraphs 18.6 and 18.7 below.
- 18.6 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 returns would be disclosed within the group audit fee because it relates to the audit of the parent company's annual accounts.
- 18.7 In the accounts of the subsidiary, any such clearly identifiable element of the subsidiary fee relating solely to the consolidation returns will be disclosed within Category 2 'Audit related assurance services'. This is because the services supplied are directly related to auditing the

---

<sup>7</sup> References in this document to the audit of the consolidation returns should be read as including any work over and above that required for the local statutory audit in order to comply with the group audit instructions

## DISCLOSURE OF AUDITOR REMUNERATION

parent's accounts and not those of the subsidiary. In practice, there may not be such a clearly identifiable element. Using the language of the Revised Ethical Standard (see paragraph 36.1 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 28.6 below).

- 18.8 The fee disclosed for the audit of the annual accounts is the fee for the year on which the auditor is reporting. Regulation 5(1)(a) 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. 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.
- 18.9 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)).

### **Q19. Is it permissible to provide a sub-total of audit fees together with the fees for the statutory audits of subsidiaries?**

- 19.1 Sub-totals are permitted (but not required) by the Regulations. Sub-totals are, however, included in the Revised Ethical Standard'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. Provision of this sub-total ensures that users of the financial statements do not gain a misleading impression about the level of non-audit services provided.

## MORE THAN ONE AUDITOR

### **Q20. What is disclosed where there has been a change of auditor?**

- 20.1 Where more than one person or firm has been appointed as a company's auditor in respect of 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.

### **Q21. What is disclosed in relation to joint auditors?**

- 21.1 The principles discussed in paragraph 20.1 above also apply to joint auditors. Remuneration receivable by each joint auditor should be disclosed separately.

## THE AUDIT FEE FOR GROUPS

### **Q22. What should be disclosed as the audit fee in group accounts?**

- 22.1 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 annual accounts of the parent company including their work on 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 18.3 to 18.6 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 18.3 to 18.6 above and 36.1 below) (Regulation 5(1)(a)).
- 22.2 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 18.4 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 19.1 above).

### **Q23. What fees should be disclosed where an auditor that is not an associate of the parent company's auditor performs the audit of a subsidiary?**

- 23.1 Fees paid by subsidiaries to unassociated auditors (sometimes referred to as 'secondary auditors') are not disclosable, although voluntary disclosure is not prohibited.

### **Q24. What is disclosable if the parent company's auditor invoices a single fee to the parent for all the group company audits?**

- 24.1 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 may be an appropriate basis for disclosure.
- 24.2 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.

**Q25. Are there exemptions for the accounts of companies in a group?**

- 25.1 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 18.2 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 as defined in law. As a result of the amendments made to the Regulations in 2016, a consolidated UK subsidiary is eligible for the exemption only if its statutory auditor is the same as that of the parent.
- 25.2 As explained in paragraph 25.1 above, the exemption under the Regulations applies only where the group accounts upon which the exemption depends are prepared as a requirement of and in accordance with the Act. Therefore, a company without any UK parent company and that either has no subsidiaries or takes exemption from preparing group accounts under 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 10.1(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.
- 25.3 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 the exemption under section 400 or 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 25.4 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.
- 25.4 An intermediate parent company is exempt under section 400 or 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 25.1 above (see paragraph 25.6 below for **group** accounts).
- 25.5 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. In some instances, the subsidiary's parent company will be entitled to an exemption from preparing consolidated accounts under section 400 or 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.



25.6 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 25.4 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.

**Q26. 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?**

26.1 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.

**OTHER SERVICES**

**Q27. Which entities and which auditors' fees have to be considered for inclusion?**

27.1 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 UK-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 nevertheless include services provided to that undertaking. This scenario is, however, not very common.

27.2 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).

**Q28. What is included in 'Other services'?**

28.1 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)).

28.2 The complete list of categories of 'Other services' set out in paragraphs 1-8 of Schedule 2A to the Regulations is as follows:

*'Type of service in respect of which disclosure is to be made*

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.*

## DISCLOSURE OF AUDITOR REMUNERATION

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.'*

28.3 The provision by auditors of some of the non-audit services listed above is prohibited or restricted by the Revised Ethical Standard, depending upon the exact nature of the services and whether the company is a Public Interest Entity. Detailed discussion of what services may or may not be provided under the Revised Ethical Standard is beyond the scope of this technical release.

28.4 For ease of reference, we refer to remuneration falling under the headings above as relating to Categories 1 to 8 elsewhere in this document.

28.5 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.

28.6 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.

28.7 As explained at paragraph 18.8 above, the fee disclosed for the audit of the annual accounts is 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 profit or loss 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.

28.8 The Regulations require disclosure of any remuneration receivable by the company's auditors (or its 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 its subsidiaries (except where its control over a subsidiary is subject to severe long-term restrictions) and 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 a subsidiary's accounts.

28.9 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 instance, they might relate to the audit of consolidation returns under US GAAP. 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'.

## DISCLOSURE OF AUDITOR REMUNERATION

28.10 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 about the identity of the company to which the services were supplied is unclear or conflicting. But payment of fees is not itself the basis for disclosure where the services have clearly been supplied to another company. Where such services have been supplied to the subsidiary and are clearly identifiable, they should be disclosed within the appropriate 'Other services' category. In relation to this specific example, they would be within Category 2 (see paragraph 18.7 above).

**Q29. 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?**

29.1 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.

**Q30. Are the categories consistent with those required by the US Securities and Exchange Commission (SEC)?**

30.1 No. SEC registrants are required to conform to 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.

**Q31. Is it necessary to disclose the eight services specified in Schedule 2A in the order in which they are listed in the Schedule?**

31.1 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 the Revised Ethical Standard's illustrative template for communicating information on audit and non-audit services to those charged with governance. This is similar to, but not exactly the same as the order listed in Schedule 2A to the Regulations.

31.2 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.

**Q32. Are sub-analyses required?**

32.1 Sub-analysis of the individual categories is not required (Regulation 5(3)) 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 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 42.1 to 42.2 below).

**Q33. Is it necessary to disclose nil or immaterial amounts?**

33.1 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 exemption from disclosing immaterial amounts.

**Q34. Is it necessary to disclose the aggregated total of fees for other services?**

34.1 No While this information is not required, it could be included. The illustrative template in appendix A of the Revised Ethical Standard includes a total for non-audit services.

**Q35. What is included in Category 1 'The auditing of accounts of any associate of the company'?**

35.1 Category 1 includes fees receivable by the auditor or its associates for the auditing of the accounts of subsidiaries (other than where severe long-term restrictions substantially hinder the exercise of the rights of the company over the assets or management of that subsidiary) 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 22.1 above). The group audit fee will 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 returns (see paragraphs 18.3 to 18.7)).

35.2 Fees receivable by the parent company auditor or its associates in respect of the audit of subsidiaries, separate from their audit for group accounts purposes, should be disclosed in the group accounts within Category 1.

35.3 A subsidiary will usually be exempt in its individual accounts from disclosing fees paid for 'Other services' as described in paragraph 25.1. However, where that is not the case, in a subsidiary's accounts, any clearly identifiable fee paid to the subsidiary's auditor for the audit of that subsidiary's consolidation returns, 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 18.7 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 28.7 above). The fee for this work may be material and clearly identifiable if, for example, the consolidation returns 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 IFRS 9 *Financial Instruments* / IAS 39 *Financial instruments: Recognition and measurement* / Section 12 of FRS 102 *The Financial Reporting Standard applicable in the UK and Ireland* 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.

**Q36. What is included in Category 2 'Audit-related assurance services'?**

36.1 Although the Regulations themselves do not include a definition of 'audit-related assurance services', the Revised Ethical Standard defines 'audit-related services' as 'those non-audit services ... that are largely carried out by members of the audit engagement team where the work involved is closely related to the work performed in the audit and the threats to auditor

## DISCLOSURE OF AUDITOR REMUNERATION

independence are clearly insignificant and, as a consequence, safeguards need not be applied<sup>8</sup>.

Paragraph 5.36 of the Revised Ethical Standard states that audit-related services are:

- reporting required by law or regulation to be provided by an 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 Revised Ethical Standard does not include specific examples of extended audit work but work on auditing consolidation returns could fall into this category (see paragraph 18.7 above).

- 36.2 Paragraph 5.39 of the Revised Ethical Standard notes that some services other than those listed in paragraph 5.36 may be provided by the auditor; these may be considered by the auditor to be closely related to an audit. However, paragraph 5.37 states that only those non-audit services listed in paragraph 5.36 are described as audit-related in communications with those charged with governance. This approach should be applied also to disclosures in financial statements.
- 36.3 Some of the services listed in paragraph 5.36 of the Revised Ethical Standard 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 the Revised Ethical Standard'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 5.36 of this Ethical Standard". Also, guidance issued by BIS<sup>9</sup> (now BEIS) indicates that audit-related assurance services should include all those services listed in what is now paragraph 5.36 of the Revised Ethical Standard. It therefore appears to be intended that Category 2 is completely aligned with the Revised Ethical Standard.
- 36.4 The services included in Category 2 are not restricted to those which are required by law to be performed by an auditor except in relation to the first bullet in paragraph 36.1 above. It is sufficient that the services are those defined as audit-related services by the Revised Ethical Standard. However, such services are conventionally performed by the auditor.
- 36.5 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.

---

<sup>8</sup> Revised Ethical Standard paragraph 5.35

<sup>9</sup> Explanatory text: [Companies \(Disclosure of Auditor Remuneration and Liability Limitation Agreements\) \(Amendment\) Regulations 2011](#) ([publishing.service.gov.uk](http://publishing.service.gov.uk)), paragraph 16.

## DISCLOSURE OF AUDITOR REMUNERATION

36.6 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.

### **Q37. Should fees for the review of the half-yearly report be included in Category 2?**

37.1 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 Revised Ethical Standard as part of the definition of audit-related services.

37.2 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.

### **Q38. What is included in Category 3 'Taxation compliance services' and Category 4 'All taxation advisory services not falling within paragraph 3'?**

38.1 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.

38.2 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 annual 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 14.1, 22.1 or 35.1 above, as appropriate).

38.3 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.

### **Q39. What is included in Category 5 'Internal audit services'?**

39.1 Internal audit services may include the outsourcing of an entity's entire internal audit function; services to supplement the internal audit function in specific areas; or the provision of occasional internal audit services on an ad hoc basis. Under paragraphs 5.40 and 5.44 of the Revised Ethical Standard, auditors are no longer able to provide internal audit services to audited entities or their significant affiliates.

39.2 Internal audit services should be distinguished from extended audit work. Paragraph 5.45 of the Revised Ethical Standard notes that work such as testing the effectiveness of internal financial controls and the operation of any internal audit function is a by-product of an audit rather than a separate undertaking to provide internal audit services. Paragraph 5.46 goes on to identify that additional work may be undertaken to respond to risks identified by management or those charged with governance. This is considered to be audit work where

## DISCLOSURE OF AUDITOR REMUNERATION

such risks could impact the opinion given on the financial statements or on other subject matter of the audit engagement.

### **Q40. What is included in Category 6 'All assurance services not falling within paragraphs 1 to 5'?**

40.1 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;
- 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.

40.2 Paragraph 10 of the IFAC Framework<sup>10</sup> defines an 'assurance engagement' as 'an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria'.

### **Q41. 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'?**

41.1 As explained at paragraph 40.1 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.

41.2 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.

41.3 Other examples of corporate finance services given in paragraph 5.88 of the Revised Ethical Standard include the following but the provision 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

---

<sup>10</sup> International Framework for Assurance Engagements as amended in 2013

## DISCLOSURE OF AUDITOR REMUNERATION

- 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.

### **Q42. What is included in Category 8 'All non-audit services not falling within paragraphs 2 to 7'?**

42.1 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 6.4 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<sup>11</sup>.

This is not intended to be an exhaustive list and the precise nature of the engagement may put individual fees into a different category.

42.2 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

### **Q43. Are amounts receivable by the company's auditor from third parties ever disclosable?**

43.1 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'.

---

<sup>11</sup> Reference should be made to [FRC Staff Guidance Note 01/2018](#) when restructuring services are provided by auditors to public interest entity participants in bank lending or bond funded syndicates



## DISCLOSURE OF AUDITOR REMUNERATION

- 43.2 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.
- 43.3 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.
- 43.4 The illustrative template appended to the Revised Ethical Standard includes a line item for 'Non-audit services in respect of the audited entity provided to a third party'. A footnote explains that services provided to another entity in respect of the audited entity are included as non-audit services for the purposes of the Revised Ethical Standard and gives the example of transaction related services, in respect of an audited entity's financial information, provided to a prospective acquirer of the audited entity. These services would not be in substance supplied to the audited entity and so would not be included in the statutory disclosures. It appears that the intention of the additional line item on the template is to ensure that fees for such services are disclosed **in addition** to those required to be disclosed by law.
- 43.5 This was made clear in the template by:
- stating in a note to the template that 'Disclosures required under UK company legislation are indicated by those categories in bold type above. Fuller information can be provided by companies if desired';
  - ensuring that the heading 'Non-audit services in respect of the audited entity provided to a third party' is not in bold type;
  - placing this line item below the 'total fees' line so as to make it clear that any amount disclosed against this heading is not included in the amount for 'total fees' in the template, which is clearly the total of the nine bold (statutory disclosure) headings; and
  - explaining (by cross reference from the heading for this line item to footnote 59 to the Revised Ethical Standard) that such services are 'non-audit services' for the purposes of the Revised Ethical Standard and cross referring from this footnote to paragraph 5.7 of the Revised Ethical Standard, which establishes this.
- 43.6 There should therefore not be any duplication in the amounts disclosed under the statutory headings and under the line item 'Non-audit services in respect of the audited entity provided to a third party'.
- 43.7 The template appended to the Revised Ethical Standard is for communication with the audit committee and there is no statutory requirement to disclose 'Non-audit services in respect of the audited entity provided to a third party' in the financial statements. However, if the amount is significant, the company should consider whether disclosure would be appropriate as good corporate governance practice.

**Q44. Does information about other services performed after the period end need to be disclosed in the accounts?**

44.1 Other than as noted in paragraph 18.8 above, 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.

**Q45. Is any narrative disclosure required?**

45.1 The Regulations do not require any narrative disclosures. In the case of listed companies, if the auditor provides non-audit services, compliance with the UK Corporate Governance Code would require narrative disclosure to explain how the auditor's objectivity and independence is safeguarded (*UK Corporate Governance Code 2018 section 4 provision 26*).

45.2 The Guidance on Audit Committees published by the Financial Reporting Council in April 2016 includes recommendations for the content of this explanation. Where the auditor provides non-audit services other than audit-related services, these include:

- the committee's policy for the approval of non-audit services;
- the ratio of audit to non-audit work;
- for each significant engagement, or category of engagements, an explanation of what the services are;
- why the audit committee concluded that it was in the interests of the company to purchase the services 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.

45.3 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'.

45.4 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.

45.5 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.

**Q46. Where should transition fees be disclosed?**

46.1 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 *First-time Adoption of International Financial Reporting*

## DISCLOSURE OF AUDITOR REMUNERATION

*Standards.* 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.

- 46.2 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.
- 46.3 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.
- 46.4 The same principles will apply for fees incurred if companies transition from IFRS to UK GAAP (for example, if they cease to be listed) or from FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* to FRS 102 (if they no longer qualify for the micro-entities regime).

### **Q47. Should the amounts disclosed include irrecoverable VAT?**

- 47.1 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.

### **Q48. What is the exemption for 'distant associates'?**

- 48.1 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 7.1 to 7.3 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.

- 48.2 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.

- 48.3 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 returns 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 returns.
- £7,000 to the tax practice for tax compliance work.

A Ltd pays D'Green & Co:

- £7,000 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>	<b>£'000s</b>	
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:		
Audit of the accounts of subsidiaries	85	<i>(Category 1)<sup>12</sup></i>
Audit-related assurance services	407	<i>(Category 2)</i>
Tax compliance services	317	<i>(Category 3)</i>
Tax advisory services	50	<i>(Category 4)</i>
Other assurance services	200	<i>(Category 6)</i>
Corporate finance services*	250	<i>(Category 7)</i>
Fees in respect of the X plc pension scheme:		
Audit	4	<i>(Category 1)</i>
Other services pursuant to legislation	2	<i>(Category 2)</i>
Fees in respect of A Limited joint venture <sup>13</sup> :		
Audit	7	
Tax compliance services	5	

\* 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.

---

<b>Y Ltd</b>	<b>£'000s</b>
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.

---

<sup>12</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.

<sup>13</sup> Additional voluntary disclosure of fees paid by X plc's joint venture have been included as good practice (see paragraph 13.1 of TECH 01/22 FRF).

## DISCLOSURE OF AUDITOR REMUNERATION

### 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 16.2 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	
<b>Fees paid by A Limited</b>		
Year end audit of A Limited - £7,000	Voluntary disclosure	
Tax compliance fee - £5,000	Voluntary disclosure	

Chartered accountants are talented, ethical and committed professionals. There are more than 1.8m chartered accountants and students in the world, and more than 187,800 of them are members and students of ICAEW. All of the top 100 global brands employ chartered accountants.\*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is the first major professional body to be carbon neutral, demonstrating our commitment to tackle climate change and supporting UN Sustainable Development Goal 13.

We are proud to be a founding member of Chartered Accountants Worldwide, a network of 750,000 members across 190 countries which promotes the expertise and skills of chartered accountants around the world.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

\* Source: CAW, 2020 – Interbrand, Best Global Brands 2019

[www.charteredaccountantsworldwide.com](http://www.charteredaccountantsworldwide.com)

[www.globalaccountingalliance.com](http://www.globalaccountingalliance.com)

## **ICAEW**

Chartered Accountants' Hall  
Moorgate Place  
London  
EC2R 6EA  
UK

T +44 (0)20 7920 8100

E [generalenquiries@icaew.com](mailto:generalenquiries@icaew.com)

[icaew.com](http://icaew.com)

