

## TECH 24/03

### DISCLOSURE OF THE NATURE AND COST OF SERVICES PROVIDED BY AUDITORS

*Guidance for directors of UK companies quoted on a regulated market as to the form and extent of disclosure in their annual reports of the nature and cost to the company of services provided by the company's auditors; issued in July 2003 by the Financial Reporting Committee and the Company Law Committee of the Institute of Chartered Accountants in England and Wales.*

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## INTRODUCTION

1. The purpose of this Technical Release is to provide guidance for directors of UK companies quoted on a regulated market as to the form and extent of disclosure in their annual reports of the nature and cost to the company of services provided by the company's auditors. The guidance may also be of help to the management of other entities disclosing non-audit fees.

## STATUTORY BACKGROUND

2. The current requirements on disclosure of auditors' fees are set out in company law, as follows:
  - Section 390A (3) of the Companies Act 1985 requires to be stated: *'in a note to the company's annual accounts the amount of the remuneration of the company's auditors in their capacity as such.'*
  - Section 390B (1) provides for the Secretary of State: *'to make provision by regulations for securing the disclosure of the amount of any remuneration received or receivable by a company's auditors or their associates in respect of services other than those of auditors in their capacity as such.'*
  - Schedule 4A, paragraph 1(1) provides that: *'Group accounts shall comply so far as practicable with the provisions of section 390A(3) (amount of auditors' remuneration) and schedule 4 (form and content of company accounts) as if the undertakings included in the consolidation ("the group") were a single company.'*
  - Statutory Instrument 1991 No. 2128, as amended by SI 1995 No.1520, states: *'there shall be disclosed in notes to the annual accounts ... the aggregate of remuneration, if any, ... of the company's auditors ... and of any ... associate of the company's auditors ... for services other than those of the auditors in their capacity as such supplied*
    - (i) *to the company; and*
    - (ii) *to an associated undertaking of the company in any case in which the company's auditors or any associates of the company's auditors are auditors of the relevant associated undertaking.'* (Regulation 5, paragraph (1));

*"Associated undertaking" in relation to a company means any undertaking which, in accordance with section 258 of the 1985 Act, is a subsidiary undertaking of the company other than a subsidiary undertaking formed under the law of a country or territory outside the United Kingdom;* (Regulation 2);

*'Where more than one person has been appointed as a company's auditor in a single financial year, paragraph (1) above has effect to*

*require separate disclosure in respect of remuneration of each such person and their associates.’ (Regulation 5, paragraph (4));*

Companies that qualify as small or medium-sized by virtue of section 247 of the Companies Act 1985 are exempted from the disclosure requirement. (Regulation 4).

3. An ‘associate of a company’s auditors’ is defined in Regulations 3 and 7 of Statutory Instrument 1991 No. 2128.
4. The Government has stated its intention to amend the Companies Act 1985 to allow for regulations requiring a more detailed breakdown by the company of the types of services that it has purchased from the auditor. This forms part of the Government’s policy response to Enron and Andersen, and was recommended by the Coordinating Group on Audit and Accounting Issues (CGAA) in its final report. In doing so the CGAA was following the European Commission’s Recommendation on auditor independence. These two documents are discussed in more detail below. The Government and the CGAA have welcomed this initiative by the ICAEW. The DTI will monitor the impact of the ICAEW guidance, and use the results to inform the drafting of the new regulations.

#### **EUROPEAN COMMISSION RECOMMENDATION**

5. The EC Recommendation ‘*Statutory Auditors’ Independence in the EU: A set of fundamental principles*’, was published on 16 May 2002. It recommends that Member States or their Regulatory Bodies should require disclosure of audit and non-audit fees paid by companies to statutory auditors. The relevant extract from the paper is set out in Appendix A to this Technical Release.
6. The EC Recommendation also states that where a statutory audit is performed on consolidated financial statements, the fees received by the auditor and its network members for all the services they provided to the audit client and its consolidated entities should be disclosed.
7. The EC recommends that the total fee income should be broken down into four categories:
  - statutory audit services
  - further assurance services
  - tax advisory services
  - other non-audit services.

The EC further recommends that fees for other non-audit services should also be broken down into sub-categories so far as items in them differ substantially from one another. This breakdown into sub-categories should, as a minimum, provide information on fees for the provision of the following services:

- financial information technology
- internal audit

- valuation
- litigation
- recruitment.

Comparative information for the previous year should also be disclosed and a percentage breakdown for the sub-categories should be provided.

## **REPORT OF THE CO-ORDINATING GROUP ON ACCOUNTING AND AUDITING ISSUES**

8. The Co-ordinating Group on Accounting and Auditing Issues was established in February 2002 under the joint auspices of the DTI and the Treasury. Its Interim Report, published in July 2002, recommended that there should be fuller disclosure by large and listed companies of the nature and value of non-audit services supplied by the auditors. The Final Report, published in January 2003, states:

*'We ... very much welcome the initiative ICAEW has taken since our Interim Report to develop best practice guidance for companies on the disclosure of the nature and value of services provided by auditors. Whilst a number of listed companies already publish such information in their Annual Report, it is preferable that this is provided on a comparable basis and that other companies are encouraged to do so. The key issue is the way in which non-audit services are grouped for disclosure purposes. ... We **consider** that [the ICAEW Consultation Draft] provides a sound basis for voluntary disclosure and look forward to publication of a final version. We **recommend** that the DTI consult on revised regulations when there has been some experience of reporting under the best practice guidance and its value to users. This will help to ensure appropriate statutory disclosure requirements.'*

(paragraphs 1.57 and 1.58)

## **US SECURITIES AND EXCHANGE COMMISSION**

9. In January 2003, the US Securities and Exchange Commission (SEC) issued a Final Rule on '*Strengthening the Commission's Requirements Regarding Auditor Independence*'. This requires, inter alia, 'disclosures to investors of information related to audit and non-audit services provided by, and fees paid to, the auditor of the issuer's financial statements.' The Rule requires disclosure of fees under the following captions:

- Audit fees
- Audit-related fees
- Tax fees
- All other fees.

## **THE APPROACH ADOPTED IN THIS GUIDANCE**

10. The guidance set out in this Technical Release follows the principles of the EC Recommendation, taking account of UK law, while at the same time aligning

with the SEC's approach to the classification of fees. This will enable UK companies that are also SEC registrants to prepare and present the information in a way that serves both purposes. There are additional requirements under the SEC Rule that are not included in this guidance.

## **FUNDAMENTAL PRINCIPLES**

11. The annual report should make full and transparent disclosure of all fees due to the principal auditor and its network firms for work performed in respect of the period for, or in relation to, the audit client and all entities controlled by the audit client alone. In the case of a joint audit, the same disclosure should be given in respect of each principal auditor.
12. The disclosure should provide sufficient information about the nature and extent of services provided and on the review and approval process followed to allow the user of the financial statements to make an informed judgement as to whether the potential for conflicts of interest has been satisfactorily addressed by the auditors and by those charged with governance of the entity.

## **CATEGORIES OF SERVICES**

13. Fees should be disclosed in the following categories and subcategories.
  - Audit services
    - statutory audit
    - audit-related regulatory reporting
  - Further assurance services
  - Tax services
    - compliance services
    - advisory services
  - Other services
    - financial information technology
    - internal audit
    - valuation
    - litigation
    - recruitment
    - other services that give rise to a self-review threat (listed separately)
    - other services not covered by the above

Narrative explanations should be given of what is included in the various categories and subcategories where this would be helpful.

### *Audit services*

14. In addition to the statutory audit of the annual financial statements, 'Audit services' includes fees for 'audit-related regulatory reporting': that is, services that are required to be carried out by the principal auditor in relation to statutory

and regulatory filings or engagements of the audit client and all entities controlled by it alone. This would include, for example, regulatory reporting where it is specified that the company's auditors shall provide certain letters or reports under the Listing Rules of the UK Listing Authority. It may also include statutory or regulatory reporting on internal controls, even though such reports do not typically include the term 'audit'.

15. The review of interim financial information, where carried out by the company's auditors and where a report is published, would normally be included under 'audit-related regulatory reporting'. (Although there is no statutory requirement in the UK for such a review, it is referred to in the Listing Rules as a review by auditors.)
16. Further analysis of the fees for audit services should be given where it will increase the understanding of the user of the financial statements. An explanation of the basis of the breakdown should be given where it is not obvious from the descriptions given.

#### *Further assurance services*

17. The EC definition of 'assurance service' set out in Appendix B is relatively narrow. In the US, the SEC Rule uses the wider term 'Audit-related fees'. In this guidance, 'Further assurance services' are services that are provided by an independent accountant but unrelated to the statutory audit, and where the company has discretion whether or not to appoint the auditor. The following are examples of services that would generally be regarded as falling under 'Further assurance services':

- advice on accounting matters (where this is unrelated to the statutory audit);
- non-regulatory reporting on internal controls or corporate governance matters;
- 'due diligence' work; and
- environmental audits.

This list is not intended to be exhaustive. It is not necessary to show individual amounts for the different services included under 'Further assurance services' but there should be a narrative explanation of the nature of the services included in the category.

#### *Tax services*

18. The separate totals of fees for tax compliance services and tax advisory services should be disclosed under 'Tax services' where different types of services have been provided. Fees for tax work carried out as part of the statutory audit (for example, auditing tax provisions) should be included in the subcategory 'statutory audit'.

### *Other services*

19. The EC Recommendation requires the five services specified under ‘Other services’ to be disclosed separately because they are identified as giving rise to a self-review threat. The fees for other services should be further broken down into subcategories in so far as items in them are material and differ substantially from one another.
20. Fees from any service that gives rise to a self-review threat should be separately disclosed. The discussion in the EC Recommendation of the nature of this threat in the given circumstances is set out in Appendix C of this guidance. A self-review threat relates to the difficulty of maintaining objectivity; for example:
  - when taking decisions, or taking part in decisions, that should be taken wholly by the audit client’s management; or
  - when any product or judgement of a previous audit or non-audit assignment performed by the statutory auditor or audit firm needs to be challenged or re-evaluated to reach a conclusion on the current audit.
21. Examples of services that give rise to a self-review threat to be disclosed separately under ‘Other services’ include:
  - secondments of the auditor’s staff to the audit client;
  - provision of accounting services in an emergency (as permitted by paragraph 4.64 of Statement 1.201 of the ICAEW Guide to Professional Ethics).

### **DISCLOSURE OF POLICY IN RELATION TO THE PROVISION OF NON-AUDIT SERVICES**

22. Narrative disclosure should be provided to explain the company’s policy for ensuring that the auditor’s independence has not been compromised. For listed companies, guidance on independence, including the provision of non-audit services, is dealt with in the Combined Code.

### **FEES**

23. Often, the fee disclosed for the statutory audit is the fee for the year on which the auditor is reporting. Other fees should be calculated on an accruals basis. Subject to paragraph 24, the amount disclosed should be the amount charged to income and/or capitalised within assets or included within issue costs in debt or equity during the client’s reporting period.
24. Fees may be paid by third parties for work carried out in relation to the client under separate engagements unrelated to the audit. Examples include litigation support work, where the auditor may report directly to the solicitors; and credit investigation reports, where the report may be to the bank. In each case, the fees may be paid 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 normally be disclosed separately.

25. Information about any services performed after the period end or about any contracts for services not yet performed could be important for a user in making judgements about potential conflicts of interest. There should be additional disclosure of any material variation in services contracted to be performed after the period end, together with the amount of the fees agreed, or a best estimate of the amount that will be payable. Such disclosure is only likely to be necessary in rare circumstances.

### **THE AUDITOR AND NETWORK FIRMS**

26. For the purposes of disclosure, the auditor includes the principal auditor and its network firms around the world. A 'network' includes any entity controlled by the audit firm or under common control, ownership or management or otherwise affiliated or associated with the audit firm through the use of a common name or through the sharing of significant common professional resources (see Appendix B). If a different definition is adopted, the basis should be disclosed.
27. This guidance requires disclosure in respect of the principal auditor, because it is the principal auditor that has responsibility for expressing an overall opinion on the group accounts. This approach is in line with the SEC requirement.

### **THE AUDIT CLIENT**

28. For the purposes of disclosure, the audit client is the reporting entity and any entity or entities controlled by it alone. Certain entities that are not consolidated should be included: for example, subsidiaries held exclusively for resale.
29. Fees in respect of subsidiaries that are excluded from consolidation because there are severe long-term restrictions hindering control should normally be excluded from the main tabulation required by paragraph 13; in which case additional disclosure should be made.
30. Fees for work performed during the period for associates and joint ventures would not normally be disclosed. However, this should be considered on a case-by-case basis, and additional disclosure would be appropriate if associates and joint ventures form a particularly large part of the group financial statements.
31. Pension schemes are not regarded as controlled by the sponsoring company and any fees in respect of them should be therefore excluded from the main tabulation required in paragraph 13. However, in view of the close relationship between companies and their pension schemes, there should be additional disclosure of fees in respect of companies' pension schemes.



## **EXISTING STATUTORY DISCLOSURE REQUIREMENTS**

32. The bases on which disclosures of audit and non-audit fees are made under the existing statutory requirements are different from the bases adopted for the guidance set out in this Technical Release.
- (a) Section 390A of and Schedule 4A paragraph 1(1) to the Companies Act 1985 are generally interpreted to require disclosure of audit fees in consolidated accounts in respect of both the principal and any secondary auditors. This guidance calls for disclosure in respect of the principal auditor only.
  - (b) Statutory disclosure of non-audit fees is at present required, in effect, only in so far as the work is carried out for the company and its UK subsidiaries by the principal auditor and its narrowly defined associates (see paragraph 2 above). This guidance calls for information in relation to all undertakings controlled by the company alone, including overseas subsidiaries, and in respect of services provided by the principal auditor and its widely defined 'network'.
33. The amounts of audit and non-audit fees required to be disclosed by statute will therefore need to be shown in addition to the amounts disclosed in accordance with this guidance. Further analysis of the fees for audit and non-audit services may be desirable in order to enable the user to reconcile the different disclosures. For example, the fees required to be disclosed as referred to in paragraph 32(a) could be broken down to show separately amounts in respect of principal and secondary auditors; and fees disclosed under this guidance for fees other than statutory audits could be broken down to show separately amounts to be disclosed by statute as referred to in paragraph 32(b).

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## APPENDIX A

### EC RECOMMENDATION: 'STATUTORY AUDITORS' INDEPENDENCE IN THE EU: A SET OF FUNDAMENTAL PRINCIPLES'

#### RECOMMENDATION 5 FROM 'PART A. FRAMEWORK'

##### '5. PUBLIC DISCLOSURE OF FEES

- (1) Where a *Statutory Auditor* or, if the *Statutory Auditor* is a natural person, a firm of which he is a member or *Partner* has received fees from an *Audit Client* for (audit and non-audit) services provided during the client's reporting period, all these fees should be publicly and appropriately disclosed.
- (2) Member States or their regulatory bodies should require this disclosure to the extent that an *Audit Client's* audited financial statements have to be published in accordance with their national law.
- (3) The total fee income should be broken down by four categories: statutory audit services; further assurance services; tax advisory services; and other non-audit services. The fees for other non-audit services should be further broken down into subcategories so far as items in them differ substantially from one another. This break-down into subcategories should at least provide information on fees for the provision of financial information technology, internal audit, valuation, litigation and recruitment services. In respect of each (sub-) category item, the figure relating to the corresponding (sub-) category item for the preceding reporting period should be shown as well. Furthermore, a percentage break-down for the (sub-) categories should be provided.
- (4) Where a *Statutory Audit* of consolidated financial statements is concerned, the fees received by the *Statutory Auditor* and his *Network* members for the services they provided to the *Audit Client* and its consolidated entities should be disclosed accordingly.'

## APPENDIX B

### EC RECOMMENDATION: ‘STATUTORY AUDITORS’ INDEPENDENCE IN THE EU: A SET OF FUNDAMENTAL PRINCIPLES’

#### EXTRACTS FROM THE GLOSSARY

<i>Affiliate</i>	<p>a) of an <i>Audit Firm</i>: an undertaking within the meaning of Article 41 (1),(2) and (3) of the 7<sup>th</sup> Company Law Directive (83/349/EEC);</p> <p>b) of an <i>Audit Client</i>: an undertaking within the meaning of Article 41 (1), (2) and (3) of the 7<sup>th</sup> Company Law Directive (83/349/EEC) that together with the <i>Audit Client</i> is required to be included by consolidation in consolidated accounts prepared in accordance with the 7<sup>th</sup> Directive, or – in those cases where the 7<sup>th</sup> Company Law Directive does not apply – would be required to be included by consolidation were the requirements of that Directive to apply.</p> <p>Without prejudice to (a) and (b) the term “<i>Affiliate</i>” will include any undertaking, regardless of its legal form, which is connected to another by means of common ownership, control or management.</p>
<i>Assurance Service</i>	Engagement of a statutory auditor to evaluate or measure a subject matter that is the responsibility of another party against identified suitable criteria, and to express a conclusion that provides the audit client with a level of assurance about that subject matter.
<i>Audit Client</i>	the company or firm whose annual accounts are subject to <i>Statutory Audit</i> , or the parent undertaking in the meaning of Article 1 of the 7 <sup>th</sup> Company Law Directive (83/349/EEC) whose consolidated accounts are subject to <i>Statutory Audit</i> .
<i>Audit Firm</i>	the organisational – generally legal – entity that performs a <i>Statutory Audit</i> (e.g., a sole practitioner’s practice, a partnership or a company of professional accountants). The <i>Audit Firm</i> and the <i>Statutory Auditor</i> who is appointed for the <i>Statutory Audit</i> might be identical legal persons, but need not be (e.g., where an individual who is a member of a partnership practice is appointed as the <i>Statutory Auditor</i> , the partnership as such forms the <i>Audit Firm</i> ).
<i>Audit Partner</i>	an audit professional within an <i>Audit Firm</i> or <i>Network</i> who himself is an approved person in the meaning of Article 2 (1) of the 8 <sup>th</sup> Company Law Directive (= statutory auditor) and, as an individual, takes on ultimate responsibilities for the audit work performed during a <i>Statutory Audit</i> ; he, generally, is authorised to sign audit reports on behalf of the <i>Audit Firm</i> which is the <i>Statutory Auditor</i> . He may also be a shareholder/owner or principal of the <i>Audit Firm</i> .
<i>Network</i>	Includes the <i>Audit Firm</i> which performs the <i>Statutory Audit</i> , together with its <i>Affiliates</i> and any other entity controlled by the <i>Audit Firm</i> or under common control, ownership or management or otherwise affiliated or associated with the <i>Audit Firm</i> through the use of a common name or through the sharing of significant common professional resources.

<i>Public Interest Entities</i>	Entities which are of significant public interest because of their business, their size, their number of employees or their corporate status is such that they have a wide range of stakeholders. Examples of such entities might include credit institutions, insurance companies, investment firms, Undertakings for Collective Investment in Transferable Securities (UCITS), pension firms and listed companies.
<i>Statutory Audit</i>	<p>the audit service which is provided by an approved person in the meaning of Article 2 (1) of the 8<sup>th</sup> Company Law Directive (= statutory auditor) when</p> <p>a) carrying out an audit of the annual accounts of a company or firm and verifying that the annual report is consistent with those annual accounts in so far as such an audit and such a verification is required by Community law; or</p> <p>b) carrying out an audit of the consolidated accounts of a body of undertakings and verifying that the consolidated annual report is consistent with those consolidated accounts in so far as such an audit and such a verification is required by Community law.</p> <p>For the purpose of this Recommendation, the term “<i>statutory audit</i>” would also include an attest service which, dependent on national law, is provided by a statutory auditor when companies are required to have financial reporting information other than the above (e.g. companies’ interim financial accounts and reports) reviewed by a <i>Statutory Auditor</i> who has to give an opinion on this information.</p>
	<p><i>Terms in the glossary not included amongst the above extracts:</i></p> <p>Audit team  Chain of command  Engagement partner  Engagement team  Governance body  Key audit partner  Key management position  Office  Partner  Statutory auditor</p>

## APPENDIX C

### EC RECOMMENDATION: ‘STATUTORY AUDITORS’ INDEPENDENCE IN THE EU: A SET OF FUNDAMENTAL PRINCIPLES’

#### *EXTRACT DEALING WITH SELF-REVIEW THREAT*

##### *7.2.2 Design and Implementation of Financial Information Technology Systems*

- (1) The provision of services by the *Statutory Auditor*, the *Audit Firm* or an entity within its *Network* to an *Audit Client* that involve the design and implementation of financial information technology systems (FITS) used to generate information forming part of the *Audit Client*'s financial statements may give rise to a self-review threat.
- (2) The significance of the self-review threat is considered too high to permit a *Statutory Auditor*, an *Audit Firm* or one of its group member firms to provide such FITS services unless:
  - (a) the *Audit Client*'s management acknowledges in writing that they take responsibility for the overall system of internal control;
  - (b) the *Statutory Auditor* has satisfied himself that the *Audit Client*'s management is not relying on the FITS work as the primary basis for determining the adequacy of its internal controls and financial reporting systems;
  - (c) in the case of an FITS design project, the service provided involves design to specifications set by the *Audit Client*'s management; and
  - (d) the FITS services do not constitute a “turn key” project (i.e., a project that consists of software design, hardware configuration and the implementation of both), unless the *Audit Client* or its management explicitly confirms in the written acknowledgement required under (a) that they take responsibility for
    - (i) the design, implementation and evaluation process, including any decision thereon; and
    - (ii) the operation of the system, including the data used or generated by the system.

These provisions shall not limit the services a *Statutory Auditor*, an *Audit Firm* or a member of its *Network* performs in connection with the assessment, design, and implementation of internal accounting controls and risk management controls, provided these persons do not act as an employee or perform management functions.

- (3) In cases not prohibited under (2) the *Statutory Auditor* should consider whether additional safeguards are needed to mitigate a remaining self-review threat. In particular whether services that involve the design and implementation of financial information technology systems should only be provided by an expert team with different personnel (including engagement partner) and different reporting lines to those of the audit *Engagement Team*.

### 7.2.3 Valuation Services

- (1) A self-review threat exists whenever a *Statutory Auditor*, an *Audit Firm*, an entity within a *Network* or a *Partner*, manager or employee thereof provides the *Audit Client* with valuation services that result in the preparation of a valuation that is to be incorporated into the client's financial statements.
- (2) The significance of the self-review threat is considered too high to allow the provision of valuation services which lead to the valuation of amounts that are material in relation to the financial statements and where the valuation involves a significant degree of subjectivity inherent in the item concerned.
- (3) In cases not prohibited under (2) the *Statutory Auditor* should consider whether additional safeguards are needed to mitigate a remaining self-review threat. In particular, where a valuation service should only be provided by an expert team with different personnel (including engagement partner) and different reporting lines to those of the audit *Engagement Team*.

### 7.2.4 Participation in the Audit Client's Internal Audit

- (1) Self-review threats may arise in certain circumstances where a *Statutory Auditor*, an *Audit Firm* or an entity within a *Network* provides internal audit services to an *Audit Client*.
- (2) To mitigate self-review threats when involved in an *Audit Client*'s internal audit task, the *Statutory Auditor* should:
  - (a) satisfy himself that the *Audit Client*'s management or *Governance Body* is at all times responsible for
    - (i) the overall system of internal control (i.e., the establishment and maintenance of internal controls, including the day to day controls and processes in relation to the authorisation, execution and recording of accounting transactions);
    - (ii) determining the scope, risk and frequency of the internal audit procedures to be performed; and
    - (iii) considering and acting on the findings and recommendations provided by internal audit or during the course of a *Statutory Audit*.

If the *Statutory Auditor* is not satisfied that this is the case, neither he, nor the *Audit Firm* nor any entity within its *Network* should participate in the *Audit Client*'s internal audit.

- (b) not accept the outcomes of internal auditing processes for statutory audit purposes without adequate review. This will include a subsequent reassessment of the relevant statutory audit work by an *Audit Partner* who is involved neither in the *Statutory Audit* nor in the internal audit engagement.

#### 7.2.5 Acting for the Audit Client in the Resolution of Litigation

- (1) An advocacy threat exists whenever a *Statutory Auditor*, an *Audit Firm*, an entity within a *Network* or a *Partner*, manager or employee thereof acts for the *Audit Client* in the resolution of a dispute or litigation. A self-review threat may also arise where such a service includes the estimation of the *Audit Client*'s chances in the resolution of litigation, and thereby affects the amounts to be reflected in the financial statements.
- (2) The significance of both the advocacy and the self-review threat is considered too high to allow a *Statutory Auditor*, an *Audit Firm*, an entity within a *Network* or a partner, manager or employee thereof to act for an *Audit Client* in the resolution of litigation which involves matters that would reasonably be expected to have a material impact on the client's financial statements and a significant degree of subjectivity inherent to the case concerned.
- (3) In cases not prohibited under (2) the *Statutory Auditor* should consider whether additional safeguards are needed to mitigate a remaining advocacy threat. This could include using personnel (including engagement *Partner*) who are not connected with the audit *Engagement Team* and who have different reporting lines.

#### 7.2.6 Recruiting Senior Management

- (1) Where a *Statutory Auditor*, an *Audit Firm*, an entity within a *Network* or a *Partner*, manager or employee thereof is involved in the recruitment of senior or key staff for the *Audit Client*, different kinds of threats to independence may arise. These can include self-interest, trust or intimidation threats.
- (2) Before accepting any engagement to assist in the recruitment of senior or key staff, the *Statutory Auditor* should assess the current and future threats to his independence which may arise. He should then consider appropriate safeguards to mitigate such threats.
- (3) When recruiting staff to key financial and administrative posts, the significance of the threats to the *Statutory Auditor*'s independence is very high. As such, the *Statutory Auditor* should carefully consider whether there might be circumstances where even the provision of a list of potential candidates for such posts may cause an unacceptable level of independence risk. Where *Statutory*

*Audits of Public Interest Entities* are concerned the independence risk would be perceived to be too high to allow the provision of such a short-list.

- (4) In any case, the decision as to who should be engaged should always be taken by the *Audit Client*.