EXPLANATORY MEMORANDUM TO THE

COMPANIES (DISCLOSURE OF AUDITOR REMUNERATION) REGULATIONS 2005

2005 No. 2417

1. This explanatory memorandum has been prepared by the Department of Trade and Industry and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 These regulations enable the Secretary of State to require companies to provide more detail about the types of services they and their associates have purchased from their auditors and their associates and to ensure that this information is published in one place. The intention is to give shareholders and others information on which to make a judgement about whether the provision of non-audit services is a threat to a company auditor's objectivity or independence, and enable users of accounts to make meaningful comparisons across companies.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Background

4.1 In October 2004 the Companies (Audit, Investigation and Community Enterprise) Act 2004 was passed. The Act contained a number of provisions of provisions to strengthen the regulation of audit.

4.2 Section 7 of the Act replaces 390A (3) and 390B of the Companies Act 1985 (which deal with disclosure of audit and non-audit fees at aggregate level) with a new section 390B and makes a number of related amendments. The new section enables the secretary of state by regulations to require companies to provide more detail about the types of services they and their associates have purchased from their auditors and their associates and to ensure that this information is published in one place.

4.3 These regulations set out the Government's proposals for the precise requirements with which companies and their auditors and associates would need to comply.

5. Extent

5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 Following the major corporate scandals of Enron and WorldCom in the US in which both those responsible for preparing accounts, and those responsible for auditing them, were implicated, the Government set up the Co-ordinating Group on Audit and Accounting issues (CGAA) to undertake a review of the way the accountancy and audit professions were regulated. One of the aims of the group was to find ways of ensuring the independence of the auditor from the audit client and to address the issue of "non-audit services".

7.2 Since 1967 private companies have been required to file annual accounts at Companies House and to have these accounts audited by a qualified independent auditor. In addition to auditing a company's accounts firms of accountants have also provided a range of non-audit services such as tax consultancy, legal services, IT and management services. The ratio of audit to non-audit services has increased over the years as major audit firms have developed their range of business and built on the audit relationship. Fees for non-audit services in many cases now exceed fees for the audit itself. This has led to concerns that an auditor whose income from any one audit client derives mainly from non-audit services might face a conflict of interest which could result in a less robust appraisal of the company accounts that would otherwise be the case.

7.3 The group recommended a package of interlinking measures – both legislative and non-legislative. Legislative measures have been taken through the Companies (Audit, Investigations and Community Enterprise) Act. The Act includes measures to improve the regulation of the audit profession and to strengthen the enforcement of certain aspects of financial reporting. Tightening requirements around the supply of non-audit services was one element of that package.

7.4 During October 2002 the Institute of Chartered Accountants in England and Wales (ICAEW) undertook a public consultation which indicated widespread support. In the following year the Financial Reporting Councils Auditing Practices Board (APB) published a consultation paper "Draft ethical standards for auditors" which included draft ethical standard 5 on audit services provided to audit clients. A further consultation exercise was undertaken by the Department for Trade and Industry during January – March 2005. The government received 8 formal responses to the consultation from accounting /audit firms (3), investor bodies (3) and professional bodies (2). Where overall comments were offered (6), respondents welcomed the greater transparency that increased disclosure would bring indicating that it would improve shareholder awareness and providing them with a means to assess auditor independence.

7.5 Although information about services provided by the auditor is currently provided by a number of companies on a voluntary basis the approach is not consistent which limits the value of that information.

8. Impact

8.1 A Regulatory Impact Assessment is attached to this memorandum. These regulations will affect 12,000 large private and public unquoted companies and 1,290 GB registered quoted companies.

8.2 Small and Medium Enterprises (SMEs) are not covered by these requirements it is anticipated that there will therefore be no impact on SMEs. Audited SMEs will have to continue to disclose the fees paid to their auditors.

8.3 There may be administrative costs in terms of collection, collation and reporting of more detailed information for those firms not already collecting such information. However firms would only be required to disclose information in cases where they have purchased additional services from the statutory auditor. Disclosure would only cover those services purchased – not all those listed in the regulations.

9. Contact

9.1 Julie Ford at the Department of Trade and Industry Tel: 020 7215 2162 or e-mail: julie.ford@dti.gsi.gov.uk can answer any queries regarding the instrument.

DISCLOSURE OF AUDITOR REMUNERATION
REGULATORY IMPACT ASSESSMENT

1. Proposal

1.1 Section 7 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 [C(AICE)] gives a power to require companies to give information in their annual accounts or reports on types and costs of services bought from their auditor or its associates, and in particular to set out in detail the types of non-audit services that the auditor has provided. Under present law, companies are required only to publish the aggregate amount paid to the auditor for non-audit services.

1.2 The Companies (Disclosure of Auditor Remuneration) Regulations 2005 set out the new requirements. A regulatory impact assessment (RIA)[1] for section 7 of the C(AICE) Act was prepared ahead of publication of the Bill which became the Act. This RIA, which deals with the Regulations under the section, draws to an extent on that previous RIA. In particular, the Regulations require a company to follow a standard categorisation (definition of services) of non-audit services bought from its auditor or associates. They define both the associates of the auditor and associates of the company. Under the Regulations disclosure will be required in the notes to the accounts.

1.3 The Regulations will be supplemented by best practice guidance[2]. We will write to the Institute of Chartered Accountants in England and Wales (ICAEW) requesting it to update its guidance, to ensure all the essential information needed is provided for companies to understand, in particular, the principles into which categories and sub-categories a service falls (although in practice we expect the auditors to prepare the information for companies).

1.4 The full extent of the Regulations will apply to any large company: but small and medium businesses will have to continue to disclose the audit fee itself. This does not represent a change to the present situation for SMEs.

2. Purpose and Intended Effect

(i) Objective

2.1 The overall objective of section 7 of the CAICE Act is to increase transparency about the relationship between the company and its independent auditor, so that those with an interest, particularly shareholders, can form a judgement about whether the auditor may be subject to a conflict of interest in forming an opinion on the accuracy of the accounts.

[1] Companies (Audit, Investigations and Community Enterprise) Bill. Regulatory Impact Assessments. July 2004. URN 04/1354.

[2] Provided by the ICAEW in Tech 24/03: Disclosure of the Nature and Cost of Services Provided by Auditors.

2.2 This Regulatory Impact Assessment considers the implications of the Regulations, which set out the disclosure requirements on the types and amount paid by a company and its auditor and associates. The Regulations require a breakdown of the types of services a company's auditor has been supplying, in addition to the statutory audit.

2.3 The provisions on definition of services take into consideration the broad categorisations specified under the proposed Directive on Statutory Audit of Annual and Consolidated Accounts[3] and the May 2002 EC Recommendation[4]. This level of standardisation is considered desirable as it enables comparisons to be made between companies in the EU, whilst providing sufficient detail to aid transparency and enable judgements to be made. Although the EC Recommendation recommends percentages to be supplied, the Government is of the view that this is unlikely to provide much overall benefit, but could be harmful if looked at and considered in isolation. Any user who is interested can work these out for him or herself, since the data will be supplied.

2.4 The Regulations also set out the definition of the associates of the auditor and of the company.

2.5 The Regulations include pension schemes as an associate of the company, as work that an auditor does for a company's pension scheme could clearly have implications for its independence from the company itself.

2.6 Devolution: Company law matters relating to Scotland are reserved to the UK Parliament under the Scotland Act 1998. Those relating to Wales have not been transferred to the National Assembly for Wales under the Government of Wales Act 1998. Company law in Northern Ireland is a transferred matter under the Northern Ireland Act 1998.

(ii) Background

2.7 The Regulatory Impact Assessment on clause 7 of the Bill which became the CAICE Act explained the policy background. It attempted a preliminary analysis of costs, which it estimated to be negligible on the basis that the proposal merely required companies to summarise (and list) fees paid to auditors during the financial year.

2.8 Under the Companies Act 1985 companies were previously required to disclose the total *amount* paid to their auditors for the statutory audit. (SMEs which have audits were also required to disclose this amount, although they are exempt from disclosing this figure in the accounts which they file in Companies House).

2.9 In addition, under the Companies Act 1985 (Disclosure of Remuneration for Non-Audit Work) Regulations 1991, companies which are not SMEs have been required to disclose the total amount they have paid to their auditors and their associates for services 'other than those of the auditors in their capacity as such'. In other words, they had to disclose the total of what they have spent on non-audit

[3] http://europa.eu.int./eur-lex/en/com/pdf/2004/com2004-0177en01.pdf

[4] www.lasplus.com/resource/evaudit.pdf

services provided by their auditor (if any). There was previously no requirement to break this down into the types of services and the amounts spent on each one. It has been argued that such information ought to be made public, and that is what these Regulations do.

2.10 The policy of greater disclosure has support from a large number of regional and international sources. In the US, new legislation was introduced post-Enron. The Sarbanes Oxley Act, passed in July 2002, drew up a list of non-audit services which were proscribed, including financial information systems design and implementation, internal audit, appraisal or valuation services, and legal services. US disclosure requirements require that all companies, which wish to prepare or issue audit reports on US public companies comply with its rules, regardless of where they are incorporated, and thus apply to UK companies that list in the US. The rules require separate disclosure of audit fees; audit-related fees; tax fees and all other fees.

2.11 In May 2002, the European Commission published a Recommendation on Auditor Independence which recommended such disclosure. The Commission (and most Member States including the UK) see an increase in the mandatory disclosure requirements to be a more proportionate response to the crisis of confidence in the audit function (following the Enron scandal in particular) than an outright ban on other services being provided by the auditor. It relies on transparency and the market to determine the appropriateness of such commercial relationships, rather than heavy-handed regulatory intervention.

2.12 Since its 2002 Recommendation, the European Commission has brought forward a modernised Directive on statutory audits (replacing the current 8th Company Law Directive), which deals with disclosure in Article 50, and which requires disclosure of services to be broken down into four categories:

- Statutory audit (of annual accounts)
- Other assurance services
- Tax advisory services
- Other non-audit services. The EC Recommendation breaks this category down further into financial information technology; internal audit; valuation; litigation; and recruitment.

2.13 In the UK, the Co-ordinating Group on Audit and Accounting Issues, set up post-Enron, also recommended greater disclosure of non-audit services in summer 2002 (in its Interim report). Section 7 of the C(AICE) Act was thus drafted to give the Secretary of State a power to require companies to give more detail in their annual accounts or reports on types and costs of services bought from their auditor or its associates, and in particular to set out in detail the types of non-audit services that the auditor has provided.

2.14 ICAEW, in consultation with the DTI, issued its own guidance in 2003 for directors of UK companies on the form and extent of disclosure in their annual reports of the nature and value of services provided by their auditors, anticipating the legal requirement. This Guidance follows the principles of the EC Recommendation, while at the same time aligning with the US Securities and Exchange Commission's (SEC) approach to the classification of fees, where possible.

2.15 A number of investment groups support the principles embodied in these various Acts, Directives and Guidance materials. Supportive commentary to this effect includes:

"the problem is that in the notes to the accounts, shareholders tend not to get enough information about what [non-audit] work is actually being done"[5]

"the important thing is that those costs are properly and clearly set out in companies' annual reports and accounts, allowing shareholders proper scrutiny"[6]

2.16 Auditors themselves have also called for more disclosure. Roger Hughes, Head of Audit at PriceWaterhouseCoopers, says that "the more disclosure as to the nature of the work done by the auditors the better."[7]

2.17 The business community has also made clear it favours greater disclosure requirements over any direct regulatory intervention into the types of non-audit services that can be supplied, although it would look for these to be proportionate to the risks, rather than "the more the better" (Confederation of British Industry).

(iii) Risk assessment

2.18 The previous disclosure requirements only covered aggregate (total) amounts. As explained above, there is a consensus view that shareholders and Audit Committees might not have been in a position to make fully informed decisions as to the extent of an auditor's reliance on non-audit fees from the company they were auditing, and hence the appropriateness of the supply of different services in addition to the statutory audit service.

2.19 The previous aggregate figures did not provide sufficient information to reassure investors and others about auditor independence. The Regulations have been made to enable a sensible judgement to be made about whether a particular service may lead to a conflict of interest, by requiring greater information through a defined list of categories and establishing the definitions of associates of the company and associates of the auditor.

2.20 The introduction of legislation requiring non-audit disclosure by type and cost gives greater transparency, in fact and appearance. It could also fulfill future obligations under Article 50 of the proposed Audit Directive, which is still under negotiation but, as drafted, requires detailed disclosure requirements relating to non-audit services. The Directive will require implementation within two years of being adopted, which is expected to be later in 2005. Although it would have been possible to delay the Regulations until negotiations had been completed, in the Government's opinion this delay would have been counterproductive. It would have further delayed the information shareholders and audit committees need to

[5] David Somerlinck, Pensions Investment Research Consultants, quoted in Accountancy Magazine, Sep 2004 (p 36).

[6] David Gould, National Association of Pension Funds, quoted in Accountancy Magazine, Sep 2004 (p 36).

[7] Quoted in Accountancy Magazine, Sep 2004 (p 35).

make judgements and, therefore, fail to provide the necessary public reassurance about the audit-client relationship.

2.21 At the same time, the Government is aware that requiring intricate details of every service provided could prove costly while bringing about little additional benefit. In some instances it could be counter-productive, or lead to some specific difficulties in relation to price-sensitive or commercially sensitive information (for example if the audit firm had been carrying out due diligence work ahead of an offer, and the name of the target company had to be disclosed).

2.22 More generally, the purpose and need for such detailed information is currently unproven. Broad categories should be sufficient to enable judgements to be made about auditor/company dependence. In any case, the audit committees of listed companies should be in a position to obtain and pass judgement on such information if it is felt to be relevant. The role of the audit committee as regards the provision of non-audit services is dealt with in some detail in the revised Combined Code Guidance, following Sir Robert Smith's Report into the audit committee role in 2002.

2.23 As stated above, it is recognised that some UK companies will additionally be required to provide the information in the categories specified by the SEC in the US. There is the risk that this could be confusing for stakeholders and others. The risk is, in part, minimised by the small number of companies likely to be caught by the SEC requirements.

3. Options

3.1 The following options for the Regulations were identified:

Option 1: Do Nothing

3.2 Retain the existing legislation requiring the disclosure of total remuneration for audit and non-audit services.

Option 2: Add on to the existing Regulatory requirements

3.3 Make only a minor change to the existing requirements, so that where currently there is a requirement to disclose total fees for non-audit services, this would now require a break-down of the fees, using **existing definitions** for the purpose of disclosure.

3.4 Under existing regulations, an associated undertaking in relation to a company means its UK subsidiary. This is a different, (and narrower) definition than the one proposed under option 3 below. It does not include pension schemes.

3.5 The definition of associate of the auditor in regulation 3 of the Companies Act 1985 (Disclosure of Remuneration for Non-Audit Work) Regulations 1991 is a narrower definition than in Schedule 1 to the proposed Regulations as it does not extend to persons in the same network as the auditor.

3.6 Disclosure is currently required in the notes to the accounts, which is what the proposed Regulations require.

Option 3: Replace the existing requirements with new requirements

3.8 Option 3 presents an opportunity to build on the existing requirement by **expanding the scope and definitions**, as well as requiring the more detailed breakdown. This is the Government's preferred option. As a result, the Regulations:

- Introduce a more detailed breakdown of services. As mentioned already, in the absence of global alignment we they broadly follow the disclosure requirements of the proposed Audit Directive, which defines non-audit fees as total fees charged for other assurance services, tax advisory services and other non-audit services.

- Define associates of the auditor along the lines of the definition of 'network' used in the EC Recommendation. Associates of Audit Firm which performs the Statutory Audit are its Affiliates and any other 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.

- Define associates of the company to be entities controlled by it *alone*. This excludes joint ventures and othert associates but includes pension schemes.

- Locate disclosure in the notes to the accounts.

4. Benefits

Option 1

4.1 This was the status quo option. It would have imposed no additional costs on companies but delivered no benefits in terms of greater transparency about the auditor/client relationship. It thus would have done nothing to address the problems which have been identified and which section 7 of the C (AICE) Act is designed to address, alongside a number of other complementary measures.

4.2 The Government has already indicated that it is committed to the principle of greater transparency. And in the longer term, inaction will not be an option if Article 50 of the modernized Directive on statutory audits is adopted, as we expect. The option would therefore have been to delay until we were required to implement the Directive (in some two to three years time). However, the need for greater transparency has also been recognised by the Co-ordinating Group on Audit and Accounting Issues and a range of UK stakeholders. The Government wished act on this issue regardless of the standpoint of other EU countries and the European Commission.

Option 2

4.3 This would have offered a greater level of transparency which would have gone towards the policy intent.

4.4 It had the advantage over option 3 of using established definitions. It also would have required fewer changes to reporting structures, therefore slightly less work/analysis and possibly slightly fewer costs, as companies would not have been required to obtain and disclose additional information, for example, on pension schemes or the wider audit firm network.

Option 3

4.5 This option offers the greater transparency which is the policy intent. In addition, it refines some of the definitions so that the most important information is disclosed, not only about the relationship between auditors and the company itself but also, by extending the definition of associate of a company, that between auditors and the company's pension funds. We believe this could be of relevance to the audit-client relationship. And by extending the definition of associate of an auditor to include networks, the Regulations will require disclosure of a service purchased from another part of the audit firm's network, which might be of relevance to the question of independence.

5. Business Sectors Affected

5.1 Business sectors that are affected by the Regulations are:

a. Large companies of (any) class;
b. GB-registered quoted companies; and
c. Auditors.

Companies

5.2 The previous requirement to disclose the total amount spent on non-audit services applied to all companies which were not SMEs. Analysis conducted since publication of the partial RIA that accompanied the C (AICE) Bill confirms the total number of "live" large private and public unquoted companies at 12,000, with an additional 1,290 GB-registered quoted companies.

5.3 The Regulations apply the new disclosure requirement for non-audit services to the same classes of companies. There is no distinction on the basis of the business sector in which the company operates. Any company, regardless of its size, which has its accounts audited, will continue to be required to disclose the audit fee itself.

5.4 The Regulations are drafted so that small and medium sized enterprises are not covered by the non-audit service disclosure requirements.

Auditors

5.5 The audit market is characterised by a very high level of concentration, with just four accountancy firms (the 'Big Four') and a significant size gap between the fourth and fifth largest firms. The next 20 audit firms are commonly referred to as 'Group A' auditors; most if not all of these firms will be caught by the Regulations.

6. Issues of Equity and Fairness

6.1 These Regulations will not have disproportionate effects on particular sectoral groups. They cover all companies regardless of sector. Clearly the audit firms themselves will be impacted in a different way to the companies that they audit (it is likely that in practice it is the audit firms that will gather and prepare the information for their clients to disclose), but this is entirely equitable since it is their services which are under scrutiny.

7. Costs of Options

Option 1

7.1 The 'do nothing' option would not have added to companies' costs. However this option would have done nothing to reassure or restore confidence and gone against the Government's stated intention of increasing transparency. It might have added to the cost of capital for companies if – as a result of Government inaction – fears had persisted about company-auditor relations and the capital markets suffered as a result (as they did in the aftermath of Enron and WorldCom).

Option 2 and Option 3

7.2 There will be some small additional costs to business under options 3 and would have been under option 2. Option 2 costs might have been slightly less than those for option 3. The largest cost – that of compiling the information required under the non-audit service categories – would be incurred under both options. In any case the cost differential was likely to be so minimal as not to be sufficient reason of itself to favour option 2 over option 3.

7.3 As the RIA to section 7 itself explained, the only cost from this requirement is likely to be the cost of obtaining the information and including it under the required categories in the annual accounts and reports. "If we presume that the requirements would involve 16 hours of staff time, costs will be in the region of £890." Costs may vary upwards or downwards depending on the size and nature of the company for which services are being provided, and the nature of the services being provided.

7.4 Companies which are also required to provide non-audit service information under US law may incur further costs, as they will be required to conform to two similar, but separate requirements. However the costs are likely to be minimal, especially when seen as a percentage of the turnover of the sorts of companies that choose to dual list in London and New York. In addition, companies with computerised systems should experience minimal additional burdens, as presentation of figures for different markets (or regulators) can be effected electronically.

8. Consultation with Small Businesses: The Small Firms' Impact Test

8.1 The subject of this RIA is the extension of the requirement for companies to make disclosures about non-audit services. SMEs are not covered by this requirement, although as previously they will be required to disclose the audit fee (if any). It is anticipated that there will therefore be no impact on small and medium-sized businesses (SMEs). We consulted with the SBS on the initial RIA, which is content with the approach.

9. Competition Assessment

9.1 There is no negative competition impact from these Regulations. Any additional cost associated with the disclosure of non-audit services will be very small and will apply to all companies above the SME threshold regardless of sector.

9.2 Overall, there may be a small gain in market competitiveness from greater transparency about which companies buy which services from their auditors.

10. Enforcement and sanctions

Enforcement

10.1 The disclosure requirements of the Companies Act are enforced by Companies House which is responsible for ensuring that all necessary disclosures are made. The Financial Reporting Council's Financial Reporting Review Panel may also take civil remedial action. The Regulations will be enforced in the same way.

Sanctions

10.2 Regulation 7 of the Regulations applies section 233(5) of the Companies Act 1985 to make it a criminal offence for a director to fail to make the disclosures required. Regulation 7 also applies sections 245 to 245C, under which directors who realise that they have made a mistake may revise the company's accounts and the Secretary of State or a person authorised by her (currently the Financial Reporting Review Panel) may apply to the court for an order requiring revision.

10.3 Regulation 6 puts a responsibility on the auditors to ensure that companies have all the information they require. This could be enforced via an injunction, but in practice would be enforced by a company making a complaint to the professional body of which the audit firm was a member. Professional bodies have a set of standards of conduct which their members are obliged to follow, and disciplinary action is taken against those that do not. The professional bodies are, themselves, subject to independent public oversight by the Professional Oversight board for Accountancy, part of the Financial Reporting Council.

11. Monitoring and review

11.1 The Government and the CGAA have welcomed work on disclosure of non-audit services already carried out already by the ICAEW and the Association of Chartered Certified Accountants (ACCA). The ICAEW undertook a public consultation on the disclosure of the nature and value of services provided by auditors (see below under Consultation) and produced guidance on voluntary disclosure. The ACCA published a study into existing listed company disclosures. The DTI plans to continue to work closely with the ICAEW, ACCA and other professional accountancy bodies in monitoring the impact of the new disclosure requirements, including compliance levels and costs.

12. Consultation

(i) Within government

12.1 The DTI has consulted the SBS, OFT and the devolved administrations on this RIA.

(ii) Public consultation

12.2 The ICAEW undertook a public consultation on the voluntary disclosure of the nature and value of services provided by auditors in 2002. We have considered the responses to this consultation and discussed them with the ICAEW. The results of the consultation indicated that the principle itself is not controversial, at least among the main stakeholders. Some specific technical issues were raised by some audit firms, and these have been considered when drafting the regulations and raised in the consultation undertaken during January - March 2005; where disclosure should be made in the accounts, or whether a de minimis exemption should be included, for example.

12.3 In January 2005 the department published a consultation document seeking views on the draft regulations on Disclosure of Auditor Remuneration and the draft regulatory impact assessment. The consultation closed in March 2005 and 8

responses were received from members of accounting, audit, investor and professional bodies. All respondents were content the idea of greater disclosure and all broadly agreed about the types of services to be disclosed, although there were some differences in precise definition of those services.

12.4 The only comments concerning costs indicated that they could possibly be higher than stated in the RIA, in the case of a large global company. However these costs were not quantified, and it is possible that costs would be lower in the case of a smaller company or in cases where the auditor does not provide additional services for the audit client.

12.5 A summary of the consultation responses is available at:

http://www.dti.gov.uk/cld

13. Summary and recommendations

13.1 The table below summarises the costs and benefits of the available options.

Description	Additional Benefits	Additional Costs
1. Do nothing	No benefits accrue	No hard costs incurred. Opportunity cost incurred in so far as doing nothing will not aid greater transparency, nor help rebuild confidence in auditor independence.
2. Make as few changes as possible (use existing definitions whilst) whilst still requiring fees to be categorised and sub-categorised.	Greater transparency but limited because the existing definitions are limited in some ways.	Marginal costs incurred to collate list and publish services provided by category. Potential additional costs for dual listed companies to ensure disclosures read across to third countries. Costs incurred for an estimated 12,000 large private and public unquoted companies, plus 1,290 GB registered quoted companies
3. Expand scope and definitions	Greater transparency – more extensive approach with includes audit firm networks and company pension funds	Marginal costs incurred to collate, list and publish services provided by category. Costs of greater disclosure expected to be minimal but slightly greater than option 2 due to wider scope and definitions. Again applicable to an

		estimated 12,000 large private and public unquoted companies, plus 1,290 GB registered quoted companies.

13.2 After taking account of the responses to the consultation, option 3 remained the recommended option as it provided greater transparency than either option 1 or 2. Option 3 also anticipates some of the requirements of the modernised Directive on statutory audit. In response to the consultation we streamlined the list of services for which disclosure is required along the lines anticipated in the proposed modernised Directive on statutory audit, and have extended the definition of associates of the auditor to incorporate the sharing of professional resources.

13.3 Costs will only be slightly higher than for option 2 but the approach will achieve greater transparency in terms of information about the nature and cost of services provided.

14. Declaration

14.1 I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed *Barry Gardiner* **Date** *25 August 2005*

Barry Gardiner - Parliamentary Under-Secretary of State
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