

A change of perspective

EU audit reform – insights from FTSE 350 boards



Building a better
working world

Methodology

In 2015, FT Remark surveyed 100 senior-level executives, drawn from UK-based companies. The respondents were equally split between CFO, Tax Director and Audit Committee Chair roles, and were drawn from 36 firms within FTSE 100 and 64 firms within FTSE 250.

Corporate revenues of respondent companies were between €10bn+ (11), €1bn+ (50) and <€1bn (39). The survey included a combination of qualitative and quantitative questions and all interviews were conducted over the telephone by appointment. Results were analysed and collated by FT Remark and all responses are anonymised and presented in aggregate.

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Foreword

Welcome to EY's audit firm rotation survey, *A change of perspective*. The EU audit reforms are set to have significant consequences for corporates and yet there are many that are still unprepared. We hope this study will highlight the implications of these reforms while also helping companies manage the new challenges more effectively.

New European Union (EU) audit reform legislation – comprising an Audit Regulation and Directive – was adopted in 2014 and is now being implemented in the national laws of EU Member States. The intention of the EU Audit Regulation, in particular – which introduces mandatory audit firm rotation and retendering for "public interest entities" (PIEs)¹, is to change long-held relationships between corporates and their auditors with the objectives of improving audit quality, restoring investor confidence in financial information and creating a more dynamic audit market in the EU – including increasing the choice of auditor. This will apply from 17 June 2016.

In the UK, the EU mandatory audit firm rotation requirements replace the Financial Reporting Council's (FRC's) UK Corporate Governance Code provision that requires FTSE 350 companies, on a comply or explain basis, to put their audit out to tender at least every ten years.

In October 2015, the UK Department for Business Innovation and Skills (BIS) published a consultation that focused on, amongst other things, the UK implementation of the EU mandatory audit firm rotation and retendering requirements.

The FRC published a consultation in September 2015 detailing revisions to its Ethical and Auditing Standards, the UK Corporate Governance Code and related Guidance on Audit Committees to implement these EU requirements, including changes to the rule for non-audit services that auditors provide to PIEs.

Stephen Haddrill, FRC chief executive, said at the time of the consultation: "We must ensure that new Audit Regulation and Directive builds on the progress made in the UK in recent years in terms of the quality of audit, that competition in the audit market is strengthened in a way that supports innovation, and that the regulatory regime that emerges provides confidence to investors and to firms by being fair, understandable and independent."

Under the EU Audit Regulation, PIEs will be required to appoint a new audit firm at least every ten years subject to EU member states having the option, which the UK intends to take up, to extend the maximum audit engagement period to 20 years so long as the audit contract is put out to tender at least every ten years. There are also

increased prohibitions on the types of non-audit services PIEs can procure from their auditor, and a cap on fees from the permissible non-audit services. This means PIEs will have to forward plan their future tenders very carefully.

To shed light on the EU's new audit rules and how companies are reacting to them, FT Remark, on behalf of EY, interviewed 100 UK-based FTSE 350 executives equally split between Chief Financial Officers, Tax Directors and Audit Committee Chairs. Our research reveals businesses' attitudes towards the impending changes, what companies are doing to prepare and how they will manage their audit firm rotation.

Awareness of the changes is high. Of the 100 senior-level executives interviewed for this report, all know that the EU audit reform will have an impact on their organisation. The survey also found that a majority of organisations have worked with the same audit provider for the last five to ten years (59%), with 26% having been with the same provider for 10 to 20 years, indicating that significant rotation activity can be expected.

For the most part, the new rules are seen in a positive light and are being welcomed, although companies do see potential risks in terms of transition costs and a possible change in the view of existing accounting judgements. There is still much work to be done: a majority of respondents have yet to implement a full strategic plan.

¹ EU PIEs are defined as entities incorporated in an EU member state, with equity or debt listed on an EU-regulated market. An entity is also a PIE if it's a credit institution or insurance undertaking, whether as a private or listed entity, subject to the laws of an EU state. Listed funds (e.g., AIFs) subject to EU member state law and listed on an EU regulated market are also categorised as EU PIEs.

EU audit reform *at a glance*

1 Seeing past the rocky road

The majority of companies know about the incoming new Audit Regulations and many are ready and comfortable with the changes. However, our survey shows that, for many, there is still work to be done.



See **page 6** for more information

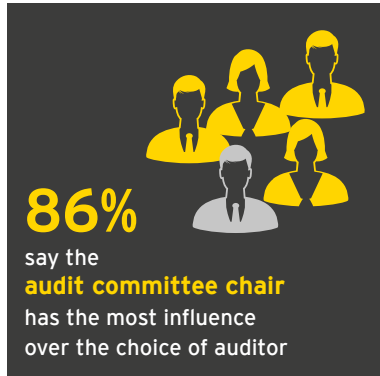
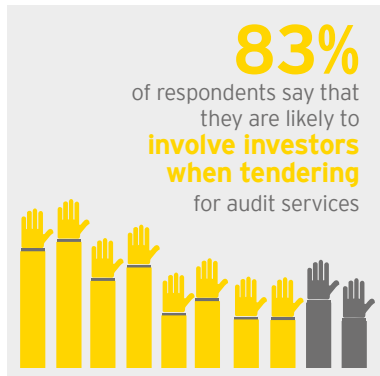


2 Illuminating the path ahead

Our survey shows that the UK audit market is in for a genuine shake-up with fresh audit and other relationships being formed. So how will companies decide on their new providers?



See **page 14** for more information



3 Negotiating risks and regulation

While there is a general positivity around the new legislation, companies also feel that there are risks involved in changing auditors. They are also concerned about the potential increase in fees.



See **page 20** for more information





Seeing past the rocky road

The majority of companies know about the incoming new Audit Regulations and many are ready and comfortable with the changes. However, our survey shows that, for many, there is still work to be done.

Awareness of mandatory audit firm rotation requirements in the EU Audit Regulation is high, with a clear majority of FTSE 350 companies knowing what to expect of the new rules. When surveyed, 83% said that they have a full understanding of the changes and 17% said that they have some knowledge. There is some disparity, however, as smaller organisations have made a head start on their larger counterparts: 89% of FTSE 250 companies say they have a full understanding compared with 72% for FTSE 100 companies.

Are you aware of impending changes that will require the tender or rotation of the audit provider?



83%
I have full understanding of the changes



17%
I have some knowledge of the changes

While most businesses are familiar with the details of the changes, many still need to prepare themselves before the rules take effect in June 2016. Of those surveyed, only 42% have a full strategic plan in place to deal with the impact of the new Audit Regulation and 40% have done some preparation. That leaves 18% who have yet to plan for how the changes will affect their business.

What strategic planning have you done for the impact of Audit Regulation?

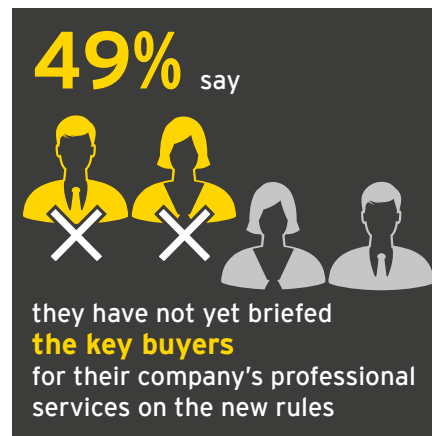
Full strategic plan in place



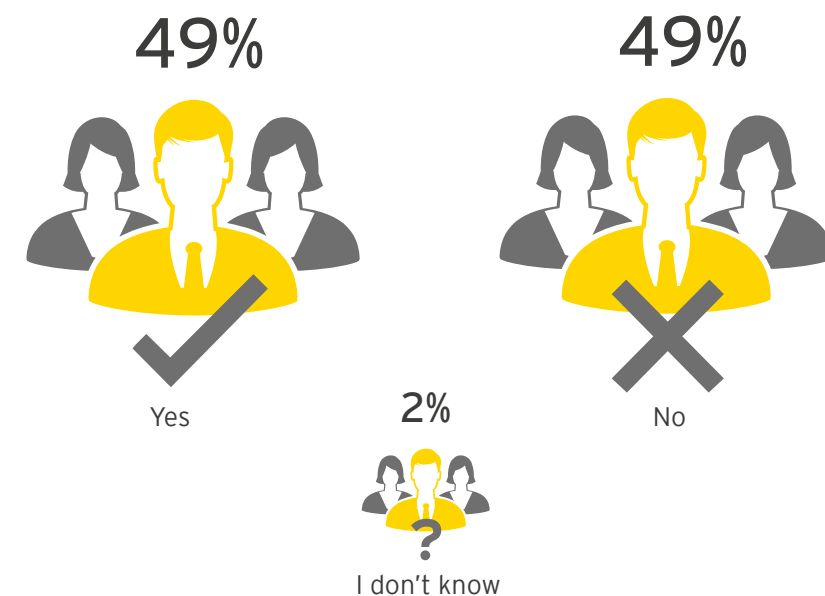
Some preparation but still working on a strategic plan



No preparation



Have you brought any key buyers of your professional services (e.g. procurement team, tax director, chief information officer) up to speed with the new rule?



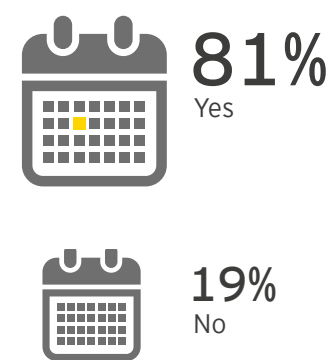
Fewer people are aware of the prohibition on services that your auditor can provide, in particular tax services."

Our research shows that corporates will also need to spend time communicating key messages internally in the coming months. Nearly half (49%) of those surveyed say they have not yet brought the key buyers for their company's professional services up to speed on the new Audit Regulation.

The EU's intention is to shake up existing relationships between companies and their auditors, and the rules appear to be having their desired effect even before implementation. The looming regulatory overhaul is affecting companies' forward planning by expediting future procurement processes.

For 76% of companies, the new requirements are influencing the timeline for a tender. Of the respondents that know when they are required to rotate or tender (81%), some 78% say that the date is between 2017 and 2020, including 29% in 2018 alone. However, that leaves 19% of respondents who didn't know when their company needs to tender or rotate its audit.

Do you know when your company must tender or rotate its audit?

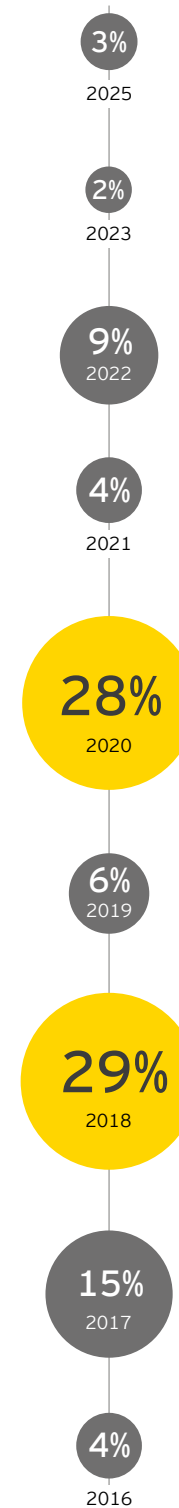


EY on non-audit prohibitions

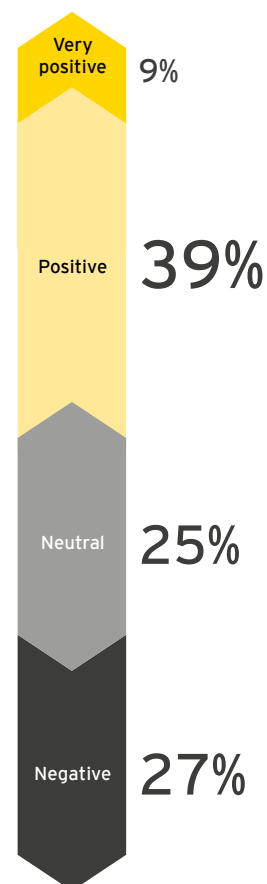
"Many are aware of some of the rules, for example the fact that the fees paid to your auditor for non-audit services will be capped, even though there is not a lot of understanding as to how that cap will work in detail. Fewer people are aware of the prohibition on services that your auditor can provide, in particular tax services."

Jason Lester, Managing Partner for Tax, UK & Ireland

If yes, in what year will it be?



What impact will mandatory audit firm rotation have on your business?



Audit firm rotation in a positive light

One of the criticisms of mandatory auditor changes is the perceived cost burden it imposes upon PIEs. "All audit and accountancy firms do not have the same level of expertise and this is a challenging aspect for our business to adapt to the methods of the new auditor. The cost of auditing also tends to increase with every tender," said one head of tax at a business services corporate in the FTSE 250 Index.

There are also concerns among some about the disruption that retendering can cause, as well as the challenges of the bedding down period once a new firm has been hired. "Mandatory audit firm rotation will divert attention and I believe the pressure of the tendering process and other risks involved post the appointment of the new auditor will impact our business negatively," offered one director of tax at an industrial & chemicals corporate in the FTSE 100 Index.

Despite these perceived challenges, for the most part businesses are upbeat about the changes the new Audit Regulation will bring. Nearly half of respondents believe mandatory audit firm rotation will

have a positive impact on their business, while little more than a quarter (27%) say that mandatory rotation will have a negative effect.

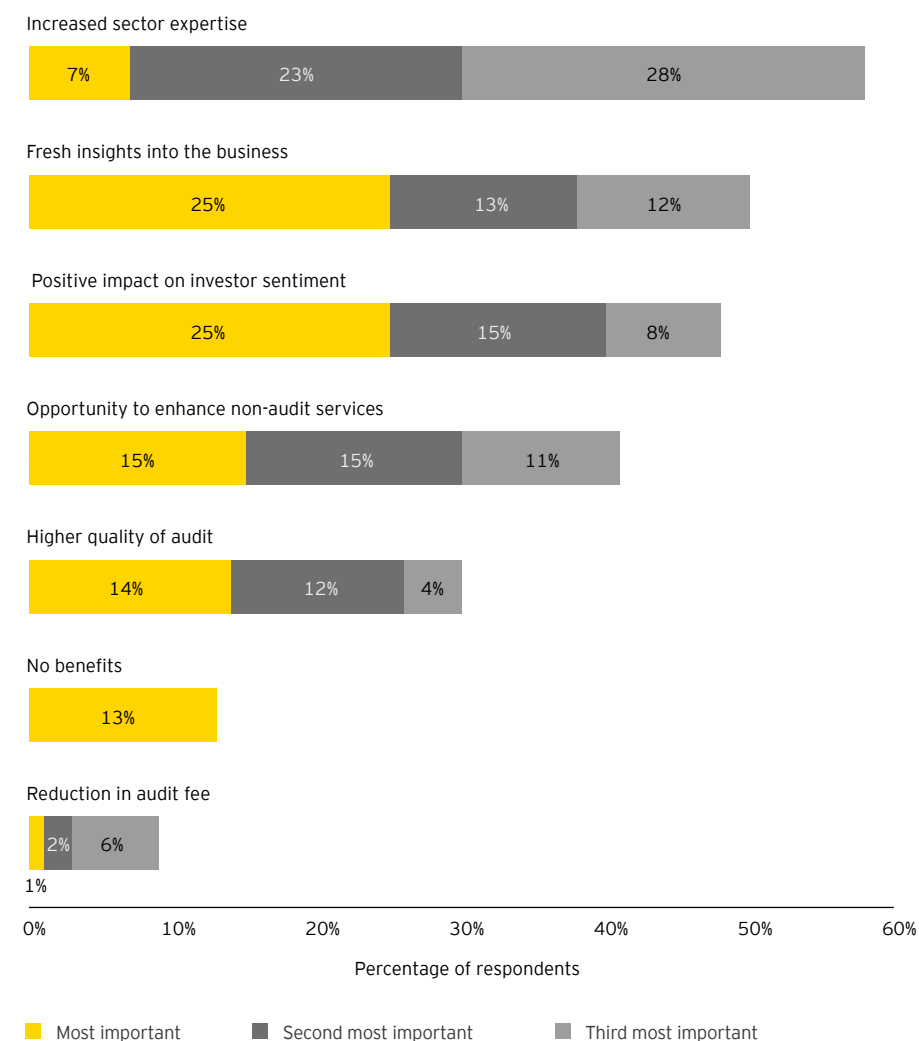
"Mandatory audit firm rotations will have a positive impact on our business as we can explore new efficiencies and the effectiveness of the auditor without straining the relations with our existing external auditor," explained one head of tax at an energy, mining and utilities corporate in the FTSE 100 Index.

When asked about the benefits of changing auditor, only 14% expect higher audit quality to be the most important benefit. This is despite the fact that some of the key objectives of the EU reforms were to drive greater competition, choice and quality.

For many respondents, a rotation is seen as a chance to appoint an auditor who can offer greater knowledge and competencies. The highest proportion (58%) of respondents rated the possibility of increased sector expertise as one of the three most important potential benefits from a change in auditor.

Hywel Ball, EY's Managing Partner for Assurance, UK & Ireland and Head of Audit, UK, said: "This was never going to be a cost-free exercise for UK corporates. Choosing an auditor, and managing the mix of non-audit services, is one of the biggest procurement decisions a company has to make. It takes time and input from a range of senior stakeholders such as the board and investors. This all carries an internal cost to the company, plus time has to be spent with the new audit team, bringing them up to speed and transferring knowledge. Despite these cost implications, regulators should be encouraged that audit committees have been placing quality and service at the heart of their decision-making processes."

What do you see as the possible benefits for your company of changing your auditor? (Please rank top 3)



EY on the learning process

"There is a nagging doubt about transitioning audits in their first year and building the corporate knowledge in the new audit firm quickly. Audit firms need to learn how to effectively mobilise and demobilise audits. This includes different firms working together to transition successfully between the audits."

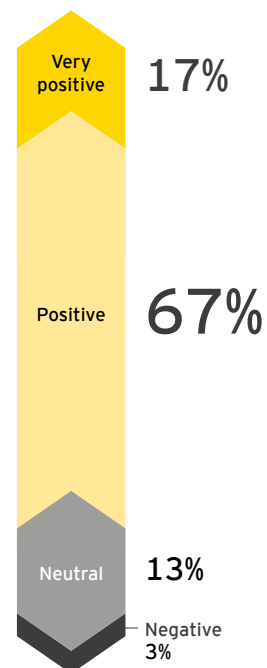
Hywel Ball, Managing Partner for Assurance, UK & Ireland and Head of Audit, UK

EY on planning

“I’m yet to see companies react by stepping off their non-audit services. Companies need a plan, a detailed plan.”

Steve Wilkinson, Managing Partner for Advisory, UK

What impact will the audit regulations have on the level of trust in the capital markets? (Please select one)



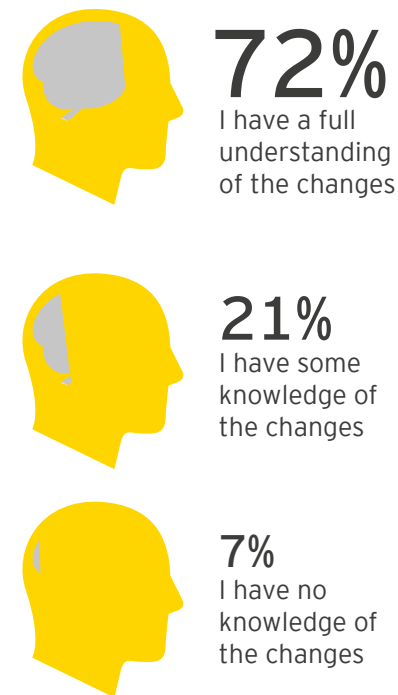
Non-audit services

Mandatory audit firm rotation is one of the key measures in the EU legislation. As part of its goal to increase independence and improve corporate governance, the EU Audit Regulation includes prohibitions and restrictions on non-audit services provided by an auditor to its PIE audit clients. The prohibitions will, for example, rule out the provision of payroll services and corporate finance mandates by a statutory auditor. Tax services will also be prohibited but member states may allow certain tax services if they have no direct or have immaterial effect on the financial statements being audited, making it harder for firms to procure a full suite of professional services from their existing auditors. The FRC is also implementing a cap on a Group’s non-audit service fees of 70% of the average group statutory audit fees paid over the previous three years. Our findings show that a majority of senior executives understand these changes, with 72% of respondents saying they have a full understanding of the new restrictions. However, that leaves 28% who lack a

complete understanding of the restrictions on non-audit services, 7% of whom have no knowledge of the changes.

Steve Wilkinson, Managing Partner for Advisory, UK, at EY said: “I’m yet to see companies react by stepping off their non-audit services. Companies need a plan, a detailed plan. As CEO or CFO, you need to balance giving your audit committee choice of auditor with retaining expertise and choice in key areas. This extends to M&A. For example, if there’s a particular asset you know you either want to carve out or acquire, and there’s a particular audit provider you know who has a good knowledge of that asset, you need to start thinking about that well in advance.”

Are you aware that the impending changes will restrict the provision of non-audit services by the auditor?

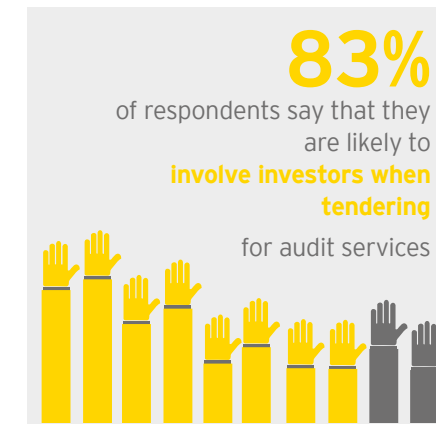
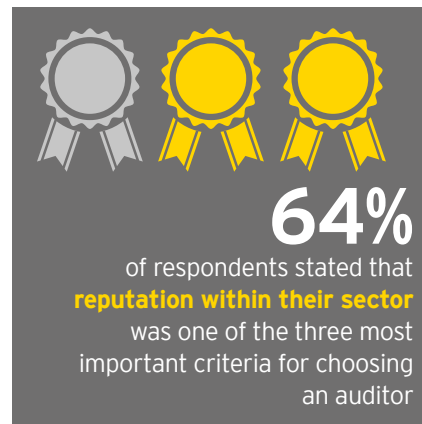


Forewarned not forearmed

The responses gathered in our survey indicate that companies have good knowledge of the forthcoming changes and understand what is expected of them. However, the majority of UK PLC remains unprepared, with a majority of FTSE 350 businesses either needing to start their planning or flesh out their preliminary preparation. Attention to internal communication is also needed in order to make the buyers of professional services aware of the details of the Audit Regulation.

Illuminating the path ahead

Our survey shows that the UK audit market is in for a genuine shake-up with fresh audit and other relationships being formed. So how will companies decide on their new providers?



One of the main aims of EU audit reform is to change close, long-held relationships between companies and their auditors. Nearly two-thirds of respondents (65%) say that they will not be inviting their incumbent auditor to tender because a rotation is required, meaning that the auditing market is set for a major overhaul once the incoming regulations come into force this year.

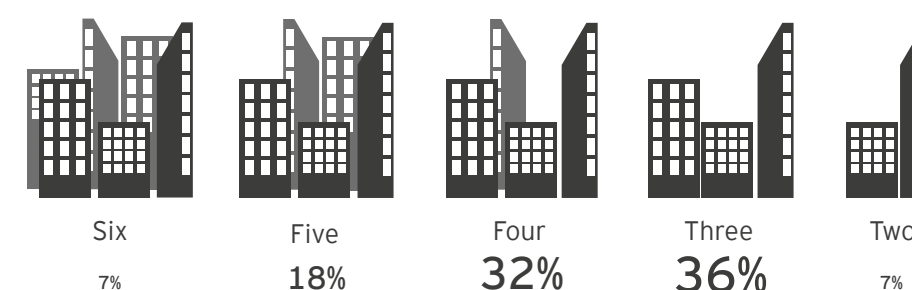
And the current reality in the market bears out this finding. Over half of the FTSE 100 companies have tendered their audit since the start of the regulatory changes a few years ago, with virtually all changing.

Invitation to tender

The results of our survey show businesses will be seeking to maximise competition in their audit tenders. Just 7% said they are planning to invite two providers to tender; similarly, 7% said they would ask six audit firms to tender. By comparison, 68% expect to ask three (36%) or four (32%) auditors to tender and well over a third (39%) said that they would only invite tenders from the Big Four auditors.

But, while 61% of those surveyed said they are planning to invite tenders from at least

How many auditors will you be inviting to tender (or be likely to invite)?

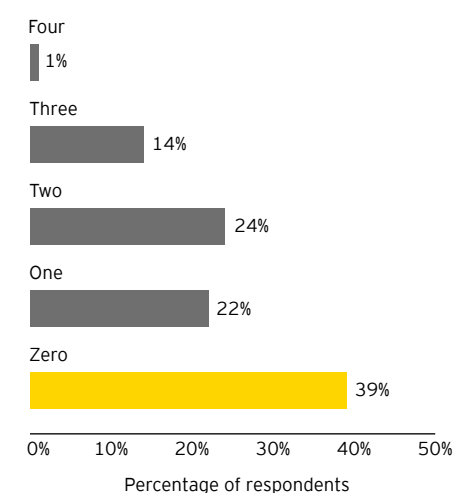


one non-Big Four firm, in the last six months there have been 25 audit tenders completed by FTSE 350 companies but none have been awarded to a non-Big Four firm.

The decision-making process

When it comes to picking new providers for financial audits, different auditors will take precedence for different companies. These range from the cultural fit of the services provider with the firm being audited, to the cost of fees being charged. Among the various selection criteria, we found that three are closely ranked. For 64% of respondents, reputation within the sector is one of their three most important criteria for choosing an auditor, making

Of these, how many will be non-Big Four?



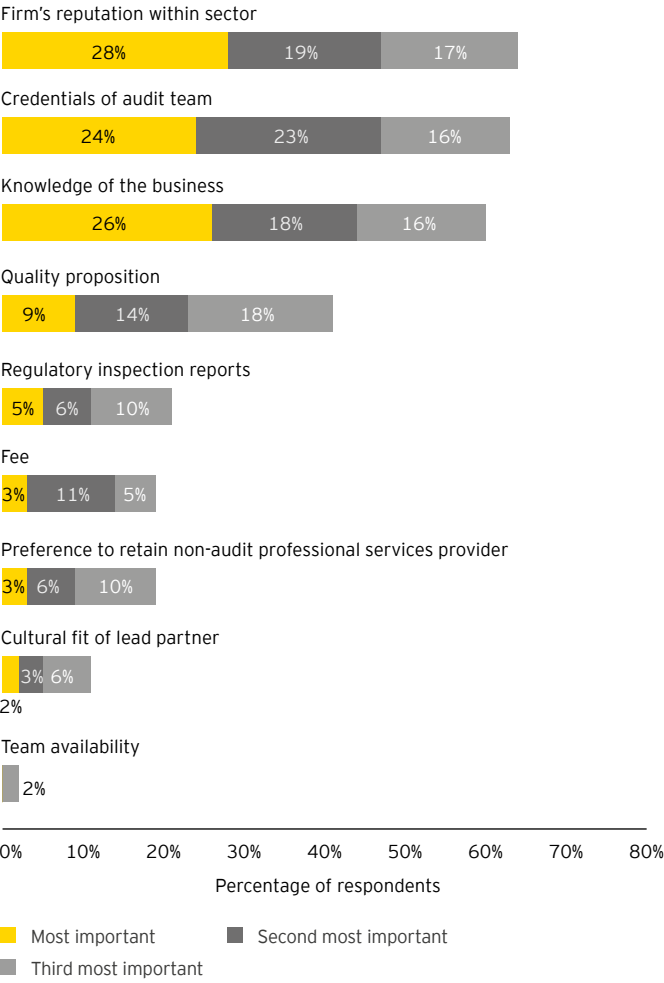
it the most frequently cited option. This is followed by the credentials of the audit team (63%) and knowledge of the specific business being audited (60%). Corporates are concentrating on quality and service for auditor selection, rather than on any cost savings they can make from reduced fees, cited by just 19% of respondents as one of their most important criteria.

“The committee has been entrusted with assessing the invitees’ presentations and the shareholders’ recommendations will also be taken into consideration. All presentations will be assessed on the areas of expertise, local insights and understanding as well as the audit team’s skill-set and competence,” said a group director of finance at a consumer corporate in the FTSE 100 Index.

When it comes to selecting a new auditor, decision-making responsibilities differ from company to company. For most companies (42%), the choice of auditor will be predominantly influenced by their audit committee and for 31% it is the committee’s chair who will hold sway over the decision.

Others take a different approach, giving the board of directors more control in the decision. Indeed, 8% of those surveyed said that the board would be the most influential driver in picking their next firm.

What criteria would you use to select your choice of auditor? (Please rank top 3)



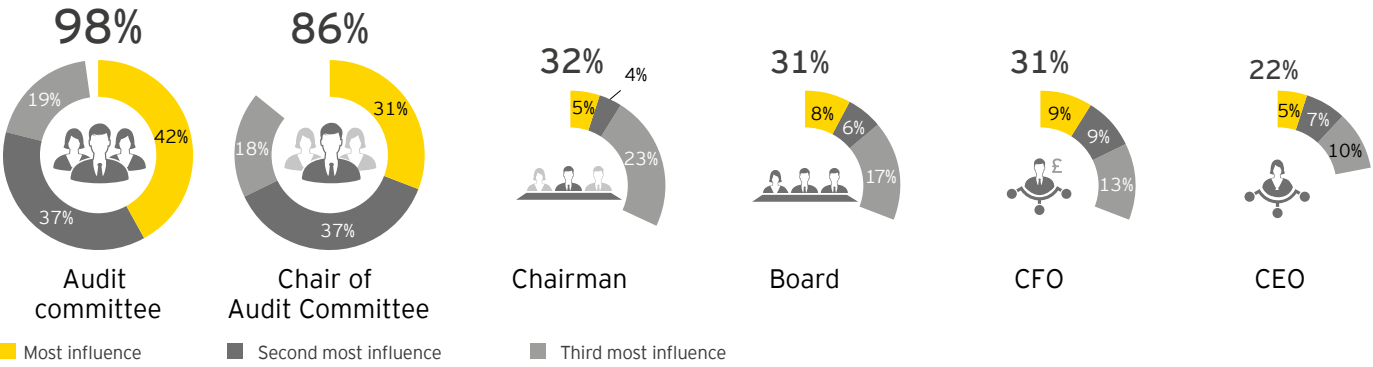
EY on new relationships

“Some of a group's professional services and relationships will have been built up over a significant period of time; many years in some cases. Swapping auditors or other advisors as required by the new regulations requires knowledge transfer amongst other things. It is not a simple process and requires careful thought and a lot of planning.”

Jason Lester, Managing Partner for Tax, UK & Ireland



Who in your business has most influence over your choice of auditor? (Rank in priority order, top 3)



“Our decisions reflect a good governance structure, as the audit committee recognises the necessity to rotate the external auditor and recommends this to the board, which in turn plans and takes the final call over the choice of the auditor,” said a head of tax at a consumer corporate in the FTSE 100 Index.

While these results reflect different ways of working, the role of the audit committee will be enhanced under the Regulation; the FRC is proposing amendments to the UK Corporate Governance Code and Guidance for Audit Committees to support this. Indeed it is part of an ongoing UK trend, with both the FRC and the UK Competition & Markets Authority (CMA) having provided for an enhanced role for audit committees in tendering; starting with the FRC’s 2012 changes to the Code, the FRC’s notes on best practice tendering in 2013 and with the CMA’s Order in 2014.

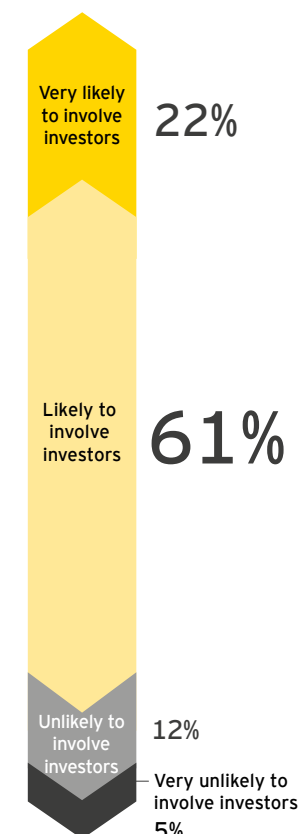
In terms of investor interest, while the decision will inevitably be made internally, it is expected that shareholders will have some say in who is awarded new contracts. Sounding out investors will be an important way of maintaining strong relations with the ultimate owners of companies and an

overwhelming majority (83%) of respondents say that they are likely to involve investors when tendering for audit services.

Not all companies will confer with investors in the first instance. Instead, they will leave it up to their audit committees and boards to decide.

“Investors have other commitments and it would not make sense to get them involved in the audit tender as they may not find clarity or sense in the discussion and we would like to keep audit control to ourselves as it is the best practice for a business,” said the CFO of a FTSE 100 TMT company.

Will you (or did you) involve your investors when tendering your audit? (Please select one)



EY on getting the right auditor

“The devil is in the detail. You need a strategic plan but it needs to be very specific. You need to understand which auditor you would like to use where. With the rise in M&A, if there’s a particular asset you know you either want to carve out or acquire, and there’s a particular audit provider you know who has got good knowledge of that asset, you need to start thinking about that well in advance.”

Steve Wilkinson, Managing Partner for Advisory, UK

Rotation

It is clear from our survey that the UK’s audit market is in the process of change as the majority of FTSE 350 companies do not intend to invite their existing auditor to tender. This is because a rotation is necessary under the new regulations and many are likely to use it as an opportunity to review the provision of other professional services. Ultimately, it will be the audit provider’s reputation within a firm’s given sector and audit teams’ credentials that will influence management teams’ and audit committees’ decisions.

Negotiating risks and regulation

While there is a general positivity around the new legislation, companies also feel that there are risks involved in changing auditors. They are also concerned about the potential increase in fees.



80%

of respondents say they are likely to tender for non-audit services at the same time as audit contracts



100%

of respondents procure **non-audit services** from their current audit provider



42%

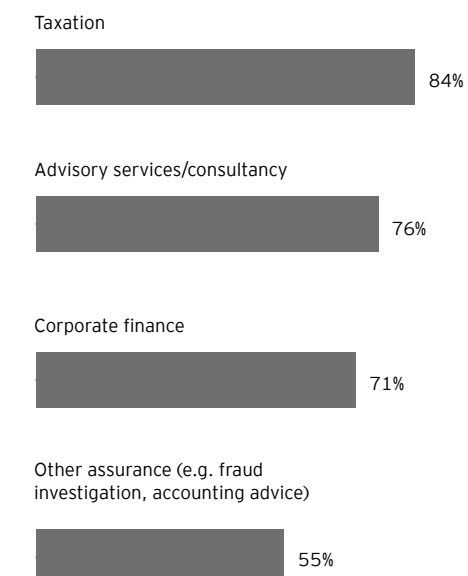
of senior executives see **a change in the view of existing accounting judgements** as the main risk for a company changing its auditor

The introduction of new rules on audit firm rotation, prohibitions and restrictions on non-audit services, such as tax and corporate finance, will have the intent to make a positive impact on governance and the credibility of financial accounts, and will help to promote independence. Tendering processes will become more complex and companies will have to tread carefully in order to stay on the right side of the new rules if they choose to procure as many services as possible from their audit provider.

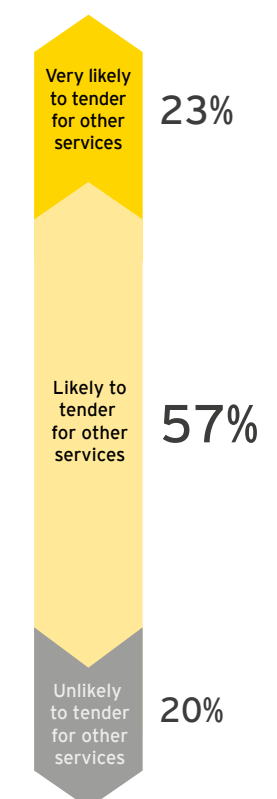
At present, having your auditor provide non-audit services has been the norm for many organisations. Indeed, all the respondents in our survey say they procure non-audit services from their current audit provider. Within this, 84% use their external auditor for tax-related services, followed by 76% for advisory services/consultancy services and 71% for corporate finance services.

This means that the whole professional services market is about to undergo a significant shift. Not only will auditing contracts be brought to tender, but a large majority (80%) of respondents say they are likely to tender for non-audit services at the same time.

What non-audit professional services do you procure from your current audit provider? (Please select all that apply)



When tendering your audit, would your company also be likely to tender for its other professional services providers?



Interestingly, 84% of firms say they will prioritise their auditor selection over other services such as taxation and consultancy when selecting professional advisors.

Spread of service providers

From the senior executives we spoke to, the splitting of auditing from the provision of other professional services is being met with optimism. “Increased restrictions on the provision of non-audit services is a positive as we can appoint dedicated professionals for the advisory, legal and compliance requisites and can expect better performance in these areas,” explained a group director of finance at a construction corporate in the FTSE 100 Index.

How businesses address this will vary. A majority will put the separate services out to tender, others may choose to use their own resources to fulfil their additional advisory requirements, while some may opt for a combination of the two.

“We are flexible and are willing to accept the change in provisions of non-audit services as we have talented professionals that can support our non-audit needs. We already have a plan on separating audit and non-audit needs once the provisions are finalised, as internally we have the talent and externally the best business connections to fulfil our business needs,” said the CFO of a TMT corporate in the FTSE 100 Index.

Any corporate opting for the in-house route will have to consider whether this will be cost-effective, particularly where gaps in expertise are concerned. “The restrictions mean we would not be able to seek general advice from our core auditor and this would increase pressure on our internal advisory team and we may have to invest in getting these professionals trained to offer value as in-house consultants,” explained the head of tax of a consumer corporate in the FTSE 250 Index.

Businesses expect the coming changes to non-audit services to impact the provision of a spectrum of services, including consultancy, fraud investigations and accounting advice, to lesser or greater degrees. But it is in taxation and corporate finance where the new rules regarding non-audit services are expected to be felt most strongly. Some 49% of respondents said that the Audit Regulation will have a significant impact on the provision of their corporate finance services, while 43% said that their tax services would be the most affected. This means that we can expect to see a rise in tenders for these particular services from mid-2016 onwards.

There is, however, some concern that by acquiring services separately companies will have to meet additional costs. “Investing in non-audit

What change will the Audit Regulation have on the provision of non-audit professional services to your business?

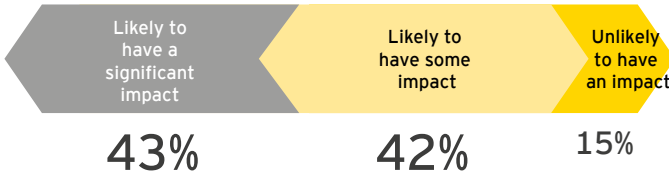
Other assurance
(e.g. fraud investigation, internal audit, accounting advice)



Advisory services/consultancy



Taxation



Corporate finance



services which were earlier provided as a package by the Big Four auditor will be an additional expense we will have to bear. This will have a negative impact on our business although we are constantly working on finding ways to balance the expenses incurred,” said a director of finance at an energy, mining and utilities corporate in the FTSE 100 Index.

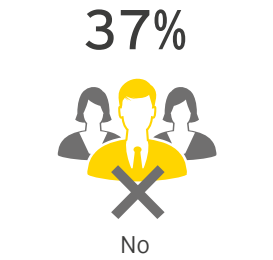
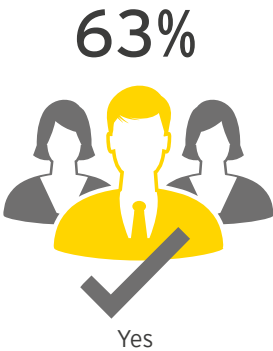
One of the upshots of mandatory audit firm rotation and retendering, and making it more difficult for companies to use a sole provider for all of their professional services, is that businesses will have to consider a larger number of contracts. This may mean they pick firms that are viewed as the frontrunners in a given field, whether auditing, tax or corporate finance, or who have strengths in certain industry sectors. Nearly two-thirds of those surveyed (63%) say that the new audit rules have increased their choice of professional services providers, although 37% believe that choice has declined.

“EU audit reform will have a greater impact on financial services because it applies not

only to all main market listed companies but also to all banks and insurance companies (whether main market listed or not). The multinational nature of the financial services industry also has an impact. For example, the rules apply to EU banking and insurance subsidiaries of non-EU headquartered companies. Audit committees and management at financial services companies are already taking significant steps in response to the reform before formal implementation in June of this year. This includes re-evaluating their choice of providers for audit, tax and advisory services,” said Ian Baggs, Managing Partner for Assurance, UK Financial Services.

The impending changes to audit rules may ultimately be seen positively by companies; however, the changes will inevitably carry risks. One of the main areas of concern among the senior executives that we spoke to was a change in view of existing accounting judgements, cited by 42% as one of the biggest risks from a change in auditor.

Have the EU audit rules increased your choice of professional services providers?

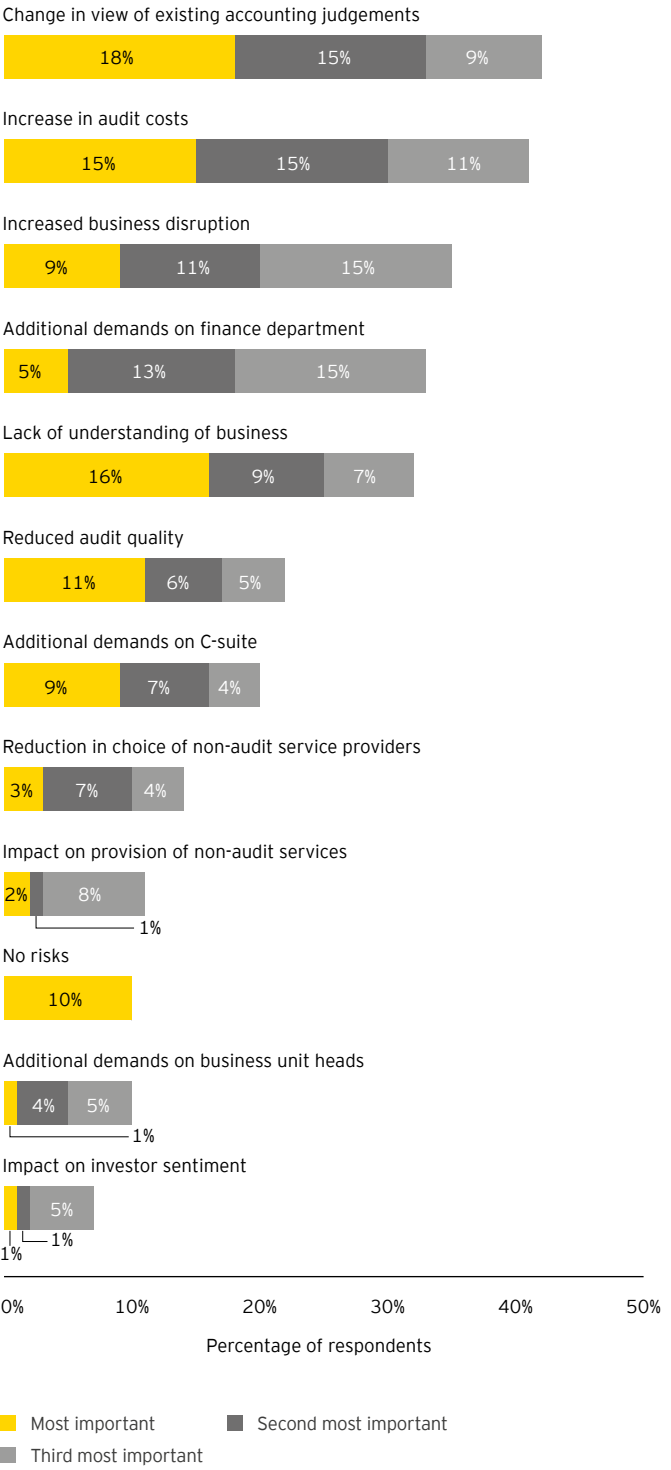


EY on the financial services industry

“EU audit reform will have a greater impact on financial services because it applies not only to all main market listed companies but also to all banks and insurance companies (whether main market listed or not). The multinational nature of the financial services industry also has an impact. For example, the rules apply to EU banking and insurance subsidiaries of non-EU headquartered companies. Audit committees and management at financial services companies are already taking significant steps in response to the reform before formal implementation in June of this year. This includes re-evaluating their choice of providers for audit, tax and advisory services.”

Ian Baggs, Managing Partner for Assurance, UK Financial Services

What do you see as the main risks for your company of changing your auditor? (Please rank up to 3)



Accounting judgements

Accounting judgements such as fair value estimates, impairments and revenue recognition are estimates that rely on assumptions which can vary from one auditor to the next.

Changes to these assumptions can have a significant impact on a company’s accounts and so it is unsurprising that firms are concerned about how this may affect them. “A change in the view of existing accounting judgements will create risks and more efforts will have to be put in to justify the accounts and the entries, which could impact the audit quality,” said one head of tax at an energy, mining and utilities corporate in the FTSE 100 Index.

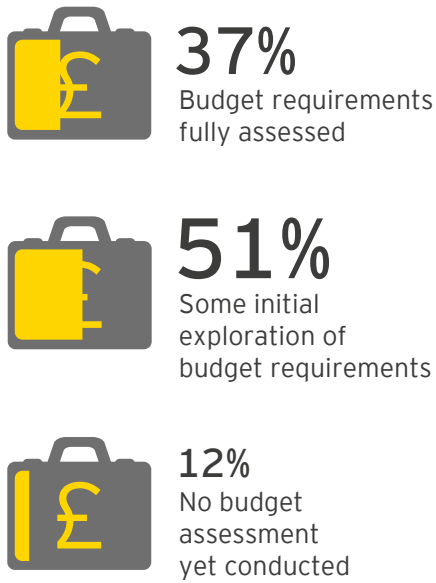
Cost considerations

The perceived risk of a change in accounting judgements was closely followed (41%) by an increase in audit cost. More than one in five (21%) respondents said the transition costs will be 20-50% of their current annual audit fee, while the majority of respondents (57%) expect the transition cost to amount to 10-20% of the current annual audit fee.

As previously mentioned, our survey found that companies put quality before price when selecting auditors and professional service providers. Despite this focus, FTSE 350 businesses are understandably concerned about agreeing to successively more expensive contracts, even if some are already thinking about how to offset this with savings in other areas of their organisation. “We are committed to saving costs in all our operations so if we face an increase in the cost of auditing, we may rather look for other sources to save on the added expenditures,” explained a head of tax at an industrial & chemicals corporate in the FTSE 100 Index.

Encouragingly, the majority of corporates are planning ahead for this financial burden: 51% of firms have conducted some initial

Have you prepared a budget for the cost of tendering / transitioning your audit and potentially other professional services? (Please select one)



research on the cost impact of the new regulatory changes, while 37% say that they have fully assessed the budget requirements associated with tendering.

Changes to accounting judgements and additional costs are not the only concerns on senior executives’ minds. Business disruption was cited by 35% of those surveyed as a major risk posed by a change in auditor, and additional demands on the finance department was high on the list of concerns for 33% of respondents.

“Even though we have a plan for the risks we could possibly face by changing our auditor, business disruption continues to remain a concern that we would face as we may have less time to make changes and managing increased costs of audit could be the prime reason as we may not able to distribute duties in a short span of time externally,” said the CFO of a FTSE 100 TMT company.

Costs and benefits

One of the fundamental changes the new Audit Regulation will bring about is the tendering of non-audit services. We found that a majority of companies currently procure these services from their auditor and that, after the Audit Regulation comes into effect, four in five intend to put these services out to tender at the same time as selecting their new auditing firm. While respondents said that they believe the EU’s new EU audit reform will have a positive impact on their business, there are lingering concerns. Changes to accounting judgements and an increase in audit costs are seen as the biggest risks posed by the imminent regulation. As such, companies should be looking at how these risks could impact them and what they can do to mitigate these threats.

Conclusion

Once the EU Audit Regulation becomes applicable in member states in June of this year, companies will face a range of new challenges. Our research reveals that corporates in the UK are already cognisant of the changes and, for the most part, have been thinking ahead – even if a majority have yet to draw up full strategic plans.

Some of the hurdles posed by mandatory audit firm rotation include increased costs, disruption to a business’s day-to-day activities, increased demand on management and the risk of a change to accounting judgments. All firms listed on the London Stock Exchange’s main floor – and also other companies, such as unlisted banks and insurers, that are defined as PIEs – should assess now how the new rules will affect them and ensure they have comprehensive strategies in place that they can put into action by June 2016.

EY on quality

“Quality is definitely front and centre in selecting a new auditor, as evidenced by the importance given to sector experience, business knowledge, and the audit firms' quality proposition.”

Hywel Ball, Managing Partner for Assurance, UK & Ireland and Head of Audit, UK

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ED 0317

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