

James Ferris
Financial Reporting Council
8th Floor
125 London Wall
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27 September 2019

Dear James,

The FRC Feedback Statement and impact assessment relating to its review of 2016 Auditing and Ethical Standards

The Audit and Assurance Committee of Chartered Accountants Ireland is pleased to provide comments on the FRC's Feedback Statement regarding its review of the 2016 Auditing and Ethical Standards.

Overall, we consider that it is essential that sufficient time is allowed for the 2016 standards to be fully embedded and for full consideration to be made of the overall impact of proposed further changes deriving from the reviews undertaken by Sir John Kingman and the Competition and Markets Authority (CMA), and the ongoing work being undertaken by Sir Donald Brydon in relation to the quality and effectiveness of audit.

In our opinion, introducing an intermediate set of changes to standards prior to completion of that full consideration poses significant risk, given that it places auditors in a position of having to make changes on a piecemeal basis, in the knowledge that further changes will be required in response to those three reviews. In our view, no changes should be made to the requirements of existing standards until Sir Donald has reported, and his recommendations have been considered by government together with a consolidated suite of recommendations reflecting all matters arising from work undertaken by CMA, Sir John Kingman and the Brydon review team.

We note, however, that the FRC is proposing that its revised standards, reflecting the key changes it identifies in the feedback paper, will apply to the audit of financial periods commencing on or after 15 December 2019. Despite the restriction applied to the matters considered in such 'shorter term' changes, we have significant reservations as to whether such an approach – which inevitably involves a 'piecemeal' application of changes required – is either practicable or advisable. We have significant concern that the approach may have a negative impact on audit quality and we recommend that one suite of changes to standards should be made following completion of the Brydon review, rather than the piecemeal approach suggested in the Feedback Paper.

Comments on proposed changes

Our comments on the key proposed changes set out in in the Feedback Statement are as follows:

- simplifying and restructuring the Ethical Standard: this may be of significant help to practitioners, and we look forward to seeing specific changes in due course, subject to our overriding comment that all changes should be made on a consolidated basis following completion of the Brydon Review;
- we also have significant reservations, as set out in our letter 15 February 2019, concerning the principle of introducing a requirement to apply independence requirements of the FRC's Ethical Standard to all components of a group audit, regardless of the jurisdiction in which each component is based. As noted in that letter, given the variation in requirements that may apply to different entities in the group, we consider that application of the IESBA Code of Ethics is a more appropriate approach. As we believe the underpinning principle should be the harmonisation of standards internationally;
- re-defining the 'objective, reasonable and informed third party' test applied in the Standard: we have concerns about the current proposals and feel that further debate is needed, again, subject to any amendments being made as part of a consolidated set of changes on completion of the Brydon Review;
- whilst we consider that the introduction of a list of permitted services that auditors of Public Interest Entities (PIEs) might provide welcome clarify and would be helpful, in our view this is a matter of public policy and therefore, a matter for government to action through legislation. Further, we have concerns with regard to the clarity of the permitted services list as proposed by the FRC;
- subject, again, to changes being implemented as part of a consolidated set of changes following completion of the Brydon Review,
 - o we support steps being taken to consider how to strengthen ethical prohibitions and requirements relating to auditor independence, and provision of non-audit services, in the context of all listed entities;
 - o we support consideration of the areas identified in relation to clarifying and enhancing standards in relation to the audit of the financial statements. We suggest, however, that in relation to 'other information' included in annual reports, a more significance project would be appropriate – namely to develop standards for a separate assurance engagement giving an appropriate level of assurance on such information, in addition to – and separate from – information contained in the statutory financial statements.

Lastly, we would draw your attention to the fact that the Auditing and Ethical Standards currently in issue apply to both auditors and audit firms within the UK and Republic of Ireland that audit UK entities. We believe that the Auditing and Ethical Standards should be

scalable for all auditors and audit firms that apply them, we have significant concerns that this principle has not been applied in drafting the current proposals.

Furthermore, we would draw your attention to the fact that the Auditing and Ethical Standards in issue in the Republic of Ireland are based on the FRC's Auditing and Ethical Standards. As many members of the Institute undertake audits of entities established in both jurisdictions, we support a principle of close alignment of the Auditing and Ethical Standards in both jurisdictions.

However, it is not clear whether, and to what extent, future changes introduced on foot of the Brydon Review and other UK initiatives may cause the Auditing and Ethical Standards in both jurisdictions to diverge. This would be an unwelcome development given that, as noted, many members of the Institute undertake audits of entities established in both the UK and Ireland, and could significantly complicate the organisation and control of audit work carried out by such members.

Comments on specific questions raised in the Feedback Statement are set out in the attachment to this letter, Appendix 1.

In addition, we have a number of comments on the proposed changes to the Standards, set out in Appendix 2 attached.

We have significant reservations about some aspects of the proposed changes to the Ethical Standard. We have detailed these in Appendix 3 attached.

We hope that these comments, and those set out in the attachments to this letter, will be of assistance to the FRC as it considers the next steps to be taken. We would be happy to discuss any of issues raised in more detail if that would be helpful.

We would be pleased to assist you further, in particular in relation to issues that arise for Irish auditors with UK based clients and of course for our members in Northern Ireland. Please do not hesitate to contact me to discuss any of the issues raised in our response, or indeed any other issues that arise during this post implementation review.

Anne Sykes
Secretary
Audit & Assurance Committee
Chartered Accountants Ireland