

Feedback Statement and Impact Assessment

Post Implementation Review of the 2016 Auditing and Ethical Standards

Duncan & Toplis Limited Response

Launch July 2019

Respond by 27 September 2019

Contents

Consultation.....	3
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Consultation

Q1: Do you agree with the revised definition of an ‘objective, reasonable and informed third party’ and with the additional guidance on the application of the test?

R1: Yes. The updated definition and guidance notes look at the perceived risk of lack of independence from the perspective of informed stakeholders – exactly the opinion that should be considered. With the ‘expectation gap’ continuing to be an issue, consideration from the perspective of stakeholders is key.

Q2: Do you agree with our proposed measures to enhance the authority of Ethics Partners, and do you believe this will lead to more ethical outcomes in the public interest?

R2: Yes, and yes. The revised standard makes it clear that the ethics partner and their opinion must be respected and sought where required. It is also made very clear that their role as ethics partner cannot be in conflict with other responsibilities that they may have. Independence is critical. The rules concerning a difference of opinion with the ethics partner, especially for PIEs will likely result in more ethical outcomes – an engagement partner disagreeing with the ethics partner would have to make the fact known to a wider audience or not be compliant with the ethical standard.

Q3: Will the restructured and simplified Ethical standard help practitioners understand requirement better and deliver a higher standard of compliance? If not, what further changes are required?

R3: We cannot see that the amendments made make the standard significantly easier to understand. It appears very similar in structure to the current standard and although it can be noted that improvements have been made, it is still not straightforward to follow. It would be beneficial to full extract the requirements for PIEs, for example, so it is immediately clear, from the index, which sections are applicable to which entities.

Q4: Do you agree with the introduction of a permitted list of services which the auditors of PIE audits can provide?

R4: Yes. This makes it clear what services can and cannot be offered.

Q5: Do you agree with the additional prohibitions we are proposing to introduce – in learning from the experience of enforcement cases like BHS, if the more stringent PIE provisions are to have a wider application to non-PIE entities, which entities should be subject to those requirements?

R5: Yes, the additional prohibitions will further enhance the independence (or at least the perceived independence, that of course, is key).

There could perhaps be a range of additional entities that could be subject to these requirements. For example, ‘very’ large private clients, the definition of which could be debated. Also, perhaps any entity receiving a certain level of public money. Again, the threshold is open to discussion.

Q6: Do you agree with the removal of the reliefs for SMEs in Section 5 of the Standard, and the retention of reliefs for 'small' entities (in Section 6 of the Standard)?

R6: Yes, as noted this is currently creating a conflict with IFAC membership obligations and therefore are not widely used anyway.

Q7: Do you agree with the proposed removal of the derogation in the 2016 Ethical standard which allowed for the provision of certain non-audit services where these have no direct or inconsequential effect on the financial statements?

R7: Again, yes. This created ambiguity and therefore there was the scope to interpret the ethical standard in a way that was unintended.

Q8: Do you agree with the changes we have made to Audit Regulation and Directive references within the ISAs (UK)?

R8: Yes, all amendments appear to give clarity over the requirements.

Q9: Do you agree with the inclusion of FRC staff guidance within the application material of the auditing standards, and has this improved clarity of the requirements?

R9: Yes, and yes. This does assist with the users understanding of the applicable requirements.

Q10: Do you agree with the changes we have made to ISAs (UK) 700, 250 A and 250 B, including the extension of the requirement for auditors to report on the extent to which their audits are capable of detecting irregularities, including fraud.

R10: We do not fully understand what this requirement is and how it links with the current requirements of auditors? The reporting on the extent to which an audit is capable of detecting fraud (and other irregularities) seems to be something that would, in theory, benefit users of the financial statements, but we feel, in reality would lead to a 'boiler-plate' statements reiterating the current requirements of ISA 240. We can see the intention here, but the reality would likely be of little benefit. We feel that it is unlikely that any auditor would state that their audit is highly capable of detecting fraud, as that would leave them open to scrutiny, if a fraud was subsequently discovered.

Q11: Do you agree with the proposed additional auditor reporting requirements, including the description of significant judgements in respect of Key Audit Matters and increased disclosure around materiality?

R11: Yes, for audits of PIEs all of the amendments appear reasonable.

Q12: Do you agree with the revisions we have made to ISA (UK) 720, including the enhanced material setting out expectations of the auditor's work effort in respect of other information?

R12: Yes, the revisions clarify the requirements with respect to other information.

Q13: We are proposing changes to the standards to be effective for the audit of periods commencing on or after 15 December 2019. Do you agree this is appropriate, or would you propose another effective date, and if so, why?

R13: Yes, this would seem reasonable. It is also in-line with the introduction of the revised ISA 540.