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FAO : James Ferris ([AAT@frc.org.uk](mailto:AAT@frc.org.uk))

27 September 2019

Dear James

## **Consultation : Ethical Standard**

### **Introduction**

Mazars is an international integrated partnership, specialising in audit, accountancy, advisory, tax and legal services. Operating in 89 countries and territories around the world, we draw on the expertise of c40,000 professionals – c24,000 in the Mazars integrated partnership and c16,000 via the Mazars North American Alliance – to assist clients at every stage in their development. In the UK Mazars currently has c130 partners and over 2,000 employees and is ranked one of the top 10 accountancy firms nationally.

### **Consultation questions**

In the consultation paper “*Feedback statement and impact assessment – Post Implementation Review of the 2016 Auditing and Ethical Standard*” issued in July 2019 you raised a number of questions for stakeholders to respond to. In the remainder of this letter we respond as a firm, where we consider applicable, to these questions.

**Question 1** – “*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?*”

#### Mazars’ response:

We agree with the revised definition, except for the prohibition preventing firms from also taking into account the views of practitioners, and with the additional guidance on the application of the test.

Whilst setting out a definition of the ‘objective, reasonable and informed third party’ is clearly helpful, strengthens the guidance previously given in the TAG Rolling Record of Actions Arising document (on the FRC’s website), and sets out more clearly what as firms we would be expected to consider, there could be circumstances when another practitioner’s view point is also important and useful (especially when the outcome is also to consider “diversity of thought”).

We therefore recommend that the sentence “*and is not another practitioner*” is removed from paragraph I14.

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**Question 2** - *“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?”*

Mazars’ response:

We do not necessarily agree that the proposed measures to enhance the authority of a firm’s Ethics Partner are required nor do we not consider that these proposed changes will lead to more ethical outcomes in the public interest.

Paragraph 1.14 of part B refers to PIEs but appears to duplicate the provisions already set out in 1.12 where *“the Ethics Partner shall have a direct reporting line to the firm’s leadership Board and to the firm’s independent non-executives, where applicable.”* Paragraph 1.14 of Part B therefore does not appear to increase the authority of the Ethics Partner beyond that already included in the current standard.

Paragraph 1.15 of Part B does appear to give the Ethics Partner additional authority through seeking to force through “agreement” with the Ethics Partner for issues arising with PIE’s with a threat of reporting non-agreement. Whilst we accept that the Ethics Partner should have appropriate authority we consider that 1.12 already provides for such authority and that firms should have adequate processes and procedures in place (as required under 1.15) to deal with differences in opinion.

We therefore recommend that *“If in following those procedures, the firm concludes that the opinion of the Ethics Partner is not to be followed where it relates to an engagement on a public interest entity, the matter shall be reported to the firm’s independent nonexecutives and to the Competent Authority. The engagement partner shall also report this matter to those charged with governance.”* is removed from paragraph 1.15.

**Question 3** - *“Will the restructured and simplified Ethical standard help practitioners understand requirement[s] better and deliver a higher standard of compliance? If not, what further changes are required?”*

Mazars’ response:

The restructured and simplified Ethical standard is helpful in so far as a number of grey areas have been tightened up and therefore we consider that a more uniform level of compliance should be achievable across firms.

**Question 4** - *“Do you agree with the introduction of a permitted list of services which the auditors of PIE audits can provide?”*

Mazars’ response:

Yes we agree with the introduction of this list for PIEs.

**Question 5** – *“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?”*

Mazars’ response:

Given the recent enforcement history we can understand why the FRC is looking to introduce additional prohibitions. However, we do not agree that using a mechanism linked to a potentially variable scope will produce the desired outcomes. For the Ethical Standard to operate effectively it needs stability in principles and both clarity and timeliness of those entities included in scope.

**Question 6** - *“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)?”*

Mazars’ response:

We agree with the removal of the reliefs for SMEs.

The main intention for giving the reliefs for SMEs was to improve the quality of financial reporting by allowing firms to prepare financial statements etc. Membership of the Forum of Firms may have prevented some firms from taking the benefit of these reliefs and therefore the good intentions envisaged by allowing these reliefs may not have been fully seen.

**Question 7** - *“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?”*

Mazars’ response:

We agree with the removal of the derogation as this had become a grey area in the Ethical standard and it makes the application of the standard in the areas of PIEs more straightforward.

**Question 8** - *“Do you agree with the inclusion of FRC staff guidance within the application material, and has this improved clarity of the requirements?”*

Mazars’ response:

The staff guidance notes provided clarity and helped interpretation for the current Ethical standard. Provided that these are for guidance only (rather than made binding) and only those relevant for the proposed Ethical standard are referred to, these should help the reader with interpretation of points that cannot be included within the text of the standard.

**Question 9** - *“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?”*

Mazars’ response:

Yes, we agree that the inclusion of the FRC staff guidance has improved the clarity of the requirements which will enable audit teams to more effectively assess the nature of procedures required.

**Question 10** - *“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.”*

Mazars’ response:

No, we do not agree, we consider that with the Brydon review ongoing any amendment to the ISAs in this area would be premature. Once the Brydon review has been concluded it would be appropriate to update the ISAs to reflect the findings.

**Question 11** - *“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?”*

Mazars’ response:

Yes we agree with the proposed changes as they will increase transparency for users of financial statements of the significant judgements in respect of Key Audit Matters and the basis behind the materiality level selected.

**Question 12** - *“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?”*

Mazars’ response:

No, as noted above we consider that it would be more appropriate to wait for the conclusion of the Brydon review before amending the relevant ISAs.

**Question 13** - *“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?”*

Mazars’ response:

Whilst we do not necessarily disagree with the date, transition rules would need to be made very clear (and workable) to avoid firms from inadvertently providing (allowed) services under the current standard that cross over into a subsequent accounting period (and would be prohibited under the proposed standards) and in doing so create perceived independence issues.

**Further discussion**

If you would find it helpful to discuss any aspect of this response please contact Greg Hall, Ethics Partner  
, David Herbinet, Global Head of Audit or Bob  
Neate, UK Head of Audit

Yours sincerely

**Mazars LLP**

