

FRC Technical Advisory Group (TAG) Meeting
Wednesday 21st April 2021
MINUTES

Minutes of prior meeting agreed with no comments.

Regarding item 4 of the previous meeting's minutes, the FRC confirmed that non-UK domiciled entities who have issued transferrable securities on the London Stock Exchange, and where the audit is performed by a UK firm in accordance with the ISAs (UK), are within AQR scope as third country entities but are not UK PIEs.

Ethics (10.30am – 11.30am)

1. Tax and Technology

One firm was developing a framework for assessing ethical risks when audit firms provide technology related services, including those which can be used for tax related purposes to a client which is not an audited entity of the firm. A paper was shared by KPMG at the meeting.

The group discussed whether there would be merit in having a profession-wide view on this. There was widespread support among the group for this proposal.

The FRC agreed to put this on the agenda to discuss at the next TAG meeting, after firms have had a chance to discuss the detail with their respective teams.

2. Application of Ethical Standards in a Group Audit Context (ES 2019 SEP 2.4)

A number of firms had worked together to produce a document setting out the implications of Supporting Ethical Provision 2.4 in a group audit context, including impacts on extraterritorial components/subsidiaries and non-network firms. The FRC

had discussed this document with those firms as it was being developed and had made suggestions to help clarify the material.

The FRC confirmed that they had no further comments on this material, which was circulated as part of the agenda for the meeting.

This item would be discussed at a future TAG meeting on request.

3. ES 2019 paragraph 5.40 Permitted Non-audit / Additional Services for Public Interest Entities: Services required by law or regulation and exempt from the non-audit services cap

A query had been raised about the following text from the Ethical Standard, and specifically the italicization of the word engagement (which would make it a defined term in accordance with the Glossary of Terms):

“In the case of a controlled undertaking incorporated and based in a third country, reporting required by law or regulation in that jurisdiction where the auditor is permitted to undertake that *engagement*”

The FRC agreed to consider this as part of the next revision of the ES.

4. Proposed New UK PIE definition & FRC OEPI category

It was noted that the government was currently consulting on a new PIE definition for the UK, and IESBA were simultaneously consulting on changes to their definition. The FRC was asked whether there were there plans to align these definitions, including the FRC's category of Other Entities of Public Interest (OEPI).

The FRC confirmed that consideration will be given to alignment of definitions, once these are known. The OEPI categorization could continue to exist, but this is not something that has been decided.

6. AoB

One firm asked whether ethical requirements apply if a covered person's spouse is the Financial Controller of an audited entity, but a self-employed contractor as opposed to an employee of the entity.

There was widespread agreement that they should be treated as an employee for such purposes, and that the Ethical Standard text regarding key management positions is clear on this point.

Audit (11.30-12.30)

1. Addressing Exceptions in the use of Audit Data Analytics (FRC Paper)

In a December 2020 paper *Technological Resources: Using Technology to Enhance Audit Quality*, the FRC committed to producing non-authoritative guidance for auditors addressing the large number of potential exceptions that can be generated when using audit data analytics.

A paper was circulated to participants setting out a draft of that guidance. This was designed to cover key principles and provide a worked example but was not intended to address all potential approaches to addressing exceptions. The meeting was asked to provide any comments.

Overall, the group agreed that guidance of this type was useful but raised some points of detail and clarification.

Two firms queried whether the guidance could be too narrowly interpreted, and potentially exclude other approaches to dealing with exceptions – ie. approaches which were not necessarily focused on re-calibration of the analytic. The FRC confirmed that this is non-authoritative guidance which is not intended to replace the auditor's professional judgement when carrying out audit procedures of this kind.

One firm noted potential inconsistencies in the use of terminology, specifically around outliers and exceptions, which the FRC agreed to address in future drafts.

The group was supportive of the idea of setting up a working group to assist in the further development of this piece of guidance, including the provision of further examples.

NOTE: final guidance published August 2021

2. Auditor Reporting – links between ISA (UK) 720 and ISA (UK) 570 as raised at the previous TAG meeting

The FRC had circulated an Erratum note to members of the TAG to clarify the requirements of paragraph 24-1 of ISA (UK) 570, and an incorrect cross-reference to ISA (UK) 720.

To clarify, the auditor's work effort in respect of the directors' assessment of the longer-term viability of the entity, as it pertains to the auditor's assessment of going concern, is set out in paragraph 16-1 of ISA (UK) 570 (Revised September 2019).

The auditor is then required by paragraph 24-1 of ISA (UK) 570 (Revised September 2019) to determine whether they have anything material to add or draw attention to in respect of the matters set out in paragraph 16-1, and report in accordance with ISA (UK) 720 (revised November 2019), paragraphs 22-4(a)(i), 22-4(a)(ii) and 22-4(b)(ii)

3. Reporting of the irregularities requirements under ISA (UK) 700 in a disclaimer of opinion and the going concern basis of preparation reporting requirements under ISA (UK) 570.

It was noted that there had been discussions between one firm and the FRC in respect of specific reporting requirements in ISAs (UK) 700 & 570.

4. FRC auditor responsibility website text

The FRC was asked when this would be updated?

The FRC noted that they are currently revising the auditor reporting bulletin and will update the website shortly.

5. "Other matter" paragraphs

The FRC was asked about the inclusion of an “other matter” paragraph in audit reports under ISA (UK) 710.14 where consolidated accounts are prepared for the first time where the parent company financial statements had been subject to audit in the prior year?

The FRC clarified that in such situations it must be made clear that the group financial statements are unaudited, but the firm may provide supporting text setting out exactly what work has nevertheless been performed.

The FRC agreed to include this clarification in the rolling record. One firm asked if the rolling record be written in such a way as to make clear there is no specific wording that should be used in such scenarios.

6. An update from the FRC on working groups.

- a. Special Acquisition Companies; and
- b. The unwinding of the backlog of 2019 financial statements

The FRC confirmed that both working groups would go ahead once nominees from the Policy & Reputation Group (PRG) had been finalised.

7. Issues associated with the audit of crypto currency.

One firm noted that companies may soon have material balances of cryptocurrencies in their financial statements and queried whether the FRC intended to issue any related auditing guidance.

FRC noted that there had been a number of discussions with the firms on cryptocurrencies, but did not consider there to be a persuasive case for specific new guidance in this area.

8. AOB

In respect of auditor reporting, firms raised the issue of potential inconsistencies between references in the ISAs (UK) and the Listing Rules (and more generally between FRC guidance and those rules).

FRC noted that it was inevitable that – over time – these inconsistencies can arise. FRC is clear at the time standards and guidance are issued that references are only valid at that point in time, and that auditors needed to be aware of the relevant laws and regulations which apply to their audits.

The FRC further noted that references in the auditor reporting standards would be updated as part of any future project to revise those standards.