

**FRC Technical Advisory Group (TAG) Meeting  
Friday 15th October 2021  
MINUTES**

Minutes of prior meeting agreed with no comments.

**Ethics:**

**1. Application of Ethical Standards in a Group Audit Context (SEP 2.4)**

Three firms asked how firm generated guidance on the application of ES SEP 2.4 (which had been discussed at the April 2021 meeting of TAG) would be finalized and made available to all firms.

FRC noted that since this was firm generated, it would not be appropriate to publish it as an official FRC document. It could, though, be included on the dedicated TAG webpage [to be finalized] as an appendix to the April meeting to provide clarity about what had been discussed.

It was agreed that the firm generated guidance would be circulated to the next TAG to ensure that this was the final version, and that outstanding points of interpretation had been dealt with.

**2. Technology – Hallmarks.**

There was a discussion about a paper also presented at the April 2021 meeting which considered technology services provided by firms to certain entities.

It was agreed that the firm which circulated the document would collate feedback, iterate the paper as required and then recirculate at a future TAG meeting. The ICAEW said that they would consider publishing any final consensus document.

**3. Acting for a company considering an acquisition of a listed audited entity in a possible hostile takeover scenario.**

A firm raised a query about the relevant ethical considerations when considering providing transaction related services to an entity where the target was a listed audited entity of the firm – particularly where the proposed acquisition might be opposed by the target. This would mean performing work on public information.

There was no consensus amongst firms on this issue, and it was agreed that it would be discussed again at a future meeting of TAG.

The FRC highlighted areas of possible concern where a firm carries out such work when also the statutory auditor of the target entity, and the importance of applying the Objective Reasonable and Informed Third Party test (ORITP) [ES (2019), I14].

**4. Overall review of FRC Ethical Standard (ES) – proposed alignment with IESBA revisions.**

The FRC confirmed that they are currently undertaking a project to map IESBA Code changes to the FRC ES. Once this was complete then consideration would be given to the need to make amendments to align the standards. This would be likely to be a project in 2022, and to include other proposed changes to help clarify other requirements. Consideration would also need to be given to any relevant changes arising from the government consultation on audit reform.

## **5. OEPI SME Definition.**

One firm raised a query on the application of OEPI provisions for AIM listed entities who exceed the threshold to be an SME listed entity as calculated using the definition in the FRC's Glossary of Terms (Auditing and Ethics) (2019). The issue was whether OEPI restrictions apply immediately once the threshold is exceeded or apply for the next financial reporting period. Discussion suggested firms took different approaches.

FRC agreed to collate information from firms on how they comply with this requirement, and feedback at the next meeting of TAG. **Firms/FRC Action.**

FRC also confirmed that the application of OEPI restrictions for non-UK incorporated entities was intended to apply in exactly the same way as for PIEs.

## **6. AAF internal controls reports.**

A query was raised about whether it was permissible/compatible for a statutory auditor of an entity to also provide AAF internal controls reports to that entity.

FRC reiterated the policy position that pre-clearance could not be provided for any non-audit service, and that the principles and specific relevant prohibitions included within the Ethical Standard (including application of the ORITP test) should be sufficient.

## **7. Public Interest Entity (PIE) Non-Audit Service (NAS) Fee Cap – waiver applications**

FRC provided an update on issues firms should consider when making NAS fee cap waiver applications, based on applications received to date:

- It is sometimes unclear how the Objective and Reasonable Informed Third Party [ORITP] test has been applied in making the judgments required by the waiver process, although that test is a critical part of the application. Revisions to the Ethical Standard [para. 114] in 2019 stressed that the test should be:

*evaluated by reference to the perspective of an objective, reasonable and informed third party (see the definition of independence). Such a person is informed about the respective roles and responsibilities of an auditor (or reporting accountant as applicable), those charged with governance and management of an entity, and is not another practitioner. The perspective offered by an informed investor, Financial Reporting Council 9 shareholder or other public interest stakeholder best supports an effective evaluation required by the third-party test, with diversity of thought being an important consideration.*

- Every application is dealt with on an individual basis and in the context of the specific circumstances.

- It is possible that firms may find it more difficult to justify the existence of 'exceptional circumstances' once pandemic conditions ease.

## **Audit:**

### **1. Update on the FRC's Professional Judgement working group.**

The FRC updated the group on the progress of the Professional Judgment working group.

There was discussion about the benefits that may derive from having a Professional Judgment framework, which included facilitating improved training, better quality templates and workpapers and assisting with difficult judgments.

### **2. ISA (UK) 315 Revised.**

The FRC was asked for their interpretation of the requirements in paragraph 26 of revised ISA (UK) 315 [a paragraph dealing with understanding control activities through performing risk assessment procedures]. Queries from firms included requirements in respect of journal entries, IT controls and the depth of the IT response/expertise required when ensuring an effective risk assessment.

In general, the FRC took the view that the significant volume of application material contained within the standard was helpful in dealing with these issues. However, recognizing that many firms had raised implementation issues specifically on this paragraph, the FRC agreed to:

- Collate feedback from firms represented at TAG
- Escalate to IAASB **FRC Action**.