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Our ref **FRC/ISAE3000ED/KP
MG/SD**

26 May 2020

Dear Mr Billing

ISAE (UK) 3000 Consultation

We welcome the opportunity to comment on the exposure draft of International Standard on Assurance Engagements (UK) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. It comes at the same time as the IAASB is consulting on its draft non-authoritative guidance on assurance over extended external reporting (EER) in the second phase of its EER Assurance project, to which KPMG's International Standards Group will be responding.

The IAASB's project to develop guidance on the application of IAASB ISAE 3000 to extended external reporting will have implications for the practice of assurance of such information in the United Kingdom, whether or not ISAE (UK) 3000 is adopted, and for any guidance which the FRC develops or promulgates to support the use of ISAE (UK) 3000. Our response does not include any commentary on such matters. We also note below the need to align the development of the standard with other reforms, particularly Operational Separation.

At present, IAASB ISAE 3000 is widely applied in the UK; there is also considerable established practice of providing positively or negative worded opinions in reports that do not claim compliance with any assurance standards. We consider that this divergence in practice has contributed to a degree of inconsistency in quality in the market for assurance other than audits and reviews of historical financial information, potentially contributing to inconsistency in opinions over and the scope of work performed on assurance engagements other than audits and reviews of historical financial information and resulting in user expectation gaps and diminished consumer confidence.

We see assurance as playing a potentially vital role in improving the quality and reliability of corporate reporting, and consider it important to encourage consistency and reduce expectation gaps through the application of a commonly understood, robust standard. We therefore support adoption of ISAE 3000 in the UK.

The only changes proposed to the text of IAASB ISAE 3000 are those relating to independence – the application of those requirements of the FRC Ethical Standard (“FRC ES”) that apply to public interest assurance engagements. The FRC ES requirements for public interest assurance engagements differ from the requirements of Part 4B of the ICAEW Code of Ethics (“the ICAEW Code of Ethics”), particularly in the requirements for independence for the assurance practitioner firm.

In our view, the concepts of the ICAEW Code of Ethics provide a proportionate, principles-based framework for independence for assurance engagements other than audits and reviews of historical financial information in most cases, and we support retention of these independence requirements (or an equivalent Ethics code applying the same principles, in circumstances where the assurance provider is not currently subject to the ICAEW Code of Ethics) for most assurance engagements other than audits and reviews of historical financial information. There may be certain, specific subject matters that are determined by the FRC to be of great public interest and/or systemic importance, therefore justifying application of the FRC ES – as is the case with financial statements and Protection of Client Assets and Money (CASS) - and we will be supportive of the FRC’s proposal to continue to require the application of the FRC ES for such engagements.

It follows that the independence requirements of the FRC Ethical Standard should apply to the conduct of those assurance engagements to which it applies, currently:

- Audits of financial statements undertaken in compliance with International Standards on Auditing (ISAs) (UK);
- Reporting accountants acting in connection with an investment circular (Standards for Investment Reporting (SIRs));
- Review of interim financial information by the independent auditor of the entity (International Standard on Review Engagements (UK and Ireland) 2410); and
- Engagements to provide assurance on client assets to the Financial Conduct Authority (the CASS Standard).

For all other assurance engagements performed under ISAE (UK) 3000 (either voluntarily or as mandated), independence requirements equivalent to the ICAEW Code of Ethics, as applicable to assurance engagements other than audits and reviews of historical financial information, should apply and application of the FRC ES to such engagements would not be appropriate.

Additionally, we believe that applying the independence requirements of the FRC ES to all assurance engagements performed under ISAE (UK) 3000 (either voluntarily or as mandated) might have unintended consequences for choice and competition. In particular, a broad application of the FRC ES, could effectively, in many cases, restrict the choice of suppliers to the company’s external auditors only. As a result, audited

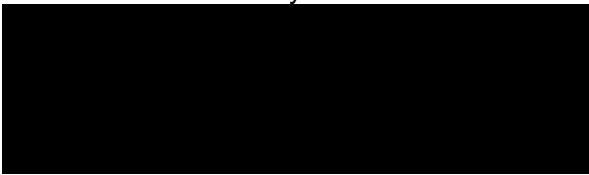
companies could be prevented from obtaining important outside challenge and review in circumstances where it was most needed.

Lastly, any standard must be consistent with the proposed recommendations, principles and reforms in relation to Operational Separation. In particular, the FRC ES must be aligned with the 'ring fence,' to ensure that the outcome is consistent with the scope of permissible services within and outside the 'ring fence' (including provision of assurance services to non-audit clients). Otherwise, the new standard will be difficult to implement. In addition, it could result in different standards for different firms, depending on whether and how Operational Separation applied to them.

We set out in Appendix 1 to this letter our responses to the specific questions raised in the consultation.

Please contact me if you would like to discuss this further.

Yours sincerely



Audit Partner, UK Head of Assurance

Appendix 1 – Response to consultation questions

Question 1 - Do you agree with the proposed adoption of ISAE 3000? If not, please explain why.

We support the proposed adoption of ISAE 3000 in the UK.

We note that in the UK there is long-established practice of providing positively or negative worded opinions in reports that do not claim compliance with any assurance standards. We consider that this divergence in practice has contributed to a degree of inconsistency in quality in the market for assurance other than audits and reviews of historical financial information, potentially contributing to inconsistency in opinions over and the scope of work performed on such information and resulting in user expectation gaps and diminished consumer confidence.

Wide adoption of ISAE (UK) 3000 would facilitate consistent, reliable reporting across a range of subject matters, and increase trust in non-financial assurance reports and non-financial information reported on.

Question 2 - Do you agree that ISAE (UK) 3000 should be mandated only for certain specific types of assurance engagement as described above, with voluntary application permitted for other assurance engagements; or should it be mandated for all assurance engagements for which the FRC has not issued specific performance standards? If the latter, please explain why.

As noted above, we consider that consistent application of ISAE (UK) 3000 across all assurance engagements other than audits and reviews of historical financial information in the UK would benefit users of non-financial assurance, as it would result in greater consistency in reporting, and in the work effort supporting such reporting. Users of reports would be able to place greater reliance on such opinions representing a consistent degree of comfort over the related subject matter information.

It is unclear from the Consultation Document whether the intention of the proposal to mandate ISAE (UK) 3000 for specific types of assurance engagement only is intended to leave the way open for practitioners to apply IAASB ISAE 3000 to assurance engagements over subject matter information for which the application of ISAE (UK) 3000 has not been mandated. This would, in our view, be undesirable, as it would leave it open to practitioners to determine which version of ISAE 3000, and therefore which independence requirements, to apply.

We support wider application of ISAE (UK) 3000, but with appropriate and proportionate independence requirements as discussed in our response to Q3 below.

Question 3 - Do you agree with the proposed adaptations to the text highlighted in the exposure draft? If not, please explain why and describe the changes you would wish to see.

The only changes proposed to the text of IAASB ISAE 3000 are those relating to independence – the application of those requirements of the FRC Ethical Standard (“FRC ES”) that apply to public interest assurance engagements. The FRC ES requirements for public interest assurance engagements differ from the requirements of Part 4B of the ICAEW Code of Ethics, particularly in the requirements for independence for the assurance practitioner firm.

In our view, the concepts of the ICAEW Code of Ethics provide a proportionate, principles-based framework for independence for assurance engagements other than audits and reviews of historical financial information in most cases, taking into account the fact that in many cases, the preparation of such subject matter information can be effectively ring-fenced from other business activities in a way that is not possible for historical financial information.

There may be certain subject matters of such a degree of public interest and/or systemic importance that it is appropriate to apply independence requirements that extend to the practitioner firm as a whole, and are similar to those applicable to financial statement audit, as the FRC has done in the case of CASS opinions.

However we believe that there are many current applications of IAASB ISAE 3000 and other IAASB ISAEs where the independence requirements of the ICAEW Code of Ethics remain suitable and proportionate in most cases, and we support retention of these independence requirements (or an equivalent Ethics code applying the same principles, in cases where the assurance provider is not subject to the ICAEW Code of Ethics). We consider that applying the independence requirements of the FRC ES to all such assurance reports (performed under ISAE (UK) 3000, either voluntarily or as mandated) might have unintended consequences for choice and competition amongst assurance practitioner firms and application of the FRC ES to all such engagements would therefore not be appropriate.

This is an important pre-implementation point to consider, as application of the FRC ES, could effectively, in many cases, restrict the choice of suppliers to the external auditors only. As a result, audited companies could be prevented from obtaining outside challenge and review in circumstances where such outside challenge and review is needed most.

Lastly, any standard must be consistent with the proposed recommendations, principles and reforms in relation to Operational Separation. In particular, the FRC ES must be aligned with the ‘ring fence,’ to ensure that the outcome is consistent with the scope of permissible services within and outside the ‘ring fence’ (including provision of assurance services to non-audit clients). Otherwise, the new standard will be difficult to implement.

In addition, it could result in different standards for different firms, depending on whether and how Operational Separation applied to them.

We recommend that where ISAE (UK) 3000 is voluntarily complied with, it retains the requirement that the practitioner apply, as a minimum, the independence requirements of the ICAEW Code of Ethics (or an equivalent Ethics code applying the same principles, in cases where the assurance provider is not subject to the ICAEW Code of Ethics). Where application of ISAE (UK) 3000 is mandated the additional requirements of FRC ES for public interest assurance engagements should be applied.

We suggest that the shaded text in paragraph 3(a) be replaced with:

“In the UK, for assurance engagements specified by the FRC, the firm and its personnel are subject to ethical requirements from two sources: the FRC’s Ethical Standard concerning the integrity, objectivity and independence of the firm and its personnel, and the ethical pronouncements established by the assurance practitioner’s relevant professional body.

For all other assurance engagements performed in accordance with ISAE (UK) 3000, the members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to the provisions of the ICAEW Code of Ethics related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding.”

We suggest that the shaded text in paragraph 20-1 be replaced with:

“For assurance engagements specified by the FRC, the practitioner, including the firm and its personnel, shall comply with the FRC’s Ethical Standard and the ethical pronouncements established by the assurance practitioner’s relevant professional body.

For all other assurance engagements performed in accordance with ISAE (UK) 3000, the practitioner shall comply with the provisions of the ICAEW Code of Ethics related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.”

We suggest that paragraph 69(j) be replaced with:

“For assurance engagements where compliance with the FRC’s Ethical Standard is specified by the FRC, a statement that the practitioner complies with the independence and other ethical requirements of the FRC’s Ethical Standard and other applicable ethical pronouncements established by the assurance practitioner’s relevant professional body. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the FRC’s Ethical Standard and other

applicable ethical pronouncements established by the professional accountancy bodies related to assurance engagements.

For all other assurance engagements performed in accordance with ISAE (UK) 3000, a statement that the practitioner complies with the independence and other ethical requirements of the ICAEW Code of Ethics, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as Parts 1 and 4B of the ICAEW Code of Ethics related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as Parts 1 and 4B of the ICAEW Code of Ethics related to assurance engagements.”

Question 4 – Do you believe any further adaptations should be made? If yes, please explain them.

We do not believe further adaptations should be made to ISAE (UK) 3000. We do consider that guidance on applying ISAE (UK) 3000 to specific subject matters would be helpful to ensure consistency, quality and comprehensibility of reporting. We consider that it would be preferable for all such subject matter specific content to have the status of guidance that depends upon and refines the core standard, ISAE (UK) 3000, rather than the approach of developing competing and potentially inconsistent standards in a developing suite of UK Assurance Standards.

Such guidance could leverage off and build upon the IAASB EER’s guidance as well as other IAASB assurance standards. We note that ISAE 3402 *Assurance reports on controls at a service organisation* is widely applied in the UK, often alongside ICAEW guidance, and has set a standard for the expected criteria to be applied to, nature and extent of work to be performed and expression of opinion upon descriptions of suites of internal controls, the suitability of design of controls and their operating effectiveness.

We consider that developing practice on reporting on internal controls (including: internal controls over financial reporting (“ICOFR”), controls relevant to security, availability, processing integrity, confidentiality or privacy and other system level controls) should build upon existing practice, standards and guidance, albeit ideally as supplementary guidance to ISAE (UK) 3000, rather than an additional standard. We would support a similar approach – subject matter specific application guidance, rather than additional standards – to other areas of application of non-financial assurance.

Question 5 - Do you agree with the proposed effective date for assurance reports dated on or after 15 September 2020? If not, please explain what date would be appropriate.



Our view on the proposed effective date is dependent on our response to Q3 and the extent of the application of FRC ES to assurance engagements in the final standard. We support the proposed effective date in the ED if our response to Q3 is accepted. Otherwise, a longer lead time will be required to enable practitioner firms to meet the independence requirements of the FRC ES.