



For the attention of Keith Billing

Financial Reporting Council
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By email to: AAT@FRC.org.uk

19 May 2020

Dear Mr Billing

Proposed International Standard on Assurance Engagements (UK) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information Exposure Draft

PricewaterhouseCoopers LLP (“We”) welcome the opportunity to respond to the FRC’s exposure draft on the proposed International Standard on Assurance Engagements (UK) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* (“ISAE (UK) 3000”).

We are encouraged that the FRC is taking greater interest in the quality of other assurance engagements in light of the recent reviews undertaken in the UK, such as the Brydon review and the BEIS initial consultation on the Kingman recommendations, which may result in reform and change. We welcome the initiative to incorporate ISAE (UK) 3000 into the FRC’s assurance standards structure, providing an appropriate standard of quality which practitioners will be able to apply to a broad range of subject matters identified as being in the public interest.

However, it is unclear what is intended by the FRC’s proposed adaptations to reflect that, in the UK, practitioners are subject to the FRC’s Ethical Standard in addition to the ethical pronouncements of their professional body. As currently drafted, it would appear that audit level independence would be required in respect of the provision of other assurance services performed under ISAE (UK) 3000 for non-audit clients. We do not believe that **this should be the intention**, but it could be the unintended consequence of the way in which proposed ISAE (UK) 3000 has been drafted.

If it is the FRC’s intention to require financial statement audit level independence to be applied for engagements performed under proposed ISAE (UK) 3000 for clients other than audit clients, we have a significant concern that this is likely to make it impossible for many firms to provide such services to non-audit clients, and to reduce the options available to organisations to choose their assurance practitioner based on relevant attributes, such as known expertise in the subject. If this is the FRC’s

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intention, greater clarity is needed about which engagements are likely to be ‘specified engagements’ in order for organisations and practitioners to be able to assess properly the expected impacts.

Currently, for assurance engagements undertaken for clients other than audited entities, the ethical pronouncements of the professional bodies require a threats and safeguards approach which addresses the independence of the firm and individuals. We believe that, rather than requiring audit level independence for such engagements performed under ISAE (UK) 3000, it would be preferable to continue to apply a principles-based approach, emphasising the importance of a proper analysis of independence by practitioners and audit committees, irrespective of whether the engagement were to be performed for an audit client or a client other than an audit client. Such an approach would encourage a mindset focussed on the careful analysis of threats and safeguards associated with other relationships with and/or services (whether audit, tax, IT, advisory or other) provided by the preferred assurance practitioner. Our concern here is that the objectivity and independence of the assurance practitioner, whether the entity’s financial statement auditor or not, should be important considerations in providing confidence to the users of the assurance report.

Further, when other assurance engagements are performed by the statutory auditor for the audited entity, the requirements of the FRC’s Ethical Standard already apply. It would therefore seem unnecessary to adapt the proposed ISAE (UK) 3000 in this way if the intention is that the engagements specified by the FRC as having to be performed in accordance with ISAE (UK) 3000 are likely almost always to be performed by the auditor.

We are also of the view that changes made should be considered in the broader context, particularly in light of any future broadening of the purpose of ‘audit’ which could also cover wider non-financial information. Whilst we are responding to the FRC’s consultation on the proposed ISAE (UK) 3000, we recommend that the FRC considers awaiting the outcome of those other expected consultations before ISAE (UK) 3000 is finalised. In considering the FRC’s proposals, we have focused on four key matters on which we believe further clarification is needed. Our comments in this regard are set out below, and described in more detail in our responses to the consultation questions in Appendix 1 to this letter.

Financial audit level independence

As currently written, the key distinction between engagements performed under proposed ISAE (UK) 3000 and those performed under the IAASB’s ISAE 3000 (Revised) is the level of independence required. The proposed new standard would appear to require financial statement audit level independence; required independence would not be limited to the subject matter of the assurance. The IAASB’s ISAE 3000 (Revised) only requires compliance with the IESBA Code of Ethics and independence only in relation to the subject matter of the assurance. Where the assurance work is regarded as an extension of the financial statement audit, and performed by the financial statement auditor, this is unlikely to have much impact. For other engagements, if ISAE (UK) 3000 is required to be applied, as noted above, it is likely to reduce the choice of assurance practitioner available to organisations.

Specified engagements

It is unclear which types of engagement are envisaged by “*engagements for which there is a requirement in law or regulation for an assurance report to be provided by an auditor or other assurance practitioner*” or “*where a clear need has been identified to serve the public interest*”. While



currently there are not any such assurance engagements, the FRC has indicated that the proposed standard is intended, at least initially, to be specified for European Single Economic Forum tagging of financial statements and to prepare for recommendations arising from the Brydon review in relation to the scope of auditors' responsibilities. We cannot comment on the impact of applying proposed ISAE (UK) 3000 to engagements which have not yet been defined. Further clarification is needed in order for practitioners and organisations to be able to assess properly the likely impact, and to comment accordingly. As noted above, waiting for the outcome of further consultation on recommendations arising from recent reviews would enable a more holistic assessment of the wider implications. We elaborate on this further in our response to Question 1 in the appendix.

Implications for non-audit clients and voluntary application of the standard

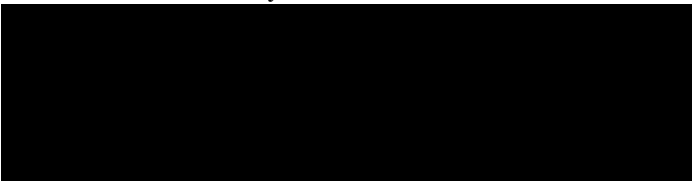
It is unclear whether the FRC expects that the proposed standard would be applied other than when specified by the FRC, that is, whether the FRC will encourage voluntary adoption of the new standard. As noted above, as currently drafted, the new standard would have a negative impact on competition throughout the profession as well as for specialist firms that do not offer financial statement audit services, and are unlikely to have the systems in place to ensure compliance with independence requirements.

Proposed effective date

The proposed application date is for assurance engagements where the assurance report is dated on or after 15 September 2020. This would appear unrealistic if the application of the Ethical Standard to these engagements is as currently drafted. Where the FRC mandates the use of the standard for a particular subject matter, sufficient notice will be required to ensure that independence requirements can be met for the whole of the reporting period, including any cooling off period. We comment further in our response to Question 5 in Appendix 1.

We hope our comments are helpful and if you have any questions or require any further information, please do not hesitate to contact me at hemione.hudson@pwc.com

Yours sincerely



Hemione Hudson
Head of Audit PricewaterhouseCoopers LLP



Appendix 1 - Our responses to the consultation questions

Q1. Do you agree with the proposed adoption of ISAE 3000? If not, please explain why

As previously noted, it is difficult to comment in light of the uncertainty of the implications. We consider that there are two aspects to this question: (1) the extension of the requirements of the FRC's Ethical Standard; and (2) the mandatory application of ISAE (UK) 3000 to, as yet unknown, assurance engagements.

While the mandatory application of ISAE (UK) 3000 should contribute to enhanced consistency in the performance of non-audit assurance engagements, we have a number of concerns in relation to the apparent introduction of 'audit-level' independence requirements to those engagements specified by the FRC which could, nominally, be performed by the financial statement auditor or a different, suitably skilled practitioner. Please see our response to Question 2 below, where we elaborate on this point.

We believe the FRC's consultation may be premature as it is insufficiently clear, at this stage, which engagements will be 'specified', both in relation to those "specified by law or regulation" and "those in the public interest". We consider these separately below.

(i) Those specified by law or regulation

Clarification is needed as to whether the engagements to be specified by the FRC will be only those that are, or that may be in the future, required by law or regulation to be performed by the financial statement auditor, or whether the requirements would extend to other assurance engagements specified by law or regulation, irrespective of the assurance practitioner. The second paragraph of the Objective of the Consultation Paper and Impact Assessment suggests the latter. The word 'ordinarily' adds further ambiguity and suggests the FRC may specify application of the standard outside of assurance reporting required by law or regulation.

(ii) Those in the public interest

While we fully support the need for practitioners to maintain their objectivity and independence in the public interest, it is unclear which type of engagements might fall into this category - this could be alluding to further recommendations arising out of the Brydon review and other reviews as to the role of the financial statement auditor, or it could be a subjective judgement as to public interest in other assurance reports. Until those recommendations become clearer, it is difficult to assess the extent of mandated application of this standard. For example, a report published on an organisation's website could be deemed 'in the public interest' irrespective of any link between that subject matter information and the entity's annual report which might otherwise bring it within the natural remit of the auditor.

Depending on the interpretation and application, there is a clear implication for organisations in terms of market competition and their ability to choose the right assurance practitioner for the job.



Q2. 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 no distinction is currently made in the proposed ISAE (UK) 3000 between the independence requirements for audit clients and those for non-audit clients, we do not believe that the proposed standard should be mandated for all assurance engagements for which the FRC has not issued specific performance standards. Doing so would extend 'audit level' independence requirements to the entire practitioner firm, in addition to its personnel, effectively driving practitioners to make a choice between acting as financial statement auditor and providing non-audit assurance services on other subject matters, thus reducing the choice of assurance practitioner available to organisations. Please see also our response to Question 3 below.

We also note that ISAE 3000 (Revised) underpins a number of other IAASB standards such as ISAE 3402 and ISAE 3410. We do not believe that it would be appropriate to expect that international assurance standards, where reports may be issued by assurance practitioners regardless of their home territory, to be underpinned by substantially different levels of independence requirements. The distinction is unlikely to be understood by organisations or users and would create a two tiered market for such assurance reports without any obvious need for such a market.

Further, we note that, in paragraph 2 to the Introduction to the Consultation Paper and Impact Assessment, the FRC states that no changes are proposed that would result in non-compliance with the IAASB's requirements in ISAE 3000. However, two paragraphs:

- A111, relating to requirements in a subject matter-specific ISAE that affect the nature, timing and extent of procedures, or the level of assurance expected to be obtained in a particular type of engagement, and
- A170, which relates to reference to the subject matter-specific standard in the assurance report have been omitted from proposed ISAE (UK) 3000. It is therefore unclear how the requirement in other ISAEs to comply with ISAE 3000 would be met if a practitioner were to apply ISAE (UK) 3000 when performing an engagement under another ISAE, such as ISAE 3402 or ISAE 3410, as the IAASB's ISAE 3000 requires an understanding of the entire text of ISAE 3000, including its application material, to apply its requirements properly.

Q3. 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

We do not agree with the proposed adaptations to the text highlighted in paragraphs 3(a) and 20-1, and the consequent adaptations to paragraph 69 (j) and the Application and Other Explanatory Material. As currently written, and when read in conjunction with paragraphs 5 and 14 of the proposed ISAE (UK) 3000, the proposed adaptations require the firm and personnel to apply the FRC Ethical Standard and hence audit-level independence, regardless of whether the engagement is for an audit client or a non-audit client, and thus foreseeably could result in all such work being performed by the financial statement auditor. While there would be little impact in relation to audit clients as there is already a requirement to comply with the FRC's Ethical Standard, the proposals do not explicitly exclude the application of the "white list" for non-audit PIE clients, or other requirements of the



Ethical Standard which the FRC does not intend to be applied in the case of non-audit client, for example the restriction on the provision of certain non-assurance services. This would further restrict choice for organisations.

We believe it is critical for the FRC to clarify which engagements the proposed ISAE (UK) 3000 would be applied to (see our response to Question 1 above) and whether it is the FRC's intention to extend the requirements to any specified assurance engagement, irrespective of whether the engagement is performed by the entity's statutory auditor or by another assurance practitioner. The use of words such as 'ordinarily' in the FRC's proposal suggests that the FRC wishes to reserve its options.

In relation to engagements performed under the FRC's Standards for Investment Reporting (SIRS), there is an important provision in paragraph 18 of the Ethical Standard which effectively applies the Ethical Standard to the extent it relates to the subject matter being reported on, enabling this type of work to be performed for clients other than audit clients. In essence, it disapplies the white list and certain requirements relating to other services that may be performed for the client. Whilst we appreciate that the reasons for this provision are not necessarily applicable to other assurance engagements, if it is not the FRC's intention to apply the entirety of the Ethical Standard, we believe it would be appropriate to clarify in a similar manner as in paragraph 18 of the Ethical Standard, which provisions do not apply in the case of specified engagements for clients other than audit clients.

We suggest that there are several possible ways to address this:

- Clarify that the FRC Ethical Standard requirements apply only when the use of ISAE (UK) 3000 is mandated by the FRC, and when the work is required to be performed by the statutory auditor;
- Clarify in ISAE (UK) 3000 that the full requirements of the Ethical Standard either (i) do not apply if the use of the ISAE (UK) 3000 standard is voluntary, or (ii) only apply to an ISAE (UK) 3000 engagement to the extent that it is related to the specific underlying subject matter and subject matter information of the assurance engagement;
- Clarify that if an ISAE (UK) 3000 engagement is performed for a non-audit PIE client that this would not mean the white list and other paragraphs not intended by the FRC to be applied would apply, e.g.: *'Section 5B (the white list) would not apply to any ISAE (UK) 3000 engagement performed for a non-audit client, because the white list only applies to the audit firm carrying out a statutory audit of a PIE. The same principle should then be applied to Section 5C of the Ethical Standard where the heading is 'Approach to non-audit / additional services provided in any statutory audit engagement'.*

We also question the proposed adaptation to paragraph A7, which replaces 'whether there are any relevant subject matter-specific ISAE' with 'whether there are any relevant subject matter-specific assurance standards'. There are numerous assurance standards and many pieces of subject matter-specific assurance guidance (such as the ICAEW's library of Technical Releases) and it is unclear whether the intention is to suggest that any such relevant standard is to be considered in determining what constitutes meaningful assurance, or if the intention is to refer to a narrower set of assurance standards, such as the ISAEs and the FRC's assurance standards.



Q4. Do you believe any further adaptations should be made? If yes, please explain them

As noted in our covering letter, we recommend that the FRC delays finalising the proposed ISAE (UK) 3000 including further adaptations to its text until the recommendations of the various reviews are consulted on and the outcomes known. We feel strongly that this is not the right time to seek to adopt the standard with its current incremental changes without an ability to assess the implications more widely. Waiting for the outcome of those consultations would enable a better assessment of the likely implications to be made, and would avoid the need for the FRC to revise the standard at a later date.

Q5. 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

The application date of the standard cannot be considered properly until the engagements to which it is intended to apply are known. As noted above, the proposed effective date appears unrealistic unless there is a clear plan to specify its application in relation to only those reports that are inevitably produced by the financial statement auditor, to whom the requirements of the Ethical Standard already apply.

We do not support the proposed effective date if the consequence is to require audit level independence for engagements which are not necessarily performed by the financial statement auditor. Application of the requirements of the FRC's Ethical Standard to such other engagements would require sufficient time to enable the independence requirements to be met for the whole of the reporting period, including any cooling off period. Such a period could be significantly longer for other assurance engagements than for a financial statement audit, unless similar regulatory reporting deadlines were in place for those engagements.

Further, the introduction of specified rotation periods for engagement partners and key audit partners on other assurance engagements would need to be properly planned for. This may be of particular importance in the current circumstances arising from the COVID-19 pandemic, when continuity is likely to be of paramount importance to organisations and in achieving assurance quality.