

Comments on the FRC Feedback Statement and impact assessment relating to its review of 2016 Auditing and Ethical Standards

Question		Comment
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?	We support the current principle but have concerns with regard to the concept of the test being anchored on a non-practitioner as such we think that further discussion and development is needed.
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?	We do not agree with the proposed measures as they are not be workable outside the very largest audit firms which apply the FRC's ethical and auditing standards. For example, audit firms in Northern Ireland don not have the scale for this provision to be operable. We believe standards should be based on a principle of scalability, the proposed change does not meet that principle.
3	Will the restructured and simplified Ethical standard help practitioners understand requirement better and deliver a higher standard of compliance? If not, what further changes are required?	As discussed in our covering letter we do not consider that it is appropriate to seek further changes to the standards until the ongoing reviews have been finalised and all the recommendations can be incorporated.
4	Do you agree with the introduction of a permitted list of services which the auditors of PIE audits can provide?	We support the principle of a permitted list as outlined in our cover letter but further consideration should be given as to whether the current suggested list is appropriate. For example, it is not clear whether services related to testing controls for SOX 404 is a permitted service.
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?	<p>We do not support the widening of the PIE requirement to non-PIE entities.</p> <p>Businesses select to be private enterprises for commercial reasons. If there is a change needed it should be part of a public policy decision by government.</p> <p>Government has the power to designate additional entities as PIEs.</p>
6	Do you agree with the removal of the reliefs for SMEs in Section 5 of the Standard, and the retention of	Yes.

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7	reliefs for 'small' entities (in Section 6 of the Standard)? 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?	As outlined in our letter in February 2019 we believe that the derogation is seldom used and the term inconsequential has the effect of a prohibition therefore we support the removal.
8	Do you agree with the inclusion of FRC staff guidance within the application material, and has this improved clarity of the requirements?	We do not agree with the inclusion of staff guidance material in the standards. Standards, including the Application Notes therein, are developed and published with regard to an agreed and established due process. Until the material from the staff guidance notes is subject to the same due process it should not be included in the standard or the application notes.
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?	As commented above. All material included in all Standards and in the Application Notes should be subject to due process.
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.	We do not support these proposed changes. We believe it will lead to 'Boilerplate' statements concerning the auditor's role with regard to fraud.
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?	Given the nature of the proposed additional requirements, we consider that their introduction would require more extensive discussion to ensure that there is sufficient agreement as to extent and implications. We believe the proposals may result in the auditor originating information in the audit report, we do not support such an outcome.

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		In particular we consider that inclusion of performance materiality may lead to confusion among the users of the financial statements as they may not understand the concept of this lower number. It could result in an expectation gap as to the level of materiality that the audit is performed to.
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?	We do not support the revisions to this standard as we believe the current requirements of ISA (UK) 720 address the professional requirements of auditors. If further assurance is required by the users, this should be addressed under the assurance framework. Please see our cover letter.
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?	As stated in our cover letter we do not agree that the proposed effective date is appropriate. It would be more appropriate to set an effective date after all reviews have been complete, recommendations incorporated and allowing for an appropriate lead in time.