



Attention: James Ferris

Wellcome Trust's response to FRC - Feedback statement and impact assessment: Post Implementation Review of the 2016 Auditing and Ethical Standards

Question 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?

Yes. The revised definition is far clearer. The guidelines provide for a consideration of perception and a continual consideration of both publicly available information and that arising on a specific issues basis during an engagement.

Question 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 have not commented as we believe that the professional firms are better placed to respond.

Question 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?

We have not commented as we believe that the professional firms are better placed to respond.

Question 4: Do you agree with the introduction of a permitted list of services which the auditors of PIE audits can provide?

Yes. We believe that this provides very useful clarity and should help towards avoiding the need for ongoing discussions with the external auditors when determining whether it is acceptable for a specific service to be provided. The services included in the list are all reasonable as they are closely related to the knowledge acquired by the auditors during an audit. The list does leave some scope for an element of judgement (the fifth item in the list) which is important. It is also useful to differentiate between those services that are subject to the fee cap and those that are not (as these are all legally required). This will also provide greater clarity internally both within and outside of the finance department, for example when our investment team is evaluating which professional firm to use for a particular piece of work.

Question 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?

We agree with the absolute prohibitions on the provision of internal audit services, and recruitment services to any audited entity by the auditor of that entity. We have had extended discussions with our auditors in the past about such services and we do not think it is appropriate for such services to be performed. This will also provide greater clarity internally outside of the finance function. Consideration should be given to including non-PIE entities on the basis of net asset value and stakeholders (for example, Wellcome responsibilities to its grant holders.). However, in considering "lessons to be learnt" it is important that work continues to be done to address the audit expectation

gap – management and the Audit Committee bear the responsibility for the integrity of the financial statements and governance issues.

Question 6: Do you agree with the removal of the reliefs for SMEs in Section 5 of the Standard, and the retention of reliefs for 'small' entities (in Section 6 of the Standard)?

We have not commented as we believe that the professional firms and SMEs are better placed to respond.

Question 7: 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?

Yes we do agree as this provides greater clarity.

Question 8: Do you agree with the inclusion of FRC staff guidance within the application material, and has this improved clarity of the requirements?

We have not commented as we believe that the professional firms are better placed to respond.

Question 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?

We have not commented as we believe that the professional firms are better placed to respond.

Question 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 have not commented on all changes as we believe that the professional firms are better placed to respond. However, we believe that the addition in ISA (UK) 700 of a specific requirement to explain the extent to which the audit was considered capable of detecting irregularities is useful provided that such a statement is made in the context of the specific engagement and not merely a generalised/standard description.

Question 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?

No. We think that the enhanced audit report is already lengthy and any further details in these specific areas should be covered by discussions with the Audit Committee.

Question 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 have not commented as we believe that the professional firms are better placed to respond.

Question 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?

We believe that the professional firms are better placed to respond. However, consideration need to be given to existing arrangements that need to be transferred to another provider (for example, if there is an existing contract to provide services in place when the firm is appointed as auditors and the expertise required is not easily transferable.)

We would also note that:

- In disclosing fees to management and the Audit Committee as required by 1.61 and 4.2 of the Exposure draft for the revised standard, further consideration should be given to ensure that

the narrative around the disclosures is sufficiently informative to explain, for example, the rationale for any under-recoveries and the root causes.

- There should be no circumstances where the responsibilities of the Ethics Partner laid out in the Exposure draft for the revised standard 1.12 onwards are disregarded.