

**FRC Technical Advisory Group (TAG) Meeting**  
**Friday 25<sup>th</sup> February 2022**  
**10.30am**  
**MINUTES**

Minutes of prior meeting agreed with no comments.

**Ethics:**

**1. Update on revision of the FRC Ethical Standard**

The FRC confirmed that a project would be launched in the second half of 2022 to revise the FRC's Ethical Standard (ES). There were several drivers for this, including:

- Changes to the IESBA Code
- Potential Change to the UK PIE definition
- Opportunities to enhance clarity of aspects of the ES

A preliminary analysis had been completed on the current alignment between the FRC ES and the IESBA Code (including confirmed changes).

The FRC encouraged TAG participants to provide feedback on areas where the ES 2019 could be enhanced in advance of a formal working group being established in Q3 2022.

**2. Update on Rolling Record**

FRC confirmed an action to publish TAG meeting minutes and a rolling record of actions on the website.

**3. Technology hallmarks paper**

The FRC reiterated that they are happy for the previously discussed Technology hallmarks paper to go up on the TAG section of the FRC website without branding. This was not FRC guidance but would provide background and context to the relevant TAG meeting minutes.

**4. ES Para 5.41 – breach reporting**

A query was raised whether there is a materiality threshold regarding disclosures required by ISA (UK) 700 around the inadvertent provision of a non-permitted service, and whether such a disclosure is needed in each year that such a service is provided.

One firm confirmed they would always disclose but would flex the level of disclosure depending on the perceived materiality of the issue.

It was further noted that such instances would almost certainly be material by nature if not by size, and all such instances should be disclosed.

It was clarified additionally that the matters discussed here apply to OEPIs in the same way.

**5. Objective Reasonable and Informed Third Party Test (ORITP)**

The FRC noted that practical operation of this test has proved challenging for some firms, particularly how the views of non-practitioners are captured and evaluated.

FRC encouraged the firms to look at ways to operationalize this test to address these challenges. This could also be an issue to deal with through the new 'audit sandbox' initiative to be launched in the second half of 2022.

## **AOB:**

### **Providing due diligence for an entity which was considering an acquisition of a listed audited entity (without the knowledge of the audited entity)**

Following the last meeting, the FRC had held bilateral conversations with the firms and fed back to the group that different firms have different policies. These fell within a range, from firms who would not carry out such work because of the perceived threats, and those that would (but in compliance with professional codes of ethics relating to conflicts of interest).

Firms were in agreement that such services should not be performed in the context of a hostile takeover. However, views differed in respect of initial due diligence work carried out using publicly available information.

The FRC reiterated that both conflicts of interest and auditor independence considerations are relevant to such situations. Such engagements fall within the definition of non-audit services being:

*Any engagement in which an audit firm provides professional services to an audited entity, its affiliates or another entity where the subject matter of the engagement includes the audited entity and/or its significant affiliates other than the audit of financial statements of the audited entity. [FRC Glossary of Terms]*

The ORITP test would be of obvious relevance to any decisions to accept such engagements. It would also be important that audited entities be aware of the policy of the firm in these circumstances – ie. whether they would consider carrying out such engagements or not.

## **Audit:**

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

In previous meetings it had been noted that some firms had identified issues relating to the practical implementation of ISA (UK) 315, including the scope and nature of work to understand IT controls and journals testing.

The IAASB is aware of these issues, and first-time implementation guidance was due to be published shortly.

### **2. Professional judgment project**

The FRC updated the group on the status of the project and the outstanding issues remaining for discussion by the working group.

## **AOB**

### **FRC guidance on auditor responsibilities under ISA (UK) 720 in respect of climate-related reporting**

One firm expressed interest in hearing about the outcome of any future stakeholder outreach in this area, specifically around investor appetite for enhanced assurance over ESG reporting.