

## **STAFF GUIDANCE NOTE 01/2016**

### **Provision of non-audit services to non-EU subsidiaries**

In a group audit engagement, the group auditor is required to assess the independence of a component auditor where their work is used to support the group audit engagement. Where the audited entity is a public interest entity (PIE), the **FRC Ethical Standard** should be used to assess the independence of each of the group auditor's network firms that carries out work on the group audit engagement.

Where the audited entity is not a PIE, or where the group auditor uses the work of a component auditor that is not one of the group auditor's network firms, then independence should be assessed using the **IESBA code** (Paragraph 2.4 of Section A of the ES refers).

Non-audit services prohibited by the EU Audit Regulation are set out in paragraph 5.167R of the Ethical Standard. The wording of this paragraph uses the UK government's copy out approach and is a direct copy from the wording of the Regulation. This states that the prohibition of certain non-audit services applies: "to the audited entity, to its parent undertaking or to its controlled undertakings within the Union". The drafting of this section means, therefore, that the prohibition does not extend to the provision of non-audit services to entities outside of the European Union by the group auditor or by its network firms.

However, the group auditor still needs to ensure that the provision of any non-audit services does not result in a breach of the non-audit services 70% cap which will still apply, and which is set out in paragraphs 4.34R and 4.35R of the Ethical Standard. The application of the cap is global in its application (ES 4.34R (b)).

The group auditor will also need to comply, and will need to ensure that each of its network firms whose work is used to support the group audit engagement complies, with the FRC requirements with respect of non-audit services set out in Section 5 of the Ethical Standard.