

March 2019

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# Post Implementation Review of the 2016 Auditing and Ethical Standards: Next Steps

## Position Paper

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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8th Floor, 125 London Wall, London EC2Y 5AS

## Introduction and Objectives

1. This paper sets out the Financial Reporting Council's planned timetable to make revisions to Auditing and Ethical Standards. This paper is intended to provide clarity over how we propose to respond to feedback from our recent consultation, but also address issues arising from other reports, events and initiatives that have implications for audit and auditors in the UK.
2. We will follow this paper with a public consultation on the revised text of relevant standards in July 2019, and to finalise the standards after that consultation has completed. Our intention is that revised standards will apply to the audit of financial periods commencing on or after 15 December 2019. However, in the event that the UK exits from the European Union without a withdrawal agreement or transition period, then certain applicable legal requirements will change almost immediately, and the effect of this is shown in **Appendix 1** to this paper. This is intended to provide practitioners, and the audit committees that they serve with clear expectations of actions they will need to take in response because existing requirements will be superseded by revised legislation.
3. In our recent Call for Feedback<sup>1</sup>, the FRC sought views from stakeholders as to the effectiveness with which the FRC's Auditing Standards had achieved the objectives we had set in 2016, which were reported in our consultation paper 'Enhancing Confidence in Audit'<sup>2</sup>. However, since those objectives were set out, several factors require further steps to be taken if users are to feel that audit meets their legitimate expectations. These are: increased public, press and Parliamentary interest in audit; changing expectations of users following a number of audit and company failures; the decline in the quality of audit in several firms inspected by the FRC<sup>3</sup>; and the perceptions arising from statutory audit being a comparatively small component of large multi-service firms. We have already started to respond to the lessons learned from our inspection and enforcement work, by consulting on a revised ISA (UK) 570 covering Going Concern.
4. In addition, Sir John Kingman's independent review of the FRC<sup>4</sup> contains recommendations to make audit more responsive to user needs. Whilst some of those recommendations may require legislation and some will be considered as part of Sir Donald Brydon's review on the Future of Audit<sup>5</sup>, there are steps that we can take under existing standard setting powers. Similarly, although the final remedies of the Competition and Markets Authority review of the UK statutory audit market will require legislation, there are steps that can be taken in standards before then to strengthen auditor independence and the quality of audit. We will also consult on any changes resulting from the revision of the IESBA International Code of Ethics, which comes into effect on 15 June 2019. Our long-standing approach is that the FRC Ethical Standard remains at least as stringent as the Code.
5. Finally, since 2016, we have developed a range of application guidance to assist with the interpretation of requirements added to the standards in 2016 as a result of the Audit Regulation and Directive. This material has been developed in response to issues raised

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<sup>1</sup> <https://www.frc.org.uk/getattachment/6c8e5ee1-beb0-4f54-bc81-d49a1d28872b/;.aspx>

<sup>2</sup> <https://www.frc.org.uk/getattachment/e7841adf-ca5b-44e9-af1b-aa83cafeb5b9/;.aspx>

<sup>4</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/767387/frc-independent-review-final-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf)

<sup>5</sup> <https://www.gov.uk/government/news/government-takes-next-step-in-improving-standards-of-uk-audit-market-with-new-independent-review-into-audit-standards>

with our Technical Advisory Group<sup>6</sup>. Where appropriate, and to continue to adhere to the principle that the standards provide a single, comprehensive source of information to practitioners, we will add application material to help drive consistent and correct interpretation.

### Call for Feedback

6. Our consultation requesting feedback on the standards we issued in 2016 to implement the Audit Regulation and Directive closed on 15 February 2019. In addition to seeking written feedback from stakeholders we also held a series of investor roundtable meetings, and one to one stakeholder meetings to obtain a wide range of views as to the steps we should consider to rebuild confidence in audit on the part of users of financial statements.
7. The responses to the consultation have been published on the FRC website, and a full feedback statement will be published later in the year, along with the proposed text of revised standards. An analysis of the number of responses received is in the table below.

<b>Respondent Type</b>	<b>Number</b>
Audit Firm/ Auditors	11
Investors	3
Corporates and Representative Bodies	2
Professional Bodies	3
Others	2
<b>Total</b>	<b>21</b>

8. In summary, stakeholders who responded to our consultation or engaged with us through outreach were of the view that the 2016 revisions had been successful to a degree in achieving their objectives. However, this has not translated through into improved confidence in audit. Many respondents noted that the strengthened requirements had only been used in two audit cycles, only one of which has yet been inspected by the Audit Quality Review team, and the timing of the post implementation review was earlier than many stakeholders would have liked. The 2016 standards were also a product of a very different regulatory appetite to the one that now exists.
9. Recent announcements by certain large audit firms that they will no longer offer non-audit services to FTSE 350 entities that they audit, unless “necessary”, has in effect set a market indication of how the provision of non-audit services to PIEs might operate. Some stakeholders continue to think that this does not go far enough, and that further steps should be taken to strengthen auditor independence, remove conflicts of interest and restore trust in audit. Others raise concerns about the value they place on certain non-audit services, for instance the work of reporting accountants, and suggest that prohibiting this work might undermine the effective working of capital markets. A number of respondents have emphasised the importance of retaining, in standards, greater flexibility and less prescription for the SME sector.
10. Many respondents strongly agree with Sir John Kingman’s clear recommendation that audit, like the new regulator that he has recommended, should be responsive to the needs of users of audited financial information. We have sought to bring this out in this paper. There is also clear feedback that in revising standards, we should ensure alignment with Kingman, the CMA and Brydon. This paper sets out how we propose to achieve this.

<sup>6</sup> <https://www.frc.org.uk/auditors/audit-assurance/standards-and-guidance/staff-guidance-notes>

11. In revising the standards, the FRC proposes an effective date for audits of financial periods commencing on or after **15 December 2019**. This will align with the effective date for ISA (UK) 540 (Revised December 2018) – *Auditing Accounting Estimates and Related Disclosures*. The exception to this is that in the event of the UK exiting from the EU with no withdrawal agreement or transitional period, the legal requirements in The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2018, will apply to the audit of financial periods commencing on or after **11.00 PM on 29 March 2019**. Implications for auditors and the entities they audit are set out later in this paper.
12. In the call for Feedback, we asked a number of questions. Our proposals in respect of the responses to these questions are set out in the following table, drawing both on the formal responses to the consultation and extensive stakeholder outreach undertaken during the consultation period. The proposals in respect of non-audit services are informed by (i) the Competition and Markets Authority (CMA) Market Study on the UK Statutory Audit Market; and (ii) commitments made by certain UK audit firms in evidence given to the Business, Energy and Industrial Strategy Select Committee of the House of Commons, that they propose to no longer offer non-audit services to certain entities they audit (mainly FTSE-350 entities), other than services closely related to the audit or required to be provided by the auditor.

Question	Proposed FRC Response
(i) How well do you think the 2016 revisions to auditing and ethical standards have met the objectives set out in our September 2015 consultation 'Enhancing Confidence in Audit' and summarised in paragraph 3 of this consultation document?	<i>Measures proposed in the responses to questions (v)-(xix) are intended to provide further support for the objectives set out in our 2015 consultation.</i>
(ii) In carrying out this review of effectiveness, should the FRC consider any additional objectives as being relevant for ethical and auditing standard setting. If so, please state what they are and why?	<i>Measures proposed later in this table are intended to make the audit more responsive to the needs and legitimate public expectations of users and require enhanced work effort to strengthen the quality and consistency of audit.</i>
(iii) Do the current ethical and auditing standards drive the auditor to deliver work that meets the expectations of users within the current scope of an audit? If there are expectations that are not being addressed, please state those along with your proposals as to how they can be addressed.	<p><i>We have identified steps to take to improve the quality and consistency of audit, and also further strengthen measures to support auditor independence and remove conflicts of interest through the prohibition of services or processes that give rise to such conflicts. We will share proposals for further measures that might require changes to the scope of audit, or changes to UK legislation, with the team supporting Sir Donald Brydon's review on the Future of Audit.</i></p> <p><i>We will also consult on proposals to strengthen further the objective, reasonable an informed third-party test in the Ethical Standard, to ensure that auditors focus on the needs of those who use and rely on audited financial information.</i></p>

<p>(iv) Are there further steps that the FRC should consider as part of this review to ensure the delivery of high-quality audit? If so, please state what they are and why.</p>	<p>See response to (iii)</p>
<p>(v) Are the ethical principles and supporting specific requirements sufficiently clear? If not, please explain the issues and how you believe they could be resolved.</p>	<p><i>As part of the revision of the Ethical Standard, we will look for opportunities to simplify the requirements, in particular, where respondents have provided examples of language they consider to be ambiguous.</i></p>
<p>(vi) Based on experience, do you believe the ethical principles and supporting specific requirements are sufficiently proportionate for PIEs and non-PIEs? If not, please explain your view, including what you would consider the proportionate position to be, having regard to the need to address threats to independence, objectivity and integrity viewed from the perspective of an objective, reasonable and informed third party.</p>	<p><i>There is clear agreement that PIE audits should be subject to a more stringent set of ethical principles and supporting requirements than non-PIEs. We will, therefore, consult on whether ethical requirements in respect of PIE audits should also apply in respect of other audit engagements which are of significant public interest (without those entities themselves being designated as additional PIEs). In considering how this might be applied, those entities which fall within the scope of the FRC's audit inspection regime may be considered as being of significant public interest.</i></p>
<p>(vii) Do you believe that user confidence would be strengthened if the FRC required the application of the independence requirements of FRC Ethical Standard to all components of a group audit?</p>	<p><i>As a result of changes to UK legislation, for a UK PIE group audit, the independence requirements of the FRC Ethical Standard will apply to all components, regardless of where those components are based. Part A paragraph 2.4 and paragraph 5.167R will be revised to require this.</i></p> <p><i>ES 4.1 requires the engagement partner to be able to demonstrate that an audit engagement has assigned to it sufficient resources (and the right type of resources) with appropriate skill and competence to be able to carry out the engagement in accordance with all applicable legal and regulatory requirements. We propose to consult on how this information should be publicly reported to those charged with governance and users of financial statements, given findings arising from recent FRC enforcement activity.</i></p>
<p>(viii) For practitioners, what difficulties, if any, have you encountered in complying with the ethical principles and supporting specific requirements? Is there anything the FRC could do to help alleviate these (e.g. further supporting guidance)?</p>	<p><i>As part of the revision of the Ethical Standard, we will look for opportunities to clarify the requirements, in particular, where respondents have provided examples of language they consider to be ambiguous.</i></p> <p><i>We will also look at how to incorporate material developed in response to</i></p>

	<i>discussions at the Technical Advisory Group as additional application and explanatory material in standards.</i>
(ix) Do you believe the current restrictions on non-audit services are sufficient to address threats to independence, objectivity, integrity and audit quality, and address stakeholder expectations? If not, please explain why, by providing examples where audit quality has been compromised as a result of non-audit services being provided by the auditor.	<i>See response to (x)</i>
(x) Do you believe there should be further restrictions, or even an outright prohibition, on non-audit services? a. Should any further restrictions or prohibitions also apply to "audit related" services, that the auditor is not required to provide? If so, please explain your views. b. Should any further restrictions or prohibitions also apply to services required by law or regulation (i.e. permitted by the Audit Regulation)? If so, please explain your views.	<p><i>We propose to consult on a principles-based regime for PIE audits whereby certain audit-related services, which are closely linked to the audit, can be provided by the auditor. These will likely include those services that were exempt for the purposes of the non-audit services cap, because they are required by UK law or regulation (and also other legal requirements in relevant jurisdictions), and certain other services where there is a clear justification for the auditor to undertake the work – e.g. interim reporting and work that is required by law (but not by the auditor) and where that work is time critical and price sensitive.</i></p> <p><i><u>Services not included within this category will no longer be able to be provided by the auditor. Audit related services will still need to be subjected to a threats and safeguards assessment, cannot include any services currently covered by the prohibitions in 5.167R, and where not required by law or regulation will still be subject to a fee cap.</u></i></p> <p><i>We propose to consult on an outright prohibition on contingent fee arrangements for all non-audit/ additional services.</i></p> <p><i>We propose to consult on more stringent cooling in/ cooling off requirements for services other than those already covered in 5.167R(e) – in doing so we will work closely with the CMA, to fully consider the implications for auditor appointment and rotation.</i></p> <p><i>We propose to consult on measures to enhance the authority of the Ethical Partner and the ethics and compliance function within an audit firm, including through</i></p>

	<i>strengthening the links with the audit firm's INEs and governance.</i>
(xi) There is currently a derogation in the Ethical Standard allowing for the provision of certain non-audit services where these have no direct effect or an inconsequential effect (where indirect) on the financial statements. Should this derogation be maintained in the Ethical Standard, and if so why?	<i>We will consult on removing the derogation at ES 5.168R. The way in which it was worded made it almost impossible to apply with most of the prohibited services referred to in ES 5.167R having a direct effect on a set of audited financial statements. This will also simplify the text.</i>
(xii) Do you believe there could be adverse consequences from imposing further restrictions on some or all non-audit services that may outweigh any actual or perceived benefits? If so, please explain your views.	<i>We will work closely with capital and financial market regulators to ensure that any regime is proportionate and carefully considers the consequences of any measures proposed. All will be subject to a full public consultation.</i>
(xiii) The FRC included reliefs from certain FRC ethical requirements for non-PIE audits for the audit of small and medium-sized entities. Should these reliefs be maintained, and if so why?	<i>We propose to consult on whether to remove these reliefs, and also whether to retain Section 6 of the Ethical Standard. In proposing such actions, we will seek to identify whether they are being widely used, what benefit they provide to the audited entity and whether this is in the public interest and whether the reliefs meet user expectations, or whether they undermine confidence.</i>
(xiv) Are the relevant auditing requirements of the Regulation and Directive as integrated into the revised ISAs (UK) sufficiently clear? If not, please explain the issues that are currently of concern and how you believe they could be resolved.	<i>In respect of the ISAs (UK), we propose to revise the numbering of requirements to no longer show whether they were derived from the Audit Regulation or Directive, however, in doing so we will maintain a distinction to show the requirements that apply only in respect of PIEs.</i>  <i>We will also update legislative references to reflect EU Exit Legislation.</i>
(xv) For practitioners, what other difficulties, if any, have you encountered in complying with the revised ISAs (UK)? Is there anything the FRC could do to help alleviate these (e.g. further supporting guidance)?	<i>Revisions will focus on strengthening, where necessary requirements (through additional UK requirements) in ISAs (UK) 240, 250, 700, 701 and 720. We will also look, where possible, at integrating TAG guidance as additional application material in ISAs (UK) to assist with application and compliance.</i>
(xvi) Is the work required of an auditor on an entity's compliance with laws and regulations, and those procedures to identify irregularity, including fraud, sufficient to meet the needs and legitimate expectations of users? If not, what additional work would you require and why?	<i>We will consult on revisions to ISA (UK) 250, with view to integrating Sections A and B, and better meeting user expectations, including by extending the current scope of ISA (UK) 250B to all regulated entities.</i>  <i>We will also consult on revisions to ISA (UK) 240, so that it is even clearer as to the auditor's responsibilities in respect of fraud, given recent reported confusion in this respect. We will also consider whether the</i>



	<i>scope of the auditor's responsibilities in this respect should be extended.</i>
(xvii) Should the FRC take further steps to increase the value of extended auditor reporting to users of financial statements? If you agree, what material would you like to see included in auditor's reports?	<i>As recommended in the Kingman Review, we will consult on revisions to ISA (UK) 701, to enhance the value of auditor reporting by expanding the obligation on the auditor to report in a way that provides a qualitative assessment of the auditor's judgment on key audit matters (graduated reporting).</i>
(xviii) ISA (UK) 720 sets out the auditor's responsibilities in respect of other information – do you believe the current requirements are sufficiently responsive to the needs of users of financial statements? If you disagree, please set out what additional work you would like to see auditors undertake.	<i>We will consult on revisions to ISA (UK) 720, to strengthen the work effort required of the auditor in achieving the intended outcomes of that standard, and in so doing address weaknesses identified in our recent thematic review. We also propose to enhance the reporting and communication required of the auditor. We will also liaise with Sir Donald Brydon's review regarding the current status of 'other information' and the assurance required over it.</i>
(xix) For going concern, auditors are required to assess whether management's use of the going concern basis of accounting <u>as required by IFRS or UK GAAP</u> is appropriate. How could auditors make their assessment of greater value to users of financial statements? Please set out what steps you believe should be required to better underpin confidence in audit and audited financial statements.	<i>Going Concern is now the subject of a separate FRC consultation, which sets out proposed revisions to ISA (UK) 570. The finalisation of any revisions to ISA (UK) 570 will be aligned with the timing for the revision of the Auditing and Ethical Standards, with an effective date for the audit of periods commencing on or after 15 December 2019.</i>

## The Kingman Review

13. We believe that the proposed responses set out in the above table will respond in part to recommendation 18 of Sir John Kingman's review (relating to the definition of a Public Interest Entity). Although the recommendation about amending the PIE definition is a matter for government, we propose to consult on making the requirements in standards that are applicable to PIEs, to also apply to other entities which, from a principles perspective are clearly *entities of public interest* but are do not meet the PIE definition.
14. Our proposed responses will also address recommendation 53 of the review, to require auditors to enhance their auditor's reports so that they provide more information to users to allow them to better hold companies to account. Sir John referred to *graduated findings* which make available to users the auditor's findings and an assessment of how balanced key estimates and judgments in financial statements are.

## Competition and Markets Authority Market Study

15. The CMA issued an update paper in December 2018<sup>7</sup>, setting out potential remedies to address issues of competition and choice in the UK statutory audit market. One of the

<sup>7</sup> [https://assets.publishing.service.gov.uk/media/5c17cf2ae5274a4664fa777b/Audit\\_update\\_paper\\_S.pdf](https://assets.publishing.service.gov.uk/media/5c17cf2ae5274a4664fa777b/Audit_update_paper_S.pdf)

potential remedies considered measures to require greater operational independence of the management and governance of the audit business of large professional services firms. The CMA subsequently asked the FRC whether we could develop measures which would still allow the UK audit firm to benefit from investment, technical and methodological support and branding from its global network but would require the audit firm to remunerate its members based on the earnings of the audit business, and not on the basis of the sale of non-audit services which may generate a higher margin.

16. In support of the work of the CMA, we will, therefore, consult on revisions to paragraphs 4.56D-4.61 of the Ethical Standard and International Standard on Quality Control (UK) 1, paragraph 29D-1 which will seek to strengthen the requirements in Article 24 of the Audit Directive in this respect. To strengthen the independence of the audit function in professional services firms, we will consider whether we develop further ethical requirements to address this.

### **Revision of the IESBA Code of Ethics**

17. The IESBA Code<sup>8</sup> was recently revised and the new version comes into effect from 15 June 2019. The areas in which the revised Code is arguably more stringent than the FRC Ethical Standard are:

- Scope – in respect of IESBA’s PIE definition, and the applicability of specific requirements to network firms;
- Mergers and acquisitions (limited specific actions);
- Breaches (limited specific actions);
- Financial interests (if requirement apply more widely than the covered person definition in the FRC standard);
- Financial interests held as a trustee (limited specific actions);
- Employment with an audit client (for staff other than partners);
- Long association – restrictions on activities;
- Accounting services (routine or mechanical);
- Internal audit services, Information technology services – clarity over management responsibilities; and
- Recruiting services – outright prohibition on negotiating for a client (covered by management prohibition in part).

18. We will consult on any such revisions (likely to be relatively minor) to ensure that the FRC Ethical Standard remains at least as stringent in these respects as the IESBA Code.

### **Brexit Legislation – Implications for PIE auditors**

19. At the time of writing, there is a possibility that the UK may exit the European Union without a withdrawal agreement, and without any transitional period. If this is the case then it will mean that the provisions of the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2018, will apply to the audit of financial periods commencing on or after **11.00 PM on 29 March 2019**. There are a number of implications for the independence requirements in our standards that would arise as a result of the earlier application of these Regulations. These changes to the law would override certain aspects of our requirements, which would, therefore, require consequential amendment. Even without such amendment, the changes to UK law would prevail.

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<sup>8</sup> <http://www.ethicsboard.org/revised-and-restructured-code-ethics>

20. Although we will amend the standards to reflect the new legislation, this position paper sets out the extant requirements, and how these need to change in the event of exiting the EU without a withdrawal agreement. As these changes to the law would prevail, this paper seeks to make clear to audit firms and the entities that they audit, those aspects of our requirements that would no longer be valid, and the steps that will need to be taken to comply with the changes to the law.
21. To assist audit firms and audited entities, we have included in this section of the paper, a summary of those areas in the Ethical Standard that will be revised to reflect the changes to the law that will be made in the event of leaving with no withdrawal agreement or transition period. These issues are:
- The change in the definition of a PIE to exclude entities that are only PIEs because they have securities admitted to trading only on EEA regulated markets and not on UK regulated markets;
  - Provision of non-audit services to subsidiaries of audited PIEs when the subsidiary is in a third country;
  - Non-audit services required by EU law will no longer be exempt for the purposes of the 70 per cent non-audit services fee cap’
  - References to national and EU law, in many cases will become a reference to ‘retained EU law’ (which is part of UK law);
  - The change of terminology from “controlled undertaking” to “subsidiary undertaking” in Articles 4 and 5; “associated persons” in Article 6; and “relevant legislation” in Articles 7 and 8.
22. Attached at **Appendix 1** to this paper are revised requirements for the Ethical Standard, which will indicate to auditors and audit firms the steps they need to take to avoid breaching applicable legal requirements. **As these requirements may take effect for periods commencing on or after 11.00 PM on 29 March 2019 in the event of there being no transition period, audit firms and audit committees will need to act quickly to address any resulting risks of breaching applicable legal requirements.**

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**Extracts – Revised ethical requirements in the event of the UK exiting the European Union with no withdrawal agreement or transitional period**

**Paragraph references are to the 2016 Ethical Standard. The impact of the changes to the requirements in standards are explained in the numbered boxes.**

Current Requirement/ Definition	Proposed Requirement/ Definition
<p>1. <i>PIE definition (Glossary)</i>  <i>PIEs will only be UK incorporated entities rather than EEA incorporated entities with effect from 29 March 2019.</i></p>	
<p>Public interest entity—These are:</p> <p>(a) An issuer whose transferable securities are admitted to trading on a regulated market;</p> <p>(b) A credit institution within the meaning of Article 4(1)(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council, other than those listed in Article 2 of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and investment firms;</p> <p>(c) An insurance undertaking within the meaning given by Article 2(1) of Council Directive 1991/674/EEC of the European Parliament and of the Council on the annual accounts and consolidated accounts of insurance undertaking.</p>	<p>Public interest entity - A UK incorporated entity which is:</p> <p>a) An issuer whose transferrable securities are admitted to trading on a UK regulated market;</p> <p>b) A credit institution within the meaning given by Article 4(1)(1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, which is a CRR firm within the meaning of Article 4(1)(2A) of that Regulation; or</p> <p>c) A person who would be an insurance undertaking as defined in Article 2(1) of Council Directive 91/674/EEC of 19 December 1991 of the European Parliament and of the Council on the annual accounts and consolidated accounts of insurance undertakings as that Article had effect immediately before exit day, were the United Kingdom a member state.</p>
<p>2. <i>Provision of non-audit services to audited entities outside of the UK – extract</i>  <i>Prohibition of non-audit services by the audit firm and its network will apply globally and not just in the UK and EU for periods commencing on or after 29 March 2019. <b><u>This will require network firms providing prohibited services to non-EU components in a group audit, to end those services before the start of the next financial period to be audited.</u></b></i></p>	
<p>5.167R <del>A statutory auditor or</del> <b>An audit firm carrying out the statutory audit of a public interest entity, or any member of the network to which the <del>statutory auditor or the audit firm</del> belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union any prohibited non-audit services in:</b></p>	<p>5.167R <b>A statutory auditor carrying out the statutory audit of a public interest entity, or any member of the network to which the statutory auditor, shall not directly or indirectly provide to the audited person, to its parent undertaking (incorporated or formed in any part of the United Kingdom) or to its subsidiary undertakings any prohibited non-audit services in:</b></p>

<p>(a) the period between the beginning of the period audited and the issuing of the audit report; and</p> <p>(b) the financial year immediately preceding the period referred to in point (a) in relation to the services listed in point (e) of the second subparagraph.</p>	<p>(a) the period between the beginning of the financial year of the accounts to be audited and the issuing of the audit report; and</p> <p>(b) the financial year immediately preceding that period referred to in point (a) in relation to the services listed in point (e) of the second subparagraph.</p>
<p>3. <i>Provision of non-audit services that are not prohibited</i>  <i>The provision now only applies to parent undertakings incorporated or formed in the United Kingdom. This does not alter the requirements on auditors regarding the provision of permitted non-audit services to non-UK parent undertakings, and lifts the requirement on the UK PIE audit committee to pre-approve such services provided to the non-UK parent undertaking.</i></p>	
<p>5.170R <del>A statutory auditor or</del> <u>An audit firm</u> carrying out <i>statutory audits</i> of <i>public interest entities</i> and, where <del>the statutory auditor or the audit firm</del> belongs to a network, any member of such network, may provide to the <i>audited entity</i>, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in paragraphs <del>1 and 2</del> <u>5.167R</u> subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied in accordance with <u>this Ethical Standard Article 22b of the EU Audit Directive 2006/43/EC. The Audit Regulation requires that</u> the audit committee shall, where applicable, issue guidelines with regard to the services referred to in paragraph <del>3</del> <u>5.168R</u>. [AR 5.4]</p>	<p>5.170R A statutory auditor carrying out <i>statutory audits</i> of <i>public interest entities</i> and, where the statutory auditor belongs to a network, any member of such network, may provide to the <i>audited person</i>, to its parent undertaking (incorporated or formed in any part of the United Kingdom) or to its subsidiary undertakings non-audit services other than the prohibited non-audit services referred to in paragraph 5.167R subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied in accordance with this Ethical Standard and paragraph 8 of Schedule 1 to the Statutory Auditors and Third Country Auditors Regulations 2016. The audit committee shall, where applicable, issue guidelines with regard to the services referred to in paragraph 5.168R.</p>
<p>4. <i>Application of the 70 per cent fee cap still operates on a global basis – this will not alter the requirements.</i></p>	
<p>4.34R <del>When the statutory auditor or the audit firm, or a member of its network, provides to the audited a public interest entity that it audits,</del> its parent undertaking or its controlled undertakings, <del>for a period of three or more</del></p>	<p>4.34R <b>When the statutory auditor, or a member of its network, provides to the <i>public interest entity</i>, its parent undertaking or its subsidiary undertakings, for a period of three or more consecutive financial years, non-</b></p>

<p><b>consecutive financial years, non-audit services other than those referred to in Article 5(1) of this the EU Audit Regulation:</b></p> <p><b>(a) the total fees for such services <u>provided to the audited entity and its controlled undertakings</u> shall be limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings; <u>and</u></b></p> <p><b>(b) the total fees for such services <u>provided by the audit firm</u> shall be limited to no more than 70% of the average of the fees paid to the <u>audit firm</u> in the last three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings. [AR 4.2]</b></p>	<p><b>audit services other than those referred to in Article 5(1) of this Regulation:</b></p> <p><b>(a) the total fees for such services provided to the audited entity and its subsidiary undertakings shall be limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and of its parent undertaking, of its subsidiary undertakings and of the consolidated accounts of that group of undertakings; and</b></p> <p><b>(b) the total fees for such services provided by the <i>statutory auditor</i> shall be limited to no more than 70% of the average of the fees paid to the <i>statutory auditor</i> in the last three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated accounts of that group of undertakings.</b></p>
<p><b>5. Exempt non-audit services for the fee cap</b>  <i>The exemption now only applies in respect of services required by UK law or regulation for periods commencing on or after 29 March 2019. Where auditors are <b>required</b> to provide certain services in other jurisdictions – e.g. Sarbanes-Oxley controls work in the USA by virtue of an audited entity having a dual listing, the existing approach agreed with the FRC should continue to apply. In the longer term this will be addressed through revisions to the Ethical Standard as set out in point (x) in the earlier table in this paper which sets out how we expect to respond to the Post Implementation Review Call for Evidence.</i></p>	
<p><b>4.35R For the purposes of the limits specified in <del>the first subparagraph</del> <u>paragraph 4.34R</u>, non-audit services, other than those referred to in Article 5(1) of the <u>EU Audit Regulation</u>, required by Union or national legislation shall be excluded.</b></p>	<p><b>4.35R For the purposes of the limits specified in paragraph 4.34R, non-audit services, other than those referred to in Article 5(1), required by legislation of any part of the United Kingdom shall be excluded.</b></p>

*Terminology – changes in terminology arising from legislation (these do not change the meaning of the requirements but are included for completeness) – they will be addressed through amending the defined terms in the glossary, but without changing their scope.*

<ul style="list-style-type: none"> <li>• “audited entity”</li> <li>• “persons who are registered as statutory auditors”</li> <li>• “and adapted to the scale and complexity of the activity of the audit firm”</li> <li>• “audit firm”</li> <li>• “controlled undertaking”</li> <li>• “parent undertaking”</li> </ul>	<ul style="list-style-type: none"> <li>• “audited person”</li> <li>• “individuals who are eligible for appointment as statutory auditors”</li> <li>• “and adapted to the scale and complexity of the statutory auditor”</li> <li>• “statutory auditor”</li> <li>• “subsidiary undertaking”</li> <li>• “parent undertaking (incorporated or formed in any part of the United Kingdom)”</li> </ul>
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**Financial Reporting Council**

8th Floor  
125 London Wall  
London  
EC2Y 5AS

+44 (0)20 7492 2300

[www.frc.org.uk](http://www.frc.org.uk)