

5 March 2019

Dear CEO

Standards Post-Implementation Review and EU Exit Matters

This letter is to draw your attention to a position paper approved by the FRC Board¹. The paper sets out how the FRC proposes to take forward the post implementation review of the Auditing and Ethical Standards and the issues that we will work further on, ahead of a full public consultation on the text of revised standards over the summer.

The paper also addresses the more immediate implications for PIE auditors and the entities they audit, in the event that the UK exits the EU with no withdrawal agreement and no transition period. This means that UK law will change with effect from 11.00 PM on 29 March 2019, and the 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**.

Appendix 1 to the paper sets out the changes this will bring about to the FRC Ethical Standard as a result. The main issue for firms to address is that the prohibitions on the provision of certain non-audit services in paragraph 5.167R of the Ethical Standard will apply to **all components of a group audit regardless of where in the world that component is located**, where the audit of that component is undertaken by a member of the auditor's network firm.

For example: in the case of an entity with a 31 March year end, the auditor must ensure that any prohibited non-audit services provided by its network firms to components of a group audit located outside of the European Union, are terminated before the start of the 31 March 2020 year-end (i.e. by 1 April 2019).

Given the extremely short timetable to take action in the event of exiting the EU without a deal, you are further reminded that ISA (UK) 700 paragraph 45R-1 requires the auditor to provide a declaration in their audit report that they have not breached non-audit services requirements.

Where those requirements have been breached, but where the auditor believes that an 'objective, reasonable and informed third party' would not conclude that the auditor's independence had been compromised, then the auditor should issue the auditor's report, disclosing within it: (i) the nature of the breach; (ii) confirming the auditor's assessment that their independence had not been compromised; and (iii) stating what had been done to address any risks arising impacting on the independence of the auditor. Before the auditor's report is signed, this should be discussed and agreed with the audit committee of the entity concerned.

¹<https://www.frc.org.uk/consultation-list/2018/post-implementation-review-2016-ethical-and-auditi>

I should be grateful for your help in making your members who audit PIEs, aware of the possible changes to legislation outlined in the paper and the appendix.

Yours sincerely

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