

## **FRC ETHICAL STANDARD (2019)**

### **IMPLEMENTATION GUIDANCE**

#### **1. Transitional Provisions**

The Ethical Standard has an effective date of 15 March 2020, with transitional provisions for engagements relating to the audit of earlier financial periods, and for non-audit or audit-related services, for which an engagement letter has been agreed and for which work is already underway prior to the effective date, to be completed in accordance with the terms of the original engagement letter.

We have been asked to clarify the status of non-audit or audit-related services which have not been engaged for or started prior to 15 March 2020, but which relate to a financial period which commences prior to 15 March 2020. In those circumstances, we are of the view that an objective, reasonable and informed third party would be likely to conclude that the provision of a service that was not included in the list of permitted services would be inappropriate to enter into an engagement for.

#### **2. Other Entities of Public Interest**

An Other Entity of Public Interest (OEPI) is defined in the Glossary of Terms. Large private companies in sub-paragraph (d) refers to those covered by the criteria in Part 8, paragraph 23(3) of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860). The definition excludes fund management entities<sup>1</sup> contained within a private equity or venture capital limited partnership structure.

The auditor of a portfolio company held by a private equity or venture capital fund that meets the definition of an OEPI, may only provide non-audit or audit-related services to that entity which are included on the list of permitted services in paragraph 5.40 of the Ethical Standard.

The same requirement applies to any controlled undertakings held by that entity and to its UK parent. Given the exclusion of fund management entities from the definition, the requirement in respect of providing services to the UK parent applies to services in respect of, or relevant to the OEPI itself, or its subject matter. Other services provided to the UK parent by the OEPI auditor can only be provided after the audit firm has undertaken an assessment of threats to independence and applied any necessary safeguards to address this.

#### **3. OEPI – Transitional Arrangements**

The new requirements for OEPIs come into effect for the audit of financial periods beginning on or after 15 December 2020. Engagements for the provision of non-audit services, where a letter of engagement has been entered into, and where work has commenced prior to that date may be completed in accordance with the original terms. Firms should not enter into new non-audit services engagements which would not be permitted under the OEPI requirements after that date, even where that service would be provided in the period between 15 December 2020 and the start of the entity's next financial period, as an objective reasonable and informed third party might conclude that it is probable that the auditor's independence would be compromised as a result.

OEPIs are not required to tender and rotate their auditors. As part of the transitional arrangements audit firms and OEPIs are reminded that they should avoid creating the need

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<sup>1</sup> The advisor, the general partner, the fund manager and the fund itself.

for companies to tender for the provision of audit services during the current Covid-19 pandemic.

Entities and their auditors are reminded that the OEPI requirements are limited to the list of permitted non-audit services. OEPIs are not required to tender and rotate their auditors, and prior approval of such services by those charged with governance does not apply.

**Financial Reporting Council**

**May 2020**