

**FRC Technical Advisory Group (TAG) Meeting**  
**Monday 1<sup>st</sup> February 2021**  
**MINUTES**

**Ethics (3pm-4pm)**

**1. Other Entities of Public Interest (OEPIs)**

**FRC Implementation Guidance**

The FRC noted that it was now past 15<sup>th</sup> December 2020 and that enhanced OEPI Ethical requirements were in force, subject to transitional reliefs. The group was asked if there was anything that could be helpfully added to the FRC Implementation Guidance, or if there had been any unexpected implementation issues.

Nothing was suggested for addition to the guidance.

One firm queried whether the items agreed in TAG meetings would subsequently be incorporated into implementation guidance.

The FRC noted that they saw TAG as being the primary communication mechanism for keeping guidance fit for purpose: issues could be concluded through updated or additional guidance; or in a rolling record of TAG actions/interpretations.

FRC noted that there was ongoing work relevant to OEPIs, such as IESBA and UK government consultations on the PIE definition, and the implications of these would be considered in due course.

**General Implementation Issues/problems**

Firms noted that although there had been no such issues so far, new issues were likely to arise in future.

**Issues raised in discussion**

- a. In-year audit appointments (PIE/OEPI)** – does having provided prohibited non-audit services in the audit period (or cooling-in prohibited services in the prior period) prevent the firm from accepting an audit appointment?

One firm asked whether the current prohibitions under the Audit regulation would continue post EU Exit, and whether they also apply to OEPIs.

The FRC noted that EU law was still in place, and thus the PIE rules were unchanged. Given the fact that the Regulation would continue to exist as retained EU law then no future changes were currently being contemplated.

The FRC added that, as a matter of consistency, the same rules should apply to OEPIs. The FRC would continue to monitor the impact of these changes, and could look again if a body of evidence is put forward that the requirements are not meeting their objectives.

- b. **In year acquisitions** - one firm raised a scenario in which an audited entity acquired a PIE for whom prohibited services had been provided in that audit period, and whether the audit firm could accept an audit engagement in those circumstances. There was discussion over whether ES 2019 1.27 meant that such an audit was permissible. The FRC asked for scenarios where the firms felt 1.27 would not be sufficient, and agreed to respond in a future TAG meeting.

## 2. Group Audits and the Ethical Standard 2019

### **Application of Supporting Ethical Provision A2.4 in a group audit context.**

*For each engagement, the firm and the engagement partner (in the case of the engagement partner insofar as they are able to do so) shall ensure that the firm's independence is not compromised as a result of conditions or relationships that would compromise the independence of a network firm (whether or not its work is used in the conduct of the engagement) or an other firm whose work is used in the conduct of the engagement, having regard to the ethical requirements in this Ethical Standard that are relevant to the engagement. [ES 2019: SEP 2.4]*

It was noted that the FRC had been in discussions with several firms about the application of ES 2019 in a group audit context, including the relevance/interpretation of SEP 2.4. As a result of those discussions the firms had produced a slide pack intended to be used as part of the communication of group audit procedures. The FRC had no objections to the material in the pack, and agreed to circulate the material in advance of the next TAG meeting to facilitate any further discussion.

## 3. Debt advisory services

One of the firms raised a discussion point on the independence issues to consider when advising a company (that is not subject to audit) on its debt facilities with a lender that is audited by the firm? How did ES 5.7 impact on such considerations the issue?

*'Non-audit services' comprise any engagement in which a firm, or a member of its network, provides professional services to:*

- *an audited entity;*
- *an audited entity's 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. [ES 2019 p.5.7]*

In the course of the discussion there was general agreement that there was no outright prohibition on such services, but some debate about the extent to which any threats to independence could arise. The FRC view was that it was conceivable that such threats could arise, particularly when considering the Objective and Reasonable Informed Third

Party (ORITP) test. The nature of those threats would arise in the context of a specific engagement, and may require safeguards to be put in place.

#### **4. Non-UK domiciled entities that are an issuer on the London Stock Exchange**

The issue raised was whether non-UK domiciled entities who have issued transferrable securities on the London Stock Exchange, and where the audit is performed by a UK firm in accordance with the ISAs (UK) are UK PIEs.

There was discussion on this point, with some firms concluding that such entities would no longer be UK PIEs. The FRC agreed to clarify the issue, and would revisit the Glossary of Terms as necessary.

In principle the FRC confirmed that whatever the correct definition was for the PIEs, the same would apply to OEPIs.

### **Audit (4pm-5pm]**

#### **1. Updates on ongoing FRC consultations:**

##### **Revisions to ISA (UK) 240 Fraud**

The FRC noted that the consultation on revisions to ISA (UK) 240 was now closed. Feedback received was broadly supportive of the changes proposed, but practitioners in particular had queried how they would align to the ongoing IAASB consultation on fraud, and with the upcoming government consultation. These issues would be addressed in the feedback statement once the consultation was complete.

##### **Revisions to ISRE (UK) 2410 Interim Reviews**

FRC noted that the consultation on revisions to ISRE (UK) 2410 was still live, welcoming any thoughts in advance of any formal responses.

Various firms commented:

- One key issue was whether the revisions were sufficiently clear to distinguish between the level of work necessary to complete an interim review vs an audit engagement.
- Some expressed the view that there was a risk that an interim review could effectively now require audit procedures on going concern in particular.
- Would investors be more interested in reporting about the existence or non-existence of a Material Uncertainty Relating to Going Concern (MURGC) than in detailed work underpinning a going concern opinion.
- The view was expressed that it is challenging to assess the required work to be done over forecasts, for example, since the underlying numbers are themselves less secure as they are unaudited.

- One firm noted that interim work is not mandatory and worried that requiring too many procedures might discourage companies from having reviews carried out.
- Another made the observation that there is less information for investors on what the opinion means at interim, due to the lack of an auditor report setting out what work has been done to provide context.
- The FRC undertook to take account of these comments as the consultation was finalized.

### **Revisions to Quality Management (QM) standards**

- The firms noted that the FRC had reached out to SIRs practitioners asking whether revisions to ISQM2 (EQR) were fit for purpose for reporting accountant engagements; and encouraged similar outreach to CASS auditors.
- One firm asked whether there would be amendments to ISAE (UK) 3000 and ISRE (UK) 2410 to reflect the upcoming QM changes. The FRC will need to consider the timelines for such changes/amendments once the QM standards have been finalized.

## **5. New FRC projects to note**

### **Professional Judgement**

The FRC is currently scoping a project on professional judgement. This is, in part, in response to Sir Donald Brydon's recommendation:

*I recommend that ARGA develops an agreed definition of professional judgment which builds on ISA (UK) 200. [Brydon: recommendation 6.6.16]*

The FRC project will:

- Assess whether the current definition is fit for purpose
- Determine whether guidance is needed on how to apply professional judgment in various scenarios
- Whether any updates to the application material are needed

The firms were encouraged to contact the FRC if they have a specific interest in this work. One commented that they saw more potential value in guidance material on how to apply professional judgement, rather than a change of definition.

### **AoB**

**Auditor's Reports** – Firms queried the language that should be used in the 'basis of opinion' part of auditor's report in the context of EU Exit. The FRC noted that it had issued guidance on 23<sup>rd</sup> December 2020, and could not provide any additional advice.

[https://www.frc.org.uk/getattachment/e42cd746-d22a-4010-81a8-b25fad36ca42/Transitional-provisions-guidance-\(final\).pdf](https://www.frc.org.uk/getattachment/e42cd746-d22a-4010-81a8-b25fad36ca42/Transitional-provisions-guidance-(final).pdf)

**ISA (UK) 570 and 720** - The FRC noted that it had been made aware of potential inconsistencies between the reporting requirements in ISA (UK) 570 and ISA (UK) 720. An update on the issue would be provided in time for the next meeting of the TAG