



FRC Ethical Standard (ES) 2019: key changes from FRC ES 2016

IMPLEMENTATION DATE

1. The 2019 ES applies to periods commencing on or after 15 March 2020, except in respect of application of the Public Interest Entities (PIE) requirements to 'Other Entities of Public Interest' (OEPIs), which apply to periods commencing on or after 15 December 2020. Engagements to provide previously permitted non-audit or additional services, entered into before that date, may continue until completed in accordance with the original engagement terms, subject to the application of appropriate safeguards, where work has already commenced (1.69-1.72).
2. The definition of OEPIs and the lead-in time from meeting the criteria are quite complex and needs to be reviewed to determine applicability. Broadly, entities within its scope include: AIM companies with a market value over 200m Euros; Lloyds syndicates; private sector pension schemes with over 10,000 members and over £1bn assets; and unlisted companies (apart from charitable and certain fund management companies) that have more than 2,000 employees or turnover of more than £200m and more than £2bn in assets.

NON-AUDIT SERVICES (NAS)

3. PIE (and in due course OEPI) audits are now subject to an absolute prohibition on the provision of all NAS except for a narrow list of audit-related and regulatory reporting services specified in paragraph 5.40. This extends to PIE's, any UK parent, and all worldwide subsidiaries (5.40-5.42).
4. The special provisions that existed for 'SME listed entities' have been removed throughout part 5 of the revised ES.
5. Existing prohibitions on provision of certain NAS in respect of all audits have been tightened. These services are now prohibited for all audits:
 - a. Loan staff – the 'short period' exception has been removed (2.36);
 - b. Internal audit - the prohibition is now absolute as the 'significant reliance' caveat has been removed (5.44);
 - c. Information technology services – the 'off the shelf' caveat has been removed (5.50);
 - d. Tax advocacy - the prohibition is now absolute as materiality and subjective judgement caveats have been removed (5.75);
 - e. Litigation support - the 'subjective judgement' caveat has been removed (5.81b);
 - f. Recruitment services – the prohibition is now more absolute as a number of caveats have been removed (5.85-5.87).
6. In addition, the materiality caveat has been removed for tax calculation services for listed non-PIEs (5.72).
7. There is a change in terminology in terms of which accounting services are permissible: such provision is acceptable if the services are 'routine or mechanical'. The terminology previously

related to services being permitted if they were 'technical, mechanical or informative nature'. It is presently unclear whether there is a substantive effect of this change.

FEES, GIFTS AND HOSPITALITY

8. No fee for any NAS can now be set on a contingent fee basis – the previous caveats on materiality and subjectivity have been removed (4.5). This applies to all audits.
9. Where a reasonable and informed third party would conclude that the audit fee appears to be low, safeguards applied are now required to be reported to those charged with governance (TCWG) (4.2).
10. The existing requirement to establish a gifts and hospitality policy now extends not just to audited entities but also to entities which 'are likely subsequently to become' subject to the independence rules (4.43)

LONG ASSOCIATION

11. Clarification has been added that when engagement partners rotate off an audit, they cannot have significant or frequent interaction with senior management or TCWG during the cooling-off period (3.11).
12. Clarification has been added that where audits and those providing the audit have moved from one audit firm to another, any rotation 'on-periods' for partners and staff include any time before they and the audit changed audit firms (3.20).

INVESTMENT CIRCULAR REPORTING ENGAGEMENTS (ICRE)

13. References to how to apply specific requirements to ICREs have largely been removed from throughout the ES. Instead there is a general discussion in the introduction part of the ES on how to apply the specific ES requirements, that are now couched in terms of audits, to such engagements in terms of scope and timing (18).

OTHER MATTERS OF NOTE

14. There is an expanded discussion in the introduction part of the ES on what to consider (and from whose perspective) when applying the reasonable and informed third party test (114).
15. If the Ethics Partner is overruled on any independence matter, or there are any breaches of the ES, this must now be reported to the 'competent authority' (the FRC or ICAEW as appropriate) and to those charged with governance (1.15, 1.21).
16. Some efforts have been made at simplification and clarification throughout the ES by:
 - a. Removing discussion paragraphs considered to be 'self-evident' (eg old 1.54 on reviewing the work of other auditors);
 - b. Inserting comments from the FRC 'Rolling Record' of discussions clarifying various aspects of the 2016 ES (eg in 2.16 on trustee interests, discussing powers of attorney, and in Appendix C, discussing syndicated reports);
 - c. Prefixing paragraphs in part A of the ES with 'A' to avoid confusion.