

Ethical Standard 2023 Invitation to Comment and Impact Assessment

A public consultation issued by the Financial Reporting Council
Comments from ACCA to the Financial Reporting Council

31 October 2023

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We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

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GENERAL COMMENTS

ACCA welcomes the opportunity to comment on the proposals issued by the FRC. We are pleased to note that the proposed changes reflect significant developments in the International Ethics Standards Board for Accountants (IESBA) Code since the FRC last revised the Ethical Standard in 2019 to ensure that the UK's Ethical Standard mirrors as closely as possible the international code.

We are supportive of the revisions and updates to the FRC's Ethical Standard (ES) to enhance prohibitions where an audit firm's independence could be threatened by an economic over reliance on fees from specific entities that are connected, and the changes related to prohibitions to reflect relevant findings from audit inspections and enforcement cases. Our comments align with our previous response in 2019 and we continue to support the effort made by the FRC in restructuring and simplifying the standard. We do, however, have some detailed concerns with some of the proposed changes and these are reflected in our response to the specific questions below. We further note that additional guidance outside of the ES will facilitate consistent application of the updated standards.

Q1: Do you agree with the proposal to remove the category of OEPI from the Ethical Standard once the government's revised statutory definition of a UK PIE becomes effective?

While we do not disagree with the proposal to remove the category of OEPI from the ES, given that the audit independence requirements for OEPIs have not been in place for a long time an impact assessment should be considered to assess which entities will be excluded as a result of the removal, and their significance. For example, under the current provisions UK large private companies with £200mn and balance sheet total (gross) over £2bn fall in scope under the OEPI category, whereas, under the government's proposed definition private companies with 750+ employees and £750m turnover will be in scope. Therefore, some private companies in scope under the OEPI category will now be excluded.

ACCA agrees that the proposal to remove the category of OEPI from the ES once the government's revised statutory definition of a UK PIE becomes effective will support the objective of harmonising the concept of a PIE contained in IESBA's standards.

We believe in the alignment with international standards where possible and this recategorization would better align the UK with international practice. Subject to the suggested impact assessment noted above, ACCA considers that the removal would simplify the ethical requirements for auditors and should therefore improve compliance and reduce uncertainty around the application of the ethical requirements.

Q2: Do you agree the revisions in respect of breach reporting by firms? Could they be further enhanced?

ACCA agrees with the revisions, as they are likely to improve the quality and consistency of breach reporting. We find that they would strengthen the FRC's oversight of audit firms and improve public confidence and trust in the regulator's ability to protect the public interest.

We recommend that the FRC continues to conduct regular reviews of any breach reporting trends to ensure the identification of areas where further guidance could be provided. We note the FRC is currently consulting on strengthening both ISA (UK) 250 Section A and ISA (UK) 250 Section B and acknowledge that auditor's responsibilities cannot be open-ended to the effect of identifying and determining compliance with all laws and regulations and ethical standards relating to the entity. We understand the FRC will consider the interaction of the updates to the ES alongside this consultation and will respond separately to same.

ACCA notes an opportunity for additional clarification in section 1.23: additional guidance on the speed of reporting or reference to potential breaches under investigation would help to further define the term 'timely manner'.

Q3: Does the revised paragraph 1.46 enhance the accessibility of the ES? Are there other areas where similar enhancements could be made?

ACCA agrees that the revised paragraph 1.46 enhances the accessibility of the ES by enabling ease of cross-referencing between the general requirements to the parts of the ES that deal with specific areas. This makes it much easier for users to understand and comply with its requirements.

Overall, the revised paragraph 1.46 is a positive step towards making the ES more accessible and user-friendly.

Q4: Do you agree that the changes made to paragraphs 2.3 & 2.4, and 2.5 to 2.10; and the addition of additional guidance in paragraphs 3.22 to 3.23 enhance the clarity of ES?

ACCA agrees that the changes made to paragraphs 2.3 & 2.4, and 2.5 to 2.10; and the addition of additional guidance in paragraphs 3.22 to 3.23 enhance the clarity of the ES. The changes simplify the Standard to make it clearer and more concise and therefore are likely to improve compliance. For example, paragraph 2.3 now emphasises integrity and objectivity across all interactions, beyond professional services. The paragraphs are also now organised in a more user-friendly way.

However, ACCA questions whether the timing is right for the engagement quality reviewer and proposes that alignment with the Key Partner Involved in the Engagement would be a more coherent approach.

Q5: Do you agree with the changes made to section 4 on fees?

ACCA agrees that this is an important update. This provision tries to mitigate the risk of dependence on fees by one entity relative to the total annual fee income by the firm giving rise to self-interest and intimidation threats. The changes ensure that this applies if the dependency comes from a collection of entities with the same beneficial owner/controlling party. This should close a loophole that is used in practice.

Q6: Do you agree with the changes made to section 5 which extend some existing restrictions on the provision of non-audit or additional services?

ACCA generally agrees with the extension of restrictions on the provision of non-audit or additional services as these will align the FRC's ES more closely with the IESBA Code.

With respect to the prohibitions of Recruitment and Remuneration services, the third bullet point under para 5.89 of the ES states 'acting as a negotiator on the entity's behalf' whereas the equivalent bullet point found in the IESBA Code's para R609.6 (d) states 'advising on the terms of employment, remuneration or related benefits of a particular candidate'. We consider that the respective bullet point found in the IESBA's Code provides more clarity and hence we suggest the FRC update the Code to better align with this.

We do note that audit firms will still be allowed to provide certain non-audit services, ACCA agrees with this as it maintains competition within the market, and we consider the Standard sufficient in preventing conflicts of interest.

ACCA notes an opportunity for additional clarification in section 5.7 to the term 'network'. ACCA recognises that, beyond the largest audit firms, other "networks" are not set up in the same manner, with a greater degree of independence and hence reduced visibility of this kind of work..

Q7: Are there any implications for the work of Reporting Accountants or CASS assurance providers that should be considered alongside these revisions?

N/A

Q8: Do you agree with the proposed effective date of the revised ES? Are additional transitional reliefs required?

ACCA agrees with the proposed effective date as it aligns with the relevant changes to the IESBA Code. We believe a year to prepare for the changes is sufficient time for review of the ES, and updates to firms' policies, procedures, and staff training.

However, RAs and CASS assurance providers may want more time to wind down non-audit services that are no longer allowed following the revisions to the ES. Therefore, we recommend

that the FRC should carefully consider the needs of RAs and CASS assurance providers if any transitional arrangements are to be developed. These could include offering training and additional support to help RAs and CASS assurance providers to understand and comply with the revised ES.