

FRC Ethical Standard practical challenges

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BDO ETHICS TEAM



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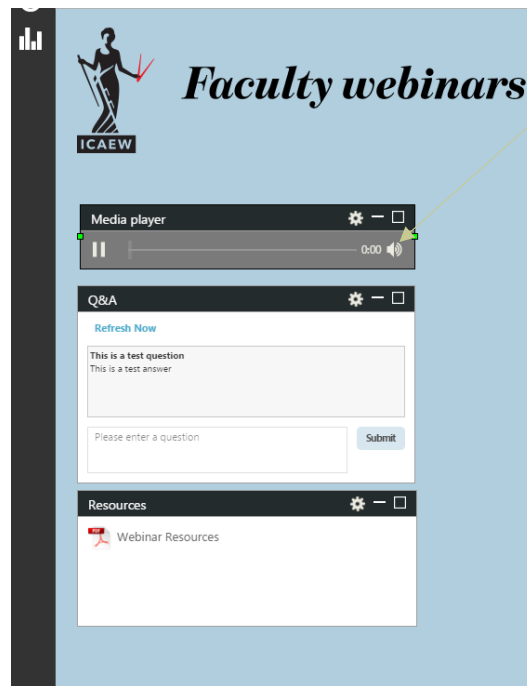
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Introduction



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OVERVIEW

Definitions

- Partner
- Covered Person
- Persons Closely Associated
- Listed Entities

Application

- Applying the Objective, Reasonable and Informed Third Party Test
- The Provision of Non-Audit Services
- Group audits and non audit fees across the network
- Contingent Fees
- Powers of Attorney and Executorships
- Governance, the Ethics Partner role and Ethical Culture

Questions

DEFINITIONS

Partner

FRC defines a partner as:

Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

What does 'bind the firm' mean?

DEFINITIONS

Covered Person

FRC defines a covered person as:

A person in a position to influence the conduct or outcome of the engagement.

But who does this capture?

DEFINITIONS

Person closely associated

1. Immediate family
2. Any relative who has lived in the same household for at least a year
3. A firm
4. A trust

DEFINITIONS

Listed entity

FRC defines a listed entity as:

An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

Application guidance:

This includes any company in which the public can trade shares, stock or debt on the open market, such as those listed on the London Stock Exchange (including those admitted to trading on the Alternative Investment Market), and ISDX Markets. It does not include entities whose quoted or listed shares, stock or debt are in substance not freely transferable or cannot be traded freely by the public or the entity.

APPLYING THE OBJECTIVE, REASONABLE AND INFORMED THIRD PARTY TEST

Examples where applied include:

- Gifts & hospitality
- Long association and rotation from audit manager to the RI
- Non-audit services
- Family relationships
- Key Audit Partner (KAP) outside of EU - PIEs only

THE PROVISION OF NON-AUDIT SERVICES

All clients:

- Tax advocacy

PIE clients only:

- Use of the derogation

GROUP AUDITS AND NON AUDIT FEES ACROSS THE NETWORK

- Complexities due to inconsistent adoption across the EU
 - As group auditor
 - As component auditor
- Non audit fees - PIEs and Listed, practical challenges
 - Fee cap and approval/consultation requirements
 - Network wide information systems
 - Network wide controls

CONTINGENT FEES

Change of wording - relevant v dependent

Guidance and scenarios - FRC's Rolling Record of Actions

Practical application and approvals & monitoring:

- Consider a need for central sign offs
- Consider a need for Project Acceptance Committees
- Cold reviews
- Annual declaration question

PERSONAL POWERS OF ATTORNEY AND EXECUTORSHIPS

Why is it an issue for our profession?

Practical Challenges:

- Guidance
- Systems
- Controls

GOVERNANCE, ETHICS PARTNER AND ETHICAL CULTURE

“Supporting Ethical Provisions

1.1 The senior management of the firm and those with direct responsibility for the management of the firm’s audit and other public interest assurance business shall instil the necessary culture and behaviours respectively throughout the firm and that business, so as to ensure that meeting the ethical outcomes of the overarching principles and supporting ethical provisions is paramount and overrides all commercial interests of the firm”

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Resources

- FRC Staff Guidance notices
- ICAEW website - Auditor independence
- ICAEW website - Independence guidance



Any questions?



Future webinars and events

Events

Audit & Assurance Autumn roadshow 2018 - Various dates and venues starting in September

Webinars

15 October – Data analytics one year on (details to be announced soon)

5 December – Roadshow roundup (details to be announced soon)

Further information regarding Audit and Assurance Faculty events programme for 2018 can be found at icaew.com/aafevents

Thank you for attending

Please take the time to fill out our short survey

Contact the Audit & Assurance Faculty

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