



Response to the FRC consultation on revisions to the *Ethical standard*

Introduction

The Financial Reporting Council (FRC) has issued a consultation on proposed revisions to the *Ethical standard*¹. Revisions to the *Ethical standard* aim to:

- take account of changes to the International Ethics Standards Board for Accountants (IESBA) *Code of ethics*
- respond to issues identified through audit inspection and enforcement cases
- provide greater clarity in respect of specific prohibitions and requirements
- allow the FRC to consult on whether to withdraw the other entities of public interest (OEPI) category introduced in 2019.

The HFMA's Governance and Audit Committee is responding to this consultation with a specific focus on areas of the ethical standard that relate to NHS bodies.

Withdrawal of the OEPI category

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?

We agree with the proposal to remove the category of OEPI, added in 2019, on the basis that this will improve consistency with the IESBA's Code and reduce the obligations on those entities that the government chooses not to designate as PIEs.

¹ FRC, *FRC revised Ethical standard key changes*, August 2023



Breach reporting by audit firms to the FRC

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

We agree with the proposed revisions that strengthen and clarify requirements in respect of breach reporting by the firms.

Application of prohibitions to different categories of entity

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

We agree that the table included in paragraph 1.46 is clearer than the existing paragraph references.

Partner and staff rotation

Q4: Do you agree that the changes made to paragraphs 2.3 and 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 ethical standard?

We agree that the redrafted paragraphs 2.3, 2.4, 2.5 to 2.10 are clearer than the existing paragraphs.

The addition of paragraphs 3.22 and 3.33, setting out rotation periods for key audit partners are a helpful addition. We note these are from other previously published materials and it may be helpful to add reference to these materials underneath the table too to be clear about the source of these requirements.

The rotation of key audit partners is particularly pertinent in the NHS and wider public sector where there is a limited number of key audit partners registered, impacting on the ability to enter into and service the external audit market.

We note the added paragraph at 3.14 'If an engagement partner rotates off an engagement after five years, the option to extend for an additional two years is no longer available' but would question whether this adds anything to the existing paragraph i.e. if an engagement partner rotates off, the option to extend would not be relevant.

Fees

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

We have no comments to add.

Non-audit/additional services

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?

We agree with the proposal to make changes to ensure that there is greater consistency with the IESBA's Code.

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

We have no comments to add.

Effective date

Q8: Do you support the changes to provision 24 and do they offer a transparent approach to reporting on succession planning and senior appointments?

We agree that the proposed effective date, 15 December 2024, should be aligned with the effective date of relevant changes to the IESBA's Code.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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