



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

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By email to [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Dear Sirs

**IAASB PROPOSED STRATEGY FOR 2009-2011**

The Institute of Chartered Accountants in England and Wales ('the Institute') is pleased to respond to your request for comments on the Consultation Paper *Proposed Strategy for 2009-2011*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours faithfully

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## ICAEW Representation

ICAEW REP 124/07

### PROPOSED STRATEGY FOR 2009-2011

Memorandum of comment submitted in November 2007 by The Institute of Chartered Accountants in England and Wales, in response to the International Federation of Accountants International Auditing and Assurance Standards Board Consultation Paper *Proposed Strategy for 2009-2011* published in October 2007

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## INTRODUCTION

The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the consultation paper *IAASB Proposed strategy for 2009-2011* published by IAASB.

## WHO WE ARE

1. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
2. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

**Points 3 – 7 below are relevant to IAASB's specific question (a) on the broad focus of IAASB initiatives. Points 9 – 11 and 13 – 18 are relevant to IAASB's specific question (b) on the list of possible actions. Points 8, 12, and 19 are relevant to IAASB's specific question (c) on additional actions.**

## GENERAL POINTS

3. We consider that, within the broad strategic initiatives, a focus on the world's capital markets and the implementation of standards is appropriate. Generally, the strategy and proposed actions appear to be in line with Institute views as expressed in the response to the IAASB strategy questionnaire completed earlier in the year. We do not agree, however, that the needs of SMEs should be treated as less important than these first two points. They matter as much to the global economy as larger enterprises but their assurance needs may be different, so a more tailored approach should be developed. We expand on this point in paragraphs 9 to 12 below.
4. It is widely accepted that standards need to be principles-based, not rules-based, but there is a risk that in clarifying ISAs, some flexibility is being lost. On the basis of current Exposure Drafts, it seems likely that the number of requirements will be 60% more than in the existing ISAs. We recommend that the standards be kept as simple, clear, and of an appropriate length, providing enough, but not excessive detail in order to foster but not constrain the use of judgement. Standards should therefore be tightly drawn so that requirements apply only to the generality of audits, with all other material constituting application guidance.
5. The timing of implementation of clarified ISAs is critical. We are pleased that the proposed effective date is for audits of periods beginning on or after 15 December 2009, given that some of the revised standards will only be available towards the end of calendar year 2008. December 2009 also coincides with the

end of the moratorium on the implementation of new IFRS. Given the ambitious clarification deadlines, a 2010 implementation date seems appropriate.

6. We note that IAASB proposes to develop a process for assessing the effectiveness of the implementation of new standards, in order to determine whether there is any necessity for further refinement to achieve the intended effect of new standards. We support post implementation review of clarified standards, based, for example, on the investigation reports of audit oversight bodies, to identify areas for further clarification or that need greater coverage in the standards. This should be a core activity for IAASB in monitoring the use of its standards, learning lessons, communicating issues and making necessary improvements. No further significant projects should be undertaken until this assessment is completed.
7. As described in the Introduction to the Consultation Paper, IAASB has made good progress in securing international adoption of, or convergence with, ISAs. There needs to be continued engagement with international regulators such as IOSCO and IFIAR to help achieve consensus on the adoption of ISAs and their enforceability.

## **CONCEPTUAL FRAMEWORK**

8. As noted in our previous response on IAASB's proposed Strategy, we consider that the standards should be based on a properly developed conceptual framework of principles. A conceptual framework would facilitate consideration of the need for the development of standards or other guidance in difficult areas such as banks, insurance companies and hedge funds. Paragraph 43 of the Consultation Paper states that '...It is unlikely that the IAASB will develop a conceptual framework as a whole. It may, however, develop parts of such a framework'. We do not see how a framework can be developed on a piecemeal basis. There needs to be an overarching, principles-based structure, even if component parts are then 'sub-contracted' to member bodies or others to develop the detail.

## **THE NEEDS OF SMEs**

9. Despite clarification, standards are written from a large entity perspective. We support the proposal that IAASB explore, in consultation with other interested parties, the concept of an alternative assurance service, clearly distinguished from an audit, designed to meet the needs of stakeholders of SMEs.
10. We believe the point that the service should 'meet the needs of stakeholders of SMEs' is fundamental. The Institute is currently conducting a consultation about the needs of audit-exempt companies, involving key stakeholders including the banking and credit rating industry and practitioners. We should be pleased to contribute the findings of this research to the IAASB's project.
11. The Institute has also developed best practice guidance in technical release AAF 03/06, *ICAEW Assurance Service on unaudited accounts*. This service may only be provided by qualified accountants following the Code of Ethics with additional independence requirements and is covered by the Institute's Practice Assurance regime. The guidance is consistent with the latest IAASB pronouncements. A number of practitioners are piloting the alternative assurance service using this guidance and we are monitoring the feedback. Again, we should be delighted to share this work with the IAASB.

12. We welcome the IAASB's intention to consider the revision of ISRE 2400, *Engagements to Review Financial Statements* and ISRS 4410, *Engagements to Compile Financial Statements*. Based on our experience however, practitioners who provide specific non-audit assurance services to SMEs may prefer to have a specific standard developed for their market rather a tailored version of ISRE 2400. Furthermore, ISRE 2400 is used as a basis for developing standards on interim financial reports and other reports on capital market requirements. We support the proposal that ISRE 2400 be kept as a stand alone, high-level guidance.

## **ASSURANCE IN RELATION TO NON-FINANCIAL INFORMATION AND NEW REPORTING MODELS**

13. We welcome the IAASB's decision to consider developing new ISAEs in areas where there is a demand.
14. The Institute has issued two technical releases in the area of internal controls: AAF 01/06, *Assurance reports on internal controls made available to third parties* that focuses on financial service organisations, and ITF 01/07, *Assurance reports on the outsourced provision of information services and information processing services*.
15. We are about to publish AAF 03/07, *A framework for assurance reports on third party operations*, which provides generic guidance for practitioners who perform assurance engagements on a range of business relationships. We also have a series of issues paper entitled *Perspectives: engaging practitioners/business/society*, the purpose of which is to explain the IAASB International Framework for Assurance Engagements, to understand the expectation of stakeholders and to discuss issues arising. Again, we should be pleased to share our experience and findings with the IAASB to further its projects in this area.
16. The Institute's Investor Confidence Survey 2007 did not show strong interest among institutional investors in Corporate Social Responsibility (CSR) reports. We agree that interest in CSR reporting has increased in recent years. However, we believe that investors' interest may be in reporting on non-financial information generally rather than specifically in CSR.
17. We are, however, aware that a great deal of CSR and sustainability reporting work is already being undertaken by specialists including accountants, adopting different practices and reporting formats. It is important for IAASB to establish itself as the lead voice in assurance reporting in these areas. In order to develop standards or guidance on CSR and sustainability reporting, there needs to be agreed criteria and an authoritative framework against which to report. We support the initial focus on auditors' reports on information relating to tradable carbon credits and should be pleased to take part in this work. We also encourage the IAASB to seek involvement in establishing criteria for other elements of corporate, social and sustainability reporting.
18. So far as new reporting models are concerned, we question whether it is practical to develop guidance in areas such as Extensible Business Reporting Language (XBRL), before a suitable reporting framework or criteria have been developed.

## **OTHER POINTS**

19. We recommend that the International Standards on Assurance Engagements be redrafted in the new clarity style. Current ISAEs lack credibility and clarification and other work is necessary to enhance their status. The main focus should be on developing standards on specific assurance engagements.

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