



25 August 2010

ICAEW REP 77/10

Financial Reporting Council  
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Dear Steve

**Practice Note 20 (revised), 'The audit of insurers in the UK'**

ICAEW welcomes the opportunity to comment on the revised Practice Note 20. We note that the revision of Practice Note 20 is part of the Auditing Practices Board's programme to update the Practice Notes to take account of the clarified International Standards on Auditing (UK and Ireland) and various legal and regulatory changes. This is a programme that is strongly supported by ICAEW as the Practice Notes provide important guidance to auditors in specialist areas.

Not least because we had the opportunity to contribute to the revision process, we support the changes which have been made. They will help keep the Practice Note relevant to practitioners. However, the fact that the revisions have been fairly limited in scope means that one important area which would benefit from being changed – the guidance on materiality – has not been amended. The text in the Practice Note does not provide the most appropriate steer in relation to setting materiality for insurance audits. Whilst it acknowledges that net assets may be a suitable benchmark, the focus is mainly on profit-based measures of materiality. Managing investment assets and provisions for liabilities is a core part of the insurer's activities and we think that more weight could reasonably be attached to the balance sheet in setting materiality, and that the Note should capture this.

Members of the Insurance Committee would be willing to meet Auditing Practices Board members to discuss the matter further if this would be helpful.

Yours sincerely

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