

## Hold harmless letters for investigating accountants

The faculty re-affirms the use of hold harmless letters by auditors and tax practitioners when they permit access to their working papers by investigating accountants to facilitate corporate transactions.

With the recent introduction of the new Companies Act requirement in relation to access to information by successor auditors, there has been some confusion about the status of Audit 04/03 **R** in relation to *Access to Working Papers by Investigating Accountants*.

The statutory circumstance covered by AAF 01/08 **R** has no impact on the status of Audit 04/03 and the principles outlined in Audit 04/03 remain extant.

### Principles for investing and lending transactions remain unchanged

The basic principles in relation to providing access to auditors' working papers to investigating accountants for investing and lending transactions remain the same. The working papers are the auditors' legal property and the auditors can restrict or decline access to them (except in the statutory circumstance covered by AAF 01/08). When access is permitted, it is not provided unless an authorisation letter is obtained from the vendor and the target company which authorises the auditors to provide such access. A release letter is signed by the prospective purchaser and its investigating accountants, agreeing, amongst other things, that the auditor does not assume any duties or liabilities as a result of permitting such access.

The auditor should also continue to obtain the written acknowledgement from the purchaser and the investigating accountant that they understand the separate purpose for which the audit was undertaken and that no duty of care or liability is owed by the auditor.

These protections are built upon an understanding from the purchaser and the investigating accountant that they will not, under any circumstances, provide any information obtained from their review to any other parties without the written consent of the auditor. Consideration of whether to provide such consent will include whether the release letter has been or is to be accepted by the new proposed recipient.

### And finally

Practitioners should note that, in circumstances where the investigating accountants happen to be part of the same firm acting as a successor auditor of a new client, the investigating accountants do not have the authority to use the information that has been obtained by their firm under the statutory requirement as that information has been obtained for a different purpose.

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# Ethics podcasts: a quick way to keep up with what you need to know



Chartered Accountants play a vital role in ensuring public trust in business reporting and practices and upholding the reputation of the accountancy profession. This view is supported by Sandra Higgins, Chairperson, Practitioner Services Committee, Audit and Assurance Faculty:

*'The term Chartered Accountant is synonymous with professionalism and integrity. To the public, it is also important that we are seen to be independent. In a world of increasing complexity, it is important that we have ethical standards which clarify and aid understanding of what this means today.'*

The ICAEW's Code of Ethics requires Chartered Accountants to comply with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Complying with these

principles and keeping up to date with latest developments in professional ethics, can at times, be challenging. In order to help you, the ICAEW has developed ethics podcasts which you can listen to any time and any place. You can choose to listen to audio files on your computer or automatically download the files to your MP3 player.

**Anne Davis** | *Manager, Accountancy  
Markets and Ethics, ICAEW*

Further information on podcasts, ethics articles, publications and events can be found on [www.icaew.com/ethics](http://www.icaew.com/ethics).

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## Hold harmless letters for investigating accountants *cont'd from page 1*

This is referred to in the Audit Regulation 3.09:

*'A request for information under the Regulation should not be made other than in connection with the successor's audit. The successor should refuse to accept an additional engagement, such as to act as an expert witness or to review the quality of the predecessor's audit work, where the engagement would involve the use of the information obtained by it under the Regulation.'*

It is also referred to in the exchange of letters which states:

*'The access is provided to you: (a) solely in your capacity as duly appointed statutory auditor (as defined by section 1210 of the Companies Act 2006 ("the Act")) of the [Company/Companies]; (b) solely because we are required to give you access to information pursuant to paragraph 9(3) of Schedule 10 to the Act and Audit Regulation 3.09...In accordance with the guidance issued under Audit*

*Regulation 3.09: (a) you should refuse to accept an additional engagement, such as to act as an expert witness or to review the quality of our audit work, where the engagement would involve the use of the information obtained by you under the Regulation;'*

**Sumita Shah** | *Manager, Audit and  
Assurance Faculty*

## Faculty autumn roadshow: the quality of audit files – common problems and solutions

As previously reported in the June edition of *Audit & Beyond* the faculty is holding a roadshow series in the autumn which will consider the quality of audit files, identifying common problems and solutions. The roadshow is being organised with the Quality Assurance Directorate (QAD) to help identify the common areas of weakness and more importantly how to address them. The event will be covering a wide range of current issues including the following areas:

- Procedures for gathering and documenting audit evidence – sampling and analytical review
- Documenting the auditors' understanding of the entity and risk assessment
- Assessment of the design and implementation of internal controls
- Consideration of the fraud risk
- Use of proprietary audit systems
- Communications with the audit client - unadjusted errors
- Law and regulations
- CPD requirements
- Engagement letters
- Financial Statement disclosure
- Review procedures
- Practice Assurance issues

The content will be based upon the experiences of QAD reviewers which will mean that the areas covered will be relevant to auditors in practice. John Selwood, the presenter, will use case studies which will give practical and effective solutions to these common audit problems.

In the UK it has been all change for auditors in the last few years with the new APB Ethical Standards, International Standards on Auditing (UK and Ireland) and numerous changes to the companies legislation with the Companies Act 2006 currently being implemented.

The roadshow will be visiting 18 locations as shown below.

This is a faculty member only event. Non faculty members can attend but will need to join the faculty at the time of booking. You can either book online at the

faculty's website **R** or by completing an application form which is also on the website. You can also secure your place by telephoning the ICAEW Events team on 01908 248159. Many bookings have already been received and you are advised to book early to secure your place.

**Tracy Gray** | *Services Manager, Audit and Assurance Faculty*

### Dates, locations and venues

Date	Time	Location	Venue
8 September 2008	09.00 - 12.00	Cambridge	Menzies Cambridge Hotel & Golf Club
8 September 2008	14.30 - 17.30	Luton	Riverside Conference Centre
9 September 2008	09.30 - 12.30	High Wycombe	Holiday Inn, M40 J4
15 September 2008	09.30 - 12.30	Southampton	Southampton Football Club
16 September 2008	09.30 - 12.30	West Malling	Kings Hill Conference and Training Centre
13 October 2008	09.30 - 12.30	London	Chartered Accountants' Hall
13 October 2008	14.00 - 17.00	London	Chartered Accountants' Hall
20 October 2008	09.30 - 12.30	Wakefield	Cedar Court Hotel
22 October 2008	09.30 - 12.30	Leicester	Best Western Belmont Hotel
3 November 2008	14.00 - 17.00	Durham	Ramside Hall Hotel & Country Club
24 November 2008	14.00 - 17.00	Birmingham	Aston Villa Football Club
26 November 2008	14.00 - 17.00	Exeter	Exeter Court Hotel
28 November 2008	09.30 - 12.30	London	Chartered Accountants' Hall
10 December 2008	09.00 - 12.00	Cardiff	Miskin Manor Country Hotel
10 December 2008	14.30 - 17.30	Bristol	Bristol Golf Club
15 December 2008	14.00 - 17.00	Liverpool	Everton Football Club
16 December 2008	14.00 - 17.00	Manchester	Manchester City Football Club
17 December 2008	09.30 - 12.30	Preston	The Barton Grange Hotel

# Training providers' meeting



The Audit and Assurance Faculty of the ICAEW organised a very well-attended meeting of training providers in May 2008 to look at issues surrounding implementation of the new clarified versions of the ISAs. For those that have not heard of it, the Clarity Project is an International Auditing and Assurance Standards Board (IAASB) project to make the standards clearer.

The purpose of the meeting was to assist the faculty, training providers and publishers in identifying what they can do to aid the implementation of the new clarified ISAs. This article is a summary of the main points arising from that meeting.

## Feedback on implementation of current ISAs

The meeting started with a review of the issues encountered when implementing the current ISAs. The main points to come out of this discussion are set out below.

- Larger audits have tended to fare better as fewer changes were required to audit methodologies
- Smaller audits struggled more with the greater emphasis placed on documenting understanding of the client and the assessment of controls and risk (including fraud) that comes from this understanding
- Audit automation has generally helped with ISA compliance although some firms have struggled with the software and understanding the underlying audit methodologies
- There is too much box ticking without any thought or understanding of the underlying requirements of the ISAs

## The Clarity Project

Jon Grant from APB (Auditing Practices Board) then gave a presentation on the background to the Clarity Project and the forthcoming changes. These changes have two elements.

1. Firstly, redrafting the standards in the clarified style. This eliminates the use of the present tense and divides the standards into two parts; requirements characterised by use of the phrase 'the auditor shall...' and guidance. Whilst in theory

the requirements of each standard have not been altered by this redrafting, in practice what was previously thought of as guidance has been elevated to a requirement in some areas

2. Secondly, revision of some standards

Whilst no decisions have been made, the APB is likely to adopt the new clarified standards and they are currently considering if the UK is ready to make this move and whether there are any reasons for not going with the IAASB's 15 December 2009 implementation date<sup>1</sup>.

Adoption of the clarified and revised ISAs is more likely to be an issue for bigger firms as the main revisions relate to group accounts, related parties and accounting estimates. These issues are usually more straightforward for smaller firms.

## What are the changes in the clarified versions?

John Rowden from PricewaterhouseCoopers then gave a presentation that looked at what we can expect from the changes in the clarified versions in a little more detail.

- What is expected by the standards will be clearer
- Non-compliance with the standards will be starker
- Whilst there is increased prescription within the standards, this does not reduce the necessity for the exercise of judgement
- There will be some changes to the audit process as certain management responsibilities are prescribed in the standards

Overall, the clarified ISAs are longer than extant ISAs and contain an increased proportion of mandatory requirements. That said, many of these requirements are things that firms would do as a matter of course so this does not mean that audits necessarily will take longer.

## Lessons from the QAD

Lesley Clarke from the Quality Assurance Directorate (QAD) then gave some feedback on their findings on ISA audit files. Most firms are now on their third year of ISA audits and the quality of files is generally being maintained albeit sometimes at the expense of efficiency on smaller audits.

The main problems found by the QAD echo some of the issues discussed above:

- Compliance with ISAs 240, *Fraud*, 315, *Understanding the entity and its environment (including internal control)* and 260, *Communications with management*
- A lack of understanding of the wider requirements of the ISAs
- Proprietary audit systems are not always used properly due to a lack of familiarity with the system used by the firm and a failure to fully understand the methodology contained in it

## What is the Audit and Assurance Faculty doing?

IFAC has published a guide to applying the current ISAs to small and medium-sized entities. This guide could be more useful to audit firms if it were less theoretical and the case study improved. The faculty is keen to provide feedback to IFAC on this version so that the clarified version, when published, will be more useful.

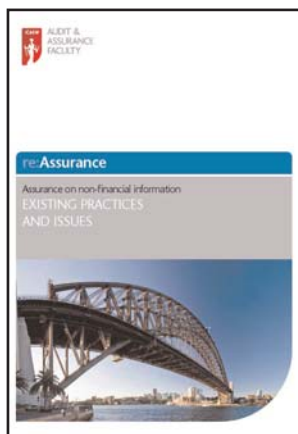
A CCAB event is planned for November this year to further raise awareness and review the current state of play and a further meeting with training providers and publishers will take place in 2009.

**Andy Holton** | *Divisional Director - Publications SWATuk Limited*

<sup>1</sup> For the audit of periods commencing on or after 15 December 2009, ie 2010 interim and final audits.



# Assurance on non-financial information



Included with this issue *Audit & Beyond* is a copy of the faculty's new publication *Assurance on non-financial information: existing practices and issues*. This paper is one of the publications in the *re:Assurance* initiative **R**. Through the *re:Assurance* initiative, the faculty has sought to promote dialogue about external assurance.

## Purpose

*Assurance on non-financial information: existing practices and issues* is aimed primarily at practitioners and examines the types of non-financial information on which external assurance reports are currently provided. It considers further opportunities for practitioners in this area, discusses some of the practical challenges facing practitioners when providing external assurance reports on non-financial information and identifies some areas for further consideration.

It was developed by a working group of volunteers who have experience in this area of reporting.

## Existing practices

Non-financial information may be provided in the annual report, included in corporate responsibility reports, reports to regulators or reports on public interest concerns such as the quality of service provision. Demand for non-financial information appears to be growing and those requesting it may require some comfort over the credibility of the information. External assurance may have a valuable role to play here.

External assurance on non-financial information is a developing area. The paper identifies corporate responsibility as a particularly visible area where there is current demand for external assurance and many practitioners appear to be using the International Auditing and Assurance Standards Board (IAASB) International Standard on Assurance Engagements 3000 (ISAE 3000) to help them to perform such engagements. Practitioners are also providing a number of external assurance reports on non-financial information to regulators. Such reports tend to be governed by the requirements of specific regulators but the ICAEW has issued guidance in a number of areas to help practitioners perform these engagements.

In terms of the enhanced business review or corporate governance statements, the demand for publicly available external assurance reports appears to be more limited.

In other areas, recent market and regulatory changes have resulted in greater public scrutiny of public competitions and telephone voting and reporting on carbon emissions. As a result, the paper identifies that, whilst the current demand for external assurance is quite limited, this appears to be growing.

The use and value of external assurance reports might also change if stakeholders were to lose confidence in the quality of information being presented by entities, for example, as a result of a major error involving publicly available non-financial information.

The credibility of information could be enhanced by providing external assurance reports. With a background in auditing, practitioners might already have some of the skills needed to take advantage of such opportunities.

## Standards and guidance for practitioners

There are frameworks and standards in existence to help practitioners perform assurance engagements in this area – they can use the principles in ISAE 3000 and, as mentioned above, the ICAEW has also issued other specific guidance in a number of areas. The faculty has also published *Perspectives on assurance: Engaging practitioners* **R** which seeks to help practitioners understand the IAASB International Framework for Assurance Engagements.

## Practical considerations when performing these engagements

However, because of the nature of non-financial information there are a number of practical challenges facing practitioners who perform these engagements, and the paper discusses these issues. Practical considerations include:

- considerations
- The need for specialist knowledge
- Qualitative as opposed to quantitative information
- Suitability of criteria and obtaining sufficient appropriate evidence
- Identifying and understanding the intended users
- The control environment
- Reporting timetable

The paper looks in turn at these issues. Some of the issues may require further consideration and going forward, the ICAEW will be giving thought to what additional guidance or information may be needed in these areas.

It is also important for practitioners to consider their own competence and ability to provide external assurance reports in specific areas, alongside risk management issues. Specialist knowledge might be needed and the use of multi-disciplinary teams might help practitioners to meet these needs. In terms of risk management, practitioners would be encouraged to refer to the faculty's Technical Release AAF 04/06, *Assurance engagements: management of risk and liability* **R** when performing assurance engagements on non-financial information.

We would welcome feedback from practitioners and others on their experiences of external assurance reports on non-financial information, and in particular, any areas where practitioners would value further guidance. Please send comments to [louise.sharp@icaew.com](mailto:louise.sharp@icaew.com).

**Louise Sharp** | Manager, Audit and Assurance Faculty

- Wider independence

# Fraud audit risk



The second meeting of the Practical Auditing Discussion Group (PADG) was held in April to discuss the question: *'Fraud audit risk – can we mitigate it?'*

The meeting was chaired by Richard Bennison, Head of Audit at KPMG. Adam Bates and Georgina Lewis of KPMG Forensic gave a short summary of the current requirements for auditors under ISA (UK & Ireland) 240, and described common features of frauds and fraudsters identified from fraud surveys conducted by KPMG. They then set out the findings of a short questionnaire that had been sent to participants before the meeting to ask about firms' experience of fraud affecting their audit clients.

Respondents to the questionnaire said that corporate pressures were the most common motivation for fraudsters in cases that had affected their clients, and this may be something for auditors to consider particularly carefully in the context of the current credit crunch. It was also significant that, of client failings that allowed the fraud to occur, the factor cited in nearly all cases was fraudster abuse of a key position or authority.

In the discussion that followed, the group identified a number of procedures that could be adopted to reduce audit fraud risk.

## Audit planning and consideration of fraud risk

Consideration of fraud risk, involving the whole team, needs to be built into audit planning. Staff at all levels can make a contribution; new or junior staff can bring a fresh perspective to the audit, while more senior members apply their knowledge of the individual client and general audit experience to focus attention on the areas most at risk from fraud.

## Knowledge and understanding of the client

Knowledge and understanding of the business are fundamental to addressing audit fraud risk.

However, it can take some time for audit staff to build up sufficient knowledge and understanding of the client to be fully attuned to indicators of potential misstatements, so a balance needs to be maintained on the audit team between training up staff, building experience, and rotating to avoid over-familiarity.

## Staff training and professional scepticism

Professional scepticism needs to be encouraged in all members of the audit team, although there needs to be a sense of proportion: not every statement by the client staff needs to be challenged. Many statements can be accepted because they are clearly reasonable in the circumstances, and are consistent with the auditors' prior knowledge and understanding of the client. The key point is that staff should be encouraged to trust their judgement, and not to be afraid of pressing a line of enquiry to its conclusion. It is very important that senior audit staff, including the partner, should be accessible or present on site to be available as a sounding board to the team.

## Relations with client employees

Audit clients that are 'unpopular' because audit staff feel uncomfortable or bullied by aggressive or unhelpful client employees may be ones where there is a heightened audit risk. Another point to watch is pressure from the client for the auditor to accept changes to the figures close to the deadline for completing the audit.

## Audit procedures

It may not be necessary to use forensic or fraud specialists, or fraud-specific computer assisted audit techniques, as routine on every audit, because these procedures can be disproportionately expensive. However, analytical procedures

are always likely to be useful. Predictive analytical review, whereby figures in the accounts are tested against values derived from non accounting sources, can be especially powerful.

Targeted testing of areas that are susceptible to misstatement and scrutiny of journals are important procedures to identify indicators of possible fraud. Suspense accounts are worth scrutiny, as they are often used to mask frauds. It is also useful to check reconciliations, for example of cash to profit, bank balances, debtors, creditors and inter-company accounts, and to check for unusual transactions near the year end.

It is important to get the team together at the end of an audit to discuss risk factors and piece all the evidence together. Points that may have appeared unimportant in isolation, may form a significant pattern when collated.

## Client measures to prevent/detect fraud

The risk of accounts misstatement due to fraud originates in the entity. The 'tone from the top' is crucial in determining exposure to fraud risk. Executive management in turn need to adopt strong anti-fraud policies, establish good systems that protect whistleblowers, and ensure that the policies and measures are known by all employees.

Together, external auditors and clients can mitigate the risk of audit.

## Mary-Lou Wedderburn |

*Consultant, Audit and Assurance Faculty*

# Reducing the burden when reporting on grant claims

More and more organisations are receiving substantial sums of grant money for specific projects from UK government departments (departments). Increasingly substantial sums are also being received directly by UK organisations from the European Commission. More often than not, each grant is accompanied by terms and conditions set by departments with which the grant recipient must comply to be eligible to receive the grant monies. One of these conditions often requires the grant recipient to obtain an accountant's report (for the department) confirming that the grant recipient is eligible to receive the grant and/or that the grant has been spent on the intended purpose.

Accountants are not always fully aware that by providing these reports and reporting to the departments on the eligibility and use of grant monies, they may also have a responsibility to the departments for the grant monies received by their clients. Frequently the amount of liability that is assumed is inappropriate for the size of firm. Sometimes the matters specified in the reports are difficult to report on, and in some cases, the level of assurance requested by the department does not warrant the amount of work actually expected.

The Audit and Assurance Faculty issued overarching guidance **R** in 2003, which was developed in consultation with a number of departments to help both those who provide reports (the accountants) and those who request the reports (the departments). The key aim of this guidance was to decrease the possibility of misunderstanding arising about the work needed, to minimise the gap in expectations (between those of the department and those of the accountant) and to see a reduction in the incidence of unsupported and fraudulent claims.

## Expectations gap

A few years on from these discussions we are finding that there is still a gap between the departments' expectations and what it is that accountants are able to provide economically and efficiently. This lack of understanding has also moved across the channel into Europe, now the source of substantial amounts of grants. Accountants are sometimes faced with a situation where the requirement to provide a report in a particular way has already been established and embedded into law or regulations, but the department has forgotten to consult or discuss fully with the profession about how that report might be provided. We are often told that, because these requirements have already been set or that guidance has already been put into place, it is not possible to make changes. This usually results in both the grant recipient and the accountant having to deal with

onerous or impossible requirements. Frustration all round.

## Cost v benefit

More importantly, departments have often not calculated the cost and burden to the grant recipient of their requirements compared to the value that might be derived from receiving the actual grant itself. And even more worrying is that sometimes accountants are asked to provide reports with forms of words that they are unwilling or unable to accept and which do not necessarily equate to their findings. When accountants do attempt to provide departments with details of the procedures that they intend to carry out and the possible form of report in relation to their work, some departments have been known to refuse to accept the proposed procedures or the report itself. Departments have also been known to reject reports because they do not contain the specified form of words that they have set.

It seems unreasonable, therefore, for departments to assert that they would like independent accountants' reports in order to gain assurance over the way in which the grant monies have been spent, and even expect accountants to acknowledge a responsibility to them, but then refuse to accept the reports that accountants provide because those reports are not in the standard form that the departments have set.

The faculty is often asked to get involved, in retrospect, on behalf of its members, enquiring of the department what it is that it wants, what is the department's purpose for requesting the report, how will it be used, and what is the level of assurance required. When these questions are posed, it sometimes transpires that the

departments have not quite thought through their requirements.

So, what needs to be done in order to resolve this situation?

## Government departments need to consult at an early stage

Departments need to work with the profession at an early stage. In particular, they need to consider the purpose for which they need an accountant's report prior to embedding requirements for accountants into legislation, regulations or guidance, which cannot then be changed. They need to allow ample time to consult with the profession and to ascertain whether what they want is capable of being provided. After all, if they are requiring accountants to provide these reports and give their professional opinion or judgement, does it not make sense to consult with them first?

When requesting these reports, departments need to consider the purpose to which they will put the reports and the level of assurance that is necessary. They need to consider whether everything on which they want a report is reasonable, capable of verification and will not result in undue cost to the organisation claiming the grant monies.

## Accountants need to manage their risks carefully

In turn, accountants need to clarify the expectations of their clients and of the departments. They should only provide and sign reports if they have performed sufficient work (including some physical verification, where appropriate) and obtained sufficient evidence to support the statement that they are being asked to make in the report. They need to agree appropriate terms of reference for

# IFAC Code of Ethics: IFAC re-exposes proposals on two areas of the independence requirements

The International Ethics Standards Board for Accountants (IESBA), an independent standard-setting board within the International Federation of Accountants (IFAC), has issued a re-exposure draft **R** of proposals to strengthen two areas of the independence requirements contained in the IFAC *Code of Ethics for Professional Accountants* (the Code). Whilst statutory audits are covered by the APB Ethical Standards in the UK, the IFAC proposals are relevant to international audit work and are likely to become relevant to types of review engagements on financial statements going forward.

The proposals re-exposed for comment relate to the provision of internal audit services to a public interest audit client, and the safeguards that are required when the fees from a public interest audit client exceed 15 per cent of the total fees of the firm. The re-exposure draft relates to matters that were exposed for comment in July 2007.

The re-exposure draft contains two key proposals.

1. Prohibition of independent auditors from providing internal audit services related to

internal controls, financial systems or financial statements to an audit client that is a public interest entity, thereby further strengthening their objectivity in carrying out audits.

2. An annual pre- or post-issuance review be conducted by a professional accountant who is not a member of the firm when the revenues from one public interest entity client exceed 15 per cent of total firm revenue for two consecutive years. The proposal is intended to provide an important safeguard against the threat to independence when a firm receives a significant portion of its revenues from a single client.

Please send your comments to Tony Bromell by 31 July 2008. The consultation closes on 31 August 2008. The exposure draft may be viewed by going to [www.ifac.org/EDs](http://www.ifac.org/EDs).

## Reducing the burden when reporting on grant claims *cont'd from page 7*

such reports and realise that, in some cases, they may not be in a position to provide these reports. They also need to understand the purpose of the report and the extent of loss that the department could potentially suffer if reliance is placed on that report. Accountants need to manage their risks when they undertake these engagements given the possible duty of care that they may be taking on.

Agreeing the form of report is crucial and, where possible, the report should try to reflect the scope and work that has been carried out and the subsequent findings. The work that is required could be limited in nature and therefore accountants should be careful not to take on an open-ended liability. They are not in a position to be insurers of last resort and they are not there to underwrite the business judgements made by their clients. The client might pay the fees but the report is to the department that will be seeking to place reliance on it.

### What is the faculty doing?

The faculty has reconvened its public sector special reports of accountants panel to review the current arrangements for reporting to public sector third parties. It has also set up a stakeholder panel, which includes representatives from key UK government departments, national audit agencies, the European Commission and the European Court of Auditors. The purpose of both these panels will be to facilitate discussions with and between government departments and accountants to ensure that there is a consistent and pragmatic UK wide approach to reporting on the use of grant monies within the UK.

**Sumita Shah** is a Manager in the Audit and Assurance Faculty leading on public policy issues, specifically in relation to public sector special reports to third parties.



## Your faculty committee - meet the new recruits

Comprised of representatives from across the audit profession, each faculty committee member brings with them a wealth of knowledge and understanding of the current and future issues affecting the audit profession. Their role is to represent members' interests and ensure that the faculty provides the necessary technical guidance and support to assist members in their day-to-day activities along with providing invaluable insight to potential issues looming on the horizon.

### Meet the new Audit and Assurance Faculty Chairman



Replacing Gerald Russell as chairman of the faculty is Gerry Murphy, audit partner at Deloitte. Gerry has been vice chair of the faculty committee for the last year and has been looking forward to stepping up to the role of chairman.

Gerry started his career with Arthur Andersen in Dublin and moved to the UK in 1985 based initially in the midlands and moving to London in 1998. He has been a member of the Deloitte Board since 2002 and his roles include being chairman of the Audit Committee.

Gerry spends the majority of his time serving larger audit clients. He also leads Deloitte's Professional Practices Industry Group. He acts as the lead audit engagement partner or advisory partner on a number of multi-national entities, a number of whom are SEC registrants. Within Deloitte he is an accredited National Risk Partner for consultation on client risk matters.

Gerry is currently working with the faculty in setting its strategy for the next three years. He is passionate about providing appropriate support for audit professionals and building on the better understanding being developed with various stakeholders as to the benefits of audit and assurance services.

### The new recruits

Elected by the membership, each committee member makes a commitment to serve on the faculty committee for three years, volunteering their time to attend various meetings and provide input on a range of technical work from ISA implementation to developing guidance around assurance services. In line with the faculty's constitution, the composition of the committee is reviewed annually to ensure there is a fair balance of representatives from firms of all sizes.

Following an uncontested election, we are delighted to introduce the latest recruits to the faculty committee.

### Sandra Higgins, a Small Practitioner with Robert Clow & Co.



Sandra has served on the committee for more than twelve months as a co-opted member but has now been

formerly appointed as an elected member. Sandra is chair of the Practitioner Services Committee which advises on the implications of auditing and regulatory developments for sole practitioners and small firms and is responsible for the provision of services, facilities and support to faculty members.

Sandra joined Robert Clow & Co in 1995 and became a member of the ICAEW in 1996. She was granted a practicing certificate in 1999 and became audit partner. Her main areas of interest are the accounts and audits of smaller entities and dealing with regulated clients, in particular charities, but also solicitors and pension schemes.

### Richard Hughes, a Senior Assurance Partner with PricewaterhouseCoopers



Richard trained with the firm in Leicester and qualified as a member of the ICAEW in 1984. Post qualification he spent four

years on secondment in the US where he gained significant experience with both US and international companies.

He became a partner in 1993. His main focus has been on publicly quoted FTSE 100 multinational companies and the specific accounting, reporting, auditing and governance challenges they face. Richard has been involved in PricewaterhouseCoopers' technical forums and acts as an independent review partner for a number of FTSE 100 and other listed clients.

He is also responsible for risk management and quality in PricewaterhouseCoopers' consumer and industrial products industry group.

### Richard Wilson, an Audit Partner with Ernst & Young



Richard qualified as a chartered accountant in 1976 and became a partner in the firm in 1995. His audit clients over the

years have ranged from owner run businesses to companies in the FTSE 100. Most recently he has worked with the larger clients of Ernst & Young. Prior to becoming a partner, Richard spent two years in the firm's training and technical department and three years as assistant to the chairman of the Accounting Standards Committee. He also spent one year on secondment with SG Warburg, working directly for the President of the bank. From 1998 to 2003 Richard was the Global leader for Ernst & Young's Energy and Utilities business. He is still the chairman of the firm's global committee for IFRS matters affecting clients in the extractive industries.

### Ex-Faculty Chairman elected as Vice-President of the ICAEW.

This year we also say farewell to Gerald Russell, who has been chairman of the faculty for the last three years. Gerald was instrumental in the success of the *Audit Quality Forum*, which aims to promote quality and confidence in corporate reporting and the *re:Assurance* initiative, which promotes dialogue around assurance services. Indeed, Gerald is so well regarded at the ICAEW that he has been elected as the next Vice President of the ICAEW.

**Norma Pavitt** | Operations Manager,  
Audit and Assurance Faculty

## Spring 2008 roadshow – small company audits in 2008



When I first sat down to write this, I knew that there was going to be an abundance of good material to draw on, but how do I get it all to fit into one short article? My answer is to provide a summary of the main points, necessarily briefly. This year the roadshow is being taken to more locations, and it may only be half a day, but the range of topics is wide and extremely relevant to the smaller practitioner today.

John Selwood has been writing and presenting the AAF roadshow series for a few years now, and I still find him to be energetic and enthusiastic. He has that rare quality of being able to hold my attention throughout even the most technical topics. There is so much happening which affects audits at the moment, and the roadshow has managed to bring it all together.

### Practice Note 26 – Guidance on Smaller Entity Audit Documentation

John's enthusiasm for Practice Note 26 (PN 26) is catching – this really is a useful publication for those of us who are applying ISAs to smaller company audits without wanting to charge large company fees. PN26 contains lots of practical examples, some of which were included in the roadshow documentation. Although these examples are specifically aimed at the audit of smaller entities, they are also applicable for larger, owner-managed entities with non-complex transactions. In summary, it's all about the planning, and although there is no substitute for reading the standards, John highlighted the interpretation for smaller audits and gave concise guidance on how to focus on what is important.

The examples in the roadshow showed how to sort through and identify which parts of your knowledge of the business were useful to the audit, and how this should be documented. John then covered the types of risk which are now recognised, how these risks can arise and how to analyse them. And so the

ISA flow from knowledge to risk to tests was smoothly demonstrated.

### Group audits

Whether you are the auditor of the subsidiary entity, the parent, or the whole group, things are changing. Compulsory consolidation is coming to medium-sized groups, as well as a new ISA on group audits. John referred us to the February 2008 edition of *Audit & Beyond*, which had an excellent article on this topic. Also, look out for further publications being issued by the faculty as they are currently revising their guidance on group audits.

### Audit regulations

I do not think that any auditor can have escaped learning that changes in audit regulations are around. From access to your working papers by successor auditors to signing the audit report by individual name, these changes have been well publicised. An article in the April 2008 edition of *Audit & Beyond* gave a good summary of the new regulations and the exposure draft of AAF 01/08 provides more detailed guidance on making working papers available to successor auditors.

### Revised Ethical Standards

The good news for smaller practitioners is that provisions for smaller entities remain, and without significant alteration. The roadshow specifically reviewed PASE, making clear distinction between the alternatives and exemptions, identifying which entities could take advantage of the standard, and outlining the practical consequences of relying on PASE and when it affects the audit report.

### Accountancy and the audit

This was a really good topic to bring the roadshow to its conclusion. After hearing about the ethical standards, John gave practical guidance on combining

the two services of accountancy and audit, while still complying with the Ethical Standards. What a relief to finally get recognition for the positive aspects of providing a complete service to your client. Accountancy work can be part of audit evidence, as long as simple safeguards are in place, and John gave a practical example of this from when he was in practice. Even PN26 acknowledges that the provision of accountancy and tax services helps gain an understanding of the business.

Thank you to all involved for putting together such an informative and relevant event. The next AAF Roadshow will be eagerly anticipated by many of us – it is all about the quality of audit files, and what both principals and staff need to know. Having just had a QAD visit myself, I will still be eager to hear what John Selwood has to say. I am a few years off retirement yet and I have a feeling the next five years will fly past all too quickly. With the current rate of change, who knows what the world of auditing will be like then? A booking form was distributed with the June issue of *Audit & Beyond* but details can be found on page 3 of this issue.

On a final note, a member survey was distributed at the roadshow. It served as a reminder that these events are just one of the many services provided by the faculty. The faculty exists to serve its members, but communication is always better when it flows both ways. So if you have any comments on improvements to existing services or any new ideas, your views will be greatly appreciated. Please contact Tracy Gray at the faculty. And remember, the faculty is not just about the audit, it's about all aspects of assurance.

**Sandra Higgins** | Chairperson, Audit and Assurance Faculty Practitioner Services Committee

# CCAB project on audit conduct and training

This project follows on from the recent Financial Reporting Council (FRC) consultation on *Promoting Audit Quality* [R](#). The key issues to emerge from this consultation were reported on in the February issue of *Audit & Beyond* [R](#). The issue of particular relevance to this new project is the way that audit fieldwork is undertaken in practice. This issue is highlighted in the FRC feedback paper in connection with the definition of 'audit professional' in IFAC's International Education Standard 8 (IES 8) *Competence Requirements for Audit Professionals* [R](#). The FRC comments that it is expected that a task force will consider the issues connected with IES 8 and recently commissioned research on practical training of auditors. This CCAB project is in direct response to that expectation.

## Timetable

The plan is to produce a report for the FRC in early 2009. The project covers all statutory audits but there is a particular focus on the audits of public interest entities.

## Areas to be covered

There are four areas that are being covered by this project:

### 1. Audit judgement

- Can we define what is a 'significant audit judgement'?
- How do firms make significant audit judgements?
- Are there different types (levels) of judgement and how do firms deal with these?
- What is the impact on audit judgements of the time auditors spend on analysing accounting issues in order to form an opinion on them and what proportion of the judgements made by auditors are on pure audit issues?
- What is the role of junior staff, audit managers and senior managers in taking significant audit judgements and in what circumstances are matters passed to the engagement partner and/or technical departments?

### 2. Structure of audit teams

- How are teams structured and how does communication work within teams?
- What is the prevailing culture? Eg is there

openness to ideas from all members of the team?

- What is the role of juniors and how do they see their role and responsibilities?
- How are team members assessed to ensure they have the necessary competencies?
- What are the arrangements for the supervision and mentoring of junior staff?

### 3. Concerns of preparers and others

- What are the specific concerns of preparers and others regarding the conduct of audits including audit judgement and training?
- This should pick up the concerns and experiences of those in direct contact with field auditors, eg finance staff at various levels within companies

### 4. Training and qualifications including IES 8

- What is a fair application of IES 8 and are firms' current procedures compliant with the standard?
- What is the practical meaning of the terms 'audit professional' and 'significant audit judgements' as used by the standard and what are the consequential practical implications of this for firms and/or professional bodies?
- Does the UK want a higher standard than the minimum which is acceptable internationally?
- What is the role of the professional bodies regarding these matters?

- Is it appropriate for there to be significant differences in the audit experience requirements of the Recognised Qualifying Bodies (RQBs) for the award of audit qualifications?
- What is the interaction of the above with the Companies Act 2006?

## The CCAB steering committee

The CCAB has set up a steering committee with members from the CCAB bodies and also from firms and other stakeholders. There is also a sub-group looking at the specific issues around IES 8.

For areas one and two above, the intention is to obtain information from firms regarding their processes and how audit judgements are made in practice. The steering committee is seeking to obtain an understanding of the operations of audit teams including how communication works within teams. A range of different sizes and types of firm will be covered.

With respect to the concerns of preparers and others, the responses to the FRC consultation will be considered and meetings are likely to take place with relevant stakeholder groups. Information from recent audit inspections will also be taken into account. The focus will be on audit judgement issues rather than broader issues of audit quality.

**Chris Cantwell** | Manager, Audit and Assurance Faculty

# Bulletin Board

## Faculty update

### Skilled persons' guidance – reporting under section 166 Financial Services and Markets Act 2000

The Financial Services Faculty issued the interim guidance FSF 01/08 *Skilled persons' guidance - reporting under s. 166 Financial Services and Markets Act 2000* to assist chartered accountants who are requested to report under s. 166 Financial Services and Markets Act 2000. The guidance will replace Tech 20/03 *Skilled persons' guidance - reporting under s. 166 Financial Services and Markets Act 2000*.

The interim guidance reflects the introduction of s. 166 Return Assurance Reports and the provisions of Investment Firms (Auditor's Reports) Instrument 2007 by removing references to the requirement for routine audit of regulatory returns for all but insurers and credit unions.

The Financial Services Faculty seeks to receive comments on FSF 01/08. Please send your comments to Iain Coke, [iain.coke@icaew.com](mailto:iain.coke@icaew.com) by **1 August 2008**.

### Auditor cessation statements

To help registered auditors with the new requirements when an auditor ceases to hold office, there is now a flowchart and guidance notes on the Institute's website which set out the process. These can be found at [www.icaew.com/auditnews](http://www.icaew.com/auditnews).

### Internal Audit Lecture

**Topic:** Managing internal audit's role, remit and skill base: achieving the right balance

**Speaker:** Karen Dignan, Deutsche Bank

**Date:** Monday 8 September 2008 at 6.00pm

The lecture will be followed by wine and a buffet. The event will be held at Moorgate Place and costs £40.00. For more information and to book a place at this event, visit [www.icaew.com/aaf](http://www.icaew.com/aaf).

### The results are in - Career Benchmarking Survey 2008

The average annual salary of an ACA working in business is £76,200 (median £65k), with an average bonus of £21,700. These results continue to reflect the value and contribution that ACAs make in all aspects of business and industry, according to research undertaken by the ICAEW and Robert Half.

View the full report [www.icaew.com/careersurvey](http://www.icaew.com/careersurvey)

## RELATED

Page	Article	Document(s) mentioned	Get a copy
1	Hold harmless letters for investigating accountants	Audit 04/03 <i>Access to Working Papers by Investigating Accountants</i>  Exposure draft of AAF 01/08 <i>Access to Information by Successor Auditors</i>	<a href="http://www.icaew.com/technicalreleases">www.icaew.com/technicalreleases</a>  <a href="http://www.icaew.com/index.cfm?route=157247">www.icaew.com/index.cfm?route=157247</a>
3	Faculty autumn roadshow	Book online	<a href="http://www.icaew.com/aaf">www.icaew.com/aaf</a>
5	Assurance on non-financial information	<i>re:Assurance</i> initiative  <i>Perspectives on assurance: Engaging practitioners</i>  Technical Release 04/06, <i>Assurance engagements: management of risk and liability</i>	<a href="http://www.icaew.com/assurance">www.icaew.com/assurance</a>  <a href="http://www.icaew.com/assurance">www.icaew.com/assurance</a>  <a href="http://www.icaew.com/technicalreleases">www.icaew.com/technicalreleases</a>
7	Reducing the burden when reporting on grant claims	Audit 3/03 <i>Public Sector Special Reporting Engagements – Grant Claims</i>	<a href="http://www.icaew.com/technicalreleases">www.icaew.com/technicalreleases</a>
8	IFAC code of ethics: IFAC re-exposes proposals on two areas of the independence requirements	Re-exposure draft	<a href="http://www.ifac.org/Guidance/EXD-Details.php?EDID=0112">www.ifac.org/Guidance/EXD-Details.php?EDID=0112</a>
11	CCAB project on audit conduct and training	FRC feedback paper <i>Promoting Audit Quality</i>  Responses to the FRC consultation  IES 8 <i>Competence Requirements For Audit Professionals</i>	<a href="http://www.frc.org.uk/images/uploaded/documents/Feedback%20Document%20Final3.pdf">www.frc.org.uk/images/uploaded/documents/Feedback%20Document%20Final3.pdf</a>  <a href="http://www.frc.org.uk/about/promotingauditqualityresponses.cfm">www.frc.org.uk/about/promotingauditqualityresponses.cfm</a>  <a href="http://www.ifac.org/Store/Details.tmpl?SID=1152117338646246&amp;Cart=1210923340607775">www.ifac.org/Store/Details.tmpl?SID=1152117338646246&amp;Cart=1210923340607775</a>

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