



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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By email

Dear Mr Marston

PRACTICE NOTE 21 – THE AUDIT OF INVESTMENT BUSINESS IN THE UNITED KINGDOM (REVISED)

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on PRACTICE NOTE 21 – THE AUDIT OF INVESTMENT BUSINESS IN THE UNITED KINGDOM (REVISED).

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

Yours sincerely

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ICAEW Representation

ICAEW REP 91/07

PRACTICE NOTE 21 – THE AUDIT OF INVESTMENT BUSINESS IN THE UNITED KINGDOM (REVISED)

Memorandum of comment submitted in September 2007 by The Institute of Chartered Accountants in England and Wales, in response to The Auditing Practices Board Limited's Consultation Draft Practice Note 21– The Audit of Investment Business in the United Kingdom (Revised) published in August 2007

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute or the ICAEW) welcomes the opportunity to comment on the *Consultation Draft Practice Note 21– The Audit of Investment Business in the United Kingdom (Revised)* published by The Auditing Practices Board Limited (the APB).

WHO WE ARE

2. 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.
3. 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 ICAEW ensures these skills are constantly developed, recognised and valued.

GENERAL

4. With the removal of the requirement to report to the FSA on the adequacy of an investment business' financial resources as part of the regulatory audit, auditors may be seeking guidance on the extent of work they need to perform in relation to regulatory returns when carrying out their statutory audit. The question is whether additional guidance should be included in the revised PN21 or dealt with elsewhere. The ICAEW will be willing to provide guidance in this area in the form of a Technical Release if this is not incorporated into PN 21.

Required knowledge

5. Paragraph 52 currently requires the auditors to have knowledge of 'conduct of business rules . . . sufficient to enable them to be alert to possible breaches'. The requirement for the auditors to have knowledge of 'conduct of business rules' is demanding and could be revised by a general requirement to understand the business and the objectives of conduct of business regulation.

Appendix 1.1

6. The example report in Appendix 1.1 is unlikely to be applicable to BIPRU firms/exempt CAD firms as they are not subject to SUP 3.9. Consideration should be given appropriately. The report (and the client asset report) will also benefit if it specifies the actual dates covered by the opinion rather than referring to the 'period since the last date' and 'at the date at which the report has been made.' In the nominee opinion in paragraph (a), consideration should be given to whether the phrase 'were adequate' needs to be expressed in relation to a certain subject matter – such as the auditing firm's ability to comply with the rules in CASS.

OPINION ON CLIENT MONEY AND CUSTODY ASSETS [SUP 3.10]

ISAE 3000

7. The Institute welcomes the APB's decision to use ISAE 3000 as the basis in developing a revised PN 21. However, the guidance in the current draft may need to be expanded in some respects, in particular in relation to documentation of the understanding of the business and procedures performed (paragraph 260) and quality controls (paragraph 240- paragraph 241). We believe that this would be in line with the thinking within the IAASB. For instance, the issues paper due to be discussed at the IAASB's meeting later this month on ISAE 3402 *Service organizations* recognises that these sections may be expanded to reflect the latest thinking of redrafted ISA 230 (Audit Documentation) and 220 (Quality Control for an Audit of Financial Statements).

Use of the term 'auditor/auditors'

8. The term 'auditor/auditors' is used to refer to the practitioner engaged to issue a client asset report to the FSA. We appreciate that the term is used in the FSA Handbook to which this Practice Note relates but consider the clarity could be improved as to the reason why this term is used. The text in footnote 28 may be incorporated into paragraph 222.

Improved consistency and clarity

9. We consider that the guidance could benefit from general 'tidying-up' to improve its consistency and clarity. For example, it would be helpful to have guidance as to: whether preliminary review (paragraph 245) is required or merely a recommended procedure; when changes in engagement circumstances (paragraph 246) may lead to the accountants' report being qualified; and how much work is required to ensure the tests 'at particular points in time' enable a conclusion as to whether the investment business has met its continuing obligation 'throughout the period' (paragraph 252).

Assurance engagement risk and work effort

10. The IAASB Assurance Framework defines assurance engagement risk as 'the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated'. Assuming that paragraph 224 is setting out the subject matter of the engagement, the bullet points in paragraph 249 could simply repeat the three assertions made in paragraph 224 for consistency.
11. Paragraph 249 mentions the risk of issuing an unmodified report when there is 'insufficient appropriate evidence available'. It would be helpful to link this section to Appendix 2 whereby some connection is made as to the work required in the performance of this type of engagement.
12. Assessment of assurance engagement risk is closely related to the auditors' understanding of the entity, its operations and its environment. Whilst the draft paragraphs 250 and 251 set out some of procedures to be followed, it would be helpful if the Practice Note clearly states the need to obtain an understanding of the systems and controls. This is particularly relevant where the investment business is exempt from an audit, whereby the auditors would perform procedures that would contribute to obtaining such understanding. We also

believe that (a) to (e) in paragraph 250 are illustrative and hence it might be more appropriate to use 'include' rather than 'are' in this paragraph.

Standard auditors' report

13. Assuming that the auditors' report is also intended to follow ISAE 3000, the report content illustrated in paragraph 264 appears to lack some of the bold type requirements in ISAE 3000, including:

- title of the report to indicate that it is an assurance engagement;
- criteria against which the three assertions in paragraph 224 are examined against;
- respective responsibilities;
- reference to ISAE 3000; and
- the summary of work performed to obtain reasonable assurance.

The example report in Appendix 1.2 could also be revised accordingly.

14. We note that the wording of the auditor's report in Appendix 1.2 uses the expression '(w)e have obtained all the information and explanations which we believe are necessary for the purpose of our report...'. We believe that a more modern expression 'we plan and perform ... to obtain reasonable assurance about whether ...' is more widely used in assurance reporting today and the example report should follow the latest thinking.

15. Paragraph 2 of Appendix 1.2 should state that the report has been prepared in accordance with SUP 3.10.4 so as to be consistent with the wording of the report in Appendix 1.1. A heading 'Basis of Opinion' is missing in the report in Appendix 1.2.

Effective date

16. Paragraph 222 states that certain investment businesses will not be required to have a statutory audit of their financial statements "for year ends commencing on or after 1 January 2007". We assume that this is a reference to the provisions of SI 2006/2782, in which case reference should be to periods-ending on or after 31 December 2006.

Appendix 2

17. Appendix 2 provides detailed guidance on the work 'normally carried out in order to form an opinion on client assets in the auditors' report to FSA.' The difficulty with this section is that there are multiple versions of CASS that exist depending on whether the investment firm does MiFID business. It is helpful to provide the example control objectives that are included in this section but, at the same time, the Appendix should clearly point out that these are shown as examples only and the auditors need to read the CASS as there are differences between the MiFID and non-MiFID rules which may not be fully reflected in Appendix 2.

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