



11 March 2011

Our ref: ICAEW Rep 26/11

Mr James Gunn
Technical Director,
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear James

IAASB Proposed Strategy and Work Program 2012-14

ICAEW welcomes the opportunity to comment on the proposals relating to IAPSS and IAPS 1000 published by IAASB in January 2011.

ICAEW 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, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

Recently, we were particularly pleased to welcome Professor Arnold Schilder, Chairman of IAASB, accompanied by IAASB staff, to Chartered Accountants' Hall. Discussions that took place on ISA implementation issues show a commendable willingness on the part of IAASB to engage with users in order to inform IAASB views on the subject which sets a good example to other standard-setters.

We are also particularly pleased to note that several of the projects that we listed in our earlier response to IAASB on its strategy and work program have already been commenced, including a project on audit quality and new guidance on the audit of disclosures. We emphasise the importance of professional scepticism in the context of both projects and the importance that the profession attaches to this subject. In the UK, we will be working closely with regulators and standard-setters such as the FRC and APB on projects already commenced in this area.

We noted in our earlier response to IAASB on its strategic review and work program that ICAEW is aware of the difficulties associated with engaging investors and representatives of smaller practitioners in its activities but that it urges IAASB to continue to renew efforts in this area in order to maintain its credibility, influence and focus. Initial interest in audit related issues sometimes fades among representative of investor groups and smaller practitioners. This must always prompt further efforts to keep such representatives on board or to find further representatives. Pro-activity is the key; calls for engagement are not enough because establishing relationships with such groups is a long-term, largely one way activity.

We also noted that objectives-based auditing standards must in practice be used by auditors of entities of all sizes and that in order to do this, IAASB needs to effectively support and learn from the implementation of clarified ISAs. We noted that IAASB should also develop standards for assurance services that are in practice used by professional accountants and that the public interest includes serving the needs of SMEs through SMPs, as well as serving the world's capital markets. And we cautioned that IAASB

should be aware of the potential for long-term loss of influence over the profession as a whole if SMPs cease to conduct audits because IAASB standards are perceived as prescriptive, onerous, expensive, or simply unsuitable for smaller audits. It is important that the non-audit assurance engagements currently under development are workable in practice, in order to avoid their being bypassed by national standard-setters and practitioners.

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

Yours sincerely

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ICAEW Comment on IAASB Questions

1. Whether the IAASB's three areas of strategic focus noted in paragraphs 7–11 remain appropriate;

We are content that IAASB's three areas of strategic focus noted in paragraphs 7–11 remain appropriate.

2. Whether the list of anticipated projects likely to commence in 2012–2014 (Column B) adequately address issues currently facing the accounting and auditing professions, in particular:

(i) Whether respondents support the IAASB undertaking work in these areas and, if not, the reasons why a particular project(s) would not be supported;

(ii) Whether respondents believe these projects are consistent with the IAASB's three areas of strategic focus; and

(iii) How these anticipated projects should be prioritized in light of the current projects (Column A).

We have no objection to any of the projects listed in column B, but while we do not consider that B2 - the revision of ISRS 4400 on agreed-upon procedures - is urgent, we do consider it important. ISRE 2400 and ISRSs 4410 and 4400 are critical to both the development of global alternative assurance and non-assurance services for SMEs and IAASB's influence in this sphere.

We believe that B6 - a publication on the benefits of adopting ISAs - is important because, as we noted in our earlier response, the expectation gap is perhaps less important now than the relevance gap; the recent financial crisis has not so far, as many had feared, highlighted the expectation gap but it has called into question the relevance of the audit. It is therefore important that IAASB focuses on investigating the nature of audit quality and promoting the value of audit. We also noted that audit quality is supported by a complex interaction of standards, oversight and the attractiveness of the profession and that of immediate relevance is the extent to which standard-setters, regulatory and oversight bodies are able to support each other in moving in concert away from rules and towards objectives-based standards that encourage a thinking approach. We noted that IAASB should support courageous moves by regulatory and oversight bodies in particular towards objectives-based oversight and regulation, by clearly articulating the benefits of short, clear, objectives-based standards (and making renewed efforts to develop such standards). This can be achieved perhaps by issuing a number of different publications aimed at promoting the benefits of adopting ISAs, for different audiences. It is essential that an energetic promotion and lobbying campaign accompany this project if it is to be worthwhile.

B4 - taking a pro-active role in identifying implementation challenges and addressing those in concert with NSS, member bodies, oversight bodies and others - is also important. We emphasise the importance of member bodies in this context because it is they rather than standard-setters who face the implementation challenge.

Both of the 'B' projects noted above are more important than B1 – projects for new or revised ISAs. We noted in our earlier response that developing and revising standards cannot be done effectively in the absence of good quality information about how standards have been adopted. IAASB should resist pressure to develop or revise standards too early. If the benefit of clarified ISAs is to be seen in improved audit quality, the standards need time to be embedded in audit methodologies and audit practice. IAASB should seek to clearly distinguish, wherever possible, consistency issues arising from poor application, and consistency issues arising from a lack of clarity in standards. It is important that adequate time is made available to respond to the challenges that are likely to arise from implementation, as well as to monitor it, and not to fill the agenda with other projects in the hope or

expectation that this will not be needed or can be fitted in around new projects. Direct engagement with users of ISAs, as represented by member bodies, as well as standard-setters, regulators and oversight bodies, is essential in achieving consistent implementation of clarified ISAs in the way IAASB intended.

B3 on prospective financial information and B5 on assurance reports on controls at a service organisation, are relevant but less important than the projects noted above. Serious consideration should be given to simply withdrawing the former rather than revising it, as the subject matter is very jurisdiction specific. The latter needs to be given time to bed in.

3. With respect to the additional projects (Column C):

(i) Which of the suggestions, if any, should be considered for inclusion on the future work program, and how should these be prioritized in light of the current projects (Column A) and anticipated projects likely to commence in 2012–2014 (Column B); and

(ii) Whether any particular project(s) in Column C would not be supported;

C4 - a new standard on assurance on sustainability reporting should wait until ISAE 3402 on greenhouse gasses has had time to bed in.

C5 and C6 - new standards on corporate governance and internal control are part of the wider issue of reporting on the front end of the annual report. They link with B3 on prospective financial information and should perhaps be considered together with A1 on ISA 720, C2 on preliminary announcements and the issue of auditor association dealt with in paragraph 73 of the consultation document. It is important to proceed with caution here. Other influential bodies working in this area such as the EC and the PCAOB are likely to drive the agenda according to local regulation and in working with such bodies, it is critical that IAASB should seek to manage expectations as to the level of assurance that can be provided; managing expectations is just as important as developing material in response to those expectations.

C7 on the review of interims would not require a great deal of work.

4. Respondents are specifically asked to select the top three projects either from, or in addition to, the list of suggestions for additional projects (Column C) that they believe would best meet the IAASB's public interest mandate.

C8 - on ISQC 1 for smaller firms - should be progressed as it threatens to compromise the uptake of ISRE 2400 on review engagements and is relevant to the adoption of ISAs in Europe.

C1 - on the audit of financial statements of banks and the relationship between bank supervisors and external auditors (IAPSS 1004 and 1006) - is clearly important.

C3 - on monitoring the impact for assurance of developments in integrated reporting - is also important.

5. Whether there are additional actions or projects that respondents believe should be addressed, and, if so, how these should be prioritized in relation to the projects identified in Columns B and C.

We are pleased to note that several of the projects listed in our earlier response have already been commenced, including

- *guidance on auditing complex financial instruments*
- *a project on audit quality*

- *new guidance on the audit of disclosures – we note in this context the importance of the IASB/FASB project on expect losses. It will be particularly important that the outcome of this is auditable*
- *the revision of ISRE 2400, Engagements to Review Financial Statements and ISRS 4410, Engagements to Compile Financial Statements*

We are also pleased that a revision of ISRS 4400 on agreed-upon procedures engagements features in column B and, as we noted in our earlier response, we would welcome new guidance addressing the relationship between actuaries and valuation experts, and external auditors, and on shared service centres.

- 6. It would also be helpful to understand which one project (either from Column B, Column C or an additional action not included in either column) respondents would identify as the IAASB's top priority, in order for the IAASB to consider how each of the three areas of strategic focus would be addressed in the future Work Program.**

We suggest that C8 on ISQC 1 for smaller firms is IAASB's top priority. Implementation by smaller firms is likely to have the most influence on the perceptions of the success, or otherwise, of clarified ISAs.

- 7. In addition, the IAASB would welcome comments from respondents as to the following:**

- (a) What types of publications or further implementation guidance may be of most use to facilitate the adoption and implementation of the IAASB's pronouncements; and**

We noted in our earlier response the importance of IAASB not seeking to 'improve' ISAs, or add to the guidance that surrounds them such that those who consider that they are already too long and complex for smaller audits are provided with further evidence supporting their misgivings.

Auditors are encouraged to apply a thinking approach to audits while at the same time regulatory requirements mean that they must also tick boxes. It is efficient for auditors to think first and then perform compliance work. If compliance work is performed before thought is applied, it often has to be re-performed. If auditors are overwhelmed by the extent of guidance the thinking approach tends to be abandoned.

We also noted the need for IAASB to promote a proportionate response to the documentation requirements of ISAs with reference to guidance such as the UK Auditing Practices Board's (APB) PN 26, but that this need not necessarily involve the production of further guidance. We suggested that IAASB should also consider how auditors of smaller entities can most efficiently apply the internal control requirements of the risk ISAs to ensure that work is not performed for compliance purposes only.

- 8. What opportunities may exist for the IAASB to partner with others to facilitate implementation of the clarified ISAs (for example, IFAC member bodies, NSS, training organizations, and others)?**

We note above that IAASB should look to member bodies as well as NSS for opportunities to facilitate the implementation of clarified ISAs. We also note IAASB's progress report on the implementation of clarified ISAs published last year which states that there is little sharing of implementation material between professional bodies that have produced it. ICAEW is one such body and we emphasise to IAASB the cost to the members of professional bodies of the production of such material which cannot simply be given away. ICAEW is currently looking at appropriate ways of licensing such material for use by other professional bodies such that intellectual property rights are maintained while at the same time ensuring wide dissemination. IAASB may wish to consider its own position in this regard and the most effective use of its material by other organisations.

IFAC's SMP Committee ISA, quality control and practice management guides, while generally not used in their entirety in the UK because high quality commercial material is widely available, all contain material that some practitioners have found helpful, particularly the examples. We encourage IFAC and the SMP Committee, when considering producing material in future, to consider the virtues of brevity, as many of the guides are very long which we believe has been an impediment to their acceptance in the UK. UK guidance on groups, related parties and ISQC 1 and clarified ISAs generally have been well-received, in part, we believe, because of their manageable length. We appreciate that a great deal of educational material is necessary in jurisdictions which do not have a background in clarified ISAs and we have suggested on several occasions in the past, including our most response to IAASB dated 1 February 2011 on the status of IAPs, that a separate category of background and educational material, such as staff publications, be considered.