



## **FEE consultation on the future of audit and assurance**

ICAEW welcomes the opportunity to comment on the *Future of audit and assurance consultation* published by FEE in February 2014, a copy of which is available from [http://www.fee.be/images/Future\\_of\\_Audit\\_and\\_Assurance\\_Discussion\\_Paper\\_1402.pdf](http://www.fee.be/images/Future_of_Audit_and_Assurance_Discussion_Paper_1402.pdf).

This response of 30 June 2014 has been prepared on behalf of ICAEW by the Audit and Assurance Faculty. The Audit and Assurance Faculty is recognised internationally as a leading authority and source of expertise on audit and assurance issues, the Faculty is responsible for audit and assurance submissions on behalf of ICAEW. The Faculty has around 7,500 members drawn from practising firms and organisations of all sizes in the private and public sectors.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 142,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

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## RESPONSES TO SPECIFIC QUESTIONS

### Q1: How can we respond to expectations in a constructive and realistic manner?

1. In its IoC FEE wants to promote a public debate in audit assurance and related services. A self-critical and innovative approach is proposed developing new ideas and vision by engaging with stakeholders.
2. We support this approach: the focus should be on public interest and how the profession can add value, appreciating that there are alternative sources of assurance to that independently provided by accountants and auditors. As leaders the profession should take risks to address expectations – it should never say things are ‘beyond the control of the auditor’ – there are always things that can be done.
3. An example of how ICAEW has addressed a demanding assurance requirement is in its guidance for the assurance required by the US Commodity Futures Trading Commission on London Interbank Offered Rate submissions and by IOSCO on oil spot prices: [Assurance reports on benchmarks and indices](http://www.icaew.com/en/technical/financial-services/inspiring-confidence-in-financial-services/assurance-reports-on-benchmarks-and-indices) [<http://www.icaew.com/en/technical/financial-services/inspiring-confidence-in-financial-services/assurance-reports-on-benchmarks-and-indices>]

### Q2: How should the profession engage with stakeholders?

4. ICAEW believe that the profession should engage with stakeholders through an agenda of making public policy work, in both the public and private sectors. A broad range of stakeholders need to be identified and then engaged in a way which is useful for them.
5. FEE’s discussion on the future of audit and assurance should therefore include audit reform in the EU. FEE needs to say how the profession is going to implement it effectively, and also discuss what else needs to be done to close the expectation gap.

### Q3: Do standards add the intended value or do they inhibit innovation? Are standards becoming too rules-based?

6. In the IoC FEE supports the IAASB’s work on standards, but says that the standards are implemented on a checklist basis by public audit oversight bodies. FEE supports a behaviour-centred approach based around the fundamental principles of the profession set out in the International Code of Ethics. FEE does not mention the EU audit reform settlement: mandatory rotation and caps on non-audit services do not appear to fit with its preferred approach, so therefore may not address society’s perceptions of how to improve audit and assurance quality. FEE should clarify its position.
7. As an IFAC member body ICAEW supports the development and implementation of a set of high quality international standards in auditing. The IAASB encourages experimentation in some areas, for example auditor reporting, and we support this approach within the principles of the standards to encourage innovation, transparency and the development of good practice.

### Q4: Do standards make our profession stand out? Why or why not?

8. The accounting profession’s auditing and assurance standards do stand out as they, in general, have a much higher standard for evidence than other, competing methodologies.
9. There is a perception though that they are more expensive and relatively inflexible as a result, but this is easily addressed if they are applied flexibly and transparently, if practitioners and regulators are prepared to exercise judgement.

### Q5: How can we further develop and demonstrate integrity and objectivity instead of only independence?

10. Selfless actions strengthen trust in the profession. Practitioners need to be courageous as well as right, and need to communicate this clearly to the public. Perhaps they need to behave

more like financial journalists in some circumstances to promote transparency in the public interest, and not be so careful of client confidentiality in these cases?

11. Auditors do resign from engagements, but rarely get the credit they deserve for this - the firms and profession could make more of these sorts of actions in the public interest.
12. Some in the media agree: Patrick Hosking in The Times on 9 Dec 2013 "Auditors need to be given more plaudits when they resist the blandishments of clients. Only when they do will the profession start to win back the trust of investors. A resignation by a big 4 firm unwilling to sanction fishy bean-counting in a client company would be far more effective than [a] lobbying campaign".

**Q6: At which level will you be affected by IT innovation in the coming years? If applicable, for which type of services?**

13. In the IoC FEE predicts that IT will change how the audit is carried out; automating data reconciliation, sampling and testing, and recalculations.
14. ICAEW agrees that progressive automation will change auditing and business. A study by Oxford academics has suggested that 47% of jobs could be automated in the next two decades. By sector, accounting is the second most affected, after telemarketers. [Economist Jan 18 2014].
15. Currently, auditing standards do not recognise 'big data' analysis as audit evidence: standards will need to be developed if technology is to make a step change in audit methods. Professional competency will also need to be developed and maintained in this rapidly moving environment by practitioners and professional bodies.
16. The audit could be automated – real-time and constant monitoring perhaps becoming possible - and the resulting interface with business and the public in a progressively knowledge-polarised society could be a valuable contribution for the profession.

**Q7: What are your views on the education and training of professional accountants and auditors? Is it fit for purpose? How can we ensure that it will be in the future? How can we develop education to improve the quality of services?**

17. ICAEW has made changes to our ACA qualification in 2013 to reflect changes in the business world and make it more flexible, responding to feedback from organisations training new ACAs, from high-street practices to global businesses. We also made it easier to train a new ACA, by introducing an authorised training principal scheme, allowing individual ICAEW Chartered Accountants to train people within their businesses. This keeps our qualification up-to-date.
18. Training in the application of judgment, morals and ethics remains a challenge for the profession. The AuditFutures initiative [<http://auditfutures.org/>] uses a philosophical/moral reasoning approach to education which may help in the future.

**Q8: How can we ensure that we create a new type of auditor who can adapt and react to the current and future business challenges?**

19. Audit is a people-driven economy and a key area to develop is inspiring a socially minded professional culture. Professional bodies need to explore the new competencies and qualities needed for a modern profession and to engage students, young professionals and leaders in designing the future of the profession. ICAEW's [AuditFutures](#) programme is addressing this imperative.
20. In a globalised world understanding and managing local culture is an increasingly important factor in the success of international business, including audit. Developing professionals with the soft personal skills, knowledge and behaviours to operate effectively in an increasingly multi-cultural business environment will be key to the long term success of auditing.

**Q9: Do you see merit in further exploring the suggested changes in auditor reporting outlined above?**

21. In the IoC FEE say that auditors should have a more entity bespoke approach to audit reporting, welcoming the IAASB's initiatives in this area, and beyond this suggesting that the profession might look into benchmarking or rating company reporting, reporting in real time, and giving oral explanations. The auditor originating information about the company is ruled out, but an enhanced communication with those charged with governance is welcomed.
22. ICAEW agree that benchmarking, grading, real-time reporting and a broad communication strategy for auditors' views, especially on going concern and matters of compliance with laws and regulations should be explored. Enhancing the relationship with those charged with governance is a laudable aim as well.

**Q10: Are there any other areas in which the auditor's involvement could add value?**

23. Holding businesses to account for their corporate reporting and marketing material is a developing area and has been discussed in ICAEW's 'The Journey: assuring all of the annual report' 2013 publication and at the Audit Quality Forum on 29 April 2014.
24. Auditors also have a further opportunity to improve what businesses do by checking it – a quality control role – perhaps this will be a competitive advantage for some businesses, combatting the costs increased accountability will have on capital, and its tendency to move to domiciles of least friction. Auditors need to market these services effectively though, if they are to better serve the public interest in this area.
25. Auditors' insights for a sector or on a theme are also valuable as [the ICAEW's Audit Insights](#) programme is showing.

**Q11: Do investors want different assurance to banks, to shareholders, to management?**

26. In essence no, everyone accepts that business transactions are risky; otherwise there would be no benefit. In detail yes – auditors will need different propositions to add value to different segments of the assurance market, and monetise it.
27. ICAEW's 'Journey' series of publications provides a view of how this is being done, in line with the relevant IAASB standards.

**Q12: Should the recipients of the audit report be more clearly defined?**

28. How any report can be relied upon should be clearly explained. ICAEW has long promoted the use of the 'Bannerman' wording in all statutory audit reports.

**Q13: According to your view, what range of services could be developed?**

29. In the IoC FEE supports private reporting under contract for broader areas of assurance. For SMEs FEE says that EU member states should consider the appropriateness of audit exemption for their economies, and generally supports more private assurance and more limited public assurance. For public interest entities FEE says the opposite: there should be more public reporting on these companies' management systems, market announcements, bespoke and integrated reporting beyond the financial statements.
30. ICAEW believe that a range of public and private reporting services are being developed by practices, scalable to the needs and size of the client and FEE could help promote these services across the European market.

**Q14: How can FEE be instrumental in further developments in this area?**

31. By sharing practice between members.

**Q15: Is there a need to consider alternatives to statutory audit for SMEs?**

32. Yes, but in terms of providing more services for SMEs to choose voluntarily for both public and private reporting.

**Q16: How could the range of service offerings be adapted in order to meet current and future needs in the SME environment?**

33. Services should be developed dynamically by practitioners and shared between members in the public interest using the FEE member bodies.
34. ICAEW is conducting research into the needs of SMES for accountancy services (including audit and assurance) and a report is expected in September 2014.

**Q17: Is the profession too focused on financial information?**

35. Yes

**Q18: Is there a market demand for assurance on narrative reporting in annual reports? Why (not)?**

36. Yes, ICAEW's [Journey series](#) of publications and the [AQF's Reliability programme](#) illustrates the areas of demand for this assurance.

**Q19: Will the market demand assurance on CSG, ESG and <IR> as this type of reporting becomes more widespread? Why (not)?**

37. As above, depending on the take up by the market of these reporting frameworks.

**Q20: How can the profession help public sector entities achieve high-quality financial reporting?**

38. FEE indicates in the IoC that the accounting profession can help the public sector through improving financial reporting, performance measurement and governance.
39. In the UK public sector audit is increasingly being outsourced to the private sector and ICAEW, for one is providing the mechanisms for its members and firms to compete in this market.
40. For example ICAEW has issued guidance enabling the UK Pensions Regulator implement its voluntary regulatory regime for auto-enrolment pensions for the UK working population. [<http://www.icaew.com/~media/Files/Technical/technical-releases/audit/tech-07-14aff-assurance-reporting-on-master-trusts.pdf>]. FEE might encourage national professional bodies to do the same, and share practice where available.

**Q21: What additional points should be considered in this debate?**

41. FEE concludes in the IoC that the profession needs to be at the forefront of proposing and shaping change. Its drivers should be relevance, quality, integrity, transparency and innovation.
42. Building accounting and auditing's reputation as a profession is a key challenge for the professional bodies which make up FEE. Constructive engagement with the public policy imperatives of audit reform and SMEs to make business and the perception of business better is a key tool to make this happen, and is an important leadership role for FEE. In our view this role can be discharged by FEE constructively curating and collating what member bodies and countries are doing to progress the future of audit and assurance, providing a 'shop window' for the initiatives being taken. ICAEW will support FEE's efforts in this area, as should its other member bodies.