



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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Our ref: ICAEW Rep 86/08

Jan Munro
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By email: edcomments@ifac.org.

Dear Jan

INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the paper *Independence – Audit and Review Engagements* published in May 2008.

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

Yours sincerely

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OF CHARTERED
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ICAEW Representation

ICAEW REP 86/08

INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS

Memorandum of comment submitted in August 2008 by the Institute of Chartered Accountants in England and Wales, in response to the International Ethics Standards Board for Accountants re-consultation paper: Independence – Audit and Review Engagements published in May 2008.

Contents	Paragraph
Introduction	1
Who we are	2 – 3
Comments on question 1 on restrictions on internal audit services	4 – 7
Comments on question 2 on immaterial audit services	8 – 11
Comments on question 3 on fee dependency	12 – 13

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the 'Institute' or the 'ICAEW') welcomes the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) re-consultation paper: *Independence – Audit and Review Engagements* published in May 2008.

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 130,000 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.

QUESTION 1: RESPONDENTS ARE ASKED FOR THEIR VIEWS ON WHETHER THE PROPOSED RESTRICTION ON PROVIDING INTERNAL AUDIT SERVICES TO PUBLIC INTEREST AUDIT CLIENTS IS APPROPRIATE.

4. After the reasoned endorsement received by the IESBA from most respondents to the original consultation on this matter, we regret that the IESBA has felt the need to introduce a 'regardless of the circumstances' prohibition in respect of the audit of PIEs, in 290.200. We do not see evidence of a need for further restrictions on service provision in this area, from which it follows that any benefit from these additional provisions is unproven
5. The proposed 290.201 goes on to give a carve-out for non-recurring internal audit work on a specific issue, provided adequate safeguards are put in place. This is a sensible recognition that the threats and safeguards approach can be applied successfully, though it will inevitably lead to debates on what is or is not 'non-recurring'. However, it is not clear to us why, if auditors are able to apply safeguards in such circumstances, they should not be permitted to do so in other circumstances.
6. The IESBA does not explain the rationale applied to reconcile the provisions of 290.200 and 290.201. We presume the logic is that there is a lesser potential threat for non-recurring engagements than recurring ones. While this may be a relevant factor, there are other more relevant issues, such as the extent to which the firm has given an opinion on the work performed.
7. We believe this illustrates the problems encountered with a black and white rules based approach, which can never give the optimum answer in a myriad of different circumstances.

QUESTION 2: RESPONDENTS ARE ASKED FOR THEIR VIEWS AS TO WHETHER THERE SHOULD AN EXCEPTION FOR IMMATERIAL INTERNAL AUDIT SERVICES PROVIDED TO AN AUDIT CLIENT THAT IS A PUBLIC INTEREST ENTITY.

8. It could be argued that if the principal threat is self review (as discussed in draft paragraph 290.196), the fee level is irrelevant. We assume you mean that the principal threat is self review unless the fee level is material, in which case self interest is also relevant.
9. Either way, we see no reason why there should not be an exception for immaterial internal audit services provided to an audit client that is a PIE.
10. The 2005 version of the IFAC Code of Ethics refers to the word 'material' or derivations thereof, 57 times. This recognises that in a Code based around the application of safeguards where there are significant threats, items which are immaterial are unlikely to result on the threat being significant.
11. There are a limited number of circumstances, such as direct share ownership in the audit client, where there would be a major perception problem with even an immaterial involvement, but we do not believe the provision of immaterial internal audit services is one of those circumstances.

QUESTION 3: RESPONDENTS ARE ASKED FOR THEIR VIEWS ON THE APPROPRIATENESS OF THE REQUIRED FREQUENCY OF THE APPLICATION OF THE SAFEGUARD AND THE REQUIREMENT TO DETERMINE WHETHER A PRE-ISSUANCE REVIEW IS REQUIRED IN THOSE INSTANCES WHEN THE TOTAL FEES SIGNIFICANTLY EXCEED 15%.

12. You will be aware from our previous responses of our concern about the application of bright-line thresholds in a principles-based code, particularly an international one where a whole range of factors could come to bear on what level such a threshold should be set at. We would prefer to see any amount as no more than an indicative presumption, at most.
13. However, given the partial threats and safeguards approach that IESBA has proposed to retain, the safeguards proposed seem not unreasonable.

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