

APB consultation on updating UK Auditing Standards for new International Standards

This article summarises the Auditing Practices Board's (APB) consultation paper on the adoption of clarified International Standards on Auditing (ISAs) in the UK and Ireland. The article has been prepared by Keith Billing, Project Director at the APB. The views expressed are his own.

The International Auditing and Assurance Board (IAASB) will soon complete its 'Clarity Project' to update and reformat the International Standards on Auditing (ISAs). This project has been undertaken with international regulatory support in order to improve the understandability of the ISAs and to make them more compatible with regulatory frameworks, including the EU's Statutory Audit Directive. In parallel with the Clarity Project, ISAs on important topics, such as auditing groups, estimates (including fair values) and related party transactions, are being improved to reflect the latest developments and thinking.

The intention of the IAASB is that all the ISAs redrafted in the Clarity format should come into effect internationally for audits of financial statements for periods beginning on or after 15 December 2009. However, the decision and timetable for endorsement of the Clarity ISAs within the EU has not yet been established. The APB anticipates that such endorsement, if any, would be at a later date than the effective date established by the IAASB.

In 2004, the APB made the strategic decision to base UK and Irish auditing standards on ISAs. One of the reasons for this was to benefit efficiently from future improvements in the ISAs. In recent years, the APB has channelled its energies into supporting IAASB's efforts to improve the ISAs, with the expectation that these improvements would be implemented in the UK and Ireland in due course.

The new ISAs are designed to improve the clarity of the existing requirements and to strengthen standards in several key areas that are central to the effectiveness of the audit, especially in the current reporting environment. The APB believes that the new standards should be adopted domestically as soon as practicable so that UK and Irish auditing standards will retain international credibility. Accordingly, in October this year, the APB issued a Consultation Paper on whether UK and Irish auditing standards should be updated for the Clarity ISAs when they are issued. The Consultation Paper includes the results of a Regulatory Impact Assessment that was undertaken by the APB to evaluate the possible impact on audit costs of adopting the Clarity ISAs.

The APB would greatly appreciate receiving views on any of the matters referred to in the Consultation Paper and specifically in relation to four key questions:

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The fair value debate – opinion

Ever since the start of the credit crunch in 2007, some people have been blaming it on fair value accounting. As the crunch has turned into a crisis, the emphasis of the attack on fair value has shifted. It is now blamed for making the crisis worse, rather than for starting it. This attack is being made with more force, including by some within the global banking industry.

There are plenty of issues around fair value that are worth looking into, but it is not responsible for the current crisis. The origins of the credit crunch lie in sub-prime lending in the US, coupled with falling property values, and were then spread through the global financial system by the securitisation of what have turned out to be bad loans. By now, of course, there are also other factors at work as each shock to the system further undermines confidence. In particular, the Lehman Brothers collapse was a turning point. You cannot allow a global bank with liabilities of \$600 billion to go bust and then expect the international financial system to carry on normally.

History's verdict may be different, but it's difficult to see how fair value has been a significant force in

these developments. Arguably, fair value in the current circumstances just helps to clarify how bad the situation is. And it's important to remember that fair value is only required for certain items in accounts and not even for all financial instruments. Banks continue to record many financial items at historical cost.

So far, governments, regulators and standard-setters have stood firm behind the limited requirements to use fair value that were in place before the crisis. The IASB's recent amendments to IAS 39 and IFRS 7 provide very limited help to anyone who wants to avoid fair values set in depressed markets. The changes allow certain items to be reclassified from fair value through profit and loss to fair value through equity and others to be reclassified from fair value to historical cost. But the

transfers have to be made at fair value at the point of reclassification. So if you do it now, you're probably crystallising a fair value loss.

At this moment of crisis, the Institute is opening the doors of its new Financial Reporting Faculty. A balanced view and practical help on financial reporting issues have never been more needed.

For more information about the Financial Reporting Faculty, please visit www.icaew.com/frf

Brian Singleton-Green | *Manager, Corporate Reporting*

APB consultation on updating UK Auditing Standards for new International Standards *cont'd from page 1*

1. Do you agree that ISAs (UK and Ireland) should be updated to reflect improvements in the underlying international auditing standards? If not, please explain your reasons.
2. If you agree that the ISAs (UK & Ireland) should be updated for improvements in the underlying international auditing standards, do you believe that this should be done by adopting the Clarity ISAs:
 - (a) as soon as practicable, or
 - (b) if and when they are endorsed by the EC?
3. If you believe the Clarity ISAs should be adopted as soon as practicable, do you believe it will be practicable to require the resulting new ISAs (UK & Ireland) to apply to audits of UK and Irish entities with accounting periods commencing on or after 15 December 2009?
4. Do you support APB's view that the same standards should apply to audits of entities of all sizes? If not, please explain your reasons.

Adoption of the new ISAs would also support

international harmonisation of auditing standards. Current indications are that Australia, Brazil, Canada, the Netherlands and South Africa will implement the Clarity ISAs broadly in line with IAASB's timetable, and that New Zealand and India will soon follow. On 21 October, the US Public Company Accounting Oversight Board (PCAOB) issued exposure drafts of seven auditing standards intended to update the core requirements of the US standards, especially in relation to assessing and responding to risks. It is notable that the PCAOB used the ISAs as the basis for developing its proposals and a comparison shows a significant level of commonality of the requirements.

The basis of the APB's consultation is that the new ISAs should apply to all audits. For this approach to work, it is essential that the accountancy bodies and external providers give training and implementation support, especially to the auditors of smaller entities. The APB has been liaising with the accountancy bodies and is committed to working with them throughout this process and assisting where possible.

The APB's Consultation Paper can be downloaded, free of charge, from the Publications/Exposure Drafts section of the APB's website

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Keith Billing | *Project Director, Auditing Practices Board*

Companies Act 2006 – where are we?



With the passing of the final commencement order, the time is now ripe to round up the issues relevant to auditors, particularly given the issue of a new APB Bulletin on miscellaneous reports required by the Act.

Guidance specifically aimed at auditors

- *APB Bulletins:* Earlier APB Bulletins covered auditors' reports on short periods (2008/8), summary financial statements (2008/3), abbreviated accounts (2008/4) and revised accounts and reports (2008/5). The APB has now published the final Bulletin 2008/9 *Miscellaneous Reports by Auditors Required by the United Kingdom Companies Act 2006*, which updates the remaining guidance and examples from the old Practice Note 8. This includes both changes effective from 6 April 2008 and from 1 October 2009; for the latter group of reports (re-registration as a PLC, redemption of shares out of capital, allotment of shares for non-cash consideration and transfer of non-cash assets to a public company), Practice Note 8 still applies until that date – so don't throw your copy away just yet **R**.
- *Audit reports:* The APB has recently consulted on audit reports to be used for periods ending on or after 5 April 2009. APB Bulletin 2008/8 provides updated examples from those in Bulletin 2006/6 for short periods commencing on or after 6 April 2008 but ending before 5 April 2009. Guidance is given in APB Bulletin 2008/6 on the requirement for company audit reports and certain other reports to be signed by the 'Senior Statutory Auditor' in his/her own name. Care is needed as some other Companies Act reports can still be signed in the firm's name. For the same periods, auditors must use the term 'Statutory auditors' rather than 'Registered auditors' below their signature, whether it is that of the firm or the individual partner.
- *Auditor liability limitation agreements:* The FRC published guidance back in July 2008 **R** (see article in the October issue of *Audit & Beyond*) and this includes a summary of the law, guidance for directors and specimen wording.

The position for UK incorporated SEC registrants is still under discussion by the FRC and the SEC.

- *Loss of office:* The rules around what to notify to whom when an auditor loses office are complex; they differ depending on whether it was a 'major audit' and whether it occurs before the end of the term of office. Guidance on which notifications need to be made to whom has been provided by the ICAEW and the POB **R**. Specimen letters are included in APB Bulletin 2008/09.
- *Access to working papers by successor auditors:* The Audit Regulations implement the requirement of the Companies Act 2006 that for 'statutory audits' (as defined in s1210 of that Act), the outgoing auditor provides their successor with access to their working papers; it does not apply to other audits not listed in s1210 (e.g. unincorporated charities and pension funds), even though those are required by statute. Guidance on this requirement, which applies for accounting periods commencing on or after 6 April 2008, is included in ICAEW technical release AAF 01/08 *Access to Information by Successor Auditors* **R**.

Application of the accounting and audit provisions of the Act

The accounting and audit provisions of the Act apply directly to companies for financial years commencing on or after 6 April 2008. This means that for the vast majority of companies that have either December 2008 or March 2009 year ends that their next accounts and directors' report will still be prepared under the 1985 Act and the audit report will refer to the 1985 Act and be signed in the firm's name. However, watch out for short periods and for companies with a

31 March accounting reference date that took advantage of the ability to prepare their last accounts to a date up to seven days later to draw up accounts to 5, 6 or 7 April 2008.

The government has applied the changes made to company accounts and audits to certain other types of entity, but the timing of these differs and applies for financial years beginning on or after:

- Banks, insurers, qualifying partnerships (as defined by the Partnerships (Accounts) Regulations 2008) – 6 April 2008
- Building societies together with friendly societies and industrial and provident societies that are insurers – 29 June 2008
- Limited liability partnerships – 1 October 2008
- Lloyd's syndicates – 1 January 2009

Richard Gillin, is a director in Deloitte's National Accounting and Audit department and a member of the faculty's Technical and Practical Auditing Committee.

The faculty will shortly issue an updated supplement on Companies Act audit-related provisions. This will be available to members on the faculty website.

The Seventh Framework Programme



The Seventh Framework Programme (FP7) is now in progress and firms will soon be required to provide an accountants report if their client has received research monies from the European Commission.

Research, education and innovation are core factors in the European Union's strategy. Numerous programmes, initiatives and support measures are carried out at EU level in support of knowledge. The Seventh Framework Programme (FP7) bundles all research and technological development into one area. This is the EU's main instrument for funding research in Europe and will run from 2007–2013. FP7 is also designed to respond to Europe's employment needs, competitiveness and quality of life.

The broad objectives of FP7 have been grouped into four categories:

- Co-operation
- Ideas
- People
- Capacities

For each category, there is a specific programme corresponding to the main areas of EU research policy. Many UK based organisations from universities, research centres, multi-national corporations, SMEs and individuals have applied for FP7 grants from the European Commission (EC). The EC has implemented FP7 by way of funding schemes through:

- Collaborative projects
- Networks of excellence
- Co-ordination and support actions
- Individual projects
- Support for training and career development of researchers
- Research for the benefit of specific groups
- Allocation of FP7 funding

The basic principle of funding in FP7 is co-financing. This means that the EC gives grants to existing research projects, thus contributing a certain percentage to the overall costs.

For successful proposals, the EC enters into financial and scientific/technical negotiations with the consortium on the details of the project. Finally, a grant agreement between each participant and the Commission is drawn up setting out the rights and obligations of the beneficiaries (grant recipients) and the EC, including its financial contribution to the research costs.

How does this affect accountants?

As part of the grant conditions, grant recipients will be required to provide independent accountants' reports to the EC on the Certificates on the Financial Statements and the Methodology for calculating personnel costs/indirect costs, so that the EC can assess whether costs (and, if relevant, the receipts and interests generated by the pre-financing) charged under the project are claimed by the beneficiaries in accordance with the relevant legal and financial provisions of the FP7 model Grant Agreement.

The accountant will enter into an engagement with the grant recipient to perform specific agreed-upon procedures. As this engagement is not an assurance engagement the accountant will not provide an opinion and will not express any assurance. The EC derives its assurance by drawing its own conclusions from the factual findings reported provided by accountants.

Forms D & E are the model Terms of Reference and include the scope of work, the procedures to be performed and the report format. There are some discrepancies within Forms D&E which the EC was unwilling to amend at the time of publication. However, it has sought to provide further guidance in relation to Forms D & E, which attempts to explain the discrepancies.

Accountants are required to follow the terms of reference in Forms D & E as much as possible. However, they are able to insert standard

wording that their firm would normally use in relation to liability and duty of care under the section on 'other terms'.

The EC has also included some provisions in relation to access to working papers by the European Court of Auditors (ECA). However, accountants need to be aware that there is no automatic right of access by the ECA to the auditors' working papers and any request for access needs to be justified (ie why is the access required and for what purpose). Accountants' working papers are their legal property and they have the right to restrict or decline access to them. By permitting other third parties to review them, accountants risk creating a duty of care to that third party in relation to those working papers. In addition, the working papers may contain confidential information in relation to the client.

The accountants' report should provide all the necessary information about the work that has been carried out and therefore there should not, in most cases, be any need for the ECA to require access to the accountants' working papers. However, there may be cases where the ECA does need access if it has doubts about a grant recipient's claims and refusing access may be seen as unhelpful. Accountants will therefore need to consider any such request carefully and may wish to take legal advice prior to agreeing to provide access. If access is permitted, they may wish to consider obtaining an authorisation letter from the client and a release letter from the ECA.

Further information in relation to FP7 and the various guidance notes can be found on the website [R](#).

Sumita Shah | *Manager, Audit and Assurance Faculty*

Assurance reports – a practitioner's experience



I first heard about the assurance service on unaudited financial statements at the Audit and Assurance Faculty roadshow in November 2006. Very soon afterwards, one of our partners, who had also attended the roadshow, met a prospective new client. The prospective client had heard there was something in between an audit and an accountant's report and wanted to know whether we could offer such a service. The partner was able to explain the assurance report and what it involved, and the prospective client decided this was just what they wanted.

Following this, we decided to spread the word to all of our partners and managers across the firm so they were fully aware of the service in case a similar situation arose. Since then, we have had a number of clients decide on an assurance report.

In our experience, whilst some of the work to be done in order to be able to issue an assurance report is required by the guidance, *AAF 03/06 The ICAEW Assurance Service on Unaudited Financial Statements* **R**, much of it will be specific to the client and it is therefore important that work programmes are tailored to their specific circumstances.

For example, on a new client which had recently started trading, we discussed the business with the director and the accounting records with the bookkeeper. From those discussions, we decided that there were unlikely to be any problems with the basic accounting records. However, the director was to provide the amount to be included in both work in progress and accrued income and, as this was an area involving significant judgement, we decided that we would focus more detailed work on this area.

We made use of our standard audit exempt company work programme, which involves analytical review, ensuring the key control accounts reconcile, discussing with the client and bookkeeper the need for bad debt and stock provisions while reviewing transactions with directors in more detail. We then supplemented this with some specific substantive tests on the work in progress. This involved ensuring the client understood the accounting requirements, and then reviewing some of the balances in more detail to ensure that they had been correctly accounted for. Some specific points were also included in the letter of representation.

On other clients, we assist more with the preparation of the financial statements and can therefore place some reliance on that work. Often, in these cases, detailed analytical review and discussion and representation from management, will gain sufficient additional comfort to issue our assurance report.

Our experience has been that a variety of companies have taken the option of an assurance report. Some are just below the audit threshold and miss the peace of mind a full audit provides and are thus seeking more comfort than an accounts compilation report offers. Others are small companies which previously retained a voluntary audit, but have now decided that this process will provide just the level of comfort that they need.

With an assurance engagement, we still need to understand the client and use our professional judgement to decide the level of work we need to do in order to make us comfortable to issue an assurance report. The planning stage is vital to make sure that we do not end up doing too much work, especially on clients which we have previously audited.

For some clients, we are now in the second year of assurance reports. What we have found on some of the jobs is that in the first year we probably did too much work. We were still doing some of the testing that we used to do when they were an audit client, but now there is probably no need. We are therefore placing more reliance at the planning stage on analytical review and discussions with management

where appropriate, and then only perform further substantive work on those areas we have agreed we will look at because the client wants us to, or because we consider them to be a risk.

We have found that we tend to have good profit margins on assurance engagements. The client does see the benefit of the assurance report and we do not have to go through as many forms that come with the software or complete many substantive tests to ensure compliance as we do on an audit engagement. It is important to consider what is appropriate to meet a client's needs, and not be tied to doing work unless it is necessary.

The key thing for us is that the guidance in AAF 03/06 has made it easier to offer another assurance service to clients that require a certain level of assurance but where an audit is not appropriate or wanted. The guidance is comprehensive on how to approach the engagement; it provides practical essentials such as the letter of engagement and, very importantly, allows us to tailor the assignment for a particular client.

Catherine Willshire | *Technical Senior Manager, Price Bailey LLP*

Audit Quality Forum roundup – meeting stakeholders' needs



The Audit Quality Forum **R** was established in December 2004 at the request of the Secretary of State for Trade and Industry. The forum brings together representatives of auditors, investors, business and regulatory bodies.

Its purpose is to encourage stakeholders to work together by promoting open and constructive dialogue about transparency, accountability, reporting and confidence in the independent audit. It contributes to the work of government and regulators and generates practical ideas.

The original Audit Quality Forum work programme *Shareholder involvement* **R** was launched in January 2005 to deal with issues of interest to shareholders as the intended beneficiaries of the UK statutory audit. The UK audit environment was due to be changed because of the removal of the statutory prohibition on any limitation of auditor liability. In order to maintain continued shareholder confidence in the quality of audit, the forum addressed a number of issues – which were subsequently addressed in the UK Companies Act 2006, the EU Statutory Audit Directive of 2006 and in work by the UK Financial Reporting Council (and subsequently on an international basis) – to look at the structure of the audit market and the governance and transparency of audit firms.

The *Fundamentals* work programme **R** began in December 2005 against the backdrop of the UK adoption of International Standards on Auditing (ISAs) by the Auditing Practices Board (APB). It considered matters outside the scope of global auditing standards which were fundamental to auditing practice. These themes continue to be relevant internationally as more countries around the world move to adopt ISAs. The work of the forum on audit reporting has subsequently been pursued by the APB.

Launched in July 2007, the *Evolution* work programme **R** has been looking at examples of changes in the auditing environment which the audit might need to adapt to if it is to survive and thrive. The fundamental concern in studying each of the areas chosen for the *Evolution* work programme has been to understand how best to maintain and enhance audit quality in the face of major changes in the environment in which auditing takes place.

Changes in corporate governance: work on the

impact of audit committees on auditing concluded on the basis of a forum debate that changes in corporate governance regimes can have a profound and positive effect on the conduct and effectiveness of audits and hence their quality. Nevertheless, there are good reasons for auditing standards to remain governance framework-neutral and for high quality governance not to become a precondition for the performance of high quality audit.

Changes in society: work on reconciling stakeholder expectations of the statutory audit showed that a financial statement audit designed for shareholders could not become 'all things to all people'. However, other audit-like services might be developed for stakeholders other than shareholders. The onus should rest primarily with the directors and managements of audited businesses to determine how such services might be used to help them manage the expectations of stakeholders in their businesses. The paper prepared for the forum did not consider it to be within the forum's remit to consider how audit firms, audit regulators and standard setters should address the expectations of their stakeholders.

Changes in financial reporting: work on changes in what is audited identified the profound effects that financial reporting developments have on auditing practice. There are two different points of view about the relationship between financial reporting and auditing practice: one is that over time auditing should develop and adapt to any

changes in financial reporting practice; the other is that auditing and auditability impose limits on how financial reporting should develop and that failure to recognise this could fundamentally damage the future credibility of auditing.

There continues to be strong support for the forum in fostering open and constructive debate about issues which are in the broadest sense related to audit quality. The forum is seen as particularly valuable in enhancing confidence in audited financial information because of the unique way that it brings together representatives of audit firms, investors, business, regulators and standard setters.

In the light of input received from the forum (the most recent meeting was on 6 October 2008), the future activity will build on the experience of the three previous work programmes and look at *Global challenges* facing the financial statement audit if it is to continue to meet the quality expectations of shareholders and investors. The three previous programmes on *Shareholder involvement*, *Fundamentals* and *Evolution* respectively, provide the basis for organising *Global challenges* under three corresponding headings of *Audit market needs*, *Audit performance* and *Audited financial information*.

Henry Irving | *Head of Audit and Assurance Faculty*

Audit Quality Forum to publish a paper on stakeholder expectations of audit

In its meeting on 6 October 2008, the forum discussed a paper on the stakeholder expectations of audit, which is planned to be published by the end of 2008.

While the shareholder-orientated purpose of the statutory audit is clear, others have a keen interest in the audit as a way of reinforcing trust and confidence in corporate reporting. Audit affects a wide variety of stakeholders and these stakeholders have different expectations of the audit. The paper examines whether the audit can accommodate these expectations without weakening its clear statutory purpose and what other alternative solutions might be available to meet these stakeholder expectations.



The Audit Quality Forum publications, *Agency theory and the role of audit and Audit purpose* **R**, focus primarily on legal relationships between auditors, directors and shareholders but there are other people who are seen as stakeholders and will have expectations of the audit.

S T A K E H O L D E R S	Shareholders
	Directors
	Management
	Audit firms
	Auditors
	Audit regulators
	Regulators of organisations
	Creditors and lenders
	Employees
	Others

The audit has a clearly identified (and statutory) purpose which is to provide an independent opinion to the shareholders on the truth and fairness of the financial statements that are prepared by the board of directors. However, we need to reconcile this statement with the reality that the world is far more complex. Organisations have a variety of stakeholders and any of these stakeholders can have expectations of audit. While audit firms, regulators, standard setters and audited entities have stakeholders and need to find ways of managing their expectations, the paper focuses purely on stakeholders in the context of audited entities.

In the current environment, which emphasises simplification and deregulatory initiatives for smaller organisations, the audit is only a mandatory requirement for a minority of organisations. This reduces the incentive to try to load greater expectations onto the audit. The audit may be seen as just one form of specialist assurance service provided to meet the needs of a particular group of stakeholders. The expectations of stakeholders other than shareholders cannot simply be bolted on to the statutory audit.

If the audit attempted to meet all the different expectations of stakeholders, then there would be potential consequences that could impact on its value. For example, the information set to which the audit opinion is attached is likely to grow significantly, leading to problems around assessing completeness and providing relevant and easily accessible information. Even within the category of shareholders of

organisations there are conflicting interests to address. Perhaps there is a greater need to explore these differences further, rather than to try to balance other stakeholder expectations which ultimately will lead to a need to prioritise interests and reopen the question about for whom the audit should be.

To run any organisation effectively, directors need to think about its stakeholders. They are responsible for considering the expectations of stakeholders, for deciding what expectations they want to respond to (other than those already enshrined in law), and for meeting them in whatever way they consider to be the most appropriate. Stakeholder theory supports this as it is about organisations and their stakeholders. It is not the role of the audit or auditors to ensure that organisations are meeting the expectations of their stakeholders.

It is important to analyse stakeholder expectations and consider stakeholders' respective bargaining powers and relevant legal obligations, for example, the need to treat all market participants fairly in terms of disclosure of information. Directors then need to identify the most appropriate way to

meet expectations that can and should be addressed.

If directors wish to make information available to stakeholders they may identify a role for professional accountants through performing assurance or other work.

Independent experts can provide an assurance service beyond the statutory audit. It may be seen as responding to concerns by stakeholders over the credibility of information provided by directors in a similar way as the audit seeks to address the principal-agent conflict between shareholders and directors. The audit is not, therefore, the only answer.

It is perhaps more fruitful to think about how to develop or tailor other services to meet emerging needs of these stakeholders. The Audit Quality Forum may, in its future programme, explore further with organisations and their stakeholders the mechanisms available to directors to meet stakeholder needs, including assurance services. This might be particularly relevant to stakeholders such as bond holders and the needs of those organisations which provide bond ratings.

Likewise, there are other issues that are worthy of further consideration. For example, there are potentially conflicting expectations within the category of shareholders that need to be reconciled by directors. Organisations need to be highly sensitive to these different needs. The paper only focused on the stakeholders of audited entities. There is perhaps also more work for the forum to do in terms of understanding stakeholders of other entities, for example, audit firms and regulators.

Henry Irving | Head of Audit and Assurance Faculty

2008 year in review

It has been a challenging time for auditors in the last few years with the revised APB Ethical Standards, International Standards on Auditing (UK and Ireland) and revised audit regulations arising from numerous changes in the Companies Act 2006. The faculty has worked hard to provide timely, practical and effective support to members during this time, while maintaining its commitment to leading the debate on audit quality and assurance related matters.

Audit Quality Forum

The faculty has continued to drive the work of the Audit Quality Forum – the leading mechanism for open and constructive debate about transparency, accountability, reporting and confidence in independent audit – with the successful delivery of two key papers from the forum's third work programme. The *Evolution* work programme considers the changing environment in which auditors work, the reporting relationship between auditors and the audit committee, and how the differing interests of stakeholders and their expectations of audit can be reconciled.

The impact of audit committees on auditing paper builds on the results of the forum's September 2007 debate and survey, and considers fundamental questions around how audit committees actually support the audit and represent shareholder interests.

The stakeholder expectations of audit paper (see page 7) articulates the ways in which stakeholder expectations can be reconciled and the practical consequences this has for the evolution of the audit model.

We anticipate that the final paper from the *Evolution* work programme will be delivered early next year and preparatory work is well under way for a fourth work programme which will be unveiled at the forum's next meeting early next year (see page 6). For further information on the work of the Audit Quality Forum, please visit its dedicated website [R](#).

re:Assurance Initiative

The faculty has continued to lead the debate on assurance related matters, issuing a number of key publications to assist members with the development of assurance services and the practical application of the International Auditing and Assurance Standards Board (IAASB) *International Framework for Assurance Engagements*.

The *Perspectives on Assurance* series of publications issued towards the end of 2007 were designed to stimulate debate on the market need for assurance and have received an encouraging response from various stakeholder groups. Indeed, demand for the publications has been so great that the faculty has had to arrange a reprint of the material.

The faculty's pioneering work into the potential need for a non-audit assurance service for SMEs to sit

between a voluntary audit and accounts compilation has been a success, with the subject being picked up in the IAASB's strategy and work programme 2009–11, along with the revision of International Standards on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*. The wider ICAEW consultation on the needs of audit-exempt companies and the related product, The ICAEW Assurance Service, has generated considerable interest from a wide range of stakeholder audiences both in the UK and overseas (see page 5).

Assurance on non-financial information: existing practices and issues is the latest release from the re:Assurance initiative. The paper examines the types of non-financial information on which external assurance reports are currently provided and considers further opportunities for practitioners in this area. It discusses some of the practical challenges that practitioners might face when providing external assurance reports on non-financial information and identifies some areas for further consideration.

For further information about the re:Assurance initiative, please visit its website [R](#).

International Standards on Auditing (ISAs)

It has been a busy year for the Institute's ISA Implementation subgroup, which has worked tirelessly to represent members' views over the course of the IAASB clarity project along with preparing for the implementation of the new clarified versions of the ISAs.

In May, the faculty convened a very well attended meeting of training providers to look at potential issues surrounding implementation of the new clarified ISAs and identify ways to assist members with the transition. In addition, and following the release of the Auditing Practices

Board (APB) consultation seeking views on when and how to update the ISAs in the UK (see page 1), the faculty has convened a timely event at Chartered Accountants' Hall to provide members with the opportunity to debate issues around implementation directly with representatives from the APB.

The faculty will continue to represent members' interests in this area and will ensure members are kept abreast of developments through the usual channels – *Audit & Beyond*, the faculty roadshow and website.

On two areas where the IAASB has issued revised clarified ISAs, ie related parties and group audits, the faculty has produced publications designed to support members as they prepare to implement the new requirements.

Statutory Audit Directive

The faculty has worked closely with the Department for Business, Enterprise & Regulatory Reform (BERR), Institute colleagues and others, regarding the implementation measures associated with the EU Statutory Audit Directive. Regular updates have featured in *Audit & Beyond* throughout the year to help members comply with the various requirements, which have been implemented this year [R](#).

The faculty has issued a technical release intended to underpin the mandatory regime that has been put in place through the 2006 Act and the audit regulation, in order to provide a helpful and effective framework to assist auditors in managing the process in relation to access to information. *AAF 01/08 Access to Information by Successor Auditors* provides guidance for both predecessor and successor auditors on the provision of access to information [R](#). The Directive's requirements on group audits are covered in the faculty's revised group audits guide, referred to above.

FEE Auditing Working Party – representing the accountancy profession in Europe

The *Fédération des Experts Comptables Européens* (FEE) is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 43 professional institutes of accountants from 32 countries. FEE member bodies are present in all 27 member states of the European Union (EU) and three member countries of the European Free Trade Association (EFTA). FEE member bodies represent more than 500,000 accountants in Europe. Roughly 45% of these accountants work in public practice, providing a wide range of services to clients. The other 55% work in various capacities in industry, commerce, government and education.

FEE Council decisions are usually prepared by working parties, established to elaborate on specific Council objectives. Some of the working parties continue their activities over a long period due to the characteristics of the subject matter and subsequent developments. All member bodies, including correspondent members, have the right to appoint a representative to serve on each working party.

The Auditing Working Party addresses policy issues arising from developments in auditing and assurance. In addition to producing its own publications and studies, the Working Party is an active participant in the global dialogue with the International Auditing and Assurance Standards Board (IAASB) on International Standards on Auditing (ISAs), contributing to the ongoing development of the global auditing and assurance standards and to the relevant initiatives at European level.

A number of subgroups contribute to the work of the Auditing Working Party:

- Audit Certificates
- IAASB Exposure Drafts Subgroup
- Inherent Limitations of an Audit
- Internal Control Working Group
- Money Laundering Subgroup
- Quality Assurance Subgroup

Current agenda items include the following:

- EU matters: for example, progress on the adoption of ISAs, discussions with the European Commission about Article 47 of the Statutory Audit Directive (the sharing of auditors working papers between regulators) where clarification is required on what is the definition of audit working papers and whether these need to be transferred or just available for review in the relevant non-EU country
- Assurance on the accounts of SMEs: the debate on what type of assurance can be provided to companies that do not

require an audit is gaining momentum. Some EU countries (eg France and Denmark) are looking to develop a limited audit concept for smaller entities. FEE has commissioned a survey on the added value of the work of the European accountancy profession to SMEs and their stakeholders

- Assurance on corporate governance statements: there is debate on the levels of assurance that can be provided and whether this is understood in the marketplace

We are very grateful to Tony Bingham who has represented the ICAEW on the FEE Auditing Working Party for many years. He has now stepped down and Myles Thompson, chairman of the ICAEW Audit and Assurance Faculty's Technical and Practical Auditing Committee, has replaced him as the ICAEW representative.

Henry Irving | *Head of Audit and Assurance Faculty*

2008 year in review *cont'd from page 8*

Supporting members

Reflecting the challenges facing auditors today, the faculty ran two nationwide roadshows in 2008 addressing issues around small company audits and the quality of audit files. The spring roadshow dealt with issues around small company audits and visited 25 locations attracting more than 1,800 delegates. The autumn roadshow on the quality of audit files has visited 18 locations and taken more than 1,200 delegate bookings to date.

In addition, the faculty has organised five Internal Audit lectures covering a wide range of topics; from preventing and detecting employee fraud to auditing risk management.

The Practical Auditing Discussion Group (PADG) – which was set up to bring experienced auditors from the top 50 UK firms and the International Firms

Network together to facilitate informed discussion on current issues in auditing and to develop and promote models of best practice that will benefit practitioners and further enhance confidence in UK auditing – has met twice in 2008. Building on the success of the PADG event held last year, which looked at group audits, the faculty arranged an event in April, which was led by KPMG and addressed issues around how to mitigate fraud, and a further event in November, which was led by PricewaterhouseCoopers and looked at implementing Clarity ISAs.

Looking forward

Looking ahead to 2009, the faculty will continue to focus on stimulating debate in the areas of audit quality and market-led assurance services, as well as ensuring members have the necessary support and guidance to deal with the key changes to auditing practice as a result of the Companies Act and other changes, and around the expected implementation of the clarified ISAs.

Norma Pavitt | *Audit and Assurance Faculty*

Audit Planning – avoiding the blind spots

Audit planning is about as tough as it gets for the internal auditor. Identifying the relevant areas of the business, the resources required and the appropriate timing of carrying out audit work is becoming a critical and complex task for many organisations. In today's fast-changing world, many internal auditors are finding the audit planning process more challenging than ever.

Deciding on the areas of business that are to be subject to internal audit work and the depth to which such work should be carried out, is one of the most important decisions a chief audit executive has to make. Stephen Gregory, a partner in Financial Services with Ernst & Young, explained to delegates from the private and public sector at the October Internal Audit Lecture that it can be difficult to make choices. He went on to say the wish list of audits is often large and internal auditors feel constrained to select audits they know the team have the capability to carry out.

In his presentation, Stephen outlined ways in which leading internal audit functions are today addressing the problem. He reviewed risk-based audit planning, covering both quantitative and qualitative techniques, and put forward a pragmatic approach for a planning process that keeps pace with the business and reflects the changing assurance needs.

Stephen stressed that getting the selection of audits and the focus of each individual audit right is critical to the overall reliability of internal audits as an assurance provider. It is also critical to get this right to make the audit work relevant to internal audit stakeholders. He demonstrated that the audit planning process has largely remained unchanged for many years. The standard process, which is resilient to change, still takes into account the audit universe, risk assessment, prioritisation, selection and sizing, audit plan approval, setting risk parameters and coverage parameters. Most organisations find they have to customise the planning process model to produce a framework that best suits their operating environment.

Early this year, Ernst & Young carried out its Internal Audit Survey 2008, which was concluded before the 'credit crunch' took a firm hold of the economy. The report highlighted that over 50% of chief audit executives from large financial institutions and other organisations around the world believe their risk assessment and audit planning processes are in need of enhancement. Stephen stated that the survey showed there was a correlation between the complexity and size of the organisation and levels of unhappiness when addressing risk assessment and the planning process.

Stephen also emphasised to delegates that 80% of chief audit executives tried to cover the entire

business, so there were no blind spots. Around 80% of internal auditors engage the business, mainly at the approval stage; nearly 50% of the population only update the plan on an annual basis, which doesn't take into account risks that happen during the year. And, surprisingly, only 30% of the population train internal audit staff to complete the audit plan.

However, Stephen shared with delegates that there is a better way of carrying out audit planning, which is a dynamic and creative process for assessing and communicating audit needs. The model involves:

- Completeness checks
- Meeting stakeholders' key expectations
- Critical planning inputs
- Audit needs assessments
- Challenge and reviews
- 3+9 audit plan
- Reliability assessment

Delegates were encouraged to notice the absence of 'risk assessment' in the model as this function is no longer required. Instead, internal auditors must focus on audit needs. Stephen explained this new approach to audit planning is judgemental and is underpinned by continuous activity.

Stephen suggested the key principles behind the dynamic audit needs assessment should move from analysing, measuring and assessing risk to a more flexible, rolling plan that is regularly refreshed and involves a well written, jargon free presentation to facilitate early stakeholder engagement and to determine audit needs. In addition, Stephen suggested that knowledge acquisition should be at the centre of the process, which must include an external focus so that it considers and captures factors in the marketplace. It is also vital to use people from around the business who are experts in their field to

help facilitate the risk assessment. Finally, the process provides documented professional judgements rather than statistical models.

Interestingly, in terms of critical inputs, Stephen explained that it is vital that there is a pipeline of information arising from ongoing activity by the audit function and it is also important that everything is tested in order to base audit planning. This will measure reliability and completeness of information in order to highlight the areas of concern that could harm the business. It will help to give the audit plan better credibility when it is presented to the audit committee.

Stephen summed up his presentation by stating that audit planning is best handled like any change programme. Implementing audit planning gives significant benefits; in particular that key stakeholders have an improved perception of the internal audit function and that audit engagement is better focused throughout the business, which in turn drives greater value to address business needs.

Lorna Webley | *Consultant*

Bulletin Board

Faculty update

Moorgate Internal Audit Lecture Series

Monday 12 January

Speaker: Martyn Jones, National Audit Technical Partner at Deloitte

Topic: Corporate governance and regulatory developments – insights for internal auditors particularly in the light of the Credit Crunch and the turbulent market conditions

Dates for 2009 lectures (topics to be confirmed):

Monday 16 March	Monday 7 September
Monday 20 April	Monday 19 October
Monday 15 June	Monday 30 November.

For further details and to book online visit www.icaew.com/aaf

Managing Information Event

In response to reports in the press of the mismanagement of data by government and corporates, the Institute's faculties are planning a series of Regional Roadshows in London,

Manchester, Cardiff, Birmingham and Leeds in early to mid 2009 on the subject of Managing Information. To register your interest please email emma.barklamb@icaew.com

New eBooks

Institute members and students have access to 200 eBooks free of charge via the Institute website at www.icaew.com/ebooks. The eBooks cover business and technical topics as well as career and personal development.

20 new eBooks have just been added to the website including:

- How to comply with Sarbanes-Oxley section 404: assessing the effectiveness of internal control
- IFRS: practical implementation guide and workbook
- Managing business risk: a

practical guide to protecting your business

- Corporate governance: a practical guide to the legal frameworks and international codes of practice

For more information, please contact the Library & Information Service on +44(0)20 7920 8620 or library@icaew.com.

How is the credit crunch affecting you?

We want to know how the credit crunch is affecting you, your profession, and your career aspirations. Make sure you have your say in the ICAEW/Robert Half online Career Benchmarking Survey 2009 which will be emailed to ACAs working in business in January 2009. www.icaew.com/index.cfm/route/148953

Competition 1

13 of the 14 words/phrases can be found in the wordsearch below. Missing word/phrase to be sent or faxed to the faculty no later than 28 January 2009*. The draw will take place on 29 January 2009. A bottle of champagne will be sent to the winner of the first correct entry drawn.

T	E	C	H	N	I	C	A	L	U	P	D	A	T	E
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- ACCOUNTS
- APB
- ASSURANCE
- AUDIT AND BEYOND
- AUDIT QUALITY
- CLARITY
- COMPILATION
- CREDIT CRUNCH
- ETHICS
- INTERNAL AUDIT
- RELATED PARTIES
- ROADSHOW
- STATUTORY AUDIT
- TECHNICAL UPDATE

Competition 2

Completed Sudoku to be sent or faxed to the faculty no later than 28 January 2009*. The prize draw will take place on 29 January 2009. £40 M&S vouchers will be sent to the winner of the first correct entry drawn.

*Audit and Assurance Faculty

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4	The Seventh Framework Programme	Further information relating to FP7	http://cordis.europa.eu/fp7/find-doc_en.html#guidance
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6	Audit Quality Forum roundup – meeting stakeholders needs	The Audit Quality Forum <i>Shareholder involvement</i> work programme <i>Fundamentals</i> work programme <i>Evolution</i> work programme	www.auditqualityforum.com www.auditqualityforum.com www.auditqualityforum.com www.auditqualityforum.com
7	Audit Quality Forum publishes a paper on stakeholder expectations of audit	<i>Agency theory and the role of audit and Audit purpose</i>	www.auditqualityforum.com
8	2008 year in review	Audit Quality Forum Re:Assurance initiative Statutory Audit Directive update <i>AAF 01/08 Access to Information by Successor Auditors</i>	www.auditqualityforum.com www.icaew.com/assurance www.icaew.com/index.cfm/route/144792 www.icaew.com/index.cfm/route/159727

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