



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

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Ms Stephanie Haesbrouck  
Fédération des Experts Comptables Européens  
B-1040 Brussels  
Avenue d'Auderghem 22-28/8

By Email

Dear Stephanie

**Survey on the Implementation of International Auditing Standards (ISAs) by FEE Member Bodies**

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the Survey on the Implementation of International Auditing Standards (ISAs) by FEE Member Bodies published by FEE in December 2009.

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 132,000 members in more than 160 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 775,000 members worldwide.

**We are pleased that FEE is gathering information on the preparedness of providers of software, methodologies and training for clarified ISA implementation. Implementation of these new standards in Europe by firms of all sizes is likely to be challenging, especially for jurisdictions and firms that do not currently use ISAs. Members of the Forum of Firms are obliged to adopt policies and methodologies for the conduct of trans-national audits that are based, to the extent practicable, on ISAs and we hope that an implementation date will be announced soon in order to maintain a level playing field for auditing standards in Europe.**

**Adequate time is needed for changes to methodologies and software, and for training, and our experience of ISA implementation in the UK tells us that these processes will only truly commence, regardless of exhortations by regulators, when an implementation date is announced and a final version of the new standards is available. Furthermore, training should not be started too early, because training that is not put into practice immediately is quickly forgotten, and re-training becomes necessary. Even in the UK, where clarified ISAs are to be implemented at a specific date (for 2010 audits), detailed preparations are only now just beginning.**

Critically, the right people have to be involved in implementation. Buy-in has to be obtained at the highest level within firms. Regulators, audit inspectorates, professional bodies, public oversight bodies and standard-setters need to understand the new standards, and communicate among themselves and with practitioners, about their intended approach to enforcement, which should be proportionate. Providers of training, software and methodologies, whoever they may be, need to understand the lead-time, and the nature and extent of changes required. As many of these stakeholders as possible need to be brought round the table and FEE has a key role to play in this, as the ICAEW does in the UK. While providers of software and methodologies are important stakeholders and need to be involved, a holistic approach to implementation means that some combination of regulators, audit inspectorates, professional bodies, public oversight bodies and standard-setters need to be brought into the process first.

We have attempted to answer the detailed questions to which FEE seeks responses to the best of our ability in the short time available. The UK is more aware than most of the need for forward planning, and for revisions to software, methodologies and training to be timetabled well in advance of implementation, but it is likely that FEE will obtain better quality responses after an implementation date has been announced. We urge caution in drawing conclusions from the current information gathered because:

- (a) some parts of the questionnaire seem to imply that the answers to the questions should be 'yes', and that respondents unable to do so have some catching up to do. Our experience in the UK tells us that there is a fine line between encouraging appropriate behaviour in advance of the implementation of ISAs and spreading alarm, and thereby creating a potential backlash;
- (b) some apparent misunderstandings may be evident in the survey about the nature of audit software, the maintenance of its quality, and its role in audit quality such as:
  - the impression given by the survey that professional bodies are able to audit a list of ISA requirements in audit software;
  - the presumption on p5 of the survey that member bodies 'should consider their involvement with audit software as part of their responsibility to help practitioners implement clarified ISAs', which sets expectations too high; software providers in the UK (and elsewhere) are not captive and they are not regulated. Practitioners are regulated and they and their professional bodies are responsible for the quality of their audits.

These reservations aside, we hope that FEE will find the information provided useful and we look forward to seeing a summary of the results.

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

Yours sincerely

Katharine E Bagshaw FCA  
Manager, Auditing Standards  
ICAEW Audit and Assurance Faculty  
T + 44 (0)20 7920 8708  
F + 44 (0)20 7920 8754  
E: [kbagshaw@icaew.com](mailto:kbagshaw@icaew.com)

## **FEE QUESTIONS AND ICAEW ANSWERS**

### **2.1 Audit Software**

#### **2.1.1 Information on Audit Software Providers**

1 - 3. Details regarding providers

There is an open market for software providers in the UK and the ICAEW is not involved in reviewing or attesting to the quality of audit software. It is therefore not possible to comment on existing or prospective ISA compliance of the software of individual providers in the UK.

It is important for FEE to recognise that in jurisdictions such as the UK, the quality of software is determined by the forces of the market and, indirectly, by audit inspectorates, and not by the direct involvement of the professional body. Software providers are not regulated, practitioners are.

Despite the extensive work the ICAEW conducts with software providers in the UK, we do not have a list of such providers which can be guaranteed to be comprehensive. Our information systems do not trap this information and the market is not captive. Some software allows electronic documentation of the audit and some is also automated and allows electronic cross referencing and review. Some software also includes an audit methodology. Some mid-tier and larger firms sell software to smaller firms and many providers tailor packages for different firms, some of them quite large.

The UK standard-setter has added national requirements to ISAs but it would be difficult to assert or deny that software providers themselves have added requirements to software because ISA requirements are not simply 'listed' in software and then added to: one provider's 'interpretation' of the requirements is another provider's 'addition'. We are not aware that software providers routinely seek to add to requirements as this would put them at a commercial disadvantage. It should go without saying that firms and networks should adapt this software to reflect firm or network specific methodology. It should also go without saying that external quality assurance reviews of practitioners using the audit software are carried out; all UK registered auditors are inspected, as required under European law. Inspectors examine the performance of audits under auditing and other professional standards. They do not routinely audit the underlying methodologies and software and while in practice it is likely that from time to time they will comment on software to the extent that it is clear that it causes problems, the results of inspections are not made public in this level of detail. The practitioner is responsible for his or her own software and methodology, not the provider.

We note above that software providers in the UK are not captive, and they are not regulated. Compliance with standards is required of practitioners, not software providers, and while practitioners may be encouraged to ask providers for mapping or reconciliations, they are not mandated. As we also note above, the market and, indirectly, audit inspectorates uphold the quality of audit software. Mapping and reconciliation, if and when they are performed, are internal matters for the software provider, commercial matters between provider and practitioner, and regulatory matters between practitioners and inspectors.

#### **2.1.2 FEE Member Bodies' Involvement with Audit Software**

##### **Audit Software Related to Current ISAs**

4 – 7. Member body involvement in current audit software

The ICAEW has issued material on the audit of groups, of related parties, and on quality control. This material is provided free to ICAEW Audit and Assurance Faculty members and at a charge to non-members. This type of guidance is of direct relevance to providers of audit software and will continue to be relevant for clarified ISAs. That said, the ICAEW is not involved in the development, production or promulgation of audit software. The ICAEW logo is associated with some CCH products but it is not used on CCH audit software. We do not control the software produced by CCH and we are therefore not in a position to exchange information on the ISA audit software, or the software itself, with other FEE Member Bodies. The software is widely available commercially.

## **Audit Software Related to Clarified ISAs**

### **8 – 13. Member body involvement in clarified ISA audit software**

We do not expect the position outlined above in our answer to questions 4 -7 to change when the UK moves to clarified ISAs.

It is possible that FEE might be of assistance in our work on the implementation of clarified ISAs (we do not 'apply clarified ISA compliant audit software') by undertaking initiatives at European level, but only if it does so on a timely basis which seems unlikely given that clarified ISAs will be used in the UK for 2010 audits and there is, as yet, no implementation date at a European level.

We have difficulty in envisaging the contents of a 'FEE policy statement that sets out the minimum requirements for audit software'. A list of questions that member bodies might wish to consider asking of software providers might be helpful but only if it were pitched at the right level. If the statement were to include only very simple matters such as the need to cover all of the requirements, it would not be particularly helpful. If it went far beyond this and purported to impose, for example, best practice requirements for mapping or reconciliations to ISAs it might well be perceived as gold-plating European requirements. It is likely that FEE would need the professional bodies to promulgate any such statement and there is a serious risk that FEE, and the professional bodies, might be perceived as attempting to interfere in market processes as a result of a perceived market failure for audit software. There is no evidence that this market has or will fail. As an alternative, FEE might wish to consider the facilitation of a workshop for providers of software in due course to discuss these issues. We would be happy to share our experience in this area.

## **2.2 Training Material**

### **2.2.1 Training Material on Current ISAs**

#### **14 -18 Member body involvement in implementing ISAs**

ISAs (UK and Ireland) were implemented in the UK in 2005. At that time, an ICAEW ISA Implementation Sub-group was sent up under the auspices of its main Technical and Practical Auditing Committee. That group involves standard-setters, audit inspectors, providers of audit software and methodologies, practitioners from firms of all sizes, and representative of other UK CCAB bodies. It is a particularly vigorous group which meets quarterly. This group has overseen:

- outline plans for work by the ICAEW on the implementation of ISAs – but *not* a roadmap for practitioners including timetables and checklists. Practitioners were and are encouraged to use their judgement in developing their own roadmap;

- the development of materials for roadshows on ISAs run by the ICAEW's Audit and Assurance Faculty (run at nearly 20 venues around the UK, sometimes twice a year, and attracting up to 2,000 delegates);
- two web-sites (audit2005.com and ISAaudit2010.com);
- several events for training and software providers only;
- a great number of articles appearing in *Accountancy* magazine and other professional publications, publications such as *Accountants' Digests* on ISAs, newsletter articles and email alerts, and letters to practitioners.

We would not, however, describe any of these as 'implementation materials' or 'training'. The ICAEW provides thought leadership, not training. There is an active market for training in the UK and while we encourage training providers to provide courses on ISAs, the ICAEW does not do so itself.

We are not sure what is meant by 'ISA compliant internal quality control guidelines'.

The ICAEW as a professional body has no locus to communicate with public oversight bodies to ensure that audit oversight guidelines for inspections are adjusted to be in accordance with ISAs.

We are happy to exchange some information *about* materials used on Audit and Assurance Faculty Roadshows on current ISAs with other FEE Member Bodies, but we are not in a position to deliver such material as it is paid for, for example, by UK members of the Audit and Assurance Faculty. The ICAEW does not develop its own training material.

## **2.2.2 Training Material on Clarified ISAs**

19 – 22. Member body involvement in implementing clarified ISAs

Our implementation program for clarified ISAs is similar to our program for the original implementation of ISAs when they were introduced in the UK in 2005, as described in 2.2.1 above. The ICAEW is not responsible for training trainers and while we regularly communicate with them as outlined above, most (including those within firms) are highly experienced and any train the trainer material they develop themselves. Nevertheless, as noted above, we have produced guidance for our members (rather than providers of software, methodologies or training) on the audit of groups, of related parties, and on quality control which is of direct relevance to providers of audit software.

## **2.2.3 Training Material from IAASB**

23 – 28. IAASB Clarity Centre Materials

The material provided by IAASB in its clarity centre web-site, including videos, has been used in presentations to practitioners and to training and software providers. This material was useful but we have emphasised to IAASB the need to provide more basic material, of importance to smaller practitioners, on the testing of controls in small audits, for example. Materials on related parties and groups are important and interesting (and available on IAASB's clarity centre web-site) but less central to most audits than the risk ISAs.

## **2.3 Proportionality of ISAs (including documentation)**

## 29 – 32. IAASB Staff Q& A

The ICAEW has not formally considered the IAASB's Staff Q&As *Applying ISAs proportionately with the size and complexity of an entity* but we have brought the document to the attention of members and volunteers. It may be helpful to some practitioners. The IAASB paper is not jurisdiction-specific and we see no need for any significant adjustment to make it relevant in the UK, nor to produce a similar document of our own.

We do not understand the question about whether our public oversight body 'will acknowledge the content of this IAASB Staff Q&A/or of a national version of it when conducting quality control inspections'. Public oversight bodies in the UK rarely acknowledge non-authoritative guidance, either publicly or privately and we would be very surprised if they chose to do so in respect of this document, not least because public oversight bodies focus on public interest audits and while some smaller audits fall under this heading, most do not. The document has unclear status and is not part of the corpus of ISAs. While public oversight bodies might make reference to the document during inspections, any public acknowledgement would mean that they would be obliged to consider and pronounce upon any number of other non-authoritative guidance documents. The IAASB and national standard-setters should provide adequate guidance on standards and more experienced member bodies should be encouraged and helped to mentor bodies with less experience. We are happy to play our part in this.

## 33 – 40. Documentation

We have already encouraged IAASB to develop additional material that would be helpful for members when auditing SMEs. The underlying problems for auditors conducting smaller audits arise in part from the standards themselves and particularly from requirements on internal control and documentation on smaller audits. IAASB has not so far addressed these issues, although it has put out APB's material on smaller entity audit documentation for comment, asking whether it is suitable for internationalisation.

We are very concerned at the suggestion that European guidance might be issued on audit documentation. The EC and the EGAOB in particular have no locus to issue guidance and to do so would set a precedent for a third tier of European auditing standards and guidance at a time at which practitioners, particularly smaller practitioners, are already overburdened with proposed change. It is important to work on difficult issues within existing structures wherever possible, rather than creating new ones, or precedents.

## 40 – 46. IFAC SMP and QC Guide

The ICAEW has commented on the IFAC SMP Guide *Using ISAs in the Audit of SMEs* and continues to provide comment on the clarified ISAs version. We have brought the document to the attention of our members and encouraged them to use whichever element of it they find useful, but in a jurisdiction such as the UK, which has a mature market in this type of material, further guidance is not necessary. The APB in the UK has reservations about some of its technical content and therefore its promulgation in the UK. Members have indicated to us informally that some parts of the Guide, particularly the examples, are of some value. Similar comments apply to the quality control guide.