Proposed Revisions to International Standards on Auditing (UK and Ireland) to give effect to the FRC Effective Company Stewardship Proposals:

260 “Communication with those charged with governance”
265 “Communicating deficiencies in internal control to those charged with governance”
700 “The auditor’s report on financial statements” (Revised)
720A “The auditor’s responsibilities relating to other information in documents containing audited financial statements”

RESPONSE FROM ICAS TO THE FRC

13 July 2012
Background

1. The Institute of Chartered Accountants of Scotland (ICAS) Audit and Assurance Committee welcomes the opportunity to comment on the FRC’s consultation paper “Proposed Revisions to International Standards on Auditing (UK and Ireland)”. Our CA qualification is internationally recognised and respected. We are a professional body for over 19,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK’s and the world’s great companies.

2. Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key Points

ICAS is supportive of the FRC’s key objective to enhance the relevance and value of the audit for users and the public by stimulating greater transparency about the judgements made by management and auditors in the course of preparing and auditing financial statements.

We are supportive of a more substantial communication role for audit committees and the revision of auditing standards to expand the nature and extent of the auditor’s communication and reporting responsibilities.

Our response to the specific consultation questions:

**Question 1**
*Is the scope of the proposed changes appropriate? If not, please explain the scope you consider would be appropriate.*

We believe that the scope of the proposed changes is appropriate.

**Question 2**
*Is the proposed effective date, which is linked to the intended effective date of the FRC’s proposed revisions of the UK Corporate Governance Code, appropriate? If not, please give reasons for your view and indicate the effective date that you would consider appropriate.*

We believe that the proposed effective date is appropriate.

**Question 3**
*Are the proposed changes to ISAs (UK and Ireland) 260 and 265 appropriate? If not, please give reasons and, if applicable, indicate how you believe they should be modified.*

We agree with the FRC’s view that the primary responsibility for providing information to achieve this greater transparency rests with the audited entity and, accordingly, that there should be a section of the annual report describing the work of the audit committee in discharging its responsibilities that will, inter alia, help provide increased insight into the judgements made by management and auditors.

We would however highlight that the responsibility for ensuring that the annual report is fair, balanced and understandable rests with the full board and not a sub-committee of the board, i.e. the audit committee, and believe that this should be made explicit.
We are supportive of the move to require auditors to provide audit committees with the information that they need to understand the rationale for, and the evidence relied upon in making, the auditor’s significant professional judgments in the course of the audit and in reaching their audit opinion.

Question 4
Are the proposed changes to ISAs (UK and Ireland) 700 (Revised) and 720 Section A appropriate? If not, please give your reasons and, if applicable, indicate how you believe they should be modified.

We are supportive of the general direction by the FRC to seek to give users of annual reports greater assurance over its content. Whilst we appreciate that the FRC is merely moving guidance into a requirement, we do think this reflects a general change in direction over the auditor’s role in relation to the information contained in the front half of the annual report. We do however believe that the proposed requirement for the auditor to have to report by exception is weak in that we generally believe that requiring auditors to have to issue an opinion sends a stronger behavioural message to the party who is required to report. We favour a more radical move to require the auditor to give an opinion over the front half of the annual report. Ideally such assurance would be of a positive nature but appreciate that there are currently likely to be some obstacles to the auditor being able to do this.

Question 5
Do you agree that it would be inappropriate to extend to all audits the reporting requirement to provide an explicit conclusion arising from the auditor’s work under ISA (UK and Ireland) 720 Section A? If not, please give your reasons.

We do believe that it would be inappropriate at this point in time to extend the requirement to provide an explicit conclusion arising from the auditor’s work to all audits. This requirement should initially be restricted to those entities in which there is considerable interest in information of this nature. Over time there may come a need to reassess this position.

Question 6
Do you agree that the associated costs of the proposed changes should not be significant compared to total audit costs? If not, please give reasons and your estimate of the level of impact.

We would hope that such costs would not be a significant part of the total audit costs. However, this may depend on the nature of the entity and the additional work that may be required to be undertaken by the auditor.

Question 7
Do you agree that the benefits of the proposed changes will outweigh any costs? If not, please give reasons.

Yes, we agree.