



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

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Dear John

**TRANSPARENCY REPORTING BY AUDITORS OF PUBLIC INTEREST ENTITIES: THE STATUTORY AUDITORS (TRANSPARENCY) INSTRUMENT 2008**

The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the draft regulations that the Professional Oversight Board ('POB') proposes to make on transparency reports by auditors of public interest entities ('PIEs'). The Institute previously responded to the POB consultation document on this subject issued in August 2006 – this response is available at <http://www.icaew.com/index.cfm?route=143159>.

The Institute supports the approach to restrict the scope to those firms auditing fully listed companies – see our answer to consultation question 1 in our previous response. It is important to avoid any risk of a reduction in the number of firms in the market for major or public interest audits.

We also agree with the POB's stated intention to not add additional requirements beyond those in the Statutory Audit Directive (the 'Directive'). In our view there should be some flexibility for firms to determine the content of their transparency reports given their specific circumstances rather than having to follow any additional requirements beyond those given in the Directive.

However, we do have a number of comments on the POB paper and draft regulations as follows:

*1. The Audit Quality Framework issued by the FRC*

The POB paper refers to the opportunity provided by the transparency report for audit firms, in addition to meeting the legal requirements from the Directive, to set out the steps that they are taking to achieve audit quality by reference to the FRC's recently issued Audit Quality Framework. Whilst we appreciate that there is no reference to the Framework in the regulations themselves and that it is likely that some firms will want to take advantage of the opportunity, as described by the POB, to refer to the Framework, we would re-emphasise the points about the use of this Framework made in the letter of 4 December 2007 from Gerald Russell to Richard Fleck (copy attached). We will feed in further more detailed comments about the Framework in due course, as encouraged by the FRC, and we view the evolution of this Framework running hand in hand with

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the evolution of transparency reporting. At this stage we would be concerned if any perception develops, for example by the Audit Inspection Unit, that the Framework must be referred to in the transparency reports of all firms within the scope of the requirement.

## 2. Link with other work on audit firm governance and structures

We are aware of two other current projects around audit firm governance that seem to have a connection with transparency reporting and we presume that there will be sufficient co-ordination of the three strands of work:

- The first project is being led by the CCAB and arises from the Audit Choice Market Participants Group recommendation for there to be guidance to firms on reporting the profitability of their audit businesses.
- The second project is the initiative (also part of the overall FRC project on Choice in the UK Audit Market) to develop a code of best practice governance for firms that audit PIEs.

It will be important for further guidance on transparency reporting, either from the FRC/POB or the CCAB bodies, to reflect any relevant outcomes from the above projects.

Also likely to be of relevance is a study by FEE on trans-national organisations and practices in the accountancy profession. The study examines the legal structure, governance arrangements and operational features of the main trans-national organisations and practices operating in Europe today and contains references to global structures where appropriate. The Institute has provided major input into the preparation of the study which FEE expects to publish in early April.

## 3. Definition of 'network'

The definition of 'network' in the draft regulations follows the *Statutory Auditors and Third Country Auditors Regulations 2007*. As noted in the POB paper, this is not quite the same as the definition in the Directive or indeed that now being used by IFAC. We would encourage the POB to move as close as possible to the Directive/IFAC wording in order to assist international and cross-EU harmonisation (see the comments in our previous response regarding the need for as much consistency of implementation as possible across the EU). The POB paper (point 7) suggests picking up additional words from the Directive. We would support this as it would result in the same words being used, albeit in a different order.

There is also the issue regarding the scope of networks included in the requirement to disclose information about the network, which we referred to in our previous response. A description of the network will be required even if just one member of the network audits one 'public interest entity' in one EU Member State, albeit that such disclosure would just be in the transparency report of that member firm with the 'public interest entity' audit. This again highlights the need for consistency regarding the definitions of 'network' and 'public interest entity' across the EU, in particular to avoid unduly burdensome requirements for the smaller and more informal international accounting/auditing 'associations'. The forthcoming FEE study (referred to in point 2 above) summarises views on the 'network' definition in the Directive and the related regulatory implications. It provides insights into the legal models, governance arrangements and operational characteristics of these types of smaller/informal 'associations'.

## 4. Additional requirements

We note that there are two requirements that do not derive directly from the Directive:

- the requirement in paragraph 4(2) (b) that the transparency reporting auditor must ensure that the transparency report remains available for a period of three years after the end of the financial year to which it relates; and

- the paragraph 4(3) requirement that the transparency reporting auditor must send a copy of the transparency report to the POB.

We are not opposed to either of these requirements but we do question the reasoning for the three year retention period?

#### *5. Implications of wording differences*

There are some differences of wording between that in the Schedule and that in Article 40 of the Directive and we would welcome explanation of these. For example, paragraph 8 refers to 'appropriate level of competence' rather than the reference to 'continuing education' used in the Directive. This might link to the CCAB audit judgement and training project which will be starting soon.

The wording in paragraph 9 on financial information is different to that in the Directive, for example there is no specific reference to 'tax advisory services'. It is not entirely clear to us what the implications of this might be, including cost implications, and we would ask whether the POB expects further guidance to be provided on this?

We would expect the POB's updated Regulatory Impact Assessment to include a costing of using wordings different to those used in the Directive.

#### *6. Timescale issues for firms*

The transparency report must be published within three months of the end of the financial year in accordance with the requirement of the Directive. There might be implications for firms that do not currently produce audited information within that timescale and whilst the Directive does not specify that the financial information must be audited, realistically it is unlikely that any firm would want to include unaudited figures in their transparency report. Firms will need to be alerted, for example by the POB, about the possible implication for their reporting timetables. The requirement might increase the costs incurred by firms in producing this information.

#### *7. Enforcement of the requirements*

The latest POB paper does not refer to actions that might be taken if there is non-compliance. The POB's original consultation did raise the possibility of criminal proceedings being taken against firms that do not comply. We would hope that the first step in such a situation would be a discussion with the firm involved with a view to it producing a compliant transparency report. With respect to this type of approach, it is worth mentioning the current consultation by the Financial Reporting Review Panel on its operating procedures – this highlights that "as far as possible, the Panel seeks to operate by agreement with the entities whose Reports it reviews". By doing so it has so far avoided having to exercise its powers of applying to the court. It would be helpful for greater clarity to be given regarding the (hopefully exceptional) circumstances that would result in criminal proceedings against the audit firm being taken.

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

Yours sincerely

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