



**ASSURANCE REPORTS ON INTERNAL CONTROLS OF SERVICE
ORGANISATIONS MADE AVAILABLE TO THIRD PARTIES**

RESPONSE TO ICAEW

30 September 2019

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About ICAS

ICAS is a professional body for more than 22,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business and in the not for profit sector; many leading some of the UK's and the world's great organisations. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

Overall comments

We welcome the proposed revised guidance and believe the update is a timely modernisation of the current guidance. We have two significant related points to raise:

- We have some concerns about the prescriptive nature of an engagement under the revised guidance. Divergence by a Service Auditor from making an assessment of the effectiveness of all the control objectives specified in Appendix 1 for a particular industry plus the overarching information technology control objectives, would mean that the Service Auditor could not treat the engagement as having been conducted under the revised guidance.
- We recommend that a post-implementation review of the revised guidance is undertaken, perhaps within three years of implementation to ensure that it has met the objectives for which it was designed. We believe this should include meeting the needs of Service Organisations as well as Third Parties through Service Auditors having been able to deliver such prescriptive engagements.

Our responses to the consultation questions are set out in the Appendix. We also have several detailed comments on the text of the proposed revised guidance and we set these out in our response to question 3.

Contact details

If you have any queries arising from this response, please contact Christine Scott, Head of Charities and Pensions at ICAS, on 0131 347 0238 or at cscott@icas.com.

Detailed comments

Question 1

Is the revised and expanded guidance useful?

Response

We welcome the proposed revised guidance and believe the update is a timely modernisation of the current guidance. We have set out some detailed comments on the revised guidance in our response to question 3.

We have some concerns about the prescriptive nature of an engagement under the revised guidance. Divergence by a Service Auditor from making an assessment of the effectiveness of all the control objectives specified in Appendix 1 for a particular industry plus the overarching information technology control objectives, would mean that the Service Auditor could not treat the engagement as having been conducted under the revised guidance. This could divert Service Organisations and Service Auditors away from the revised guidance towards engagements under more general standards issued by the International Auditing and Assurance Standard's Board. We believe that the auditors of Third Parties would prefer to access reports issued by the Service Auditor under the revised guidance.

We have a preference for the information technology objectives to be treated as indicative and we therefore recommend that before the revised guidance is finalised that inquiries have been made of sector bodies representing the industries covered in Appendix 1, Furthermore, it should be ensured that these bodies are content with the control objectives.

We also recommend that a post-implementation review of the revised guidance is undertaken, perhaps within three years of implementation to ensure that it has met the objectives for which it was designed. We believe this should include meeting the needs of Service Organisations as well as Third Parties through Service Auditors having been able to deliver such prescriptive engagements.

Question 2

Will the revised guidance encourage wider adoption and enable more firms to undertake these engagements?

Response

We are unable to assess whether the revised guidance will encourage wider adoption of these engagements.

We see the key reasons for updating the guidance as being to keep the guidance relevant and to drive quality. However, our concerns over the level of prescription contained in the proposed revised guidance could have a negative impact on the level of take up.

Question 3

Are the examples included in the appendices useful and, is there anything missing?

We have the following detailed comments on the revised guidance including the appendices:

- Paragraph 14 and related diagram. We do not recognise the terms 'informal assurance' or 'formal assurance' as official or widely adopted terms for describing assurance engagements. Specifically we are not aware of engagements for agreed upon procedures, a defined scope report or internal audit work being referred to as informal assurance engagements. Classification, for example, of an agreed upon procedures engagement as an assurance engagement could be misleading as such an engagement does not provide assurance. We recommend that the diagram is revised, perhaps with the terms 'non-assurance engagements' and 'assurance engagements' being used to distinguish between the two groupings.

- Paragraph 18 and other paragraphs referencing ISQC1. We recommend that references to ISQC 1 in paragraph 86 and elsewhere in the revised guidance are future-proofed. ISQC1 is expected to be replaced by a new quality management standard (ISQM1), the text of which is expected to be finalised in summer 2020. For example, perhaps paragraph 86 could be amended to state that: “When performing an assurance engagement under this guidance, the Service Auditor is subject to the international quality management standard (UK) applicable to the period of the engagement”.
- Paragraphs 70:
 - Paragraph 70 refers to the ICAEW Code of Ethics and its compliance with the IFAC Code of Ethics. We believe that this reference should be to the IESBA Code of Ethics. Both ICAEW and ICAS will apply their respective versions of IESBA’s revised and restructured Code from 1 January 2020.
 - It may not be solely the ICAEW Code of Ethics which is applied by Service Auditors undertaking engagements under the revised guidance. It would therefore be helpful for the revised guidance to reflect that the Codes of Ethics of other accountancy bodies, including ICAS, also comply with the IESBA Code of Ethics and for references to Codes of Ethics throughout the revised guide to reflect this too.
- Paragraphs 71 and 72. These paragraphs refer to the application of Codes of Ethics more generally rather than specifically to engagements for Type 1 and Type 2 reports. We recommend that paragraph 71 is amended to address the application of the ICAEW Code of Ethics and the Codes of Ethics of other relevant accountancy bodies (and the FRC’s Ethical Standard, if this is being applied) to apply specifically to engagements for the provision of Type 1 and Type 2 reports. There is a risk that the current wording could be misleading. For example, we are not aware of any specific independence requirement which applies to an agreed upon procedures engagement.
- Paragraph 73d). The legislative references in this paragraph should be updated to include a reference to the Contract (Third Party Rights) (Scotland) Act 2017. This Act came into force on 26 February 2018. It modernises the previous common law rules governing the creation of contractual rights of third parties in Scotland and places it on a statutory footing, which is similar to the legal position in England and Wales pursuant to the Contracts (Rights of Third Parties) Act 1999.
- Paragraph 42 and Paragraph 119. We fully endorse the references in paragraph 42 which explains the distinction between process and controls. The illustrative example of documentation in 119 paragraph should be also updated to reflect this distinction.
- Paragraph 123. This paragraph sets out reporting options under the revised guidance. A limitation of scope is associated with an unqualified opinion. This is not entirely consistent with ISA (UK) 705 ‘Modifications to the Opinion in the Independent Auditor’s Report’ in respect of an auditor’s report when management has imposed a limitation of scope. We suggest a possible solution would be to amend the table by inserting the term ‘non-pervasive’ to describe the type of limitation of scope that would result in an unqualified opinion.
- Paragraph 126 and Appendix 4. We question the appropriateness and relevance of the requirement for the Service Auditor to include in their report, under the heading ‘limitation of scope’, details of event driven controls which did not operate during the period. This approach, amounting to a modification of the report, has negative connotations which does not reflect the fact that the non-operation of a control or controls was perfectly reasonable.
- Appendix 1, section (f). We have comments on the suitability of three of the four illustrative supplementary control objectives for pensions administration:
 - It is the responsibility of the administrator to process contributions received from the employer but it is the employer’s responsibility to ensure that contributions are collected in accordance with scheme rules and legislative requirements and then transmitted to the scheme. Therefore, we recommend that this control objective is revised to reflect the responsibilities of the administrator.
 - The trustees are responsible for the maintenance of scheme documents even in circumstances where legal services are provided by the administrator. We recommend that this control objective is revised to reflect what may reasonably be the responsibility of the administrator.

- The trustees are responsible for the preparation of annual reports and accounts. While administrators may have a role in their production, it would be inappropriate for a scheme's trustees to accept as final an annual report and accounts prepared by its administrator. As above, we recommend that this control objective is revised to reflect what may reasonably be the responsibility of the administrator.
- Appendix 6. The reference to paragraph 118 in the first sentence appears incorrect.

Question 4

Do you have any concerns about the timeline for implementing the guidance?

Response

We would prefer that implementation of the revised guidance was introduced for later reporting periods, we favour implementation for periods commencing on or after 1 June 2020. This will give firms sufficient time to determine what has changed, to make changes to their own processes and to train their staff once the revised guidance is published later in October.

We would welcome the production of a webinar and/ or articles explaining the changes from Tech 01/06 AAF as this will assist firms prepare for engagements under the revised guidance.

Implementation for periods commencing 1 January 2020 will not provide much lead time for engagements to deliver a Type 1 report, although we acknowledge this would be less problematic for engagements to deliver a Type 2 report where period end dates are likely to be 31 December 2020 and beyond, if 1 January 2020 remains the effective date.