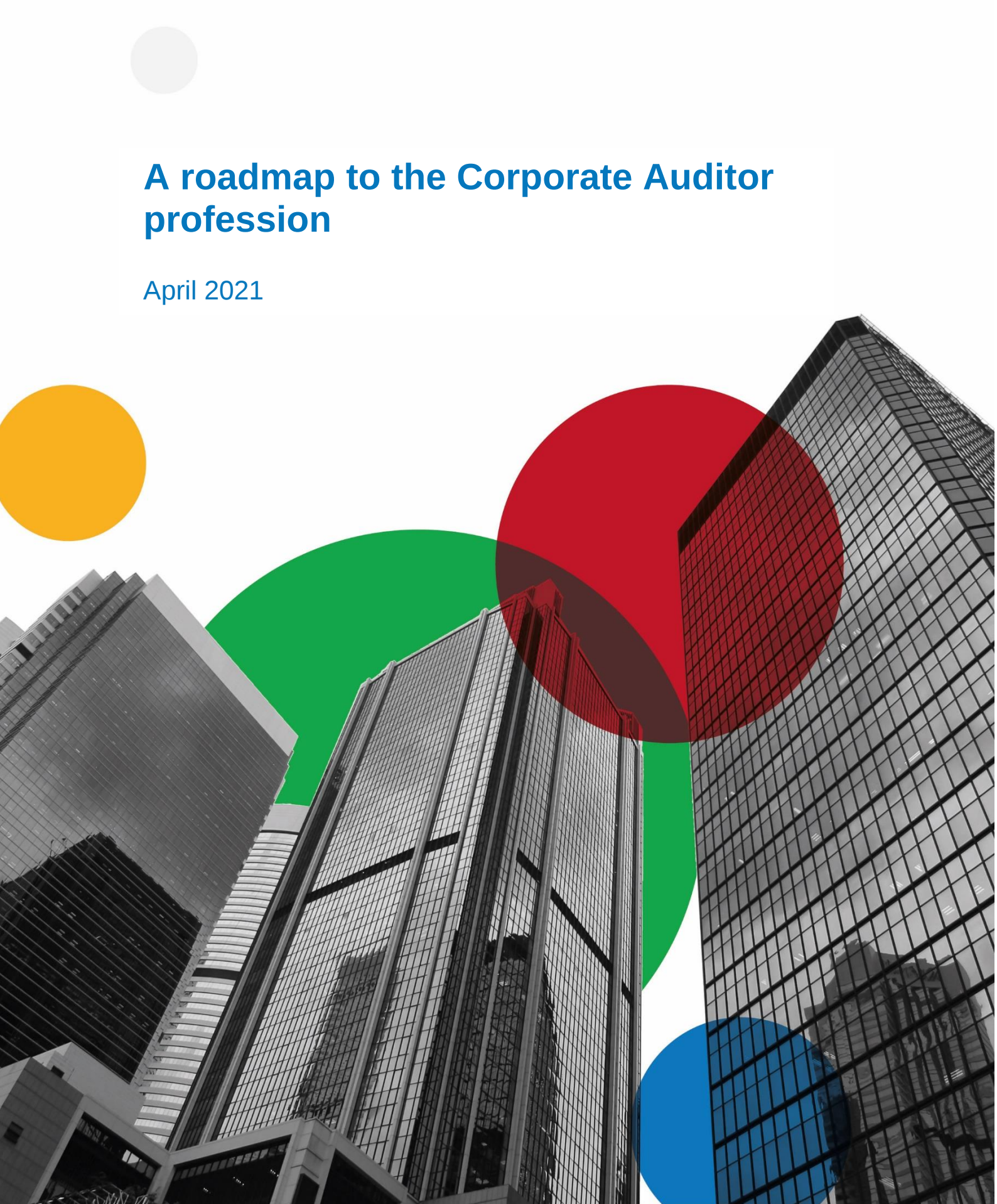




A roadmap to the Corporate Auditor profession

April 2021

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Background

In December 2019, Sir Donald Brydon published his report on his independent review into the quality and effectiveness of audit. One of the key recommendations at paragraphs 2.2.2. and 2.2.3 of the report is that:

“ARGA should facilitate the establishment of a corporate auditing profession based on a core set of principles. ARGA should be the statutory regulator of that profession. In doing so, I recommend that ARGA develops a coherent framework for corporate audit that includes but is not limited to the statutory audit of financial statements.

This profession should encompass all ‘corporate auditors’, including the statutory auditors of the financial statements, and auditors of other corporate information, for example, information covering cyber security or related to environmental measures. Some of these corporate auditors may come from traditional audit firms, but others may come from new specialist audit entities. They must all serve the same audit purpose.”

ICAS established a Working Group (WG) to consider this recommendation and this paper explores how it could be implemented in practice. The WG comprised representatives from audit firms, business, and academia.

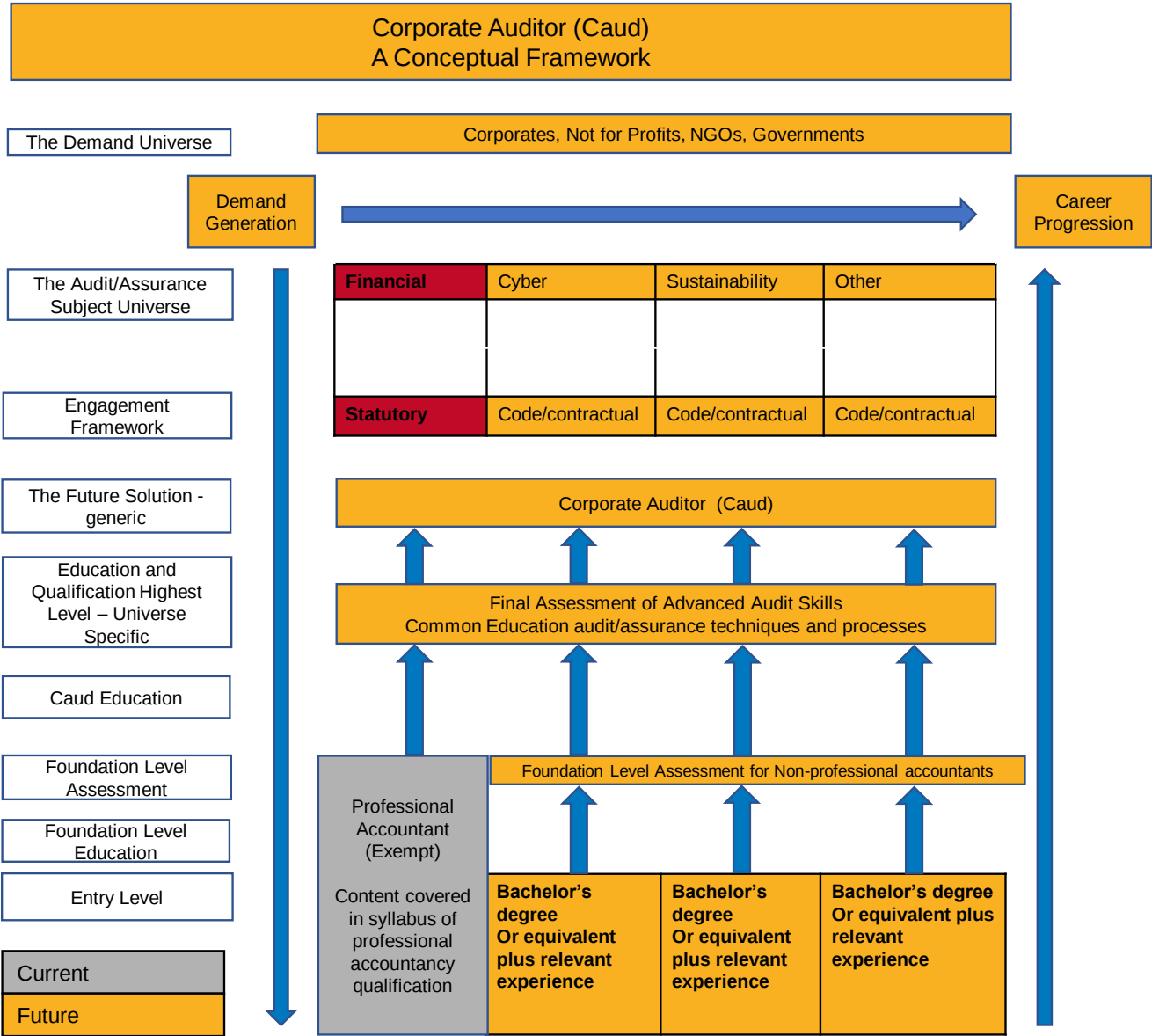
The WG notes that the Government has proposed in its consultation paper “Restoring trust in audit and corporate governance” (March 2021) to take forward Sir Donald Brydon’s recommendation to establish a new Corporate Auditing profession. The sequencing of actions envisaged in this paper is different in some respects to the proposals in the Government’s consultation paper but we consider the end result would be the same: we would have a Corporate Auditing profession that produces high quality audit and assurance of both financial and non-financial information, would set all the standards for this and would be an attractive career choice for exceptional talent in the years to come.

Executive Summary

Core principles for a Corporate Auditing Profession:

- Auditing/assurance wherever applied is a specialist activity requiring high standards and skills consistently applied.
- Such skills can and should be acquired through a formal training programme provided by a recognised expert education establishment accompanied by appropriate practical experience.
- Successful completion of formal training in audit/assurance skills and processes would be attested by formal assessment and lead to the award of a new professional qualification of “Corporate Auditor” (Caud).
- The Caud qualification will be THE senior specialist qualification in audit that is allied to core subject matter skills such as: financial reporting, cyber security, environmental information and others. To qualify for work in the audit and assurance of specialist areas will require core skills in these areas in “addition to” the Caud qualification; the Caud qualification alone will not suffice.
- All Corporate Auditors will be subject to appropriate ethical and independence requirements.
- A Caud qualification will once acquired, require continuous professional development (CPD) to ensure maintenance of skills and professional competence.
- The Caud qualification can in the first instance, emanate from within the existing professional bodies that offer financial audit qualifications though may well in time sit within a new professional body.

Figure 1: A framework for corporate auditing and assurance



The framework presented above suggests that the Caud will be THE senior specialist qualification in audit to complement core subject matter skills. However, and importantly, this shows that a Caud will only be competent to act as auditor/assurer of the subject areas in which they have established core expertise. This would be depicted by having subsidiary designations to Caud e.g., Caud (financial auditor); Caud (information security auditor); Caud (environmental auditor); and so on. This would create clarity for all stakeholders concerned, particularly the end users of the reports being assured. Additionally, the ability for a firm to express the number of Corporate Auditors (including non-financial statement auditors) on an engagement team might better facilitate conveying to the audit client the quality and composition of the team. For the purposes of financial statement audit, consideration might also be given to establishing a rebuttable presumption that all experts involved in the engagement should have the Caud designation.

Acquiring a Caud qualification only permits assurance to be provided in subject areas where the individual has the relevant core skills and qualifications. They can of course broaden the spectrum of assurance that they provide by acquiring other subject area skills and qualifications.

It is envisaged that the demand for audit and assurance work will be driven from various sources and will be governed and regulated by inter alia: statute, corporate regulation, and commercial contractual relationships.

As the current auditing landscape is largely defined and regulated by the statutory audit of financial statements, it is envisaged that the audit of these statements will continue to be carried out by responsible individuals (RIs), who hold a professional accounting qualification within registered audit firms. However, under this suggested framework a financial auditor will evolve to embrace a wider formal qualification of Caud. Please note that throughout this paper we use the words “audit” and “assurance” interchangeably to represent the same specialist activity and skills.

So how will this route to a Caud be accomplished?

A Three-Phase Approach

The WG recognises that there are various ways in which Sir Donald Brydon's recommendation to establish a Corporate Auditor profession could be achieved but presents a three-phase approach which it believes provides a clear roadmap to enable this. Phases 1 and 2 need not be undertaken sequentially and in fact there would be considerable benefit if they were to commence at the same time. However, improvements to the existing infrastructure are likely to happen quickly whilst it might take longer for the new qualification to be set up.

Phase 1

Focus on the current financial statements' auditor and suggest improvements that could be made to the existing framework to enhance audit quality and reputation of, and trust in, auditors of financial statements.

Phase 2

Focus on how to equip non-financial statement subject matter experts who would wish to carry out assurance work with applicable skills in assurance and related matters to enable them to undertake assurance engagements in their respective areas of expertise.

Ensure that they are equipped to carry out such assurance work in accordance with an internationally recognised assurance framework as well as (potentially) to be better able to assist in an audit of financial statements.

This phase could be accomplished by the extension of the education, qualification, and regulation of the current accountancy professional bodies to embrace the wider remit of a Corporate Auditor.

Phase 3

In time and if required or desired, to establish a new Corporate Auditor professional body that educates and qualifies those subject matter experts that wish to carry out assurance work in their areas of expertise.

Phase 1

Improving the current financial statement auditor regime

Current Regulatory Regime

Currently, in order to be able to issue a statutory audit report on the financial statements of an entity an auditor is required to be a responsible individual (RI) in a registered audit firm. An individual cannot issue an audit report unless they are in a registered audit firm. Specific requirements have to be met by a firm to enable it to be granted “Registered Auditor” status. These include nominating an Audit Compliance Principal who is responsible for audit compliance in the firm and ensuring that at least 50% of the voting rights in the firm are held by holders of the audit qualification. Under Sir Donald Brydon’s proposal, it is clear that financial statements’ auditing will remain the exclusive domain of those who have responsible individual status within a registered audit firm.

Certain of the professional accountancy bodies in the UK, including ICAS, are Recognised Qualifying Bodies (‘RQBs’) under the Companies Act 2006. This means that membership of that professional body, provided it is accompanied by relevant practical audit experience, would, in most cases, qualify an individual as the holder of an ‘appropriate qualification’. This in turn allows such an individual to apply to become an RI.

The audit qualification is awarded to members of the RQBs, who have demonstrated that they have achieved sufficient knowledge and supervisory experience in audit, through examination and work experience gained within an Authorised Training Office, including at least 210 days of UK audit experience. There is currently no further examination post qualification as a professional accountant.

Both the RI and the registered audit firm need to be regulated by a Recognised Supervisory Body (RSB). All of the RSBs, including ICAS, are professional accountancy bodies. A person seeking to be an RI needs to hold the audit qualification; have a Practising Certificate; be competent to conduct audit work; and be allowed to sign audit reports in their name on behalf of the firm.

If the individual is granted RI status, then they become subject to monitoring by the audit quality review team of the RSB for which their firm is registered. This takes place on a cyclical basis and to some extent is risk based and involves a review of whole firm procedures, audit files and related CPD to determine whether this has been effective. This is, however, a consideration based on the sample files selected on the visit and is not in the nature of an evaluation of overall competence. In addition, the time between visits is usually between three to six years. Where deficiencies in the quality of audit work are found, a range of options are open to the RSB to take action against the individual/firm. Where the RI is involved in the audit of public interest entities and certain other entities, they will be subject to monitoring by the audit quality review team of the Financial Reporting Council (FRC/ARGA). Information on the FRC’s approach to audit quality review and audit firm monitoring can be found on the FRC website (frc.org.uk).

Additional Audit Assessment – Post qualification as a professional accountant

One potential improvement to the current system would be to revamp the process of gaining the audit qualification. This could involve requiring professional accountants having to pass a further assessment as well as meeting the other existing criteria before gaining audit qualification status. This assessment could take several different forms such as a new test of Advanced Audit Skills, a series of coursework-based assessments or a combination thereof. On passing the assessment, an individual would be awarded the status of a Corporate Auditor (Caud). It is envisaged that this new assessment could not be taken until two years post accountancy qualification experience in audit had been accumulated. This would be evidenced in an audit logbook (continuation of existing logbook). If practicable, the logbook should be portable as it will provide a record of the experience of the individual, and may prove valuable to their career progression. It will also be of benefit to firms looking to recruit individuals with specific expertise.

It is envisaged that such an assessment would be set and assessed by the RSBs under the oversight of the FRC (ARGA). An alternative mechanism would be for the assessment to be set jointly by the RSBs and marked according to consistent methodologies. The former approach would probably be best for the moment with the latter preferable if we are en route to a Corporate Auditor professional body as set out in proposed phase 3 below. The assessment might also build on what many firms already do in this respect but provide independent verification of the mechanisms already used by the firms to assess the competence of their audit personnel.

The syllabus for this Assessment of Advanced Audit Skills would likely include:

- (i) Current audit developments, including recent changes to audit, ethics, financial and non-financial reporting standards and applicable legislation;
- (ii) Enhanced professional scepticism, including the questioning mind and critical evaluation;
- (iii) Applicable technological developments, including data interrogation; and
- (iv) Advanced risk assessment, internal control, and forensic related skills.

The objective would be to ensure that the auditor was fully conversant with current developments in their field. This revamped process is depicted diagrammatically at Appendix A.

After receiving Corporate Auditor status but before being awarded RI status, an individual would be required to be subject to ongoing internal assessments within their firm to continue to assess their competence and development. For such purposes, the firms could continue to use their own internal processes e.g., appraisals, CPD undertaken, interviews, reviews of specific work etc.

Applications for RI status would be considered, as now, by the respective RSBs (with competency and experience in audit remaining a critical consideration of any application as is the case at present).

This revamped process post qualification as a professional accountant would more formalise the process of becoming eligible to sign financial statement audit reports. The perception of audit as a profession would be enhanced, as insolvency already is, with the introduction of a specific assessment in addition to those exams that relate to qualifying as a professional accountant. Acceptance of the increased regulatory focus on audit has diluted the argument that audit is not a specialism and introducing a separate qualification will add further credibility. How an auditor is perceived by audited entities and by wider society is crucial.

This tiered approach allows for a clear career development path for prospective auditors of financial statements. It would also better allow prospective auditors to gauge whether this should be their career of choice before they effectively make a firm commitment.

Transitional measures would be required to allow those currently practising as RIs to retain their status without being required to pass the Assessment of Advanced Audit Skills.

It is appreciated that further consideration will need to be given to situations where an individual moves firm, either as a previous RI from another firm, or where the individual is being promoted on appointment. It may be that these formal assessments form part of an ongoing personal training log (as noted above) which the individual retains (or is maintained online with the professional body much like ICAS CA students do today).

A potential additional stage in the process could be to introduce a further layer which those auditors who are signing financial statements could further aspire to. This for example could be a Principal Fellow of the Corporate Auditor professional body and could be awarded on the basis of a reflective portfolio demonstrating achievement of the requisite competencies.

Evaluation of competence

There is currently no requirement for an individual to be subject to an independent evaluation of their competence once qualified, that would assess their ongoing ability to retain their RI status and ability to sign off an audit report.

In addition to the current audit quality reviews that take place, consideration should be given to introducing a regular ongoing evaluation of competence to better assess whether an individual remains professionally competent to continue to act as an RI. This would be in addition to, and indeed complement, existing continuing professional development (CPD) requirements.

It is envisaged that a reasonable time frame for such an evaluation of competence would be every four/five years. It is envisaged that this assessment could be performed by any of the RSBs although the FRC (ARGA) could elect to do so. The FRC (ARGA) would of course need to have oversight of any such system that was introduced. Given their current roles and range of activities the RSBs are well placed to deliver this evaluation of competence model and in ensuring that it is properly monitored and kept up to date with changes to relevant standards. Criteria would need to be established to ensure the consistency of approach if the evaluation of competence was administered by the RSBs.

A structured evaluation of competence would enhance trust and add credibility to how audit is perceived in the marketplace and thus enhance the reputation of those individuals undertaking audit. This evaluation of competence would potentially highlight areas for improvement in quality, the audit firms would respond positively to this and to the demands of the regulators, continuing to take sizeable steps to address any issues. Whilst firms have their own respective means of assessing quality, an independent assessment of that, would have value.

The need for this (or a similar) evaluation of competence could be cascaded below RI level to ensure that all key individuals involved in an audit engagement are subject to a regular competence assessment.

Summary

The proposed revisions to the current financial statement auditor model would be:

- (i) Introducing a new assessment post qualification as a professional accountant, for an individual to be able to attain Corporate Auditor status;
and
- (ii) RIs to be subject to ongoing competence assessments every four/five years.

Phase 2

Providing assurance qualification(s) to non-financial statement auditors

Use of common assurance and related standards

Engagements of an assurance nature are performed today by various types of experts/individuals, with varying levels of skills in the recognised standards of auditing and assurance and the results are to varying standards of quality. The subject matter on which assurance is provided varies widely and there is currently no uniform set of standards that such engagements must meet. There is little doubt that the professionalism of such experts in the specialist skills and competencies of audit and assurance along with adherence to a common set of assurance standards would be of benefit to the engagement parties and the users of such reports and be in the public interest.

Demand from investors and increasing regulatory requirements for companies to report non-financial information will continue. Businesses are, however, currently facing challenges in sourcing experts to help them to report the necessary information and then in finding other experts who have the required and recognised standards for carrying out assurance work to provide credible assurance over that information as increasingly required by stakeholders and regulators. Therefore, there is a gap in the marketplace and a real growth opportunity for experts who can provide highly skilled and specialist assurance on such matters. Currently, due to the lack of such individuals, corporates may have to seek assurance from the expert that prepared the information, which is not a satisfactory state of affairs. Alternatively, corporates may be utilising their internal audit teams, but they are being stretched to the limit of their historic competencies as the range of subject matter information over which assurance is sought continues to grow.

It is likely that assurance requirements on non-financial information will be introduced by soft law such as the UK Corporate Governance Code. In this case any engagement of assurance providers would be on a contracted basis rather than a statutory one. This contractual model would preserve the legal precedent of the Caparo case i.e., the assurer only holds a duty of care to the company and not specifically to individual investors. This approach will help to remove any wider liability issues that might constrain the non-financial information assurance market.

Given this increasing demand for assurance services of a non-financial assurance nature there would be benefit in assurance providers having to provide their services under the realms of a globally recognised international standard setting body.

The International Auditing and Assurance Standards Board (IAASB) sets standards for professional accountants undertaking audit and assurance engagements. Its sister board, the International Ethics Standards Board for Accountants (IESBA) sets standards on ethics and independence for professional accountants. In the UK, the Financial Reporting Council (FRC) has responsibility for setting the auditing and ethical standards that apply to auditors. The FRC substantively adopts the IAASB's International Standards on Auditing (ISAs) but adds certain UK specific content to these standards although this is gradually being reduced as the IAASB further strengthens its standards. From an ethical perspective, the FRC sets its own ethical requirements for those individuals undertaking public interest assurance engagements, including audit, which are contained in its Ethical Standard. Although not the same as IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards), this covers similar areas and is at least as rigorous in terms of its requirements.

The FRC's suite of standards now includes International Standard on Assurance Engagements (ISAE) 3000. This is the foundational assurance standard and provides the basis for the two types of assurance engagement i.e., attestation and direct. The framework for assurance engagements defines only two levels of assurance that can be provided, namely reasonable (high) and limited.

As recommended in Sir Donald's report, consideration should be given to widening the different types of assurance engagement that can be undertaken. In 2012, ICAS published a discussion paper [Balanced and Reasonable](#) which put forward a new potential assurance framework that was intended to be more user friendly and widen the levels of assurance that could be provided.

It is proposed that all individuals in the UK undertaking engagements of an assurance nature would seek to comply with the applicable assurance standards set by the FRC (ARGA). We would envisage that the market would drive non-financial statement assurance providers to adopt the use of these standards as a means of best practice. If that were not to be the case, then there might be a need for a legislative or regulatory solution to mandate this approach. Regardless, the public interest would be better served if all assurance providers were applying the same assurance framework and related standards.

Competencies required of non-financial statement auditors

Where the expert was involved in work relating to the audit of the financial statements then, as now, this would need to be conducted in accordance with the international standards on auditing (UK) and their work would ultimately be overseen by the audit engagement partner responsible for signing the financial statements.

There would also need to be confidence that the individuals issuing assurance reports on subject matters other than financial statements would first, be someone who has sufficient skill and relevant training and proven competence in the subject of what they are seeking to assure, and second be proficient in the skills and standards of the provision of assurance. This confidence would be best facilitated by requiring such individuals to undertake appropriate training and assessment in the provision of assurance and related aspects. Professional accountancy bodies such as ICAS would be ideally placed to provide such training and related assessment leading to the award of the Caud. Such individuals would be subject to the Code of Ethics of the professional accountancy body concerned and therefore, compliance with the fundamental principle of professional competence and due care would restrict such individuals to providing assurance on subject matter on which they had appropriate expertise. For the avoidance of doubt, someone who was an expert in cyber-security and had attained the Caud designation would be restricted to providing assurance on that subject matter, they could not, for example, issue an audit report on a set of financial statements unless they were also an RI in a registered audit firm.

Individuals may be expert in particular fields e.g., cyber security but have no professional qualification in that discipline. Whilst the entry requirements to train towards the Caud qualification would be based on a base requirement of holding a bachelor's degree or equivalent in a relevant discipline (i.e., the field in which the individual intends to provide assurance), it is appreciated that some flexibility would be required in this regard. Therefore, the entry requirements would need to accommodate those with bachelor's degrees or equivalent in another subject to that which they seek to provide assurance on, subject to the individual having sufficient and appropriate experience in the subject matter. This would include appropriate recognition of work-based learning in the individual's specialised field(s) of expertise. Background checks as to whether the individual would satisfy the necessary fit and proper checks to be able to be a Caud would also need to be satisfied.

Attainment of Caud status would involve passing two separate assessments. The first of these would cover the foundational assurance related content that would equate to that covered by professional accountants in their qualification. The second would be the Assessment of Advanced Audit Skills. The assurance elements of the initial professional development requirements of the [International Education Standards for Professional Accountants](#) provide a means by which to determine the foundational stage content. In summary, the primary elements would be the assurance related content, the development of professional scepticism and ethical (including independence) related concepts. This would then need to be supplemented by the specific applicable syllabus for the Assessment of Advanced Audit Skills. Whilst much of the content would mirror that for prospective financial statement auditors, there would need to be an element of specific tailored content.

The assessments could either be set and assessed by the professional accountancy body or by the FRC (ARGA). Regardless, it is not envisaged that the related training would be provided by the FRC (ARGA). Given the expertise and experience of professional bodies in education there would be benefit in allowing the bodies to both train and assess the candidates, with the FRC (ARGA) providing oversight of the process as it currently does.

As is proposed with respect to financial statement auditors, there would be a requirement (envisaged at every four/five years post qualification) for the individual to have to pass an evaluation of competence (likely digitally) to maintain Caud expert status.

It is envisaged that a lot of the training will be performed remotely so there will be flexibility within the system to cater for both professional accountants and those who are not. This will open up the market to individuals from beyond the UK seeking to attain Caud status.

In the public interest, Cauds would be subject to the regulatory and discipline requirements of the professional accountancy body which awarded their designation.

Phase 3

The Corporate Auditor professional body

Successful implementation of phases one and two above, would potentially render this final stage unnecessary and potentially avoid further cost and bureaucracy. However, over time those providing services of an assurance nature may wish to have this skill otherwise recognised. The establishment of a Corporate Auditor professional body would be the next logical step if this was the desired approach.

This would involve the establishment of a new professional body, separate but with likely close links to the accountancy profession. This body might in time satisfy the necessary criteria to be recognised by Royal Charter.

The Corporate Auditor body would take time to become established and there would be associated costs to be incurred. Consideration would, therefore, need to be given as to whether, and if so, when, this body would take over the role envisaged of the professional accountancy bodies set out in Phase 2 above. One potential, at least transitional measure, is that the professional accountancy bodies could continue to provide at least the training and potentially the assessment for those aspiring to become Corporate Auditors and associates.

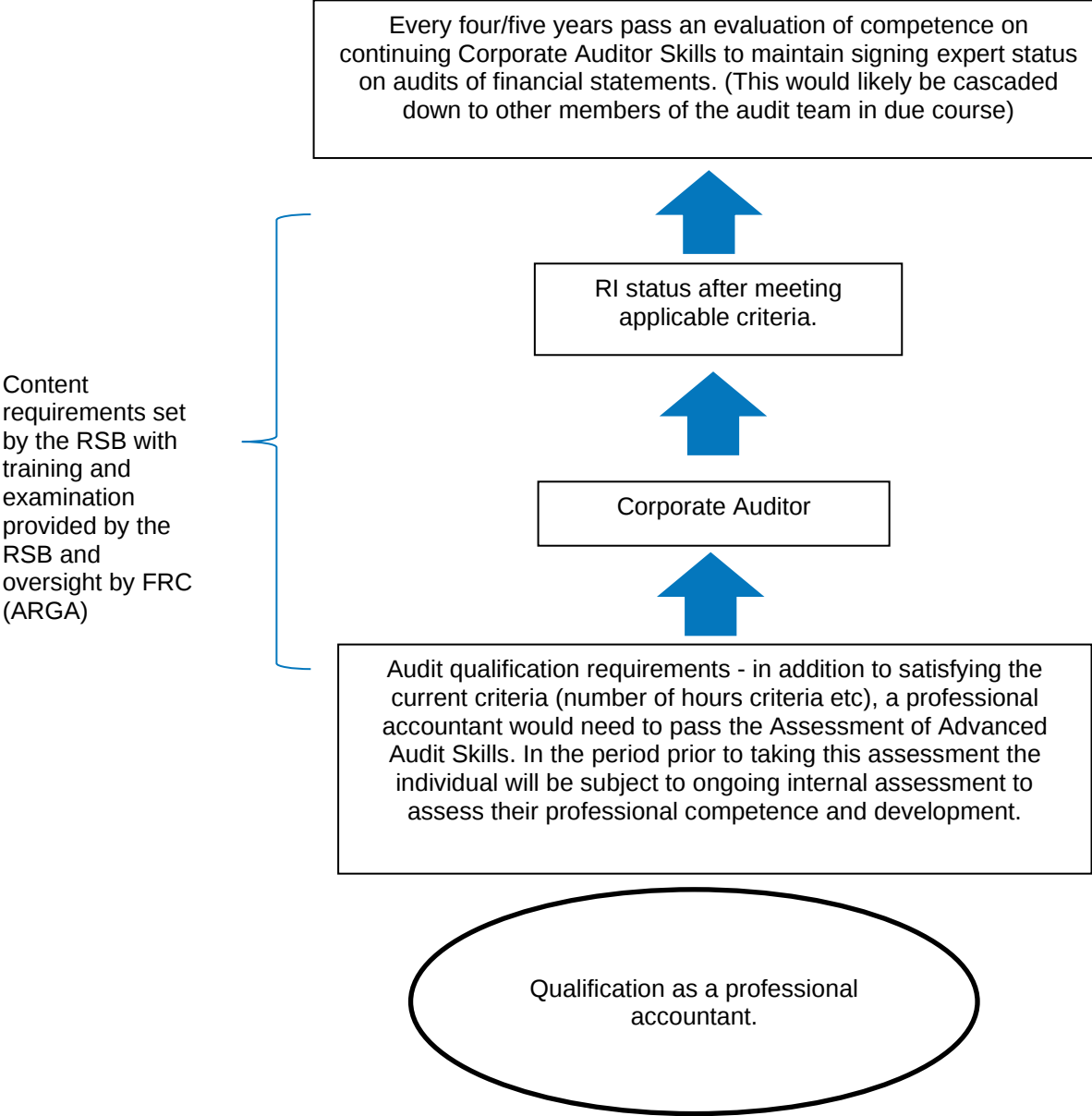
A funding model would need to be developed and implemented. It is envisaged that this would be primarily membership subscription based at the outset.

Considerable collaboration between the professional accountancy bodies and any future Corporate Auditor professional body would be necessary.

Transitional measures would also be required to allow those currently practising as RIs to become members of the new Corporate Auditor profession.

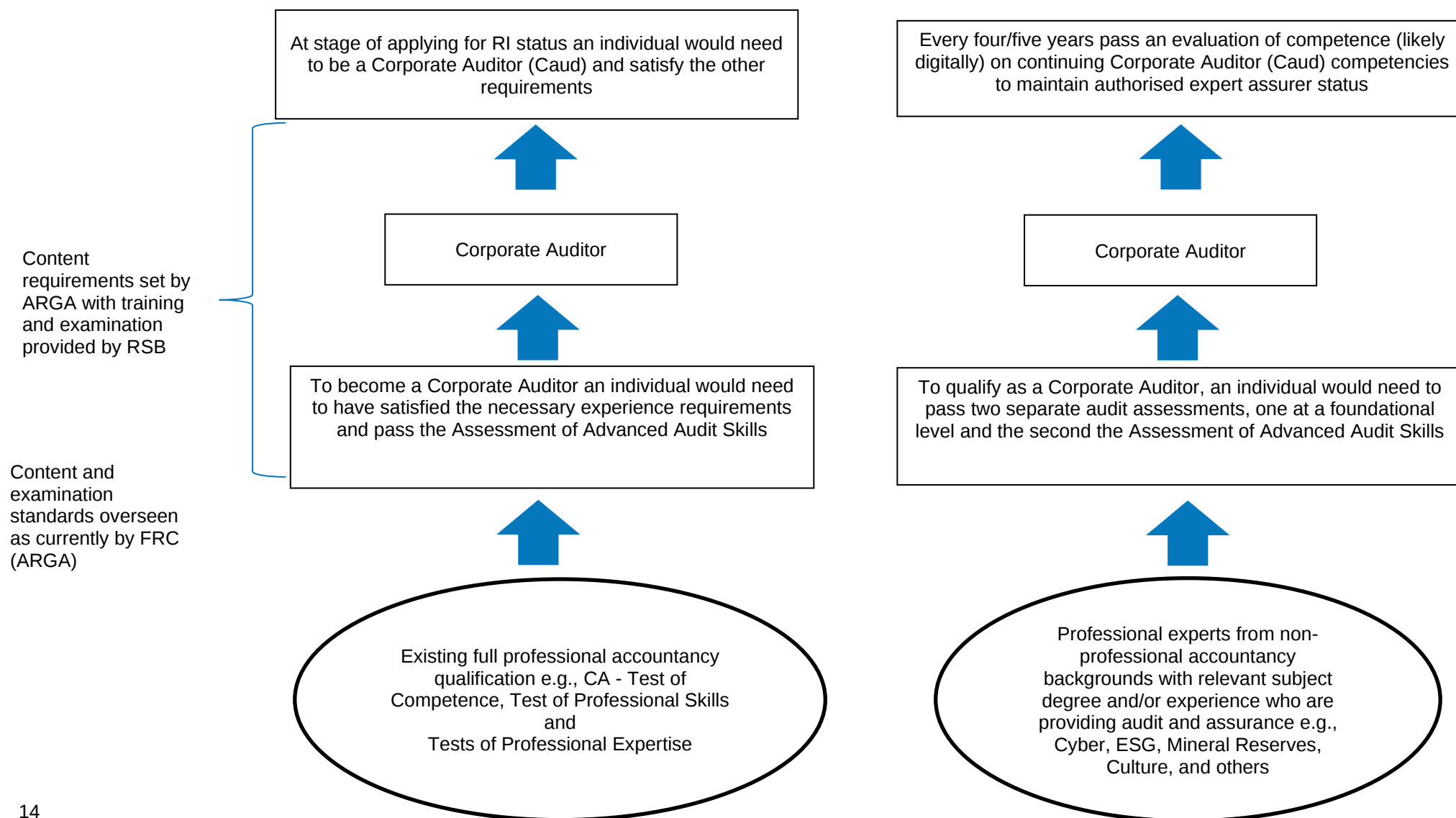
Appendix A: Revised RI Requirements - Corporate Auditor (Financial Statements)

This illustrates the proposed revamp of the model for a professional accountant to become eligible for signing audit reports on financial statements.



Appendix B: Corporate Auditor (Financial Statements) & (subject matter other than Financial Statements)

Focussed on formal evaluation of post-qualification skills for qualified accountants and providing a formal audit/assurance qualification for those providing audit and assurance who are not qualified professional accountants.





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