

16 April 2016

## CIMA RESPONSE TO IAASB INVITATION TO FOCUS ON PROFESSIONAL SCEPTICISM, QUALITY CONTROL AND GROUP AUDITS

Dear IFAC,

CIMA welcomes the opportunity to contribute to your thinking on professional scepticism, quality control and group audits as our membership work at the interface between businesses and the commissioning and employment of auditors. As a result we have a unique perspective on the role of the auditor.

Firstly, we would argue that the auditor's role needs to move beyond the traditional focus on financial statements. While this is still paramount we believe that much of the true value of businesses has moved off the balance sheet over the past thirty years and while this is still underpinned by long term cash flows, the auditor, in our view needs to have an understanding of the business model, how value is created and the risks to sustainable value creation in order to ensure they are addressing all the material financial risks and also in respect of going concern. This is also critical to attracting new talent and enhancing professional Skills.

Additionally, we believe that the basis of the relationship between the auditor and the organisation subject to audit is critical to success. This could be described as focusing upon professionalism, independence, and conflict of interest as set out under section 46/65, P18/21.

More specifically we would also draw your attention to the following concerns -

The statement in section 71 on policies and controls is unsatisfactory from the perspective of the investors and organisation being audited perspective - "We believe it would likely be very challenging for us to develop requirements for networks because...." (P23).

The chart for section 65 (P21) while comprehensive, does not address incentives and their potential impact, for example on an audit hours target that might inappropriately reduce the level of work required.

On a more positive note we would strongly support the following points as critically important.

- Importance of effective communication with the audit committee (section 4)
- Sufficiently knowledgeable (section 4), attracting talent (section 10)

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- Impact of technology, which should strengthen the quality of the audit (sections 10/13/37)
- Standards applicable to audits of all types, including SMEs, public sector, but also ensure appropriate to different size, sectors (sections 12/13)
- Expectation of audit challenge of management (section 17)
- Importance of addressing weaknesses due to cultural differences (sections 32/37)

We look forward to hearing from you regarding the response received from other stakeholders.

Yours sincerely,

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