

15 January 2009

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— Dear Mr Billing

## **Consultation on whether UK and Irish auditing standards should be updated for the new international auditing standards**

The Audit Commission welcomes the opportunity to comment on the APB'S Consultation Paper.

### *Background*

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone. Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies. Our audit practice is the fifth largest in the UK.

### ***The Commission's Response***

**Question 1 – Do you agree that ISAs (UK and Ireland) should be updated to reflect improvements in the underlying international auditing standards? If not, please explain your reasons**

The Audit Commission agrees that ISAs (UK and Ireland) should be updated to reflect improvements in the underlying international auditing standards. We welcome the improvements made in the clarity of the IAASB's ISAs and recognise that increases in requirements are driven by the need for more rigorous audit quality.

**Question 2 – If you agree that the ISAs (UK and Ireland) should be updated to reflect improvements in the underlying international auditing standards, do you believe that this should be done by adopting the Clarity ISAs:**

- (a) as soon as practicable, or**
- (b) if and when they are endorsed by the EC;**

The Audit Commission supports the clarified ISAs being adopted as soon as practicable (option A). We supported the APB's decision to spend time and resources on improving the ISAs during the IAASB consultation process. We acknowledge there is a risk that the European Commission may modify or remove sections of the IAASB's Clarity ISAs in the adoption process and that these changes will need to be adopted in the UK and Ireland. However, we believe the benefits of reflecting the latest developments and thinking in auditing standards, and therefore demonstrating commitment to audit quality, outweigh the potential risks of implementation in advance of the European Commission (EC).

We require our auditors to carry out audits under the Audit Commission Act 1998 (the Act) in accordance with our Codes of Audit Practice. The Codes require auditors to comply with auditing standards currently in force and have regard to other relevant guidance and advice issued by the Auditing Standards Board. A significant proportion of the work under the Act is carried out under contracts with firms who are members of IFAC's Forum of Firms. As indicated in your consultation document, these firms are likely to implement the Clarity ISAs from 15 December 2009. It is important that the Commission maintains consistency and applies the same auditing standards as these firms. There are also areas where the UK audit agencies rely upon the work of each other, and again it is important that all the agencies are working to the same standards.

**Question 3 – if you believe the clarity ISAs should be adopted as soon as practicable, do you believe it will be practicable to require the resulting new ISAs (UK and Ireland) to apply to audits of UK and Irish entities with accounting periods commencing on or after 15 December 2009?**

The Audit Commission believe that requiring the resulting new ISAs (UK and Ireland) to apply to audits of UK and Irish entities with accounting periods commencing on or after 15 December 2009 is appropriate and provides sufficient time to enable effective application.

We have responded to IFAAC and the ASB on the clarity ISAs as they have been exposed. A number of the adjustments to requirements are already embedded within our audit practice's audit methodology and the audit practice has already planned to update its audit methodology in line with the IAASB's timetable.

**Question 4 – Do you support APB's view that the same standards should apply to audits of entities of all sizes? If not, explain your reasons for taking a different view**

The Audit Commission agrees with the principle that the same standards should apply to audits of entities of all sizes. Any change to this concept would result in an audit opinion giving different levels of assurance to users of the financial statements depending on the size of an entity.

We believe there is enough flexibility in the IAASB's ISAs to allow appropriate proportionality in interpretation. The APB's current practice note 26 on 'guidance for smaller entity audit documentation' is very helpful in the current framework and we recommend that this is updated for the revised ISAs.

If there are to be different requirements for entities dependent on size, the Audit Commission believes this is better done using different types of engagement, such as the compilation engagements and independent examinations currently undertaken for some smaller entities.

Yours sincerely

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