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By e-mail only to k-billing@frc-apb.org.uk

Dear Sirs

Consultation on whether UK and Irish Auditing Standards should be updated for the new International Auditing Standards

We welcome the opportunity to comment on the APB's consultation paper. We strongly support adoption of the Clarity ISAs for periods commencing on or after 15 December 2009.

We encourage APB, the Public Oversight Board and the Department for Business Enterprise and Regulatory Reform to continue to press the European Commission and the European Group of Auditors' Oversight Bodies to adopt these standards in accordance with Article 26 of the Statutory Audit Directive in order that the same auditing standards will apply throughout the European Union.

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.

Yes. We believe that the Clarity ISAs have been developed after thorough due process. This has included input from auditors, preparers and users of financial statements together with audit, securities and prudential regulators. We therefore believe that these therefore represent best practice in the audit of financial statements. We believe that:

- the redrafted ISAs represent a significant clarification of the difference between what is required for all audits and what is guidance; and

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- those ISAs that have been revised as well as redrafted additionally represent a well thought out response to developments in financial reporting and the increasing complexity and volatility of both financial markets and the business environment.

2. If you agree that the ISAs (UK & Ireland) should be updated for 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?

As indicated above, we believe that the Clarity ISAs represent best practice in auditing. It is not possible to implement these standards immediately as the completed suite of standards will not be published until March 2009 and, as these standards need to be taken as a package, time is needed to update our documentation to reflect new requirements and to train our people. However, we believe that implementation in line with the IAASB's own timescale of periods commencing on or after 15 December 2009 is practicable and that APB should aim to apply the Clarity ISAs in the UK from the same date.

As a member of Deloitte Touche Tohmatsu, we are committed to the undertaking given to the Forum of Firms, and will be applying the Clarity ISAs in line with the IAASB's timetable whether or not APB applies these standards from the same date. This position is likely to be shared by all of the major networks of accounting firms. We note that failure to adopt these changes at the same time as the IAASB would result in increased costs for auditors, networks, inspectors and clients in maintaining dual systems.

We believe that it would be hard for APB to justify any delay beyond the IAASB's proposed date for adoption of the new standards, even if this is before the endorsement of these new standards by the European Commission. Doing so would only delay the inevitable, and would leave the APB lagging behind other countries and applying standards that did not represent best practice expressed in the clearest manner in the areas of fraud, internal control, risk assessment and reporting to regulators – areas which are important given the increased level of reported frauds and control breakdown in the current market environment.

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 & Ireland) to apply to audits of UK and Irish entities with accounting periods commencing on or after 15 December 2009?

Yes. We believe that this timescale allows sufficient time for the following to be substantially complete by early in 2010:

- firms, networks, software providers and training providers to update their manuals, software, standard documentation and training material;
- training of auditors in the new requirements; and
- development of a proportionate regulatory approach to the inspection of audits carried out under the Clarity ISAs.

This would then allow firms sufficient time to plan their audits under the new standards, and to explain any new information requests, audit procedures and requests to their clients.

4. Do you support APB's view that the same standards should apply to audits of entities of all sizes? If not, please explain your reasons.

We believe that the same standards should apply to audits of entities of all sizes. Applying two different sets of standards would lead to confusion amongst preparers, users and auditors of financial statements who would need to apply different standards, or understand that different standards had been applied to the audits of different entities. This may also lead to increased costs for both preparers and audit firms associated with the maintenance of dual systems of audit documentation, manuals, software and training.

We understand the concerns of some small and medium-sized entities and of those firms who audit only such clients regarding the perceived increased costs of audits under the Clarity ISAs. Some of these concerns are based on the experience of implementing the original ISAs (UK and Ireland) in 2005, particularly in adopting the 'risk' ISAs (240, 300, 315 and 330) and the perception that these would always require significant additional work. It is worth noting that:

- Lessons have already been learnt from these earlier changes. In particular, practitioners have used the adoption of the risk ISAs to feed back new insights into their clients' businesses to those charged with governance. Other practitioners have used the insights gained from applying the new ISAs to reduce the level of audit work on areas of low risk below that previously carried out under the old Statements of Auditing Standards, applying their professional judgement. In many cases this has more than compensated for the additional time spent on risk identification.

- Many of the criticisms of the adoption of the ISAs in 2005 arose from the perceived costs of documenting compliance with those new standards. The publication of Practice Note 26 in September 2007 was widely welcomed as demonstrating that these documentation requirements need not be overly burdensome. We would strongly recommend that APB prepare a Clarity version of Practice Note 26 to assist auditors of small and medium-sized entities in applying the Clarity ISAs. Based on APB's proposed timetable, this should be made available early in 2010 in order that auditors can understand and apply the guidance it contains in the planning stages of their first Clarity ISA audits, which are likely to be for December 2010 year-ends.

- Many of the areas where APB have identified additional work-effort (and hence cost) are less likely to have an impact on small and medium-sized entities. For example, fewer SMEs have adopted the fair value accounting provisions of FRS 26 or IFRS, so the impact of applying the revised and redrafted ISA 540 will be low. However, for those entities that have done so, the risks are significant and would require additional audit effort even under the existing ISAs – for example, fair valuing of financial instruments in times of market turmoil - and the revised and redrafted ISA 540 may actually reduce the level of additional audit effort that would otherwise have been required in applying the extant ISA 540 because it provides clearer guidance.

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- Many of the perceived increased requirements of those Clarity ISAs which have been revised as well as redrafted are in fact the inclusion of existing 'pluses' in the APB's standards into the equivalent underlying IAASB standards.

- A significant amount of the concerns raised at the time of the original switch to ISAs (UK and Ireland) arose from the perceived threat of regulatory action for non-compliance. We believe that the approach of the Quality Assurance Directorate and the Audit Registration Committees was, and continues to be, proportionate and measured in addressing adoption of new standards. Therefore concerns could be allayed by a statement from these regulatory bodies that their approach will focus on achievement of objectives rather than on a box-ticking approach to compliance with individual requirements.

- Having two sets of auditing standards also risks those wishing to commit or conceal fraud in choosing a firm that would apply the less rigorous standards.

- A single set of auditing standards applicable by all firms to entities of all sizes creates a level playing field for auditors, helping to achieve the FRC's strategic objective of increased competition and choice in the audit market.

If you wish to discuss our comments in more detail, please contact Martyn Jones (mjones@deloitte.co.uk) or Richard Gillin (rgillin@deloitte.co.uk).

Yours faithfully

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Cc: Paul George, Public Oversight Board
David Tyrrel, Department of Business Enterprise and Regulatory Reform