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Dear Keith

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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 above consultation paper. Overall we support the introduction of the ISAs at the earliest opportunity but with two provisions as follows:

- The ISAs should be introduced without the addition of "pluses" other than those necessitated by legislation and associated regulations.
- Practice Note 13 should be updated for the new ISAs and issued at the same time, or alternatively Practice Note 26 should be expanded to cover other ISAs that require interpretation for smaller entities.

Our responses to the specific consultation questions are as follows and we include more detailed comments in the Appendix.

i Do you agree that ISAs (UK and Ireland) should be updated to reflect improvements in the underlying international auditing standards?

ISAs issued by the IAASB should be adopted in the UK and Ireland and should only be modified for legislation and associated regulations specific to these jurisdictions. We do not support modification of ISAs for other "pluses".

ii If you agree that the ISAs (UK and 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?**

We agree that the Clarity ISAs should be adopted as soon as practicable subject to our response to question (iii) below.

iii If you believe that 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?

We suggest that the adoption date should be delayed to years ending on or after 15th December 2010 to ensure that the implementation timescale is not inadvertently accelerated by audits of short accounting periods.

Chartered Accountants

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

We support the APB's view that the same standards should apply to audits of entities of all sizes. We suggest that consideration could be given to developing guidance that illustrates how the requirements and application material in the Clarity ISAs might be applied in the audit of a small entity. The proffered solution that it is unnecessary to have an audit when a company is below a certain threshold is not necessarily desirable from a small company's perspective. There are still a large number of audits that are requested voluntarily which demonstrates that audits for smaller entities are still a valued service.

If you have any further questions, please do not hesitate to contact me.

Yours sincerely

Phil Crooks
Head of Assurance
For Grant Thornton UK LLP

Detailed comments on the questions

i Do you agree that ISAs (UK and Ireland) should be updated to reflect improvements in the underlying international auditing standards?

We believe that the new clarity ISAs are an improvement on the extant ISAs and should be adopted. Many firms, particularly those in the Forum of Firms, will already be updating their auditing procedures to reflect at least some of the new requirements. In the drive towards implementing international auditing and accounting standards world-wide, it is a retrograde step not to support improvements whole-heartedly.

We believe that the APB should not seek to deviate from international standards, other than where specific UK and Irish legal requirements require differences. International consensus will be lost if every country develops their own preferred variations, in the name of quality.

We find that the current pluses add to the length of the ISAs, can be confusing internationally as well as in the UK, slightly contradictory in some cases and, as far as the current pluses are concerned, often are only another example added to a list. In undertaking an international group audit, they are particularly unhelpful when the differences between international ISAs and ISAs (UK and Ireland) have to be specified. If the APB considers that the international standards, after due process, are deficient, and some pluses need to be retained, they should be in a separate bulletin. However, those pluses that are due to legislation and regulation should be in the body of the ISAs.

ii If you agree that the ISAs (UK and 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?

We do not agree that we should wait for endorsement by the EC. Subject to our response to question (iii) below, as a number of countries are going to adopt the Clarity ISAs for years commencing on or after 15 December 2009, we should also be in the first wave for the sake of harmony, to retain our position as a country where high quality audits take place and because they represent improvements.

iii If you believe that 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?

We consider that the deadline is challenging, particularly from the perspective of updating audit programmes, providing training and changing documentation. However, as laid out in the Appendix to the consultation, we have not encountered any insurmountable difficulties in implementing standards in the past. As mentioned in the main letter, we suggest that they are adopted for years ending on or after 14 December 2010 so that issues with short periods do not arise when all the necessary changes to documentation, training and software may not be complete.

As set out in more detail below, we believe that there is a role for the APB in providing practical guidance in interpretation of the ISAs for the audits of medium sized and smaller entities.

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

While overall we support the view of the APB that the audit process described in the standards is equally applicable to entities of all sizes, we believe consideration should be given as to how that guidance might be interpreted for the audits of small and medium sized entities. In this regard we would advocate updating Practice Note 13, Practice Note 26 or an international equivalent, with practical guidance.

We also consider that the Institutes' audit inspection units should issue a statement that while they will look to see that the clarified ISAs are adopted robustly, it will be on a basis proportionate to the risks involved in smaller entities. We consider that this would be helpful in overcoming any resistance to the clarified ISAs.

Accordingly, we do not advocate audit exemption for smaller entities because the costs and requirements of the Clarity ISAs are too onerous. It is always difficult to estimate potential costs of implementation of new requirements and though there will be initial costs, they will be smaller in subsequent years. Businesses value an audit and we should not allow it to be used only for regulatory purposes, forgetting the assurance it gives to other users, such as owners and other stakeholders of a business. If such costs and requirements do not lead to any improvement in audit quality, their purpose should be queried.