

Keith Billing
Project Director
The Auditing Practices Board
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London WC2B 4HN

18 December 2008

Dear Keith,

We appreciate the opportunity to comment on the APB's consultation paper on whether UK and Ireland auditing standards should be updated for the new clarified suite of auditing standards ("Clarity ISAs") generated by the International Auditing and Assurance Standards Board ("IAASB").

We urge the APB to update auditing standards to reflect the content of the Clarity ISAs and to do so promptly to enable these to be applicable for audits of periods commencing on or after 15 December 2009. Clarity ISAs should be applicable to all audits, however for audits smaller entities, including the audits of wholly-owned subsidiaries of large companies, we would support differences in audit requirements only where they would not have any adverse effect on the level of assurance provided by an audit. For instance, on audits of smaller entities, it may be appropriate to vary the extent of required communications to those charged with governance or the level of audit documentation required without in any way affecting the level of evidence gathering and therefore assurance provided by the audit.

We also recommend that the APB avoid introduction or retention of any discretionary requirements through the current mechanism of "ISA pluses". We accept that UK law and regulation introduces certain requirements for the auditor that are not to be found in the Clarity ISAs and it is appropriate for these to be drawn to the attention of auditors in an efficient manner. However we recommend that the requirements of UK Auditing Standards go no further than the requirements of the IAASB's standards unless separate UK law or regulation dictates otherwise.

At the Appendix we provide more detailed responses to the specific questions posed in the consultation paper. We would be happy to discuss our views with you and if you have any questions in connection with this letter, please contact Deian Tecwyn or Jon Rowden on 0207 212 4494.

Yours sincerely

Deian Tecwyn
Head of Business Services and Risk Management

APB 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.

Yes we agree that the current ISAs (UK & Ireland) should be updated

PwC has supported the IAASB's project to revise and redraft ISAs. As a member of the Forum of Firms, The PwC International network of firms bases its audit approach on IAASB ISAs.

The Clarity project has combined both the re-drafting of all and the revision of sixteen current ISAs. The re-drafting of auditing standards to make them clearer is welcome move towards simplicity. The revisions made to certain ISAs have been prompted by developments in financial reporting and the observations and recommendations of international regulators. In light of developments such as the credit crunch and public reporting failures such as Parmalat, it is appropriate for requirements to have been increased in areas such as the audit of estimates including fair values, related party transactions and group audits.

We note that the Public Interest Oversight Board has actively monitored the setting of Clarity ISAs to ensure that the public interest is served by the new standards.

APB Question 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 soon as practicable

The Clarity ISAs are scheduled to become ISAs for periods commencing on or after 15 December 2009, which the IAASB consider to be the earliest practicable time for the adoption of Clarity ISAs. We are part of a network of firms which is a member of the Forum of Firms. The Forum of Firms promotes the consistent application of high quality audit practices worldwide, including the use of International Standards on Auditing ("ISAs").

There are strong indications that certain other territories will seek to introduce Clarity ISAs as national GAAS in 2010. Accordingly we should expect that transnational audits reporting into these territories in 2010 will require our staff to conduct audits using Clarity ISAs. Hence Clarity ISAs will affect UK audit teams in 2010 irrespective of the APB's decision on UK GAAS or our Forum of Firms membership.

PwC has called for the European Commission to endorse Clarity ISAs as soon as practicable, however we recognise that this is highly unlikely to become effective as early as periods commencing on or after 15 December 2009.

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

Yes

The IAASB has been diligent in ensuring that texts of finalised Clarity ISAs are available, so preparations are already underway. During 2008, the ICAEW and APB has been active in alerting the UK profession and relevant service providers to the profession to the need to prepare for Clarity ISAs.

For our firm it will be practicable to apply these ISAs to 2010 audits, provided that the APB's approach to UK and Ireland pluses are exposed and finalised swiftly during 2009 and that, going forwards, UK & Ireland pluses are restricted to requirements imposed by UK law or regulation.

APB Question 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.

Yes, although in appropriate circumstances we would support differences in audit requirements that will not have an adverse effect on the level of assurance provided by an audit.

We wish to see a single set of principles-based auditing standards that are scalable to all entities. We note that the IAASB has paid particular attention to the views of small and medium sized practitioners during the development of Clarity ISAs.

A single set of auditing standards for all entities is also consistent with the concepts that audits, no matter the size of the entity are intended to provide a similar level of assurance to users of the audited financial statements.

We note that the APB's regulatory impact assessment indicates that recurring cost increases averaging nearly 10% are anticipated for audits of small and medium size entities where no more than 500 recurring audit hours are required. This anticipated increase is significantly greater than the anticipated increases for larger audits and arises on audits where the public interest is arguably less accentuated. We recommend that the APB take active steps to address this anticipated imbalance. In appropriate circumstances we would support differences in audit requirements only where they would not have any adverse effect on the level of assurance provided by an audit. For example it may be appropriate for auditing standards to vary the set of required communications to those charged with governance of smaller, non-listed entities, such as wholly owned subsidiaries of listed companies.

Furthermore we also recommend that the APB update their document "Practice Note 26: Guidance on Smaller Entity Audit Documentation to provide guidance which will help avoid excess audit documentation.