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Dear Keith

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

The Auditor General for Wales welcomes the opportunity to comment on the timetable and other issues associated with UK adoption of the Clarity ISAs. This response has been prepared on behalf of the Auditor General by the Wales Audit Office (WAO).

I set out below our comments against each of the questions raised in the APB's consultation document.

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

Yes. The WAO is committed to carrying out audits in accordance with best practice in auditing standards and we see the Clarity ISAs as being current best practice, which should be incorporated into UK & Ireland standards.

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 Clarity ISAs:

- a. as soon as practicable, or
- b. if and when they are endorsed by the EC?

We believe that ISAs (UK & Ireland) should be updated as soon as practicable and that the updated standards should be issued and adopted in the UK to allow implementation in line with the IAASB's timetable.

A significant proportion of the work undertaken on behalf of the Auditor General is carried out under framework contracts by 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 WAO maintains consistency and applies the same auditing standards as these framework 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. The WAO therefore plans to apply the Clarity ISAs in line with the IAASB's implementation timetable, regardless of whether the APB decides to implement them in the UK at this time.

Although there is a risk that the European Commission may decide to modify or carve out sections of the IAASB's Clarity ISAs, we do not consider that this justifies further delaying their implementation. The Commission has been actively engaged in the Clarity project consultation process and we understand has been largely successful in achieving the modifications it has sought to the standards. We therefore do not see a significant risk in implementing the Clarity ISAs ahead of a decision by the Commission. However, we recognise that the process of adoption by the European Commission may result in further changes to the Clarity ISAs, and these changes will need to be adopted in the UK in due course. The WAO would further update its methodology in response to any such changes.

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 WAO has been analysing the Clarity ISAs as they have been exposed and released and has responded to the consultation requests from the IAASB and the APB. Our forward plans have been predicated on introducing the Clarified ISAs in accordance with the IAASB timetable and we are therefore confident that we will be able to develop our audit methodology to fit the IAASB's implementation timetable.

As we note above, the WAO is acting consistently with the information in your consultation document which indicates that the large accountancy firms are also working towards implementing the Clarity ISAs from 15 December 2009.

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

Yes. The WAO undertakes audits of bodies whose "income" ranges from under £1 million to approximately £14 billion, and we consider that the ISAs should and can be applied to all these audits.

The ISAs are capable of being interpreted and applied proportionately to the size and complexity of an audit engagement, and there is a responsibility on audit firms and agencies to put in place proper training arrangements and audit methodologies to ensure that auditors understand how to apply the ISAs to entities of all sizes. The Clarity Project itself, in making clearer what is expected of auditors, aids this objective as does the APB's Practice Note 26, "Guidance for smaller entity audit documentation".

In our view if a review of historical financial information is to be termed an "audit" it should be undertaken against a common framework. Were a situation to be allowed to develop where different standards applied to entities of different sizes, in our view this would ultimately result in confusion, exacerbate the "expectations gap" and lead to perceptions of less rigorous audits for smaller bodies.

An updated Practice Note 26, "Guidance for smaller entity audit documentation" (which we consider to be a very useful piece of guidance) to reflect the requirements of the Clarified ISAs would be helpful to clarify the extent of audit documentation required in future for smaller public sector entities such as national parks authorities.

The WAO therefore supports the implementation of the Clarity ISAs in line with the IAASB's timetable, and would encourage the APB to proceed with incorporating these into its UK and Ireland standards in line with this timetable. We would also request that it identifies those "ISA-pluses" that it plans to include in its standards as soon as possible to allow incorporation of these into audit methodologies.

We also find the APB's evaluation of the cost implications of adopting the Clarity ISAs to be a helpful analysis. As the WAO's audit portfolio is very different to that on which this analysis has been carried out, we need to undertake our own assessment of the implications of adoption of the Clarity ISAs. To that end, we would invite the APB to share with stakeholders the methodology which firms used when undertaking this exercise.

I hope that you find these comments useful, but should you have any queries regarding our response, please contact my colleague Terry Jones by telephone (07919057418) or e-mail (terry.jones@wao.gov.uk).

Yours sincerely



Simon Edge
Partner