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September 2009

Dear Hazel

PRACTICE NOTE 26 (REVISED) – GUIDANCE ON SMALLER ENTITY AUDIT DOCUMENTATION

ACCA (the Association of Chartered Certified Accountants) is pleased to have the opportunity to comment on the above exposure draft.

ACCA is the largest and fastest-growing global professional accountancy body with 131,500 members and 362,000 students in 170 countries.

We aim to offer the first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

Overall

We welcome the revision of PN 26 and the fact that, as well as updating for the adoption of the Clarified ISAs, further documentation examples have been included. These enhance the usefulness of the document in demonstrating that ISAs can be applied in a proportionate manner in the audit of smaller entities.

Subject to the matters discussed below, we find the expanded revised guidance helpful and have no further significant suggestions as to how it could be improved.

The importance of PN 26 as a benchmark

As a result of the new approach to the structure of ISAs, the Clarity project has included changes to requirements and guidance for audit documentation. Such changes enhance the need for proposed revised PN 26 to explain the ways in which the Clarified ISAs accommodate the circumstances of the smaller entity audit. Auditors, trainers, audit systems developers and regulatory monitors will all be looking to PN 26 for a benchmark against which to judge their own approach.

There may be a risk that monitors and others who influence many auditors will 'gold plate' the approach and encourage auditors to undertake a higher level of documentation than considered necessary by the APB. ACCA, however, recognises the authoritative nature of the guidance issued by the APB and, when conducting monitoring visits, will expect auditors to adopt the PN 26 approach to documentation in the circumstances of the smaller audit.

PN 26 is not a minimum standard of documentation

In our comments on the exposure draft of the extant PN 26 we said:

' . . . we recognise that the APB has chosen to present examples that are illustrative rather than consistently advocating the minimum documentation necessary. Because of this, it would be useful to mention in the introduction to the Appendix that the examples are not intended to set a minimum standard of documentation.'

We were pleased to note that this recommendation was accepted and the final version of extant PN 26 included wording to that effect.

We are disappointed, therefore, to find that the exposure draft of revised PN 26 no longer includes such wording. We strongly suggest that this wording be reinstated as it is important that those using PN 26 as a benchmark are reminded that, in appropriate circumstances, more efficient documentation may be employed without compromising effectiveness.

Cost, efficiency and documentation

Proposed PN 26 exists principally because of the perceived problem that auditors of smaller entities seek to apply the same approach to them as to larger entities, with the result that the costs of such audits become disproportionately large. Much of the cost is attributable to the excessive level of documentation and underlying procedures.

While this is recognised in the introductory material to PN 26 and in a few references to cost or efficiency, the problem is not given sufficient prominence. We suggest, therefore, that the first paragraph of PN 26 be amended by adding the underlined words as follows:

This Practice Note provides guidance to auditors on the proportionate and cost effective application of documentation requirements contained within the clarified International Standards on Auditing (ISAs) (UK and Ireland)¹ to the audit of financial statements of smaller entities. It should be read in conjunction with the ISAs (UK and Ireland). It is not intended to be comprehensive guidance on the application of ISAs (UK and Ireland) to smaller audits.

We welcome the fact that the free-form notes are presented to some extent as bullet points. Experience shows that substantial time can be wasted in documentation, as writers strive for appropriate prose. We suggest that much more could be done to promote and illustrate the economy of effort achievable with a bullet point approach and minimal wording. In a separate document accompanying these comments we provide a reworking of *Example 1 – Audit strategy memorandum* that eliminates more than half of the words and reduces it from three pages to two. This form of documentation will be acceptable to ACCA's Practice Monitoring Department, if the content is readily understandable and unambiguous.

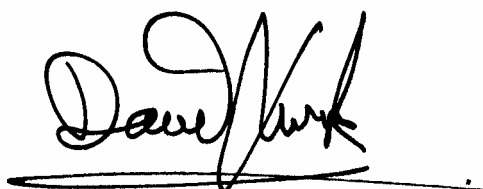
If our suggestion concerning illustration of the efficiency of the approach is not accepted, we recommend enhancing the related statements in the text of PN 26 itself. In the introduction to Appendix B, the statement that *'Explanations are written out in full in these examples, although shorter bullet lists may be suitable.'* should be much more positive. We suggest as follows:

'Although explanations are written out in full in these examples, shorter bullet lists, employing abbreviations, are likely to be much more efficient and, so long as their meaning is clear and unambiguous, equally valid.'

Paragraph 9 makes important points about what judgements or matters need not be documented. It should be extended to cover the common circumstances where there need be no separate documentation of the fact that (as demonstrated by the audit file) certain ISAs are not applicable. For example, ISA 610 only applies if an internal audit function exists and is likely to be relevant to the audit. Appendix A could be used to show for which ISAs this is likely to apply.

There are areas where the text of PN 26 could be expanded to provide further guidance on the selection of efficient procedures but we do not generally suggest any additional material. Although it is expanded, proposed revised PN 26 is still of a manageably short length compared to, for example the IFAC *Guide to Using International Standards on Auditing in the Audits of Small- and Medium-sized Entities*. We recognise that selectivity in content has been a factor in achieving such brevity and it is, in any case, difficult to cover many efficiency matters without entering into areas of difference between individual audit methodologies and hence into matters of commercial competition.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David York', with a horizontal line underneath.

David York
Head of Auditing Practice