

Ms Hazel O'Sullivan
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30th September 2009

Dear Ms O'Sullivan

Consultation on Practice Note 26 'Guidance on Smaller Entity Documentation'

The Audit and Assurance Committee of Chartered Accountants Ireland appreciate this opportunity to respond to the consultation on Practice Note 26 *Guidance on Smaller Entity Documentation* (PN 26).

We welcome the publication of this exposure draft of Practice Note 26 at this time, in advance of the implementation of the clarified ISAs later in 2009. This will help keep auditors of smaller entities abreast of the new provisions in the clarified ISAs and show the type of documentation required.

The addition of six new sample sets of working papers to the previous seven that were already part of the September 2007 version of PN 26 is to be welcomed. We believe they are a very useful expansion of the range of guidance material available to audit professionals.

We find Examples 10 and 11 dealing with 'Property Valuation' and 'Going Concern', respectively, particularly timely, given the current economic climate which is presenting auditors with new challenges.

These examples will be of most benefit to the younger generation of trainee auditors who are experiencing a recession for the first time in their professional careers and may be lacking familiarity with how clients have to cope with circumstances (sometimes outside their immediate control) that involve tighter or non-existent cash flow.

We make the following detailed comments:

1. It is very timely that this particular Practice Note is updated for the updates caused by the implementation of the clarified ISAs later in 2009. We would respectfully ask if the APB plans to update the other Practice Notes for any corresponding changes caused by the clarified ISAs?
2. There appears to be a slight typographical error on page 38 within Example 1 under the part of the checklist dealing with Sign –off – the text says ‘ Final review with client for approval of the accounts and s’
3. We have no specific comments about examples 2, 3,4,5,6,7,8,9 10 and 13 except to say that they are very helpful and expand the usefulness of PN26 for the audit of smaller entities.
4. It is a little disappointing that Example 11 – ‘Audit working Paper: going concern’ does not illustrate a much more pessimistic scenario for the client than the one outlined. Many company clients are experiencing a situation with their bankers where their overdraft facilities are either being severely reduced or are withdrawn altogether. Therefore a more pessimistic scenario would add greater credibility to the examples in PN 26 and be of great assistance to audit practitioners.

We suggest an additional example be inserted, that illustrated what judgements may need to be made and what audit documentation is required when the client’s future financial viability is in greater doubt than that shown in Example 11.

We would recommend an additional Example 11a showing what might be required where the letter from the bank confirming the overdraft facilities is either:

- not available at the time of signing off the audit report (leading to a potential limitation of scope and the need for the auditor to have a detailed discussion with the client).; or
- where the overdraft is clearly not going to be renewed by the bank (leading to potential multiple disclaimers including a going concern qualification and an adverse opinion).

In this latter case, there should also be mention of a discussion with the client about the possibility of preparing the financial statements on a break-up basis, upon which the auditor might be able to issue an unqualified opinion.

5. In Example 12 'Evaluation of misstatements identified during the audit', we do not understand why the amounts chosen for the audit adjustments being implemented are so small. The overall impact on profit of the adjustments made is only £995. Individually and in aggregate they are below the chosen materiality level of £13,500 identified in Example 1 as material for the financial statements as a whole. Performance materiality has been set at £10,000 in Example 1 and the adjustments are below that also. Perhaps larger numbers should be included in the Example 12 to make the example a little more realistic?

Perhaps an easier solution to the presentation of Example 12 would be to remove the opening paragraph from the example as it does not really help one's overall understanding of what the suggested documentation is trying to achieve.

We refer to the sentences 'All errors identified during audit testing are documented within the relevant audit papers. Misstatements below £100 are considered to be clearly trivial and have not been recorded below.'

6. We would respectfully ask the APB to include the statutory cross references for Irish company law wherever the UK Companies Act, 2006 is mentioned. There are two references to the UK Companies Act 2006 in PN 26, specifically on:
 - Page 10, the reference to section 498 Companies Act, 2006 regarding 'adequate accounting records' should be cross-referenced to the Irish Companies Acts 1963 to 2009. The corresponding terminology in Irish law is 'proper books of account' and the section is 193 Companies Act, 1990; and
 - Page 28, there is a reference to the UK Companies Act, 2006 requiring group auditors 'to review for the purposes of the group audit the work conducted by other persons and record that review'. The specific section in UK company law is not given in this instance. We believe the reference to be 'UK Companies Act 2006, Schedule 10, paragraph 10A(1)'.



Chartered Accountants Ireland hopes you find these comments useful. If you would find further information or discussion helpful, please contact Edel Kyne in Chartered Accountants Ireland (00 353 1 6377322).

Yours sincerely,

Niall Walsh
Chairman
Auditing and Assurance Committee

