

By email

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Dear Ms O’Sullivan,

Exposure draft of Practice Note 26 (Revised) “Guidance on Smaller Entity Audit Documentation”

We welcome the opportunity to comment on the exposure draft of Practice Note 26 (Revised), “Guidance on Smaller Entity Audit Documentation”, issued by the APB.

General Comments

In general we find the revised Practice Note 26 to be high quality and relevant guidance. The APB should be applauded for taking note of suggestions from respondents to the October 2008 consultation regarding the implementation of the Clarity ISAs, to update this guidance, and for including realistic examples to demonstrate that the ISAs are scalable and can be effectively applied to smaller audits.

The new ISAs do apply to audits of all sizes and this guidance is very helpful to firms as it illustrates the nature and extent of documentation that might be expected when dealing with smaller, less complex clients.

Paragraphs 13 – 32 are a good summary of the conditions that may exist in a smaller entity. However it could be argued that some of the conditions may also be in existence in a larger entity and therefore perhaps complexity not size, should be highlighted in driving the detail of audit documentation. In situations where a smaller entity is more complex it is clearly not appropriate to use the fact that it is small to reduce to amount of documentation required to allow the audit team to comply with the ISA requirements. All organisations will be required to complete the same tasks to comply with the ISAs (taking into accounts ISAs that are not relevant to the client) but will scale the detail depending on the complexity required.



The inclusion of the examples can be judged to be both a positive and negative move by the APB.

On the positive side it is very useful to have a ‘benchmark’ for audit firms to compare the level of work expected for a smaller less complex audit. It is also helpful to demonstrate that there is more than one way of presenting information and in particular that there is an alternative to the ‘checklist’ type approach that some firms will inevitably use.

On a cautionary note, it is a fact of life that although the examples include the words ‘for illustrative purposes only’ there will always be individuals who ‘copy and paste’ information blindly without assessing its relevance to their client. Clearly this is not a fault of the proposed guidance, (although it is a factor to consider when positioning it with the profession) and it should properly be considered as a training issue for firms to address.

It is also an interesting point as to how this example documentation will be used by the external regulators to judge the quality of audit firm documentation? Each of the documents contain under the title a sentence in brackets containing the words ‘documentation requirements of ISA X and ISA Y’ which might give the message ‘if your documentation looks like this it complies with the ISAs’. Although this is not the intention, as this PN is issued by the APB as ‘illustrative’ documentation it may be seen as an example of best practice by its audience.

Response to Specific Question

Do the new illustrative examples properly reflect the requirements of the proposed ISAs (UK and Ireland) and are they a realistic illustration of appropriate audit documentation? If not how should the examples be amended?

As noted above, it is very helpful that the APB have included examples of different ways of displaying information. As per paragraph 5 ‘there are many different ways that audit documentation can be prepared to meet the requirements of the ISAs’.

The examples are particularly good in demonstrating how the auditor should document the conclusion and the impact on the audit of the work completed. We feel that most of the examples are realistic and should be familiar to a wide range of users although we do have some comments as noted below.

Example 11 is an example of a going concern working paper documenting a low risk scenario. Given the current focus on auditors’ work on going concern it would be helpful to have an additional example covering a more complex higher risk scenario.

Example 13 does state that it is for a small group however it is a very simple presentation that does not demonstrate particularly well the documentation of the ISA 600

requirements. Given this is a new standard it would be useful to give the reader a more comprehensive example.

The addition of guidance reminding the auditor to stand back and review the findings from each of these separate areas and ensure that as a whole they cover all appropriate areas would be useful. At present the documentation is not linked together which is the vital final step for any audit.

In general we feel that the APB has included useful examples in the major areas where documentation requirements will scale due to complexity.

Should you wish to discuss these comments, please contact Iain Lawson on 020 7893 3623.

Yours faithfully



BDO Stoy Hayward LLP