

Hazel O'Sullivan
Project Director
The Auditing Practices Board
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

29 September 2009

Dear Sirs

Exposure Draft: Practice Note 26 (Revised) Guidance on Smaller Entity Audit Documentation

We welcome the opportunity to comment on the proposed PN26 (Revised). As you will recall, our response to the APB's proposal to implement the clarified ISAs in the UK and Ireland from 2010 strongly welcomed the idea of a revised PN26. We are very supportive of the manner in which APB is progressing this revision.

In response to the specific question asked in the exposure draft, we agree that the new illustrative examples properly reflect the requirements of the proposed clarified ISAs (UK and Ireland). We also believe that the proposed revisions and expanded range of illustrative examples are helpful and provide a realistic illustration of appropriate audit documentation, demonstrating to stakeholders that it is possible to implement the clarified standards in a proportionate manner. In particular, the examples show the importance of documenting the key facts relied on and judgments formed by the auditor without inappropriate degrees of 'box-ticking' and completion of overly-prescriptive checklists.

We also welcome the APB's commitment to publication of PN26 at the same time as the clarified ISAs. This will allow firms, training and software providers to update their materials and train audit practitioners in sufficient time to enable the first audits under the new standards to be performed both efficiently and effectively. The APB's proposals for PN26 have already been of much interest to other countries and we encourage the APB to continue the international promotion of similar material for smaller entities.

We have a few specific comments on the drafting of the proposed practice note:

- Paragraph 2 refers to the guidance being directed to, amongst others, auditors of companies that are exempt from audit but choose nevertheless to have a voluntary audit. We think that this reference is overly narrow; it is equally useful to small companies which form part of a larger group (e.g. a small UK company that is a subsidiary of an overseas parent) which is relatively simple but which cannot take advantage of the statutory exemption from audit. It may be more helpful to merge paragraphs 2 and 3 to say: "The guidance in this practice note is directed to auditors of smaller, simpler entities. Typically these would be those where: [list

Martyn E Jones
National Audit Technical
Partner
National Accounting and Audit

Deloitte LLP
2 New Street Square
London
EC4A 3BZ
United Kingdom

Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.co.uk

Direct: +44 (0) 20 7007 0861
Direct Fax: +44 (0) 20 7007 0158
Mobile: +44 (0) 7770 311 307
mjones@deloitte.co.uk

factors from paragraph 3]. It is likely to include companies which are exempt from audit but which choose nonetheless to have a voluntary audit, small subsidiaries and small charities, as well as larger entities that are also relatively simple. However, a more detailed and rigorous approach may be necessary in entities with more complex operations.”

- In paragraph 2 we also suggest including a reminder to users that the ISAs themselves contain “Considerations specific to smaller entities”, which will assist in the proportionate application of the standards, and that PN26 should be applied in conjunction with those considerations.
- We note that Appendix A will need to be reconciled to the actual “pluses” in the finalised standards as issued by APB.
- In the final paragraph of Appendix B we suggest that the words “... one planning document that encompassed all of examples 1 to 9” are replaced by “... one planning document covering all of the matters dealt with in examples 1 to 9.” This would avoid giving the impression that such a single document would be as long as all of those examples flowed into one place.
- Appendix B notes that bullet points may be used in documentation. We suggest clarifying this by adding words along the lines of “... provided that there is enough information in the bullet points to demonstrate compliance with the standards, particularly when describing a judgement or conclusion rather than giving factual information.”
- The audit plan in Example 1 and audit strategy in Example 2 both confirm that no revisions were needed during the course of the audit and are signed on 19 May. We believe it would be appropriate for either an additional signature by the partner dated the date of the partner review; or an additional point in the partner sign-off (Example 12) confirming that the plan remained appropriate and did not require revision or has been appropriately revised.
- In example 13, we suggest that the final point in the ‘Extent of involvement’ column for Sub 1 should say “Require memorandum from other audit firm regarding audit findings regarding significant risks” – i.e. to clarify that the group auditor is asking for the outcome of the network firm’s audit work, not just their assessment of risks. We also suggest the preceding bullet be amended to say “... to discuss and agree risk assessment.”

If you would like to discuss our comments in more detail, please contact Martyn Jones (mjones@deloitte.co.uk) or Richard Gillin (rgillin@deloitte.co.uk).

Yours faithfully

A handwritten signature in black ink that reads "Deloitte LLP". The word "Deloitte" is written in a cursive, flowing style, while "LLP" is written in a simpler, more blocky font.

Deloitte LLP