

SOUTH WESTERN SOCIETY OF CHARTERED ACCOUNTANTS

TECHNICAL ADVISORY COMMITTEE

CHAIRMAN: MARK GIFFORD-GIFFORD

DTAC: 17

SECRETARY: TRUDI COLES

DATE OF MEETING: 29 September 2009

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|---|--------------|--------------------------------|-----------------|-------------------------|
| DOCUMENT: Practice Note 26 (Revised): Guidance on smaller entity audit documentation | | | | |
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| MEMBERS' ATTENDANCE REPRESENTATION | TOTAL | ACADEMIC | BUSINESS | GENERAL PRACTICE |
| | 9 | 1 | 1 | 7 |

The following comments are made in response to the question in paragraph 8 of the consultation paper.

The committee found the draft revised Practice Note to be a useful document that will greatly assist smaller firms in terms of complying with the documentation requirements of the clarified ISAs. The committee also welcome the decision to update the Practice Note such that it can be issued with the clarified ISAs.

Whilst the committee were generally in agreement with the content of the Practice Note there were a few areas where it was thought that amendment was necessary.

1. Paragraph 2 of the introduction explains that the guidance is aimed at the voluntary audit sector. Is this too limiting? Paragraph 3 goes onto explain that this in fact is not the case, but would a reader dealing with a larger entity have stopped reading at paragraph 2? We suggest that the wording of these paragraphs is amended to make it clear that it is the uncomplicated nature of the entity that matters, not the size of the numbers.
2. We welcome the clarification in paragraph 39 that there is no requirement to document the non-applicability of matters that are clearly not applicable. However, it was then not clear why the audit strategy memorandum has a heading for investments in order to say that there are none. The freehold property from which the company operates is not an investment.
3. Would Appendix A be better presented landscape? Most of the text is in column 3 and landscape would allow this column to be wider.
4. The guidance on materiality on page 36 should be revised. Firstly the paragraph refers to 'calculation' of materiality. Materiality is a judgement and any suggestion that there is a set formula for calculating this should be avoided. This leads onto the second point: the example bases materiality on 5% of profit. There is a very great danger that this will become the defacto standard for determining materiality. The committee recognise that this is an illustration, but will all the users? Would it be better to say that "having considered the level of turnover and profit for the year materiality was set at £13,500 which is consistent with that used ...". This makes it clear that materiality is a judgement and that there is no set formula.

5. It is probably too late to change this now, but there are very very few companies in the voluntary audit sector that have two non-executive directors. When you then consider that they are a qualified accountant and a qualified surveyor (he obviously did not like the legal profession!) the example is completely unrepresentative.