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Dear Keith

**Consultation on Proposed Clarified International Standards on Auditing (UK & Ireland)**

This letter is to respond to your invitation to comment in connection with the exposure drafts of thirty-three proposed clarified auditing standards and a clarified version of ISQC 1.

Firstly, we welcome the introduction of clarified ISAs into UK Auditing Standards on the timetable proposed. We have no comments to make on the underlying ISAs and we accept the need to retain the supplementary requirements prompted by extant law or regulation. We wish to offer particular observations in connection with the five requirements termed “audit quality supplementary requirements” and also to answer the specific questions you have asked in the consultation document.

*APB “audit quality supplementary requirements”*

We do not support the proposed retention of the five requirements which are being termed “audit quality supplementary requirements”.

In our view none of the five proposed requirements enhance audit quality in any meaningful way and some may detract from audit quality. Each requirement is either unclear or is addressed by a requirement already contained within the ISAs, with some displaying both characteristics. Our detailed assessment of each of the five proposed requirements is attached at the Appendix.

We are concerned that the adoption of these requirements would provide significant encouragement to other national standard-setters or legislators that it is appropriate or necessary to add “audit quality” supplementary requirements. Any such requirements may be different to those proposed by the APB. We believe that audit quality will be best served by consistent adoption of the IAASB’s ISAs with territorial variations limited to matters prompted by extant territorial law and regulation. We do not wish to see unnecessary proliferation of differences in auditing standards and note that this has a direct effect on multi-national audits of UK companies. By adopting the Clarity ISAs at the earliest opportunity and eliminating these five proposed requirements the APB should send a strong and straightforward message that the IAASB’s Clarity ISAs are fit for purpose without further embroidering.

*Specific Questions on the proposals*

You have asked four specific questions. These are set out below, along with our answers.

**Q1 Do you agree with the criteria the APB has applied for deciding to retain:  
(a) Supplementary requirements  
(b) Supplementary guidance?**

***If not, please give your reasons and explain what criteria you would apply.***

Yes, the criteria for both supplementary requirements and supplementary guidance are appropriate. However we do not believe that any of the five proposed “audit quality” enhancements will meet the criteria to enhance audit quality.

**Q2 Are there any particular proposed audit quality supplementary requirements and guidance that you believe are not necessary to retain? If yes, please identify them and give your reasons.**

We do not support the retention of the five audit quality pluses, for reasons set out above and at the Appendix.

**Q3 Do you believe that the proposed supplementary requirements and guidance are clearly expressed? If not, please explain how they could be improved.**

Some of the five audit quality pluses are ambiguous, for reasons explained at the Appendix. We recommend removal of the proposed requirements for reasons set out above.

**Q4 Are there any particular current audit quality supplementary requirements and guidance that APB has not proposed to retain that you believe should be? If so, please identify them and give your reasons.**

No, there are none that should be retained.

We would be happy to discuss our views with you and if you have any questions in connection with this letter, please contact Deian Tecwyn or Jon Rowden on 0207 212 4494.

Yours sincerely

Deian Tecwyn  
Head of Assurance Risk & Quality

## Appendix: Analysis of the five proposed remaining UK & Ireland pluses intended to enhance audit quality

### 1 ISA 450 Para 14-1

**“The auditor shall, if applicable, seek to obtain a written representation from those charged with governance that explains their reasons for not correcting misstatements brought to their attention by the auditor”**

In our view, the ISA requirement to:

*“Request a written representation from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.”*

is both clear and sufficiently advances the matter.

In our experience management and those charged with governance may reasonably decide not to correct misstatements brought to their attention by the auditor either because they view the amounts as immaterial or because they view them as judgemental items and do not agree with the auditor’s judgement. Sometimes both apply. Requesting that those charged with governance specify in writing which of these reasons applies to individual facts and circumstances creates unnecessary process at the close of the audit and does not appear to be enhancing the public interest.

The use of the term “if applicable”, without provision of further explanation is ambiguous.

### 2 ISA 510 Opening balances

**“The ISA plus extends the requirement from opening balances on initial engagements to opening balances on all engagements”**

The IAASB’s standard explicitly relates only to initial engagements. The work effort is focussed on the audit evidence an incoming auditor needs to obtain in order to form an opinion on the current period’s financial statements. The procedures necessary in a continuing engagement would necessarily be different as the auditor would have obtained evidence on the opening balances in the prior period audit.

In our view the extension to continuing engagements does not make sense in the context of many of ISA 510’s requirements which involve the predecessor auditor. The concept of predecessor auditor does not apply in a continuing audit engagement.

In our estimation, ISA 710: Comparative Information covers the matters this ISA plus appears to be striving to reach.

### 3 ISA 570 Going Concern para 13-2

**“Having regard to the future period to which those charged with governance have paid particular attention in assessing going concern, the auditor shall plan and perform**

**procedures specifically designed to identify any material matters which could indicate concern about the entity's ability to continue as a going concern”**

We consider that each element of this requirement is already addressed in ISA 570, and that this is effectively an amalgam of elements of paragraphs 12, 13 and 14 of the clarified ISAs. We can't detect a real enhancement and consider that audit quality would be unaffected by the removal of this requirement

4 *ISA 570 Going Concern Para 17-1*

**“The auditor shall document the extent of the auditor’s concern (if any) about the entity's ability to continue as a going concern.”**

The effect of ISA 230 Documentation standard is to require this. It is not necessary to have separate documentation requirement in ISA 570.

5 *ISA 720 A Other information para 16-1*

With respect to material misstatement of fact identified in the other information:

**“If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor shall consider including in the auditor’s report an “Other Matters” paragraph describing the material misstatement.”**

A requirement to take further appropriate action when a material misstatement of fact is identified is already specified in paragraph 16 of the ISA. The draft standard already recognises that there are several courses of action which are potentially appropriate and should be considered, including consulting with legal counsel, exercising the right to be heard at the Annual General Meeting and considering resigning from the engagement. Each of these is covered in the “Application and other explanatory material” section of the standard. We recommend that consideration of an “Other Matters” paragraph should sit alongside these other prompts within the “Application and other explanatory material” and audit quality is not enhanced by elevating this one potential action to the standard’s requirements.