

## **Practice Note 26 – Guidance on Smaller Entity Audit Documentation**

In the UK new auditing standards were issued in 2004. These were called ISAs (UK and Ireland) and included the audit risk ISAs (315 and 330) as well as the fraud ISA (240). Early implementation experience revealed differences of view as to the extent of documentation required on smaller audits, particularly by ISA (UK and Ireland) 315. Initial feed back on the implementation suggested some practitioners may have incurred unnecessary costs relating to the preparation of audit documentation.

APB felt that the new standards were clear and that this problem was essentially a training issue and best addressed by firms and training providers. However, it also recognised that there would be value in developing centrally some guidance that could be used for training purposes. It therefore asked its SME sub-committee to work on this project and input was received from audit inspection activities in the accountancy bodies. PN 26 which was issued as an exposure draft and finalised 4 months later in September 2007. It's important to be aware that PN 26:

- Focuses on the understanding of the entity and risk assessment documentation as that was understood to be the areas that were causing most difficulty.
- It only addresses documentation issues - it does not seek to explain how to do an audit although the illustrative examples do show how to apply a risk based approach to a small audit.
- Recognises that there are different ways of documenting audits and illustrates some of them. It emphasises that there will be other ways of documenting audits that are perfectly acceptable.

When planning for the introduction of the new, clarified, ISAs (UK and Ireland) in 2009 APB was told that an update of PN 26 would be helpful to both training providers and audit firms. When preparing the update the overall structure and special considerations have been left largely unchanged. This is to be expected as ISA (UK and Ireland) 315 has itself not changed significantly.

However, it was considered that some additional illustrative examples in particular areas would make the PN even more helpful. These new examples illustrate:

- Audit strategy memorandum, including documentation on materiality;
- Audit working paper on property valuation to illustrate documentation on auditing accounting estimates;
- Audit working paper on a going concern assessment (included as a current area of focus, not because audit documentation requirements will change);
- A schedule of audit adjustments to illustrate an evaluation of misstatements identified during the audit; and
- Extract from a group planning memorandum to illustrate documentation of a group audit approach.