



28 September 2010

Our ref: ICAEW Rep 98/10

Keith Billing
Project Director
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Dear Keith

**APB CONSULTATION DRAFT: PRACTICE NOTE 25 ATTENDANCE AT STOCKTAKING
(REVISED)**

The ICAEW welcomes the opportunity to comment on the APB Consultation Draft *Practice Note 25 Attendance at Stocktaking (Revised)* published in July 2010 (Draft PN 25).

The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

We note that the revision of PN 25 is part of the APB's programme to update the Practice Notes to take account of the clarified ISAs (UK and Ireland) and various legal and regulatory changes. This is a programme that is strongly supported by ICAEW as the Practice Notes provide important guidance to auditors in specialist areas.

Draft PN 25 remains helpful to auditors but only as a stopgap because there remains a risk that it is seen by practitioners as gold plating, particularly if regulators regard it as not just authoritative, but treat its contents as *de facto* requirements. All of the guidance on attendance at stocktaking should appear in one place and APB needs to consider the adequacy of ISA 501 *Audit Evidence: Additional Considerations for Specific Items*. Should PN 25's contents be added to the application material or the main body of ISA 501 either now, or when ISA 501 is next revised? If not, APB should consider whether the material is needed at all.

We note that changes have been made in paragraphs 3 (removal of reference to risk), 8 (removal of reference to judgement and insertion of references to controls and stage of completion in bullets 1, 7 and 8) and that further changes have been made in paragraphs 11, 13, 18, 27, 30 and 31. Paragraph 33 no longer deals with third party stockholders unless they hold material stocks. We are concerned about the removal of references to risk. Attendance at stocktaking is dependent on the auditor's assessment of risk and the rationale for these changes has not been explained. We do not disagree with any of the other changes made but believe that they could be construed as going beyond changes of a merely editorial nature and that changes of this nature should be highlighted going forward either in covering documents or in the drafts themselves, for the avoidance of doubt.

APB asks for comments on any aspect of the guidance in addition to comments on conforming changes for clarified ISAs and we set out in the appendix to this letter a number of such comments; please contact me should you wish to discuss any of them.

Yours sincerely

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APPENDIX

Practice Note 25 Attendance at Stocktaking (Revised)

1. It would be helpful for the APB to adopt the ISA term for stocktaking and rename the Draft PN *Attendance at Inventory Counts*; using different terms risks creating unnecessary confusion.
2. There is unnecessary repetition in the last sentence of paragraph 11 and the first sentence of paragraph 13. Paragraph 13 might start with the words, ...*The nature and extent...* and the last sentence in paragraph 11 might be deleted.
3. Paragraph 28 includes the word *should* in the last sentence; as a point of principle, the word *should* should be avoided, and in this case, the words ...*that should...* could be replaced with the words ...*to be...*
4. Paragraph 32 includes a reference to (where relevant) ISA 402. Firm of stocktakers may meet the definition of service organisations but the reference to ISA 402 is not particularly helpful as most of it relates to type 1 and type 2 reports which are not generally relevant. This reference is likely to add to confusion unless it is explained that such reports are not generally obtained from firms of stocktakers in this context.
5. It might be helpful to add a further bullet point to paragraph 18 or to insert additional text in the second bullet to the effect that where the business includes manufacturing, the auditor ascertains whether production will stop during the count or whether there are items such as work in progress that cannot be included in the stocktake.