

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Friday 12 December 2008 at 9.30am

PLACE: Aldwych House,
71-91 Aldwych,
London WC2

PRESENT:

Members	R Fleck (Chairman)	M Powell
	J Grant (Executive director)	D Thomas
	A Chambers	T Troubridge
	P Lee	M Ward
	K Nicholson	

Observers J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)
Ms P Sucher (Financial Services Authority)

In attendance P George

Staff	K Billing	Mrs H O'Sullivan
	D Marston	S Leonard

ABSENT:

Members	L Hughes	W Rainey
	G Pimlott	S Turley
	R Nolan	

Observers I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)
D Loweth (ASB)

1. Chairman's introduction

Mr Jon Grant reported back on the recent meeting of the IAASB at which the final three Clarity ISAs had been approved. He noted that some small, but important, changes had been made to ISA 210 on terms of engagement which seemed now to have the support of the EU.

The Chairman reported on an ICAEW meeting organised to discuss APB's Consultation Paper on the implementation of the Clarity ISAs. There were about 100 ICAEW members at the meeting and no one had spoken against APB's adoption of them at the earliest possible date. This outcome was especially heartening as the meeting had included a number of smaller practitioners. A similar meeting would be held in Dublin in early January and support had been offered to ACCA and ICAS in the event that they wished to organise similar events.

2. Minutes of previous meeting

The minutes of the meeting held on 25 November were approved after an amendment to record that one member did not support APB developing guidance on going concern issues during the current economic conditions.

2. Going concern

The Chairman introduced a draft of a Bulletin entitled 'Going concern issues during the current economic conditions', an earlier draft of which had been considered in November. He observed that the objectives of the Bulletin were to:

- Alert auditors to current issues and provide guidance to assist them apply their judgement, and
- Clarify that the current economic uncertainty, by of itself, did not mean that auditors needed to add emphasis of matter paragraphs to their audit reports.

The proposed Bulletin was discussed and Board members made a number of suggestions as to how the wording could be improved. In particular it was agreed that the status of the appendices would be clarified, the wording regarding the advocacy threat refined and an extra paragraph inserted on audit documentation.

The Board supported the view that the general economic situation at the present time does not, of itself, mean that a material uncertainty exists about an entity's ability to continue as a going concern or justify an auditor modifying its auditor's report to draw attention to going concern. Rather the auditor needs to makes a judgment on the need, or otherwise, to draw attention to going concern on the basis of the facts and circumstances of the entity at the time of signing the auditor's report.

It was reported a recent meeting of institutional investors had concluded that an increase in the number of emphasis of matter paragraphs in auditor's reports was not likely to lead to a general reduction in confidence. Notwithstanding this, the majority of Board members thought that the Bulletin would help avoid unnecessary emphasis of matter paragraphs and, as such, add to confidence in the corporate sector.

One Board member however repeated his view that the Bulletin was unnecessary and should not be issued. In his view auditors should use professional judgment in following the existing auditing standard. Another member shared the view that

additional guidance was not needed and feared that that the Bulletin could have the opposite effect from that intended and result in more modified auditor reports.

Whilst supporting the issuance of the Bulletin another Board member commented that the process of drafting the Bulletin suggested to him that ISA (UK and Ireland) 570 may benefit from review after the 2008 reporting season. Mr Grant observed that this was a topic that IAASB was likely to consider as part of its plans for undertaking a post-implementation review of the ISAs.

Despite the two votes against the Bulletin the majority of the APB agreed to its issuance subject to reviewing the final drafting amendments the following Monday.

3. Ethical standards

The Chairman introduced a discussion on the planned changes to the Ethical Standards (ESs) by describing the work that was underway to establish an acceptable consensus in relation to the rotation period of audit engagement partners. He noted that letters had been received from chairmen of certain audit committees advocating some flexibility to allow an extension to 7 years in certain circumstances. The Chairman was also in further dialogue with senior representatives of the investor community to establish their views on added flexibility in this area. The key issue for further debate is likely to be the criteria to be applied if an extension is to be permitted.

There was further debate relating to whether additional guidance should be included in ES5 on restructuring services. The Chairman observed that this would be discussed again within the ethics working party using the material included in the Bulletin entitled 'Going concern issues during the current economic conditions'.

The other major issue discussed was a proposed change to ES4 to clarify that key audit partners should not be remunerated for selling non-audit services to the audit client. It was suggested that further consideration should be given to whether this prohibition should be extended to other non-audit staff involved in performing audit work.

It was agreed that a draft Consultation Paper would be discussed at the Board's January 2009 meeting and that this, together with detailed wording changes to the ESs would be issued for public comment following the February 2009 meeting.

4. Complex financial instruments

Mr Keith Nicholson introduced a draft revised Practice Note which was intended to replace the existing PN 23: Auditing derivative financial instruments. The proposed PN covered the audit of a wider range of financial instruments than the existing PN 23, and the title of the document would be changed to 'Auditing complex financial instruments'.

Board members made a number of comments on the draft. In particular it was agreed that certain references to management responsibilities would be reworded, that the interaction between IAS1 and IFRS 7 should be noted, and that there should be more emphasis on the use of sensitivity analysis. Subject to these, the revised PN was approved for issue as a consultation draft.

5. Credit Unions

The Chairman introduced a proposed new Practice Note 27: The audit of credit unions in the United Kingdom. It was noted that 6 letters of comment had been received during the recent consultation period, and the draft PN had been amended as a result. Board members approved the PN for issue in final form.

6. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 13 January 2009.