

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 13 January 2009 at 9.30am

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

PRESENT:

Members	R Fleck (Chairman)	M Powell
	J Grant (Executive director)	W Rainey
	P Lee	T Troubridge
	K Nicholson	S Turley
	R Nolan	M Ward
	G Pimlott	

Observers J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)
Ms P Sucher (Financial Services Authority)
I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)
D Loweth (ASB)

In attendance Ms K Cearns Ms L Murrell (for item 6)

Staff D Marston S Leonard
Mrs H O'Sullivan

ABSENT:

Members	A Chambers	D Thomas
	L Hughes	

1. Chairman's introduction

Mr Jon Grant noted that Richard Fleck had been awarded the CBE for services to business and the legal profession in the Queen's New Year Honours. Board members shared Mr Grant's delight that the Chairman's enormous contribution to APB's work over many years had been recognised and congratulated him on this achievement.

Publications

Mr Grant noted that Bulletin 2008/10 on going concern issues had been published and that a draft briefing paper explaining the significance of emphases of matter paragraphs in audit reports had been sent to the BBA. Mr Grant also noted that new Practice Notes on the audit of UK charities and Irish credit unions had been published as well as an exposure draft on the audit of complex financial instruments.

Recent meetings

Mr Grant reported on a recent meeting of the EGAOB-ISA sub-group, which had discussed whether there were any technical difficulties with the ISAs that might inhibit their adoption in the EU. There had also been discussion with the researchers undertaking the study into the costs and benefits of the implementation of ISAs in Europe.

Mr Grant also reported on a meeting that he and the Chairman had held the previous week with the Irish Institutes at which the exposure draft of ISA (UK and Ireland) 700 and the implementation of the clarity ISAs in the UK and Ireland had been discussed. He noted that there had been strong support for the proposed implementation of the clarity ISAs for accounting periods commencing on 15 December 2009. There were, however, reservations regarding the timing of changes to the auditor's report in Ireland where new company law was pending.

Preliminary Announcements

The Chairman noted that the FSA was shortly to publish a statement in List! calling for preliminary announcements to include reference to any emphases of matter paragraphs that were to be included in the auditor's report on listed company accounts.

2. Minutes of previous meeting

It was noted that the minutes of the meeting held on 12 December 2008 had been approved following circulation to Board members.

3. Ethical Standards

Mrs Hazel O'Sullivan introduced a discussion of issues arising during the drafting of an exposure draft of revisions to the APB Ethical Standards (ESs). The principal of these were as follows:

- Partner rotation – it is proposed that audit engagement partners on listed company audits who had already been in post for five years, might be able to remain in this position for up to a further two years in a limited number

of circumstances. However, in such situations the facts should be disclosed in the Annual Report. Auditors should consider their position if such disclosure is not made;

- Securitisation services – it was proposed that major changes to ES5 were unnecessary as the assurance work involved does not seem to present a major threat to auditor independence;
- Long association – extra guidance should be included on situations where other partners and managers have a long association with a listed client entity;
- Affiliates – the definition of affiliates in the ESs should be aligned more closely with that of related parties in the IFAC Code;
- Remuneration – policies and procedures in relation to the sale of non-audit services should be extended to key partners involved in the audit in addition to members of the ‘audit’ team. It was noted that this would, for example, include actuarial partners in certain circumstances;
- Restructuring services – that a new section should be added to ES5 building on the existing principles.

Board members made a number of comments on the draft consultation paper.

On rotation the suggestion was made that a stronger link should be made to audit quality in the consultation paper and to the audit committee’s existing responsibility to consider audit effectiveness. It was agreed that senior statutory auditors signing audit reports in their own name would add transparency.

In relation to securitisation services it was observed that these were ‘audit related services’ and, at a later date, there may be benefit in looking to see how the treatment of audit related services’ could be clarified in the ESs but this was beyond the scope of the current review.

A change to the definition of affiliate was thought likely to be beneficial if it achieved more consistency in its application of the ESs. However, it was agreed that the Board should be cautious in applying a materiality test too widely. Materiality for this purpose was different from materiality for financial reporting purposes. It was agreed that an amended version, together with the exposure draft incorporating changes related to the issues listed above, would be considered at the APB’s February meeting.

4. Scope and Authority

Mr Grant introduced a revision of the statement on the APB’s Scope and Authority of Pronouncements, which it was intended would be included in the 2009 Compendium of APB Standards and Guidance. After suggesting some small changes, Board members approved the amendments, which had been made primarily to reflect recent changes in legislation.

5. Service organisations

Mr Grant introduced a proposed letter of comment to the AICPA on an exposure draft of a proposed SSAE – Reporting on controls at a service organization. As the exposure draft was similar to a proposed ISAE 3402 issued recently by the IAASB,

the draft APB letter of comment was also similar to that submitted to the IAASB. Board members approved it for submission to the AICPA.

6. Auditor's reports

Mr Steven Leonard made a presentation on the possible implications of the comments received arising from the Board's public consultation on proposals to revise ISA (UK and Ireland) 700. Mr Leonard described the background to the consultation (including the changes to the audit report arising from the implementation of the Companies Act 2006) and noted that there is expected to be a window of opportunity of about three years before the EC endorses the clarified ISAs. During this period the APB may be able to influence the thinking of the EC and the IAASB with respect to the content and structure of audit reports. Issuing a new ISA (UK and Ireland) 700 in the near future is intended to influence international thinking by the APB taking positive action with respect to its own standard.

26 letters of comment had been received on the exposure draft. The main issue was whether the APB should proceed with the proposed revision or not. 7 respondents from the profession opposed the issuance of a revised ISA by the APB, preferring the APB to participate in the IAASB and EC processes from inside rather than by leading by example. In this connection, Board members made the following observations in support of proceeding with the revision:

- the changes to ISA (UK and Ireland) 700 are expected to facilitate change, not mandate it;
- the EC has expressed interest in the outcome of this project;
- the IAASB will be reviewing ISA 700 in 2009, and is likely to look for input from the UK. The UK influence will be stronger if some audit firms take advantage of the flexibility being offered and if investors signal that they support this.

Other Board members commented that an important factor to consider when deciding on whether to proceed with a UK version now is the need for consistency. The large firms in particular will wish to have similar formats for auditor's reports in all jurisdictions.

It was agreed that:

- an option of including the auditor's responsibilities statement in the Annual Report should be added to any final version of ISA (UK and Ireland) 700;
- the only example auditor responsibility statements that should be posted to the APB web site would be those for UK companies. This would be characterised as an experiment to enable the APB to monitor take-up and practicality;
- the length of the auditor responsibility statements should be conformed so that those that are included within the audit report should be identical to those posted to the APB web-site;
- to recognise the importance of regularity in the public sector the regularity opinion should be integrated into the requirements of the ISA in a separate section of the report immediately following "true and fair" and preceding

“Other”. (As a result public sector auditor’s reports would, potentially, have three rather than two sections);

- as there are differences at present between Irish and UK legislation which would prevent the proposed new auditor’s report format being implemented in the Republic of Ireland, further thought needed to be given as to how to accommodate Irish legal requirements;
- in response to concern over the ordering of points in the auditor’s opinion section, the order should be aligned with that in the Companies Act 2006;
- the two part report should be adopted;
- the audit report should require a reference to compliance with APB Ethical Standards.

Overall, it was agreed that the project should continue. In particular work should proceed to develop a revised ISA (UK and Ireland) 700 to be effective in the UK for periods ending on or after 5 April 2009. An alternative strategy may have to be developed in respect of Ireland arising from impending changes to Irish company law. It was agreed that further dialogue with the accountancy bodies and some large audit firms was needed to explain the APB’s position and to seek to better understand their concerns.

7. Corporate governance statements

Mr Leonard reported that arising from the requirements of an EU Directive companies were to be required to issue a corporate governance statement and the auditor would be required to report on the consistency of the corporate governance statement with the financial statements. The FSA had issued rules to require companies to prepare the corporate governance statement and BERR was consulting on amendments that will be necessary to the Companies Act to require the auditor to review the statement. The principal purpose of the agenda item was to discuss whether or not the APB should be developing and issuing guidance for auditors with respect to this matter.

The proposed alternatives at present are:

- the corporate governance statement may be included in the Directors’ report. If so the auditor’s review would be an extension of the present requirement to review the Director’s Report for consistency;
- however, the statement may also be located elsewhere in the Annual Report, or as a separate document, in which case the auditor is required to make a specific reference to the consistency of certain matters with the financial statements in the audit report.

The Chairman observed that a separate corporate governance statement could prove problematical for auditors. This is because the auditor is expected to evaluate the consistency of matters in two documents where information in one may be absent from the other. In this particular case it was likely that information required on risk management and controls and shareholdings would not be in the audited financial statements. Although the intention may be light touch regulation this may result in an expectation gap and there was a particular danger that the Courts may interpret the review requirement as being more onerous than that intended. It was agreed that representatives of the APB should therefore meet with representatives of BERR to explore what options were available to alleviate the Chairman’s concerns.

8. ICAEW consultation

Mr Grant introduced a discussion of a consultation paper on corporate governance within audit firms, which had been drafted by the ICAEW. Board members agreed that there was a link to audit quality and it was agreed that the APB should comment actively when the exposure draft was issued. A particular topic for consideration may be whether the existence of non-executive directors may ease discussions with audit regulators in extreme circumstances.

9. Next meeting

It was noted that the next meeting of the Board would be held on Wednesday 18 February.