

1. Introduction

The Chairman reported on a number of initiatives that are currently in progress and have already, or will lead to a paper being published. One of the most significant of these was the EU paper on Audit Policy which was due to be published on the day of this meeting (and was subsequently distributed to APB members attending the meeting in hard copy). It was agreed that effectively getting UK views across on each of the questions asked in this paper would be important. Mr Rottenberg reported that there would be a roundtable hosted by the Audit Quality Forum on 10th November at which views (in particular of investors) would be sought in order to inform a UK response. It was also agreed that there may be value in visiting Ireland to ensure that there can be some co-ordination of comments with this jurisdiction.

It was agreed that one position on each of the issues raised by different papers should be developed by the FRC, rather than individual operating bodies developing separate responses. Nonetheless the APB's views on each of these would be sought as part of that process. It would be helpful to review all of the papers together in developing our views. Accordingly, it was agreed that taking stock of all of these papers and consolidating views on areas of overlap will be an important topic at the next APB meeting. As there is a short time period before the due date for responses to the EU Green Paper, this may require circulation of a paper with comment requested electronically before the meeting.

2. Minutes of previous meeting

The minutes of the meeting held on 16th September were approved.

3. FRC Paper on audit

The Chairman provided an outline of the matters to be covered in the FRC Paper on audit. This paper suggests that the focus of audit should move further from the numbers in the financial statements towards narrative reporting and softer issues (such as accounting policies and methods of making accounting estimates) while continuing to use an auditor's core competencies and traditional forms of reporting on matters outside the financial statements.

It was agreed that a draft of the paper would be circulated electronically for comment prior to the next APB meeting.

4. PN 11 – The Audit of Charities in the UK: approval of an Exposure Draft

Mr Don Bawtree joined the meeting by telephone and gave an outline of the amendments that had been made in the Practice Note.

There was some discussion on the reporting of matters of material significance to the charity regulators and it was agreed that there should be communication with the Charity Commission for England and Wales to ensure that the guidance on their website continued to be consistent with that in the Practice Note. A specific question will be added to the invitation to comment to seek views on the amendments made to the Practice Note in this respect. It was also agreed that the exposure draft should make it clear that much of the Northern Ireland legislation, whilst enacted, is yet to come into force. Additionally cross references should be added to FRS 30 on Heritage Assets and ISA (UK and Ireland) 450 on Evaluation of Misstatements.

5. Draft response to IAASB on ISA 610

The Chairman reported that the AIU is under pressure, as a member of IFIAR, to contribute more to the drafting of international auditing standards. The IAASB is also keen to obtain input directly from audit inspectors. It was agreed that a single response was likely to be more influential than two separate responses coming from different bodies in the FRC and so one joint response would be drafted to IAASB consultations in the future. Such letters will clarify what the remits of the APB and the AIU are, in order that the distinction between them is not blurred. Where particular comments are made by one body rather than another, this will be highlighted. In the event there are different views on the same topic, a mechanism will be put in place to determine the appropriate resolution in each case. The overall objective of both bodies is to improve audit quality and combining comments into a joint response will enable APB to draw more on practical experience of inspectors. It was agreed that an internal process would be developed in order that comments included in response letters can be approved by appropriate levels in each of the APB/POB Boards.

On the draft comment letter, the main topic of discussion was direct performance of procedures by the internal auditor. It was agreed that the letter should recommend that the standard makes it clear that such arrangements would only happen in exceptional circumstances where internal audit staff carry out non-judgmental 'routine' tasks. After some discussion it was also agreed in relation to the use of work of the internal auditor, that the restriction on matters in relation to significant risks of material misstatement should only extend to situations where internal audit staff makes a substantive contribution to the conclusion on such risks.

It was agreed that a number of other comments would be incorporated into the letter, while others would be discussed further with the AIU. A further draft will be circulated for comment and approval ahead of the next APB meeting.

6. PN 20 – The Audit of Insurers in the United Kingdom: Issues paper following exposure of Consultation Draft

Mr Steven Leonard outlined the more significant issues arising from comments received on the exposure draft of PN 20. It was agreed that the proposed guidance on materiality should be modified to:

1. include relevant material from PN 19 on banks and building societies which addresses using a different level of materiality for those balance sheet items where misstatements do not have an income statement effect; and
2. clarify the wording regarding the materiality options when profit before tax is volatile from one period to another.

It was further agreed that there is no need to re-consult on these changes as this process is currently on-going in respect of PN 19. The Board noted input received from FSA staff to the effect that the illustrative regulatory auditor reports should not be redrafted to meet the requirements of ISA (UK and Ireland) 700. The Board concurred with the staff recommendations relating to other amendments proposed by commentators. However, a provisional agreement was given to the suggestion that PN 20 and PN 24 should be combined at the time of the next revision.

7. Feedback from September IAASB meeting

Mr Jon Grant reported that two exposure drafts had been approved at the meeting. It was agreed that a comparison of the exposure draft of IAPS 1012 on Complex Financial Instruments with the UK Interim Guidance on the same subject (PN 23) should be undertaken to work out what guidance should be adopted in the UK. At the IAASB meeting there were also further discussions on limited assurance, although the associated standards were not finalised.

8. Better Regulation

The UK Government has suggested that guidance on regulated areas should be reduced in order to reduce the regulatory burden. The Chairman noted that there will be a discussion on this topic within the FRC. The APB's guidance (predominantly in the form of Practice Notes) provides the following benefits:

- Regulators can communicate their areas of interest;
- Consistency of application of standards and legislation;
- Educational value for practitioners with few clients in a particular industry sector, allowing smaller firms to compete with larger firms.

9. Next meeting

It was noted that the next meeting of the Board will be held on Monday 29th November. The timing may be extended until 2pm in order that there is sufficient time to discuss all agenda items.