

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 15<sup>th</sup> December 2009 at 9.30am

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

**PRESENT:**

**Members**

|                              |              |
|------------------------------|--------------|
| R Fleck (Chairman)           | G Pimlott    |
| Ms A Coates                  | M Powell     |
| R Frith                      | D Thomas     |
| J Grant (Executive director) | T Troubridge |
| P Lee                        | S Turley     |
| R Nolan                      | M Ward       |
| I Pickering                  | A Wilson     |

**Observers**

J Bellingham (UK, Department for Business, Innovation and Skills)  
D Loweth (ASB)  
R Thorpe (Financial Services Authority)

**In attendance**

P George

**Staff**

|           |                  |
|-----------|------------------|
| K Billing | Mrs H O'Sullivan |
| S Leonard |                  |

**ABSENT:**

**Members**

J Hughes

**Observers**

I Drennan (Republic of Ireland, Auditing and Accounting Supervisory Authority)

## **1. Introduction**

### FRC publications

Mr Jon Grant reported that the FRC had published a consultation on the UK Corporate Governance Code which includes a number of areas which may have implications for the Listing Rules and for APB guidance. It was agreed that a small working group would meet to discuss these matters and report back to the APB.

### Recent meetings

Mr Jon Grant outlined particular areas of interest from the IAASB meeting held in the previous week. These included progress on a proposed ISAE 3420 on pro-forma financial information and a discussion on the status of IAPSSs.

### Other matters

Mr Tom Troubridge explained that a view has been sought by the Takeover Panel on whether the standard of assurance given under ISRE 2410 is equivalent to that given under SIR 3000 where unaudited interim financial statements are published in an offer document. A draft letter that had been discussed by the Investment Circulars Subcommittee was reviewed. It was agreed that the nature of the two reports are very different and that it is difficult to compare one with another. While the decision as to which report is required is a matter for the Takeover Panel it was agreed that reporting under ISRE 2410 is probably the more appropriate. A number of suggestions were made in relation of the drafting of the letter and it was agreed that it would be sent for comment to Board members electronically before being sent to the Takeover Panel.

The Chairman reported that Mr Marek Grabowski had been appointed as the new Executive Director of the APB, to take over with effect from 1<sup>st</sup> March 2010. A press notice will announce this later in the week. Mr Jon Grant will continue some involvement with the APB through his role on IAASB.

## **2. Minutes of previous meeting**

The minutes of the meeting held on 25<sup>th</sup> November were approved.

## **3. BIS Inspectors' Report on MG Rover Group**

Mr Jon Grant explained that the BIS Inspectors had reviewed the audits of MG Rover Group (MGRG) for the period between 2001 and 2003. Despite concluding that the audits of MGRG were well-planned and executed, the Companies Investigation Branch of BIS raised a number of issues with the FRC.

The Chairman emphasised that it was not appropriate for APB to discuss the specifics of the MGRG audits, indeed the AADB is conducting an investigation into the conduct of Deloitte & Touche in this regard, but rather to consider whether there are issues that may impact on auditing and ethical standards. The particular issues raised by BIS related to:

- Whether the auditor's reports should be clearer as to the extent to which reliance is placed on management representations and whether they can be made more informative and useful to a reader.
- Whether any further guidance on going concern can be provided from either an accounting or an audit perspective.
- The magnitude of fees paid to auditors in respect of non-audit services and the perception that this creates in relation to independence and objectivity.

The Board considered that a number of the detailed issues raised have been addressed by changes to auditing and ethical standards made since the date of the MGRG audits covered by the BIS Inspectors' report. It was also thought that the APBs current projects on auditor reports and non-audit services would cover the broader concerns raised.

An additional matter for consideration, raised by the Chairman and not necessarily connected to MGRG, related to the impact on auditor integrity and objectivity of possible conflicts of interest that could arise if non-audit services are undertaken for a sub-group of shareholders in a company. It was agreed that the Ethics Sub-committee would meet before the next Board meeting to discuss this issue.

#### **4. XBRL – Draft Bulletin**

Mr Keith Billing briefed the Board on draft Bulletin that had been developed following the last Board meeting. This explains that XBRL tagging is not currently within the scope of an ISA audit and provides advice in connection with ethical considerations should the auditor be asked to assist with XBRL tagging. As well as some editorial amendments to the draft Bulletin it was agreed that it needs to be clearer that, over time, XBRL is likely to become integrated with the accounting process and that the standards and guidance in ES5 on accounting services are likely to apply. It was agreed that the draft Bulletin would be circulated to Board members for comment before undertaking a postal ballot.

#### **5. Practice Note updates**

Mr Jon Grant presented to the Board a plan for updating its suite of Practice Notes (PNs) for changes in the underlying ISAs (UK and Ireland) that apply to audits of accounting periods ending on 15 December 2010. It was agreed that the PNs would be updated by APB staff for references to ISAs (UK and Ireland) and relevant law and regulations, with working parties being utilised to check that this had been correctly dealt with. A more extensive exercise would be undertaken in connection with PN19 on the audit of banks. The changes to the PNs would be exposed in accordance with APB's normal procedures and the documents would be brought to the Board on a phased basis in accordance with the schedule proposed. It was also agreed that PN 9(I) could be withdrawn but the need for guidance on the auditor's consideration of defined benefit schemes, currently in PN 22, would be revisited.

#### **6. Practice Note 10 – revision for clarified ISAs (UK and Ireland)**

Mr Russell Frith reported that the working party which prepared the draft update had found that, other than for updating the current PN10 for the new ISAs (UK and Ireland) relatively few revisions were necessary to the document. Changes were proposed in respect of the definition of the engagement partner and to take out specific wording on regularity opinions. One issue had arisen in respect of situations where audit work is sub-contracted and a contracting agency imposes a limitation on the scope of work to be undertaken. It was agreed that the report to be given in such situations was primarily a private matter to be resolved between the parties to the contract and was not a matter for the Practice Note. A few minor amendments were agreed to the Practice Note, which was approved for publication as an Exposure Draft.

## **7. ISAE 3000**

Mr Jon Grant reminded the Board about the reasons why ISAE 3000 had not been promulgated by the APB when it had first been issued and explained that the ISAE 3000 is currently being revised by IAASB. He also described IAASB's current projects on specific assurance standards and thought that it was unlikely that APB would need to make reference to ISAE 3000 in its standards in the next few years. On this basis it was agreed that APB would provide input to the revision of ISAE 3000 but not plan to promulgate it in the immediate future.

## **8. Any other business**

Mr Jim Bellingham reported that BIS had issued a consultation on simplifying the arrangements for the provision of information to various parties when auditors leave office.

## **9. Next meeting**

It was noted that the next meeting of the Board will be held on Thursday 11<sup>th</sup> March 2010. Before that date Board members would be asked to approve electronically the XBRL Bulletin and a response to IAASB on its greenhouse gas consultation.