

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Friday 15th July 2011

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

PRESENT:

Members

J Adam	I Pickering
Ms A Coates	R Sriskandan
R Fleck (Chairman)	D Thomas
R Frith	S Turley
M Grabowski (Executive director)	M Ward
J Hughes	A Wilson
P Lee	

Observers

I Drennan (Irish Auditing and Accounting Supervisory Authority)
R Rottenberg (UK, Department for Business, Innovation and Skills)
R Thorpe (Financial Services Authority)

In attendance

Ms K Cearns	C Wallis (for agenda item 4)
P George	

Staff

J Grant	Mrs H O'Sullivan
S Leonard	

ABSENT:

Members

R Nolan	R Talbut
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1. Introduction

The Chairman reported on a recent meeting with M Barnier in connection with the proposals being developed following the EU Green Paper on Auditing. There still seems to be a commitment to joint audits, although it is unclear exactly what this means. Discussions are also continuing in relation to audit-only firms, mandatory re-tendering of audit and non-audit services. A consultation on a draft Directive is likely in November.

A feedback paper on Effective Company Stewardship is expected to be published in the near future subject to the timing of the BIS report on narrative reporting. The underlying issues that ECS is seeking to address are broadly the same as those being addressed in the more recent discussion papers on auditor reporting from the PCAOB and IAASB. Taking forward the ECS proposals will be a topic for discussion at the APB away day in September.

The Chairman also updated the Board on other work currently being undertaken:

- The Scepticism Working Party will develop a discussion document for consideration at the APB away day.
- A discussion paper on micro-entities will be published shortly once it has been agreed by relevant government departments.
- The Sharman Inquiry has received a good number of high quality responses on going concern and will publish preliminary conclusions at the end of the summer.

2. Minutes of previous meeting

The minutes of the meeting held on 23rd May were approved.

3. Client assets

Mr Grabowski highlighted that the timetable envisaged for publishing the Bulletin in September would be very tight. In discussion of the issues paper, the following points were noted or agreed:

- The position of the statutory auditor in a situation where a limited assurance report is required under the CASS Rules, but the statutory auditor has not been formally appointed as CASS auditor was continuing to be considered by the FSA.
- The use of “alternative methods” by a firm continued to be the subject of discussion with the FSA.
- The Bulletin would include the guidance from the existing PN21 that continues to be applicable. This would not be presented in the Bulletin as a mark-up of the extant guidance, but a document showing what has happened to current text would be made available on the APB web-site.
- The need to reinforce that the mindset required for a client assets engagement is quite different to the mindset required for a financial statement audit
- A summary of the reporting requirements in Ireland and the approach to be taken would be discussed at the next Board meeting.

Mr Leonard reiterated the importance of receiving comments on a draft to be circulated in early August if the timetable for publication of the Bulletin was to be met, as the only other opportunity where the Board will be able to discuss the Bulletin is at the September APB meeting where it will be brought for approval.

4. Reporting by auditors to audit committees

Mr Wallis presented work being undertaken by POB. This looks at the final reporting by auditors to audit committees in FTSE 100 companies and the way in which key messages are reported. In concluding on Mr Wallis's presentation, Mr George reported that it is clear that a significant amount of time and effort is put into this reporting which is of a high quality. However, from the review work undertaken to date it was felt that there was a missed opportunity for promoting the professional judgment exercised by the auditor. Mr George also reported that in recent meetings with firms there was a degree of defensiveness and unease about articulating their views in the ways that were being suggested.

In discussion it was emphasised that the objective of this reporting was to improve audit quality through improving the quality of discussion at the audit committee meeting. In some cases, issues are cleared with management and insufficient information is provided to the audit committee for them to be able to understand the reasoning behind the position reached, meaning that the audit committee members are not fully engaged in the relevant processes. There was also discussion on whether stating the boundaries of a reasonable/acceptable range within an audit committee report was desirable and whether it was possible to provide benchmarking information in industry sectors where comparison data is not readily available.

Mr George said that there would be liaison with the FSA on their reviews of auditor reporting to ensure experiences are shared. He indicated that in due course there would probably be a publication on best practice in audit committee reporting.

5. Ethics – tax services provided on a contingency fee basis

The Chairman introduced the paper that had been prepared on this subject. It was agreed that the overall approach was appropriate, although two board members would prefer to have no extension to the transitional provision. It was recognised that the re-approval of contracts for tax services provided on a contingent fee basis by audit committees would be dependent on the relationship between the company and the auditor. Having external disclosure of the contracts did present some disadvantages, but the generic nature of the wording that is likely to be used means that this would be unlikely to produce a problematic result.

It was agreed that the transition period should be extended for a short period and that there would be a reconsideration of the position towards the end of this period. There should be consultation on the issue, but this could probably be restricted to two months.

6. Non-audit services

The Chairman noted that the FRC Board had raised concerns about the tone of the Ethical Standards with respect to non-audit services. They are seen by some as generally permissive, with specific exceptions prohibited. The concern was that this may be driving the wrong culture in audit committees and elsewhere in companies.

It was agreed that the overall structure and approach of the Ethical Standards with respect to non-audit services should be reviewed and a further discussion held by the APB in September to consider whether the approach should be amended so as to

prohibit all non-audit services, other than audit related services, with specific exceptions permitted subject to safeguards.

7. PN24 – Friendly Societies

Mr Leonard summarised the feedback received on the consultation draft of PN24 and how it was proposed to address the relatively few comments that had been received.

The Practice Note was approved for publication. It was noted that future guidance on friendly societies will be included within PN20 “The Audit of Insurers in the UK” rather than in a separate Practice Note.

8. PN10 (I) Public sector audits in Ireland

Mr Grabowski reported on the process by which this Practice Note had been developed and consulted on. One Board member questioned why certain bodies, such as the Dail Eireann, need to be defined in the glossary. It was also questioned whether paragraph 53 was needed, as it provided no new information.

The Practice Note was approved for publication.

9. IAASB report back on June meeting

Mr Grant noted the summary of the June IAASB meeting that had been provided to board members. It was agreed that future reports back would summarise IAASB's direction of travel in relation to key substantive points from APB response letters.

It was agreed that the IAASB work on audit quality would be on the APB agenda in September.

10. Next meeting

The next meeting of the Board will be held on Friday 16th September. The APB away day will be held on Tuesday 6th September, with a discussion on the future development of audit at dinner on the previous evening.