

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Thursday 16th September 2010 at 9.30am

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

PRESENT:

Members

J Adam	R Nolan
R Fleck (Chairman)	R Sriskandan
R Frith	R Talbut
M Grabowski (Executive director)	D Thomas
P Lee	M Ward

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

Staff

K Billing	S Leonard
J Grant	Mrs H O'Sullivan

**ABSENT:
Members**

Ms A Coates	S Turley
J Hughes	A Wilson
I Pickering	

1. Introduction

The Chairman noted that there were a number of members missing from the meeting, which was likely to have been as a result of the date being changed earlier in the year. Such changes will be avoided in future.

Mr Grabowski reported that the FSA will be issuing a consultation paper shortly on client assets and this is likely to be an important issue for APB over the next few months as guidance contained in Practice Note 21 on investment businesses is reviewed. A working party will be formed to provide input to this review which will include a cross-section of stakeholders including the FSA. Revising the guidance is important for public confidence in client assets work.

The Chairman explained that the FRC is working on a discussion paper on lessons in light of the financial crisis.

2. Minutes of previous meeting

The minutes of the meeting held on 20th July were approved.

3. Matters dealt with electronically after July APB meeting

Each of the three matters to be dealt with electronically after the July APB meeting had been approved. The exposure draft of Practice Note 16 on bank reports for audit purposes and the response to ISAE 3420 have both been issued. Mr Leonard explained that dropping Appendix 1 from the exposure draft of SIR 2000 (Revised) had been agreed by a majority of board members. However, it had been suggested that guidance material from the rubric of the Appendix should be included as guidance within the SIR. Staff, in considering this suggestion, had concluded that rather than guidance, an amendment to the requirements of paragraph 40 would be more appropriate. The Board agreed to the staff's approach, with some amendment to the wording presented in the paper.

4. The role of APB members and follow up to APB effectiveness review

The Chairman explained that the FRC Board has asked for a further effectiveness review to be carried out in early 2011 and a report back will be given in March. This will enable the review to include the views of new members and the operation of the board with a new executive director.

5. Compendium Bulletin of UK Private Sector Audit Reports

The application of ISA (UK and Ireland) 700 to all UK entities for years ending on or after 15 December 2010 will require auditor's reports for non-corporate entities to be amended. The Board had previously agreed that one description of scope would be developed for the APB website to deal with all private sector entities and example reports would be developed to enable auditor's reports to cross refer to this material. The wording for the scope of the audit to be included on the APB's website was agreed.

Mr Leonard provided feedback from the Technical Advisory Group (TAG) which had met on the previous day. TAG supports amending the alternative brief description of the scope of the audit to include the 'read' requirement. However, TAG does not believe that there is sufficient time for the requirement to be changed for December 2010 year ends. It was agreed that the APB should consult on this proposed

amendment as it would support the expected increased significance of narrative reporting in Annual Reports. The proposal should be for it to be effective for March 2011 year ends, and for earlier application to be encouraged.

A Compendium Bulletin of UK private sector auditor's reports was approved for issue subject to a subsequent final review by the Chair and the Executive Director.

In light of the proposed issuance of the Compendium, it was agreed that illustrative auditor's reports on financial statements would not be included in Practice Notes, but a cross reference to the Compendium Bulletin would be given. The Compendium is expected to be issued annually and, therefore, will be kept up to date. There was some discussion on whether 'fraud or error' adequately describes the circumstances where material misstatements occur and it was thought that a detailed consideration of this could be incorporated into future work on qualitative issues noted above.

6. International matters

Mr Grant outlined the topics that would be discussed at the IAASB meeting during the following week. The audit related matters included an exposure draft of an International Auditing Practice Statement on complex financial instruments and early discussion of issues relating to potential amendments to ISA 720 'The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements'.

On non-audit related matters a debate on what is limited assurance has been brought to the fore by the work on greenhouse gases. Mr Grant reported that some anxiety had been expressed at the CAG meeting earlier in the week that the requirements for limited assurance are not clear and any assurance report provided on the basis of the draft standard would lack meaning. Although the APB has not adopted the umbrella standard for assurance reports, ISAE 3000, this is a matter of interest to APB. A standard on greenhouse gas reporting may be necessary in the future in the UK, dependent on a future Government decision as to the requirements to be placed on companies and other limited assurance standards might be required in relation to other matters in the public interest in the future.

7. Project plan on Misleading Financial Reporting

Mr Billing outlined the discussion at the APB awayday which suggested that there could be benefit in the APB producing new guidance for auditors that may help them identify and respond to circumstances leading to misleading financial reporting. The project plan was approved.

8. Practice Note 10: Audit of Central Government Financial Statements in the UK

Mr Frith outlined that all comments arising from the consultation, which were mostly to improve clarity, had been resolved. One area where an issue of substance had arisen was the situation where an audit opinion is issued in advance of the certification of the completion of the audit. It was agreed that the guidance should make it clearer how such a situation can arise (the auditor has of certain public sector entities has wider statutory responsibilities than just providing the opinion on the financial statements that need to be fulfilled before the certificate can be given) and

how the requirements of the auditing standards in relation to subsequent events are applied in such a situation.

The Practice Note was approved for finalisation, subject to the Chairman approving the redrafting required as a result of the above. Thanks were expressed for the work of Mr Andrew Baigent and staff at the NAO.

9. Practice Note 12: Money Laundering guidance

Mrs Hazel O'Sullivan outlined the process that had been followed in respect of the update of Practice Note 12 for the issuance of revised ISAs (UK and Ireland). It was noted that confirmation had been received from HM Treasury that re-approval of this document was not required as the changes had not been substantial. The Practice Note was approved for finalisation. It was agreed that it was important to retain this guidance as stand-alone material and not incorporate it into CCAB Guidance.

10. Practice Note 27: Audit of Credit Unions in the UK

Mr Billing reported that, although there are proposed changes to legislation and the FSA rules in the pipeline, these will not affect the substance of what an auditor does in an audit of a credit union and the statement at the start of the draft Practice Note is thought to provide a sufficient reference to these changes. After a brief discussion the Practice Note was approved for issuance as a consultation draft.

11. Practice Note 22: The Auditor's Consideration of FRS 17

Mr Billing reported on the extent to which Technical Advisory Group members use the guidance. It was noted that there are still a number of defined benefit pension schemes in existence, some of which are relatively large. Work on an update would need to include material on other related disclosures and would involve consultation with BAS as well as ASB. It was agreed that an update of the guidance should be provided, but the timing of this work would need to tie in with the update of IAS 19 and so it will not take place until some time during 2011.

12. Next meeting

It was noted that the next meeting of the Board will be held on Wednesday 13th October. The Chairman requested an update from Mr Rottenberg on timetables associated with documents being published by the Government and the EC.