

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Friday 16th September 2011

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

PRESENT:

Members

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|----------------------------------|--------------|
| J Adam | R Sriskandan |
| Ms A Coates | R Talbut |
| R Fleck (Chairman) | D Thomas |
| R Frith | M Ward |
| M Grabowski (Executive director) | A Wilson |

Observers

R Rottenberg (UK, Department for Business, Innovation and Skills)
R Thorpe (Financial Services Authority)

In attendance

Ms K Cearns
Ms F King (for agenda item 3)

Staff

K Billing
J Grant
Mrs H O'Sullivan
S Leonard

ABSENT:

Members

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| J Hughes | I Pickering |
| P Lee | S Turley |
| R Nolan | |

Observers

I Drennan (Irish Auditing and Accounting Supervisory Authority)

1. Introduction

The Chairman reported on IAASB and IESBA CAG meetings which had been held earlier in the week. Following this, board members contributed to a discussion on developments in the regulatory environments in Europe and the US.

The Chairman told the board that he had met with the ICAS Research Committee to discuss a project looking at the skills needed to undertake an audit of a large, complex, multinational entity. It was agreed, in principle, that the APB would support such a project and would be interested in commenting on the design of a proposal once this was developed by the Committee.

2. Minutes of previous meeting

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

3. Client assets

The Chairman highlighted that a lot of work had been done on the Bulletin in a relatively short period of time. He expressed the Board's appreciation of the contributions that had been made by all those involved including FSA staff, members of the Sub-committee and the Working Group and the APB staff.

Ms King emphasised that the Bulletin would represent an important step in improving the quality of auditor reporting to the FSA in this area, making it important for the Bulletin to be published in the knowledge that experience working with it will benefit the development of future guidance or standards.

It was agreed that:

- Despite concerns expressed by some members of the Working Group, to the effect that the Bulletin should provide guidance on levels of testing, the Board concurred with the Sub-committee that each client asset engagement should be risk based and that an engagement team should determine the level of test based on its risk assessment and evaluation of the design of the firm's client asset system.
- The FSA's position on the rights and duties of a CASS auditor, who is not the statutory auditor, will be stated in the Bulletin.
- Guidance on the responsibilities of the statutory auditor to consider whether there are client assets in cases where the audited entity is regulated by the FSA but no CASS auditor has been formally appointed will be included in the Bulletin. This might also be highlighted in the press release/explanatory memo at the time when the document is published.

It was agreed that the Bulletin would be issued in early October. The Chairman and Executive Director were authorised to make such amendments as were considered necessary to finalise the Bulletin and it was agreed that the final Bulletin will be shared with Board members electronically before publication.

4. Ethics: consultation on amendments to Ethical Standards

It was agreed that the note on "Non-audit services in respect of the audited entity provided to a third party" in the proposed revised Appendix to ES1 might include some examples.

In respect of tax services provided on a contingency fee basis, it was generally agreed that the proposed amendment now looked complicated, particularly with the expectation that the transition arrangements would be revisited again if there expected to be uncompleted contracts at the end of the proposed transitional period. A more permanent solution was considered appropriate. However, there was a divergence of views about the most appropriate solution.

Some favoured making no change to the current transitional arrangements – these arrangements had been arrived at following extensive discussion and analysis of the associated threats to auditor independence - and argued this should not be seen as retrospective regulation. The auditor was not necessarily obliged to withdraw from the uncompleted contingent fee contract or from the audit contract – there would also be the option of not seeking to renew the audit contract if they chose not to renegotiate the uncompleted contingent fee basis contract and would therefore no longer meet the independence requirements.

Others argued that this was in effect retrospective regulation and therefore favoured extending the transition as provisions either to allow all such contracts to run to completion or to run for an extended but fixed period (say December 2014). In either case, the proposed conditions should be retained.

It was agreed that, at the October meeting, APB would discuss three options:

- a) Maintain the current transitional position in the Ethical Standards (as revised in December 2010);
- b) Implement a longer fixed period transitional arrangement allowing such contracts to run until December 2014 (by when many of the legal and tax interpretations are expected to have been addressed) subject to specified record-keeping, disclosure and other conditions; or
- c) Allow all such contracts to run until their completion date with no time limit and subject to the same conditions as in option b).

Board members will be encouraged to attend the October meeting (or express their opinions in advance) in order that the discussion of this topic can take account of all viewpoints. If either of options b) or c) above are agreed, a short six week consultation will follow.

5. IAASB work on audit quality

Mr Grant reminded Board members of the way in which the FRC work undertaken on audit quality encouraged market participants to think more broadly about the subject. He reported that the IAASB had agreed to expand this work into an international arena in collaboration with other parts of IFAC and other international bodies. The draft paper for the IAASB meeting was discussed. It was thought that this paper might helpfully add some introductory definitions and explanations to stress the scope, which focuses on environmental issues surrounding audit quality.

It was also thought that something more might be added about audit quality in the context of individual audits. It was agreed that the APB would further discuss audit quality in the context of individual audits at a later meeting and that a short paper would be provided as a basis for discussion.

6. IAASB items for discussion prior to September meeting

In a discussion on certain of the items to be covered in the IAASB meeting, the following points were made:

- If IAPNs are to be educational and not interpretive, any material interpreting the application of the ISAs should be included in the relevant standard - including such material in the IAPN before the material has been approved for inclusion in the standard could create confusion about the status of such material and it would require amendment to the IAPN if, after due process consideration, a different application interpretation was included in the standard.
- It needs to be very clear which documents ‘accompany’ the audited financial statements for the purpose of ISA 720. Option A appears to be more appropriate – Option B is very narrow and would mean that material that would be considered by the auditor if it were included in a document containing the audited financial statements would not be considered by the auditor if it were included in a document accompanying the financial statements.
- In a compilation report there needs to be greater clarity about the involvement of the practitioner and their independence.

7. Response letter to IAASB on Enhancing the value of auditor reporting

Mr Leonard introduced the draft response to the IAASB Discussion Paper which was aimed at reducing the so called “information gap”. Points had been included in the draft letter to suggest that IAASB should be encouraging evolution towards the elimination of the information gap rather than aiming for international consistency and that IAASB should not oblige the auditor to repeat information already disclosed elsewhere. The letter to the IAASB was approved.

The Board also noted that a draft of a response to the PCAOB on its recent Concepts Release on Auditor Reporting was in substance the same as the letter to the IAASB. The Board noted that the FRC would not normally respond to PCAOB consultations, but in this case, is doing so to provide information on its own work in an area of mutual interest.

8. Response letter on ISAE 3000

In discussion it was reiterated that the framework set out in ISAE 3000 was covering many different circumstances and so the requirements and guidance are at such a high level that it is difficult to apply them effectively to the circumstances of any particular subject matter, without developing a further (subject matter specific) standard. It was agreed that the letter should explain why APB has not adopted the standard.

9. Response letter to FEE paper on Combined Financial Statements

Mr Leonard introduced the FEE work which is exploring whether it is possible to formulate a European-wide approach on combined financial statements in investment circulars. Although APB would not normally respond to such a discussion paper, this was an area where the Board has experience to share and FEE had recognised this in

the paper. It was agreed that the letter would be sent, but without the detailed appendix of responses to the questions posed by the discussion paper.

10. Next meeting

The next meeting of the Board will be held on Friday 14th October.