

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Thursday 17<sup>th</sup> September 2009 at 9.30am

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

**PRESENT:**

**Members**

R Fleck (Chairman)	I Pickering
Ms A Coates	M Powell
R Frith	T Troubridge
J Grant (Executive director)	S Turley
J Hughes	M Ward
P Lee	
R Nolan	

**Observers**

J Bellingham (UK, Department for Business, Innovation and Skills)  
D Loweth (ASB)  
Ms P Sucher (Financial Services Authority)

**In attendance**

Ms K Cearns

**Staff**

K Billing Mrs H O'Sullivan

**ABSENT:**

**Members**

G Pimlott	A Wilson
D Thomas	

**Observers**

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

## **1. Introduction**

### Recent publication

Mr Jon Grant noted the publication of EU research from the Maastricht Accounting, Auditing and Information Management Research Centre which concluded that, other than in relation to auditing internal controls, there were no major substantive differences between the clarified ISAs and PCAOB standards.

Mr Grant also referred to the Report on the affairs of MG Rover Group Limited recently published by the Department for Business, Innovation and Skills. The BIS Inspectors had concluded that the external auditors work had been well planned and executed although the detail of the report had indicated some issues in relation to going concern, disclosures relating to transactions with related parties and auditor independence. Mr Grant noted that a staff analysis of the new clarified standards showed that some improvements had been made to relevant auditing standards. He also noted that the events pre-dated the APB's Ethical Standards for Auditors.

### Recent meetings

Mr Grant reported on a meeting with the EC to discuss the need for national flexibility in relation to guidance supporting the clarified ISAs. The APB's views on the need for flexibility to issue guidance were subsequently supported by a meeting of UK stakeholders.

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

It was noted that the minutes of the meeting held on 29<sup>th</sup> July had been approved following circulation to Board members.

## **3. Auditing standards – approve comment letter to EC on ISA adoption**

Board members reviewed a draft response letter to the EC Consultation and agreed that a number of changes should be made. As the date for responses had been extended by one month, it was agreed that a final version of the letter would be brought to the Board on 1<sup>st</sup> October 2009.

## **4. Approve Clarified ISAs (UK and Ireland)**

Mr Grant outlined the areas for discussion in association with the finalisation of the Clarified ISAs (UK and Ireland). The Board agreed with the treatment of the 'pluses' that had been moved to application material. It was noted that the APB decisions and reasons for following this approach should be explained fully in the feedback paper.

Minor drafting amendments in respect of ISA (UK and Ireland) 610 and the Scope and Authority were proposed. Subject to these and other minor drafting points, the Board approved the ISAs (UK and Ireland) for publication. It was noted that a paper setting out the main changes to the ISAs (UK and Ireland) would be presented for approval at the meeting on 1<sup>st</sup> October and the update to Practice Note 26 would be finalised in November.

## **5. Ethical Standards – consultation on non-audit services**

Mr Grant outlined the main changes that had been made to the consultation paper since the papers had been circulated. Board members then raised further issues on the

drafting of the paper. It was agreed that this would be circulated once more by e-mail for review and approval by Board members. A press release would be presented for approval at the 1<sup>st</sup> October board meeting. The consultation paper would be published soon after this meeting, once the Treasury Select Committee has been given a final chance to comment. A comment period until the end of January 2010 was thought to be appropriate.

## **6. Ethical Standards – approve changes to ES 3**

The Chairman noted that the Board had agreed at its previous meeting on the approach to be taken towards an extension of the rotation period for audit engagement partners on listed company audits, in particular the Board had concluded that the focus of the decision making by the audit committee should be on audit quality. He observed that the reason for taking out the reference to ‘large and complex or diverse companies’ was because this was seen by some commentators to the exposure draft as being a limitation on where audit committees could request an extension in the period to seven years.

The Board approved the finalisation of ES3 although two board members dissented. These Board members took the view that more should have been done in the revision to ES3 to facilitate the extension of the rotation period to seven years, especially on the largest most complex listed companies where, in their view, the longer period was beneficial to audit quality.

It was agreed that a feedback paper and press release would be brought to the APB meeting on 1<sup>st</sup> October to be issued at the same time as the consultation paper on non-audit services.

## **7. Complex Financial Instruments – PN 23**

Mr Grant reported on IAASB’s plans to use PN23 as an attachment to its forthcoming consultation paper. Board members supported the current draft although requested more emphasis in the guidance on the use of sensitivity analysis and on assessing counterparty risk. Subject to changes to address these points, the Practice Note was approved for publication as an Interim guidance.

## **8. Assurance on controls at service organisations**

Mr Grant explained that IAASB was likely to approve a final version of ISAE 3402 and observed that few of APB’s concerns with the exposure draft had been addressed. Mr Grant expressed his concerns regarding whether service organisations would be able to comply with ISAE 3402 and of the need for guidance for them. He noted that it was likely that the ICAEW would develop guidance using material in their existing AAF01.

The Board agreed to reconsider ISAE 3402 when the ICAEW had developed guidance for service organisations and in the light of actions taken in the US to revise SAS 70.

It was noted that, if APB was to adopt ISAE 3402, it would also need to adopt ISAE 3000 an action it has resisted to date. Given the changes in Board membership it was agreed to discuss again APB’s policy towards assurance standards and, in particular, ISAE 3000 at a later meeting.

**9. Next meeting**

It was noted that the next meeting of the Board will be held on Thursday 1<sup>st</sup> October.