

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 18 February 2009 at 9.30am

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

PRESENT:

Members	R Fleck (Chairman)	G Pimlott
	J Grant (Executive director)	M Powell
	A Chambers	D Thomas
	L Hughes	T Troubridge
	K Nicholson	S Turley
	R Nolan	M Ward

Observers J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)
Ms P Sucher (Financial Services Authority)
D Loweth (ASB)

In attendance

Staff	K Billing	D Marston
	S Leonard	Mrs H O'Sullivan

ABSENT:

Members	P Lee	W Rainey
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Observer	I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)	
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1. Introduction

Publications

Mr Jon Grant noted the recent publication of the APB's 2009 compendium of standards and guidance and Practice Note 27: The audit of credit unions in the United Kingdom.

Recent meetings

Mr Grant reported on the following recent meetings:

- with staff of BERR to discuss corporate governance statements.
- with staff of BERR to discuss a possible project, to which the APB, the ASB and BERR would contribute, addressing the future accounting/assurance framework for very small companies.
- The EGAOB ISA sub-group which had reviewed the 'clarity' ISAs for any fundamental flaws and considered the results of research by Duisburg University into the costs/benefits of adopting ISAs in the EU.

Treasury Select Committee on bank audits

Mr Grant noted a recent meeting of the Treasury Select Committee at which evidence was given by the FRC Chief Executive, two of the accountancy bodies and some audit firms. Auditor independence was discussed at a number of points during the meeting including issues related to the provision of securitisation services to Northern Rock. The FRC has sent a supplementary letter to the Treasury Select Committee expanding upon the comments made in relation to securitisation services. The letter drew upon APB's previous deliberations on this topic and made reference to APB's forthcoming consultation paper on the Ethical Standards.

2. Minutes of previous meeting

It was noted that the minutes of the meeting held on 13 January had been approved following circulation to Board members.

3. Ethical Standards

Mrs Hazel O'Sullivan introduced a draft consultation paper to accompany proposed revisions to the Ethical Standards (ESs). The main issues had previously been discussed by APB but the Board's attention was drawn to the working party's recent work on the definition of an affiliate of an audited entity.

The APB discussed the definition of an affiliate. This is important in determining which companies in a group fall within the scope of the Ethical Standards, not least in determining to which related entities the audit firm can provide certain non-audit services. Some members of the working party took the view that the existing APB definition was impractical and urged APB to adopt the IFAC definition. Other members of the working party thought that the IFAC definition made inappropriate use of materiality. The APB agreed that views should be obtained on the benefit of changing the APB definition but using a test of 'clearly insignificant for the purposes of audit independence' rather than 'material'. In the interests of international harmonisation it was also agreed to promote this approach with the IESBA and that as far as subsidiaries were concerned, there should be no materiality threshold applied.

There was further discussion about the period for rotation of the audit engagement partner. While some members favour retaining the existing requirements of ES3 it was agreed that there was benefit in obtaining the views of stakeholders on the introduction of further flexibility to allow audit committees to safeguard audit quality in certain circumstances provided that shareholders were made aware of this. It was agreed that the redrafted section 2 of the consultation paper should be re-circulated to Board members for further comment.

The consultation paper and the exposure draft of proposed amendments to the ESs were otherwise approved for issue.

4. Auditor's reports

Mr Steven Leonard introduced a proposed final version of ISA (UK and Ireland) 700 (Revised): The auditor's report on financial statements. Mr Leonard noted that a meeting had been held with technical staff from a number of audit firms to discuss the proposed ISA (UK and Ireland), and a number of helpful comments had been received from them which still had to be reflected in the draft standard.

Mr Leonard pointed out that, as drafted, the proposed revised ISA did not require the auditor to have a separate section of the report addressing those matters where law or regulation requires the auditor to report by exception. The Board thought that this should be mandated where law or regulation requires reporting by exception. The Board discussed the advantages and disadvantages of requiring the auditor to conclude on such matters and decided that the proposed revised ISA should require the auditor's report to incorporate a suitable conclusion in respect of such matters in all cases.

Paragraph 16 of the proposed draft sets out prescribed wording describing the scope of an audit, which is to be used consistently on the APB website or in a company's Annual Report or in the auditor's report. The proposed wording was approved subject to some re-ordering of the wording to improve the logic of the flow.

With respect to the Public Sector it was noted that a discrete opinion on regularity would be included after the opinion on the financial statements. Mr Leonard noted that this proposal had been discussed with representatives of the Public Sector and generally welcomed by them.

Board members agreed with the proposal that the effective date for implementation of the new ISA (UK and Ireland) should be in two parts (a) for UK companies accounting periods ending on or after 5 April 2009, and (b) for other UK entities accounting periods ending on or after 15 December 2010. With respect to Irish companies and entities there are likely to be developments in Irish Law which may have an effect on Irish auditor's reports. Until there is more certainty in the legal position the Board agreed that the current version of ISA (UK and Ireland) 700 should remain in effect for Irish auditor's reports.

It was agreed that a revised draft of the proposed ISA (UK and Ireland) should be circulated to Board members for approval by postal ballot.

5. Clarity ISAs

Mr Grant referred to the summary of responses to APB's recent consultation on the implementation of new 'clarity' ISAs in the UK and Ireland. He reported that commentators overwhelmingly supported the implementation of the clarity ISAs as soon as practicable. On timing there was a suggestion that they should apply to accounting periods ending on or after 15 December 2010 to allow for the exclusion of short accounting periods in 2010.

The APB agreed to implement the clarity ISAs for periods ending on or after 15 December 2010. It was agreed that a press release should be issued shortly to communicate this to stakeholders to help them with their planning

A number of commentators requested guidance on the application of the Clarity ISAs on smaller audits. After discussion, it was also agreed that the APB should issue guidance, but not training material, on the application of the clarity ISAs to SME audits. Further consideration would be given by APB as to whether this guidance would take the form of a revision of PN 26 on smaller entity audit documentation or be more along the lines of the now superseded PN 13 on small company audits.

6. ISA 'pluses'

The Clarity ISAs would be implemented through exposure, and finalisation, of a whole suite of ISAs (UK and Ireland). These would be prepared by staff and reviewed by a small working party. The Chairman introduced a discussion on how Board members would wish to review drafts of the clarity ISAs (UK and Ireland), so as to indicate which 'pluses' have been retained or removed when compared with the current ISAs (UK and Ireland).

After discussion, it was agreed that Board members will be provided with the draft standards showing the pluses proposed to be retained. Board members would also be provided with:

- an analysis of the treatment of all current plus requirements,
- details of any changes to the wording of current plus requirements, and
- details of all current plus guidance material that it is proposed need not be retained.

7. Charity audit reports

Mr Grant introduced a proposed new Bulletin giving examples of auditor's reports on charities for 31 March 2009 period ends. This Bulletin will be supplementary to the recently issued revision of PN 11: The audit of charities in the United Kingdom.

Mr Grant noted that a final review of the draft Bulletin was still to be carried out by working party members but, subject to this, Board members approved the Bulletin for publication.

8. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 31 March.