

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 20th April 2011

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

PRESENT:

Members

J Adam	R Nolan
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 R Rottenberg (UK, Department for Business, Innovation and Skills)
Ms P Sucher (Financial Services Authority)

In attendance Ms K Cearns P George

Staff K Billing S Leonard
J Grant Mrs H O'Sullivan

ABSENT:

Members

I Pickering R Talbut

Observers I Drennan (Irish Auditing and Accounting Supervisory Authority)

1. Introduction

Mr Grabowski explained that sub-committee meeting summaries would be circulated to the board with papers in the future. In response to a question on the APB SME Audit sub-committee meeting summary, Mr Grabowski explained that the APB would be co-ordinating the UK SMP feedback for the IAASB's ISA implementation project.

A copy of summary minutes of the initial meeting of the Client Assets sub-committee and the proposed membership and terms of reference of the sub-committee had been circulated electronically. The membership of that sub-committee and its terms of reference were formally approved by the Board. The Chairman commented that this project presented a timing challenge for APB. The revised FSA Client Asset Rules would be effective for periods ending on or after 30 September 2011 and APB was unlikely to be in a position to issue final standards/guidance until early 2012. Consequently, it is proposed that APB's current guidance would be supplemented, prior to publication of the final standards/guidance, by the issuance of a Bulletin in September/October 2011.

The Chairman proposed that an additional working group of the Board would be set up to look at issues arising in progressing actions agreed in relation to auditor scepticism. Mr Grabowski suggested that a project plan for taking forward the agreed scepticism actions would be presented at the May APB meeting.

The Chairman reported on follow up to the House of Lords Economic Committee report that is being undertaken by the FRC. A composite response addressing the matters in this report and the feedback received in relation to the Effective Company Stewardship publication is being developed.

Mr Grabowski reported on the progress of the Sharman Inquiry and agreed to provide updates at future APB meetings.

Mr Frith proposed that a Bulletin on illustrative public sector auditor reports is no longer needed since the examples included need to be amended before use and each audit agency develops their own material. Board members agreed to this decision, subject to confirmation by the Public Sector Sub-committee. It was noted that this decision may need to be revisited once the reorganisation of local government audit has taken place.

Mrs O'Sullivan reported on the publication of draft regulations in connection with the disclosure requirements for auditor remuneration. These draft regulations require that all large and listed companies disclose non-audit services supplied by their auditor under headings which represent a summary of the headings included in the recommended template to be used by auditors when reporting to audit committees of listed companies on non-audit services provided.

Mr Nolan reported that progress was being made in Ireland to resolving the question of the use of ISA (UK and Ireland) 700 (Revised). A kick-off meeting for an APB Liaison Committee would take place on 10th May 2011. Additionally the Nyberg Report on the banking crisis in Ireland had been recently published and would provide input to work in Ireland as it was critical of auditors there.

Mr George explained that POB was doing some work on the quality of reporting by auditors to audit committees. He suggested that feedback of this analysis to APB in June 2011 would be appropriate. It was also agreed that a summary of the key findings from the AIU 2010/11 inspections would be presented to the Board in May 2011. It was noted that the final public report would not be published until July 2011.

2. Minutes of previous meeting

The minutes of the meeting held on 3rd March were approved.

3. APB Effectiveness review

Mr Lee explained that he had spoken to each of the non-executive Board members in connection with the effectiveness review and this highlighted some clear messages about the need for more opportunities for informal discussions and a greater focus on the strategic issues, rather than focussing on lengthy standards and guidance at the Board meetings. Additionally there had been a request for closer links with sub-committees and other parts of the FRC and for increased diversity of the Board. The Chairman reported that some of these issues were already being considered. As a result of work being undertaken by the FRC to review its structure and powers, consideration of other issues (in particular rotation of the Chair and other changes to Board members) would not take place until this was completed.

4. Practice Note 27 – Credit Unions

Mr Billing introduced the Practice Note on Credit Unions. Although legislation in this area was due to change and there would therefore be a need to update the Practice Note in due course, the timing of this was not certain. Accordingly the staff recommendation was for the guidance to be approved and finalised. Mr Billing confirmed that the FSA did not object to this proposal. The Board approved the document for publication, subject to an update for current terminology on loan losses in paragraphs 131 to 133.

5. IAASB response letters on compilation and review engagements

The Chairman reported that there had been a discussion in connection with the independence requirement in the case of a compilation engagement at the IESBA CAG meeting. Board members proposed that the APB letter should suggest that it is made clear in the practitioner's report in respect of a compilation engagement that the practitioner is not required to be independent. Mr George suggested that the letter might also suggest that the report should include a positive statement that the practitioner is required to not be associated with misleading information. It was also thought that the compilation engagements response letter might suggest ways of setting out the differences between the three services (compilation, review and audit) to clarify how they are distinguished.

On review engagements concern was expressed that there is significant lack of clarity about the distinction between a review and an audit. The fact that there is nothing on what the practitioner has done in the practitioner's report exacerbates this situation.

It was agreed that both response letters would be amended to incorporate the comments noted and re-circulated to the Board electronically before their finalisation.

6. IAASB response letter on IAASB Strategy for 2012 to 2014

Board members approved the draft response letter on the IAASB Strategy for 2012 to 2014 noting that the main point was that the IAASB should focus on those aspects of its work programme relating to its standards for the audit of financial statements rather than getting involved in addressing new assurance services.

7. Ethics: Transitional provisions for tax services

Mr Grabowski highlighted a problem that had been raised with APB staff in connection with some tax services provided on a contingency fee basis following the introduction of a new prohibition in paragraph 95 of ES 5 in December 2010. Although much of the work in connection with these services may be provided at the start of the engagement, they can continue for many years as they are often dependent on the outcome of legal cases. The transitional arrangements that were approved for the revised Ethical Standards only allow for such contracts to continue for a period of twelve months.

The Board had a preliminary discussion about the likely extent and nature of the issue and the options available to auditors who have such contracts that are not completed within the transitional period. The APB also considered whether it would be appropriate to provide further transitional relief as had been suggested. It was thought that if such a decision were to be taken, there would, as a minimum, be a need for clear disclosure of the extant arrangements but that keeping such disclosure simple and effective may prove difficult. It was also noted that providing further relief in this area would run counter to the sentiment against auditors providing tax advisory services in the recent House of Lords Economic Committee report. The Chairman proposed that further consideration be given to this issue before a decision is taken as the issues are complex.

8. Next meeting

The next meeting of the Board will be held on Monday 23rd May.

Subsequent to the meeting future Board meetings in July and October were rescheduled to Friday 15th July and Friday 14th October. It was also announced that an Awayday would be held on Tuesday 6th September in Central London, with dinner the night before.