

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 21st April 2010 at 10.00am

PLACE: Lancaster London,
Lancaster Terrace,
London W2 2TY

PRESENT:

Members

R Fleck (Chairman)	I Pickering
R Frith	S Turley
M Grabowski (Executive director)	M Ward
J Hughes	A Wilson
P Lee	

Observers

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

In attendance

Ms K Cearns	M Powell
P George	T Troubridge
G Pimlott	

Staff

K Billing	S Leonard
J Grant	Mrs H O'Sullivan

ABSENT:

Members

J Adam	R Sriskandan
Ms A Coates	R Talbut
R Nolan	D Thomas

Observers

I Drennan (Irish Auditing and Accounting Supervisory Authority)

1. Introduction

The Chairman noted that a number of Board members, including new Board members were absent due to travel difficulties.

It was noted that the publication of the exposure draft of Practice Note 20 was delayed until after the election.

2. Minutes of previous meeting

The minutes of the meeting held on 11th March were approved.

3. Ethics

The Chairman outlined that the aim at this meeting was to reach a consensus on the direction to take in relation to each of the issues set out in the papers. He reported that in his discussion with the FRC Board on the previous day, they recognised that the response to the consultation needs to be balanced but that ‘perception’ should not be ignored. Each of the separate issues papers was then discussed separately.

Banding of non-audit services

It was agreed that it is necessary to amend ES 5 to make it clear that assurance and other similar services are included in the scope of the standard, and to address the threats associated with their provision by the audit firm and the type of safeguards required.

Identifying a separate category of uncontroversial non-audit services and setting out the APB’s view on the level of associated threat would be helpful and deal with some of the perception issues that exist. It was suggested that these ‘audit related services’ should be a relatively narrow band that is clearly defined, possibly by the use of a list rather than a definition that would be open to subjective interpretation.

It was recognised that, as a result of this approach, ‘other non-audit services’ would include a mix of services some of which may result in low risks to auditor independence. It was thought that this category should not be sub-divided as to do so would create definitional problems. More detailed disclosures of such services would help in explaining their nature and this could take the focus away from the use of a simple ratio of non-audit fees to audit fees.

Audit committee involvement in non-audit services

At the FRC Board meeting, it was agreed that on publication of the revised Corporate Governance Code it would also be announced that proposed amendments to the Guidance on Audit Committees would be forthcoming later in the Summer. It was agreed that proposed wording would be presented to the Corporate Governance Committee on 4th May and the note for this meeting would be shared with the Board.

Extended and internal audit services

Mr Grant reported on the survey undertaken by the AIU of extended audit services supplied in conjunction with the audit on FTSE 350 companies. This had shown that there were a limited number of ‘extended’ audits in 2009, but that there were other instances where additional services of an internal audit nature were provided.

It was agreed that a revised definition of audit should have the effect that non-audit services that represent an extended audit would be recognised as such and included in ‘audit related services’ provided they are performed by the same team, contemporaneous with the external audit and relate to financial information or controls. It was noted that this would require audit firms to separately identify such services for billing purposes.

Impact of magnitude of non-audit services

Mr Grabowski summarised recent work that had been undertaken on analysing disclosures of non-audit services fees in listed companies and other ‘public interest entities’. This has indicated that a large proportion of fees are incurred by the FTSE 100 companies, perhaps justifying the previous focus of other analyses on these entities. This work also indicated that across all listed companies and other public interest entities about 20% of entities have a ratio of non-audit fees to audit fees of greater than 1:1 and those companies account for 50% of the total non-audit services fees. The overall trend in the FTSE 100 is that the average ratio has continued to reduce.

It was agreed that a quantitative cap on non-audit fees (e.g. by reference to the ratio of non-audit to audit fees) is not the most appropriate and would be difficult to implement. Although it is recognised that there is a concern where there is an established pattern of high levels of non-audit services in a company, this is mostly a governance and investor issue that could be resolved by detailed disclosures. Draft guidance for auditors will be added to ES 5 to suggest that a report to those charged with governance is appropriate where the ratio is above 1:1.

Restructuring services

Mr Grabowski explained that amendments to ES 5 in respect of restructuring services were originally proposed in the March 2009 consultation. Further work has been done since then to understand better the nature of the threats associated with such services, especially in situations where the successful outcome of a restructuring plan with which the auditor is associated through providing restructuring services has a going concern implication. There are polarised views within the ethics sub-committee, with no consensus as to whether the benefits associated with the auditor providing these services outweigh the concerns.

Following a discussion of alternative approaches the APB failed to reach a consensus on the subject which will be revisited by the ethics sub-committee at its meeting on Monday 26th April.

March 2009 consultation

Mrs O’Sullivan outlined the remaining issues outstanding from the March 2009 consultation. A limited number of detailed amendments were agreed on securitisation services and in respect of financial interests of new partners.

Conflicts of interest

Mr Grabowski introduced the background to proposed new guidance paragraphs in respect of conflicts of interest. It was agreed that there could be more guidance on auditing competitor entities and that further consideration would be given to what happens in practice and the current guidance available.

4. Auditor's reports

Mr Leonard presented the background to this project and gave an outline of the discussions of options for making auditor's reports more informative and the research activities undertaken to date. In discussion it was thought that some of the concerns on the appropriateness of accounting policies, the robustness of controls and the aggressiveness of judgments made should be addressed through other aspects of corporate reporting (not solely the audit report).

At a recent meeting of the Corporate Reporting Action Group (CRAG) and APB staff there had been a focus not only on how the audit report per se might be improved, but also on how matters in reports from the auditor to the audit committee might be communicated to shareholders in the most effective way.

It was agreed that more information on the topic might be gained through asking additional questions as part of the consultation on changes to the Guidance on Audit Committees.

A presentation on what APB should be doing about the implementation of ISA (UK and Ireland) 700 (Revised) for entities other than companies for December 2010 year ends was deferred to a future Board meeting.

The Chairman concluded the session by encouraging the Board's working party to continue its work within the context of broader FRC initiatives concerning the provision of improved information for shareholders.

5. APB effectiveness review

There were still one or two responses outstanding from Board members and it was agreed that this topic would be discussed at the May Board meeting.

6. Next meeting

It was noted that the next meeting of the Board will be held on Wednesday 12th May.