

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Monday 23rd May 2011

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

PRESENT:

Members

J Adam	I Pickering
Ms A Coates	R Sriskandan
R Fleck (Chairman)	R Talbut
R Frith	S Turley
M Grabowski (Executive director)	M Ward
P Lee	A Wilson
R Nolan	

Observers

I Drennan (Irish Auditing and Accounting Supervisory Authority)
P Smith (UK, Department for Business, Innovation and Skills)
R Thorpe (Financial Services Authority)

In attendance

P George
A Jones, Ms J Goodson (for agenda item 3)

Staff

K Billing	S Leonard
J Grant	Mrs H O'Sullivan

ABSENT:

Members

J Hughes	D Thomas
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1. Introduction

The Chairman thanked APB members for information contributed on contingent fees for tax services following the last APB meeting. He reported that this had enabled a series of questions to be drafted in order to gain complete information from the top 10 firms on the full extent of the issue. Once this information is received, the topic will be revisited.

Board members were asked for any feedback on the Terms of Reference for the Irish Advisory Group which had been circulated in the previous week. It was agreed that these should reflect the fact that this group will be involved in supporting APB to develop standards and guidance in addition to having an important facilitative role. Subject to this amendment and any other comments provided before the end of the week, the Terms of Reference were approved.

Mr George, as the Chair of IFIAR, outlined the main points which the organisation had been discussing. This included the topics for discussion at a future meeting with the Chief Executives of global networks.

The Chairman explained that a paper was being written, primarily by ASB, on what is meant by 'true and fair view'. This summary statement will re-emphasise the importance of taking a step back to assess whether a true and fair view is provided by a set of financial statements. It will form part of the response to the House of Lords report. This statement will be circulated to the Board, although it is unlikely to be contentious from an audit viewpoint.

Mr Thorpe highlighted the recent publication of a paper by the Bank of England and the FSA on how the future Prudential Regulation Authority will approach the supervision of banks, building societies, credit unions and investment firms.

2. Minutes of previous meeting

The minutes of the meeting held on 20th April were approved.

3. Feedback on AIU Inspection findings

Mr Jones and Ms Goodson presented findings from the AIU's inspections last year. These will be reported on publically in July and relate to inspections completed in the year to March 2011 (primarily December 2009 year end audits). APB staff had requested feedback on specific areas and the following topics were covered in detail:

- Effectiveness of the EQCR role
- The review process
- Auditor scepticism
- Auditing impairments
- Reporting to Audit Committees
- Controls testing

The Chairman noted that many of the topics in the presentation focussed on the extent of challenge provided by auditors and the difficulty of providing evidence of this challenge.

Audit inspections in 2011/12 would be the first to look at audits undertaken under the new clarified ISAs (UK and Ireland). It was agreed that the Board would revisit the

issues covered at a subsequent meeting and also have a discussion about the issues that the AIU might be asked to consider in the future.

4. Auditor scepticism project plan

The Chairman commented that the importance of APB's work on scepticism had been highlighted by the presentation from the AIU. The project plan was agreed. It was noted that this work is important and timing would be worked out in detail now that a working group has been established.

5. Response to IAASB Discussion Paper on disclosures

As the draft letter of response had been circulated towards the end of the previous week, it was agreed that comments would be taken during the remainder of the current week. In discussion the following points were made on the letter:

- Early on it should be noted that responsibility for the preparation of the financial statements rests with the directors and content is primarily driven by accounting standards. IAASB should avoid developing guidance that interprets accounting standards, but IAASB and IASB could work together on areas of shared interest such as materiality.
- It should be made clearer that where we are commenting on the challenges in obtaining evidence, this is about information drawn from sources other than the books and records and financial accounting systems.
- Paragraphs in the letter which refer to opportunities for cutting information out of financial statements need to be reviewed. The main concern for auditors is whether sufficient appropriate evidence can be obtained in relation to the information, rather than the volume of information. Additionally, it was noted that in some cases, information on matters that are not specifically mandated to be reported may be necessary to give a true and fair view.
- A response on what constitutes a material misstatement of a disclosure (question R7) might be added.
- More emphasis could be made of the stand back review at the end of the letter as ISA (UK and Ireland) 700 is the one area where the UK is different to other jurisdictions.

Subject to these points and any other points raised during the week, the letter was approved by the Board.

6. Early feedback on responses to Effective Company Stewardship Discussion Paper

The Chairman reported that the FRC will combine feedback on this discussion paper with other work, e.g. responding to the House of Lords report. APB will have a chance to discuss this document in due course. Most of the resistance to ideas included in the discussion paper came from audit committees and corporate respondents and could be addressed, although it was recognised that additional reporting could be seen to create a tension between the responsibilities of audit committees and auditors. It was thought that greater transparency in the future on auditor re-appointments could drive greater investor involvement in auditor re-appointments.

7. Next meeting

The next meeting of the Board will be held on Tuesday 14th June.