

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Thursday 24 January 2008 at 9.30am

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

### PRESENT:

<b>Members</b>	R Fleck (Chairman)	M Powell
	J Grant (Executive director)	D Thomas
	A Chambers	T Troubridge
	P Lee	S Turley
	K Nicholson	M Ward
	R Nolan	
<b>Observers</b>	J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)	
	I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)	
	D Loweth (ASB)	
	R Thorpe (Financial Services Authority)	
<b>In attendance</b>	Ms K Cearns	J Rose (for item 7)
	P George (for item 7)	
<b>Staff</b>	K Billing	D Marston
	S Leonard	Mrs H O'Sullivan

### ABSENT:

<b>Members</b>	L Hughes	W Rainey
	G Pimlott	

## **1. Introduction**

### Publications

Mr Jon Grant noted the recent publication of Bulletin 2008/1 giving guidance on audit issues when financial market conditions are difficult and credit facilities may be restricted. In addition he noted that the FRC had recently published its draft plan and budget for 2008/09, and draft guidance on auditor liability limitation agreements.

### IAASB

Mr Grant reported on the last meeting of the IAASB held in December 2007 in Washington, which both he and Mr Will Rainey had attended. He noted in particular that revised and redrafted 'clarity' ISAs had been finalised on:

- estimates (ISA 540) (although there are on-going discussions with regulators on the need to supplement ISA 540 with further guidance on auditing fair values),
- subsequent events (ISA 560), and
- management representations (ISA 580), subject to final wording on the premise upon which audits are undertaken being addressed in the exposure draft of ISA 210 on engagement letters.

Mr Grant also noted that IAASB had approved an exposure draft of ISAE 3402 on reporting on controls of service organisations. He observed that, if APB wished to respond to this, it would be important to obtain the views of interested parties including users and preparers of such reports. The APB supported the idea of holding a meeting with a selection of interested parties to assist APB respond to the exposure draft.

### Listing rules

Mr Steven Leonard reported briefly on the FSA's current consultation on the structure of the Listing regime. Mr Leonard noted that the origin of the paper is that UK Listing rules set higher standards than the minimum requirements set by the European Directives, and the FSA is seeking comments on whether this 'super-equivalence' should be retained, and on which bodies should set these rules in future. It was agreed that APB staff should draft comments on those questions in the consultation paper that are relevant to auditors, either for separate submission or for inclusion in an FRC letter of comment.

### Audit quality

Mr Grant noted that the FRC was planning to finalise its paper on the audit quality framework in early February. Board members made a small number of comments on the latest draft.

### Code of Ethics

The Chairman reported on a recent meeting of IESBA to discuss revisions to the IFAC Code of Ethics, which he and Mrs Hazel O'Sullivan had attended. Revisions to the independence sections of the Code had been approved, with the exception of the three areas that were consulted upon separately. These remaining revisions are due to be approved at IESBA's April meeting. The final Code remains in line with the

proposed changes to the APB's Ethical Standards which are due to be finalised by the APB in March.

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

The Chairman noted that the minutes of the meeting held on 28 November 2007 had been approved following circulation to Board members.

## **3. SIR 5000**

Mr Tom Troubridge introduced a proposed final version of SIR 5000: "Investment reporting standards applicable to public reporting engagements on financial information reconciliations under the Listing rules". He noted that nine letters of comment had been received and that the covering note to the Board explained which comments the Sub-committee recommended should give rise to changes and those that should not. Comments that gave rise to the most significant proposed changes concerned the extent to which the engagement team needed knowledge of the target's financial reporting framework and whether the proposed work effort on checking reconciling items is sufficiently specific.

Mr Troubridge indicated that there had been support for the publication of the accounting annexure and that no commentators had made any comment countering the assertion in the Exposure Draft that the Standards and guidance are consistent with current practice and will not significantly increase costs.

Board members agreed with the changes proposed by the sub-committee. Board members made a small number of comments on the drafting of the SIR. It was agreed that feedback should be provided to one industry commentator on how its comments had been addressed, and that ASB staff should be requested to review the accounting elements of the annexure in particular those paragraphs that describe what constitutes accounting policies. Subject to the ASB review the SIR was approved for issue in final form.

## **4. Senior Statutory Auditor**

Mr Leonard introduced a proposed Bulletin, intended to provide guidance on the meaning of the term 'Senior Statutory Auditor'(SSA) used in the Companies Act 2006. He noted that SSAs will be required to sign auditor's reports in their own name rather than in the name of their firm.

The Board agreed that the definition of an SSA should be equated with the definition of the "engagement partner" as that term is used in ISAs (UK and Ireland). The Board also discussed some of the practical difficulties that might arise in the event of the incapacity or absence of the SSA when the signature was needed. It was suggested that the Bulletin should advise firms to have contingency plans in place in the event that the SSA was not available to complete the audit engagement. In addition it was suggested that the Bulletin should clarify that the electronic signature of the SSA would be acceptable under the Companies Act 2006. It was agreed that a small working party would be formed to amend the draft Bulletin before it was reconsidered by the Board at its February meeting.

## **5. Summary financial statements**

Mr Leonard introduced a draft Bulletin: “The auditor’s statement on the summary financial statement in the UK”. It is intended that this will be one of a number of Bulletins to be issued to replace Practice Note 8 when the Companies Act 2006 comes into force in April of this year.

One Board member observed that it was not clear in the illustrative report whether summary directors’ reports and other elements of a summary annual report formed part of the summary financial statements or not. It was agreed that APB staff would seek to clarify this and that a further draft would be circulated to the Board for comment.

## **6. Preliminary announcements**

Mr Leonard introduced a proposed Bulletin entitled: “The auditor’s association with preliminary announcements made in accordance with the requirements of the UK and Irish Listing rules” which, when finalised, will replace Bulletin 2004/1. There was discussion about the need for guidance on engagement terms and whether the proposed Bulletin may go too far in describing the required content of a preliminary announcement. On the latter point, it was agreed that the content of preliminary announcements was a matter for the FSA rather than the APB and it was agreed that Appendix 3 of the proposed Bulletin should be deleted. Mr Richard Thorpe commented that the FSA would consider the need for further FSA commentary on the link between preliminary announcements and IAS 34, in a future edition of List! Subject to making the agreed change the Bulletin was approved for issue.

## **7. Group audits**

Messrs Paul George and Julian Rose introduced a discussion of one recommendation which had arisen from the FRC’s ‘audit choice’ project, namely that the FRC should provide guidance for audit committees and other market participants on considerations relevant to the use of firms from more than one audit network. Draft guidance on this matter was set out in a draft FRC discussion paper: “Use of firms from more than one network for group audits”.

Board members commented that they were uncomfortable with the juxtaposition in the current draft between the expressed advantages of having more than one firm involved in a group audit on the one hand, and noting the likely better co-ordination arising from only engaging one firm on the other. The view was expressed that the paper might usefully be redrafted in a more discursive style. The paper should also clarify that there can only be one ‘group auditor’, who is ultimately responsible for the whole audit, and who is likely to consider the use of other firms as increasing the overall audit risk. The possible effects on the overall audit fees of using more than one audit firm should also be discussed. Mr Rose thanked the Board for its comments, which would be considered further by POB staff in redrafting the paper which would be issued for public comment in due course.

## **8. Next meeting**

It was noted that the next meeting of the Board would be held on Thursday 28 February.

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