

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 25 March 2008 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	S Turley
	P Lee	M Ward

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

In attendance Ms K Cearns D Bawtree (for item 5)

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

ABSENT:

Members	K Nicholson	W Rainey
	R Nolan	T Troubridge

Observers I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)
D Loweth (ASB)

1. Introduction

Publications

Mr Jon Grant noted the recent publication of a revision of Practice Note 12: Interim guidance on anti-money laundering legislation in the UK, and an FRC discussion paper on cost effective regulation.

IAASB

Mr Grant reported on the recent IAASB meeting in New York which had a very busy agenda including the finalisation of 4 clarified ISAs; substantial progress had also been made on finalising an additional 6 ISAs. A concern, particularly of the EC, exists in relation to the description of management responsibilities in introductory and application material in the new ISAs. A meeting had been arranged for 26 March to discuss this issue with a number of UK stakeholders.

As the IAASB's clarity project was nearing completion, Board members requested staff to prepare a status report and an analysis of the APB's comments made on the clarified ISA exposure drafts, indicating those points that had been accepted and those that had not. This would assist APB deliberations regarding how to address any 'gap' between finalisation of the Clarity ISAs by IAASB and their adoption by the EC. Responses to the consultation on early adoption of ISA 600 would also assist with this.

True and fair

The Chairman noted the forthcoming publication by the FRC of a legal opinion on the relationship between 'true and fair' and accounting standards. Once this had been finalised an FRC project on accounting records would commence. Both these projects are likely to be relevant to APB guidance, especially in relation to auditors' reports.

2. Minutes of previous meeting

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

3. Group audits

Mr Keith Billing introduced a proposed revision of ISA (UK and Ireland) 600: Using the work of another auditor, which had been prepared to reflect an amendment due to the introduction of the Statutory Audit Directive (SAD) into the UK. The main comments received on the exposure draft were in relation to whether the proposed change fully complied with UK legislation, whether reference should be made to access by oversight authorities to working papers as required by the SAD, and the meaning of 'involvement'.

Staff proposed that the wording of the additional requirement in ISA (UK and Ireland) should be more closely related to UK legislation. It was noted that this change is likely to necessitate a 'plus' to the 'clarity' version of ISA 600 once adopted. It was agreed that this was a 'plus' necessitated by legislation and, as such, would probably apply to other EU Member States.

It was agreed that the wording in the draft relating to principal auditor's documentation should be amended to better reflect the wording of the legislation, and circulated to Board members for approval.

4. Ethical Standards

Prior to the meeting a draft of the revised Ethical Standards and a Feedback paper had been circulated. The Feedback noted that it was necessary to finalise the Ethical Standards at this time to support changes to the Companies Act 2006 but that there were a small number of issues where further work needed to be undertaken

The Chairman observed that the main issue of concern related to whether to increase the period of rotation for audit engagement partners on listed companies from 5 to 7 years. At its last meeting the Board had been informed that the majority of commentators generally considered that a change to 7 years would enhance audit quality. Since that meeting a number of additional letters of comment had been received which, to a greater or lesser extent, supported the retention of the 5 year period. The consultation did not therefore demonstrate that consensus had been reached between companies, investors and auditors on this issue and accordingly the Board agreed that it would not be appropriate at this stage to change the existing requirement in ES3. However, the Board agreed that it should facilitate further dialogue amongst interested stakeholders with a view to seeing whether a consensus could be established.

Two Board members were strongly of the opinion that the final decision on the period of rotation for audit engagement partners should be either for 5 or 7 years and that a third position allowing audit committees some flexibility should be avoided. It was agreed that the Feedback paper to accompany the publication of the ESs would reflect their view on this. It was agreed that a revised version of the Feedback paper would be circulated to Board members for comment.

Mrs Hazel O'Sullivan introduced the proposed revisions of ESs 1-5, highlighting in particular the restrictions concerning partners once rotated off an audit. It was agreed that some relief would be provided should these partners then become technical partners within the firm. Changes were also agreed to a sentence dealing with those acting in a client relationship role. The ESs were reviewed and a number of additional drafting amendments were suggested. Subject to these, the revised ESs were approved for issuance on 4 April 2008.

5. Charities

Mr Don Bawtree introduced a revision of Practice Note 11: The audit of charities in the United Kingdom. He noted in particular that the revision took account of the significant changes to law and regulation that had occurred since the current PN 11 was issued in 2002.

Mr Grant noted that the Charity Commission was in the process of developing revised Directions and guidance for independent examiners, in which there was likely to be an appendix setting out detailed guidance on making whistle blowing reports to the regulator. A concern existed that such guidance would also be relevant to auditors and might need to be included in PN 11. Discussions were being held with staff of the Charity Commission to try to bring this guidance more in line with that included in

the revised PN 11, and it was agreed that reference to this issue should be included in the invitation to comment in PN 11. Subject to this and a small number of drafting amendments, the revision was approved for issue as a consultation draft once the Charities Act 2006 had come into force. The Chairman thanked Mr Bawtree and the working party for their efforts in developing the revised Practice Note; this had been a complex and time consuming project.

6. ISAs 501 and 520

Mr Keith Billing introduced proposed APB letters of comment on exposure drafts of ISA 501: Audit evidence and ISA 520: Analytical procedures. Board members made a small number of drafting comments and, subject to these, both letters were approved for submission to the IAASB.

7. Listing regime

Mr Grant introduced a proposed APB response to the FSA on its review of the structure of the listing regime. He noted that the draft response commented on the following matters:

- the status of the APB's Standards for Investment Reporting (SIRs),
- the current requirement in the Listing Rules for auditors to report on only 9 provisions of the Combined Code,
- duplication between the Listing Rules and the Companies Act 2006 concerning the disclosure of directors' remuneration.

A meeting has been arranged with representatives of the FSA for 31 March to discuss these issues. Following the meeting a decision will be taken as to whether it would be helpful to send the letter, and if so whether the APB content should form part of a broader response from the FRC as a whole. Board members made a number of comments on the response and, in particular, concurred with the recommendation in the proposed response that the Listing Rules should require a statement (in an investment circular) as to whether or not the SIRs have been followed.

8. Proposed Bulletins

Mr Steven Leonard introduced four proposed Bulletins, which had been prepared to provide guidance on aspects of the auditing provisions of the Companies Act 2006 that were coming into force from 6 April 2008:

- The senior statutory auditor,
- The special auditor's report on abbreviated accounts,
- Auditor's reports on revised financial statements and reports,
- The auditor's statement on the summary financial statement.

Board members made a small number of recommendations concerning the detailed drafting of the Bulletins, which were otherwise approved for issue.

9. Any other business

Mr Grant noted that there was unlikely to be a need for the APB to meet in May but that it may be appropriate to advance the June APB meeting (subsequently this was changed to Friday 13 June).

10. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 29 April.

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