

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 28 November 2007 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	W Rainey
	L Hughes	D Thomas
	P Lee	T Troubridge
	K Nicholson	S Turley
	R Nolan	M Ward

Observers R Thorpe (Financial Services Authority)

In attendance Ms K Cearns

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

ABSENT:

Observers J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)
I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)
D Loweth (ASB)

1. Introduction

Publications

Mr Jon Grant noted the recent issue of consultation drafts of two Practice Notes on banks and credit unions in the Republic of Ireland. He also noted that a letter had recently been sent to the Chief Executive of the ICAEW relating to APB's concerns on the provision of training for auditors on auditing standards.

APB Away day

Mr Grant noted the paper he had recently circulated setting out the main action points arising from the recent APB Away day together with a draft of APB's future priorities and a questionnaire on the APB's operating effectiveness.

IAASB

The Chairman reported that IFAC had commenced a search for a new chairman of the IAASB, to start in January 2009. The Board would be kept informed of progress on this.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 22 October had been approved following circulation to Board members.

3. ISA 600

Mr Keith Billing introduced two draft consultation papers. One set out a proposed addition to ISA (UK and Ireland) 600: Using the work of another auditor to reflect forthcoming legal requirements in relation to statutory audits of consolidated accounts. The other considers possible actions to be taken by the APB with respect to the recently revised ISA 600 (Revised and redrafted). Both issues had been considered at previous APB meetings.

Board members approved the first consultation paper. They also made a number of suggestions regarding the second paper. In particular it was agreed that the source of the comments on the AIU's intentions concerning ISA 600 should be clarified. It was also agreed that the paper should be clear that it addresses considerations that may potentially be relevant to other ISAs that are 'revised' (rather than just 'clarified') by the IAASB during the clarity project. It was agreed that the final drafts, amended to reflect the comments made, should be circulated to Board members before being issued. Staff were also encouraged to seek ways of obtaining the views of as wide a group of interested parties as possible on the proposed options.

4. Audit reports

Mr Steven Leonard introduced a proposed discussion paper entitled: The auditor's report; Time for change? an earlier draft of which had been discussed at the APB's recent Away day.

Board members discussed a number of aspects of the draft paper, particularly concerning the AQF proposal that there should be a statement that the auditors had no matters that they wished to emphasise in the auditor's report. This discussion also

covered the proposed requirement in ISA 706 on emphases of matter paragraphs and the meaning of 'fundamental to the users' understanding of the financial statements'. The discussion paper was approved subject to a small number of changes to reflect this discussion and it was agreed that an amended draft of the paper would be circulated before being issued.

5. PN 16

Mr David Marston introduced a proposed final revision of Practice Note 16: Bank reports for audit purposes. He noted that, following agreement between representatives of the CCAB Bodies and the British Bankers Association, a consultation draft of the revision had been issued in July. Nine letters of comment had been received, which were largely very supportive of the revision.

One Board member suggested that consideration should be given to increasing the level of detail in the illustrative templates relating to derivatives and commodities trading. Staff agreed to explore this issue with the working party. It was also noted that the PN did not apply to the Republic of Ireland and its title should therefore refer to the United Kingdom. Subject to these matters the revised PN was approved for issue in final form.

6. PN 21

Mr Keith Nicholson introduced a proposed revision of Practice Note 21: The audit of investment businesses in the United Kingdom. This PN had not been issued at the end of 2006, as originally intended, due to significant changes to the FSA's rules which had been made in 2007 to reflect the introduction of the Markets in Financial Instruments Directive (MiFID). Three letters of comment had been received on the consultation draft of the revision issued in July, and most of the points made had been incorporated into the final draft. Mr Nicholson also noted that, following the FSA's recent consultation on removal of the requirement for auditors to report to the FSA under SUP 3.9, the relevant guidance had been removed from the draft PN; the FSA's confirmation of the rule change was, however, still pending.

The Chairman noted the complexity of the MiFID requirements on the need for audits to be performed and expressed his concern as to the timing of the finalisation of relevant FSA rules which applied to 31 December 2007 audits.

Mr Grant reported on an issue that had recently arisen on the form of endorsement that the FSA was prepared to provide on PN 21 and whether it, and indeed other APB Practice Notes, fell within the scope of the FSA's policy relating to Industry Guidance which had been the subject of an FSA consultation exercise in December 2006. The Chairman expressed the view that it would be disappointing if the FSA was not able to reflect the APB's position within the FRC as a independent regulator of the auditing profession. It was agreed that a meeting should be held with FSA staff to discuss this point further.

One Board member requested more emphasis on professional judgment in the new section on documentation in the audit of client assets, and this was agreed. Subject to finalising the form of wording to reflect the FSA's support for the revised PN it was approved for issue in final form.

7. PN 11

Mr Marston introduced a status report on the revision of Practice Note 11: The audit of charities in the United Kingdom. He noted that the original intention was to issue a consultation draft of the revision before the end of 2007. However, due to a number of outstanding legal and regulatory issues, the working party now proposed that this should be postponed until the first quarter of 2008. These issues included the timing of implementation of the Charities Act 2006, uncertainties in Scottish legislation concerning 'cross-border' charities and the finalisation of guidance on whistle blowing to the charity regulators. Board members agreed with the proposed timetable for the revision of PN 11. The Chairman asked if he could receive a note of the 'cross-border' issues, together with copies of the letters recently sent by the Charities working party to the Scottish Government and OSCR.

8. ISA exposure drafts

Messrs Leonard and Billing introduced draft letters of comment to the IAASB on exposure drafts of revised and redrafted ISAs:

- 700 – The independent auditor's report on general purpose financial statements,
- 705 – Modifications to the opinion in the independent auditor's report,
- 706 – Emphasis of matter paragraphs and other matter(s) paragraphs in the independent auditor's report,
- 800 – Special considerations – audits of special purpose financial statements and specific elements, accounts or items of a financial statement,
- 805 – Engagements to report on summary financial statements.

Board members suggested a small number of detailed changes to the letters on ISAs including highlighting the inconsistency between the wording in ISA 700 and IAS 1. Subject to these changes the letters were approved for submission to the IAASB.

9. Management representations

Mr Grant updated the Board on developments on the revision of ISA 580: Written representations. He noted that, in his view, the latest draft addressed the APB's main concern relating to the need for flexibility to link the nature of certain representations to national legal requirements, especially as they relate to internal control. He explained that while the link between not obtaining representations on the fundamental premise and a disclaimer of opinion still existed, this was now more restricted than in the exposure draft. Mr Grant however thought the current draft overstated the case for a disclaimer when the representations appeared to be unreliable.

Board members welcomed the changes and agreed that the 'unreliability test' should be more closely related to an assessment of the integrity of management. In addition the definition of internal control included in the draft was thought to be too absolute and should refer to 'reasonable assurance' It was noted that the intention was that the draft ISA would be finalised at the next meeting of the IAASB in December. APB members thought that a case could be made for re-exposure of the ISA given the extent of the changes to it from the exposure draft.

10. IAASB strategy

Mr Grant introduced a draft APB letter of comment to the IAASB on its strategy for 2009-2011; the draft response reflected the discussion on this subject at the recent APB Away day. He noted that the draft letter supported a number of the planned actions on auditing standards but called for additional effort on developing (or co-ordinating the development of) ISA implementation guidance, promoting the use of the ISAs in the United States, and working with IASB on the auditability of future accounting standards. Subject to a small number of drafting points made by Board members, the letter of comment was approved for submission to the IAASB.

11. Any other business

The Chairman introduced a discussion about the need for APB to issue guidance to auditors in the light of the current illiquidity in the financial markets. He noted that while the ‘credit crunch’ gave rise to significant valuation issues for banks and insurance companies there were also wider issues affecting the audits of other entities. Board members noted the number of international regulatory initiatives that were currently underway in relation to the audit of financial instruments and that the largest audit firms were already holding discussions on how to address these issues. The view was expressed that it was more likely that relevant guidance from the APB would be beneficial for smaller firms. If guidance was to be produced it might usefully focus on the effects of the impact that the ‘credit crunch’ might have on the availability of finance. This could impact entities of all types, not just financial institutions. It was agreed that the Chairman and APB staff would further consider the need for, and nature of, any APB guidance and would communicate with Board members electronically. It was noted that, if useful guidance was to be issued by the APB, this would need to be in December or early January to have maximum benefit.

The Chairman noted that this was the last APB meeting of the year, and thanked Board members and the staff for their significant efforts during 2007.

12. Next meeting

It was noted that the next meeting of the Board would be held on Thursday 24 January 2008.

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