

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

**DATE AND
TIME:**

Tuesday 29th July 2009 at 9.30am

PLACE:

Aldwych House,
71-91 Aldwych,
London WC2

PRESENT:

Members

R Fleck (Chairman)	D Thomas
R Frith	T Troubridge
J Grant (Executive director)	S Turley
J Hughes	M Ward
R Nolan	A Wilson
G Pimlott	

Observers

D Loweth (ASB)
Ms P Sucher (Financial Services Authority)

In attendance

Ms K Cearns
Mr N Walsh (for agenda item 9)
Mr I Wright (for agenda item 10)

Staff

K Billing
S Leonard
Mrs H O'Sullivan

ABSENT:

Members

Ms A Coates	I Pickering
P Lee	M Powell

Observers

J Bellingham (UK, Department for Business, Innovation and Skills)
I Drennan (Republic of Ireland, Auditing and Accounting Supervisory Authority)

1. Introduction

Recent publication

The Chairman noted the publication of the Walker Review on corporate governance in banks and the FRC's status report on its work to update the Combined Code. APB views on possible changes to the Combined Code or its supporting guidance, as discussed at the Board's last meeting, will be communicated to the FRC during the autumn.

Recent meetings

Mr Jon Grant referred to informal meeting held on 9th July to discuss the credit crisis and bank audits and noted that two actions that APB would be taking were:

- To discuss with the FSA whether changes are needed to existing APB guidance dealing with communications between the FSA and the auditors of financial institutions, and
- To discuss with firms whether the existing requirements in ISAs (UK and Ireland) remain appropriate for bank audits or should be supplemented.

The Chairman reported on a very successful meeting with the DETE in Ireland at which APB had been updated on planned changes to Irish law as it relates to auditors and APB had been able to brief the DETE on the Treasury Committee's recommendation relating to non-audit services and issues relating to the adoption of the ISAs by the European Commission.

2. Minutes of previous meeting

It was noted that the minutes of the meeting held on 30 June had been approved following circulation to Board members.

Under matters arising, the Chairman noted that Mr Michael McKersie from the ABI has joined the Ethics sub-committee as an investor representative and that Mr John Kellas had written to thank the Board for its congratulations on his being awarded a CBE.

3. Clarity ISAs (UK and Ireland)

4. Clarity ISAs – discussion of issues relating to EC Consultation

Agenda items 3 and 4 were considered together. The Chairman explained that discussions had been held with representatives of BIS regarding the recent EC consultation on the adoption of ISAs. While we are encouraged with the positive approach that the EC seems to be taking, there were issues relating to the acceptability of additional, UK specific, material in the ISAs once the ISAs had been adopted for use in the EU. In particular there was uncertainty as to whether supplemental guidance would be acceptable. The Board agreed that APB should have the flexibility to issue additional guidance material especially, as was the case with the recent Bulletin on going concern, to address an urgent issue. This will be discussed with EC staff in a forthcoming meeting and with a UK stakeholder group on 26 August.

The Chairman noted that actions APB took in relation to the Clarity ISAs (UK and Ireland), that it was intending to apply for accounting periods ending on or after 15 December 2010, could impact the debate with the EC. He encouraged the Board to

consider carefully whether the small number of additional requirements relating to audit quality need to be retained for, what is expected to be, a short period up until the ISAs are adopted in the EU. He also expressed the view that once the ISAs had been adopted by the EC it would be clearer if the additional regulatory requirements were moved to separate standards – this would also mean that the standards would be easier to maintain for changes to law in the UK or Ireland.

The Board was briefed on responses that had been received on the exposure draft of the Clarity ISAs (UK and Ireland) issued in April 2009. For a variety of reasons the majority of commentators had encouraged the Board not to perpetuate the small number of additional requirements relating to audit quality. Many of these commentators took the view that these particular requirements were not absolutely essential for the performance of a high quality audit. The Board discussed this issue and concluded that while, in principle, it should retain the ability to add requirements to the ISAs until this was prohibited by EU law, in the case of these particular matters the behaviour that APB was seeking to achieve could be achieved by issuing supplemental application material rather than having additional requirements.

5. Ethical Standards

The Chairman provided a status report on the planned consultation on the prohibition of non-audit services. He reported that the Ethics sub-committee had discussed a number of issues and that the Board would consider a draft consultation at its 17 September meeting.

The Ethics sub-committee had also discussed what action should be taken, at this stage, in relation to the proposed changes to the Ethical Standards (ESs) that had been exposed in March 2009. Their view was that, other than in relation to the rotation of the audit engagement partner, it was preferable to await the outcome on non-audit services before progressing with other changes to the ESs.

In relation to the rotation of the audit engagement partner the sub-committee's view was that it was desirable to change ES3 at this stage as:

- Discussion on this topic has been going on for over two years and views remain largely unchanged. There was likely to be little value in delaying a decision further in order to continue these discussions.
- Some audit committee chairmen have already asked what the likely outcome will be. Clarity is needed as soon as possible in order that decisions can be taken on individual partner rotation questions.
- Any input to the work on the Combined Code needs to be given to the FRC now in order that this can be incorporated into proposals for amendment which will be developed in the early autumn.

The APB supported the views of the Ethics sub-committee on these matters and debated the nature of the changes to be made to ES3 in the light of the responses received from commentators.

It was clear from the responses from investors that they saw the extension from five to seven years as being something that occurred only in exceptional circumstances. Responses to the consultation raised doubts about the practicality of applying the

condition of ‘large and either complex or diverse’ as set out in the exposure draft. Furthermore there was uncertainty about the criteria to be applied by audit committees to help them make the decision as to what was exceptional.

Board members took the view that the right course of action was to emphasise that the extension should only be granted:

- If it was necessary to ensure audit quality, and
- There would be clear disclosure in annual reports of the reasoning applied by the audit committee.

The sub-committee will be invited to consider changes to ES3 reflecting these thoughts for further consideration at the next APB meeting. The Chairman also noted that he would encourage the AIU to give careful consideration to the way that listed companies apply the new provisions and thought would need to be given to how they would apply in the public sector.

The Board also discussed a response to the IESBA on its future work programme. It was agreed that IESBA should, as a priority, explore with regulators what changes need to be made to the IFAC Code to make it acceptable to them for the Code to become part of the national regulatory framework for auditors.

6. Charities – Audit Report Bulletin

The draft Bulletin was discussed and approved for issuance. A letter to the Scottish Government on the desirability of a change to the legislation regarding Trustee Annual Reports was also approved.

7. Complex Financial Instruments – PN 23

Mr J Hughes provided an update on the work being undertaken to respond to the comments received on the exposure draft that had been issued in December 2008. He explained that while there had been broad support for the document there had been requests for the guidance to be expanded in certain areas.

The Board agreed that there was merit in issuing updated guidance and agreed that its status should be described as ‘interim’. This would allow for the guidance to be updated for the Clarity ISAs (UK and Ireland) and for the changes to international accounting standards that are currently being debated to be finalised.

The Board encouraged the working party to explore the feasibility of expanding the guidance in relation to obtaining audit evidence to support the consistency of fair values and the disclosures related to them.

8. Small audit documentation – PN26

The draft Practice Note was discussed and approved for issuance as an exposure draft.

9. Pensions – Irish PN 15

Mr N Walsh joined the meeting by conference call and explained the nature of the differences of the Irish Practice Note from the equivalent UK guidance and the process by which it had been prepared. The Board expressed its gratitude to the Irish working party and approved the Practice Note for issuance as an exposure draft.

10. FRC Exposure Draft for directors on going concern and liquidity risk

Mr S Leonard updated the Board on the FRC's publication for directors and it was agreed that the APB had no issues that it wished to convey to the FRC. It was agreed that a working party would discuss the auditor's role, under the Listing Rules, in relation to reviewing whether the directors had applied the guidance and would report back to the APB at its October meeting.

11. Next meeting

It was noted that the next meeting of the Board will be held on Thursday 17th September.