

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND

TIME: Tuesday 29th November 2011

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

PRESENT:

Members

J Adam	I Pickering
R Fleck (Chairman)	R Sriskandan
R Frith	D Thomas
M Grabowski (Executive director)	S Turley
J Hughes	M Ward
P Lee	A Wilson
R Nolan	

Observers R Rottenberg (UK, Department for Business, Innovation and Skills)
Ms P Sucher (Financial Services Authority)

In attendance Ms K Cearns S Haddrill (for agenda item 1)

Staff K Billing Mrs H O'Sullivan
J Grant S Leonard

ABSENT:

Members

Ms A Coates R Talbut

Observers I Drennan (Irish Auditing and Accounting Supervisory Authority)

1. Introduction

Mr Grabowski reported that the Sharman Inquiry Preliminary Report had been published. It was agreed that APB would discuss the potential implications for ISAs (UK and Ireland) at the meeting in January.

In relation to international matters:

- Mr Nolan highlighted that regulators attending the Irish Consultative Committee meeting had found the explanation of the FRC Reform proposals helpful and were interested to discuss further how Ireland would be connected into the FRC under the Reform proposals.
- Mr Fleck provided an update on discussions about the role of IESBA.
- It was agreed that a summary of European proposals for changes in relation to the conduct of audit would be provided to Board members following its publication. The need for a specific meeting to discuss this topic in January would be reviewed.

Mr Wilson described two research projects that are about to be launched by the Institute of Chartered Accountants of Scotland Research Centre, which will be looking at what primary sources of information are used by investors and the skills that will be needed to undertake an audit of a large, complex, multinational entity and how these might be sourced in the future. It was noted that the second of these projects will be chaired by Mr Fleck and is expected to provide useful output relevant to APB/POB's work on auditor scepticism and audit quality.

Mr Haddrill outlined where the process of FRC Reform had reached, emphasising that the consultation is still open and further input is expected to shape the structure of the FRC in the future. Discussion points included:

- Whether appointments to the FRC Board would be self-perpetuating.
- Whether the FRC should maintain its wide scope, rather than narrowing to focus more on capital markets.
- The role of Advisory Councils in enabling Board Committees to maintain their credibility in spite of dealing with a wide range of issues.
- Culture changes needed as part of the process.
- Whether processes elsewhere in the regulatory structure might cover discipline for finance directors who are not members of the professional accountancy bodies.

2. Minutes of previous meeting

The minutes of the meeting held on 14th October were approved. It was agreed that finalisation of amendments to the ESs could be approved by the Chairman and Executive Director in December, assuming that commentators were in agreement with the proposals.

3. PN 22: The Auditor's Consideration of FRS 17 'Retirement Benefits' – Defined Benefit Schemes: agreement of scope for revision project

Mr Billing reminded the Board that it had been agreed that the update of this Practice Note would wait until IAS 19 had been revised. It was agreed that this work would now go ahead. Specific references to accounting standards would be removed wherever possible in order that a further update would not be needed at the time when

FRS 17 is superseded by the proposed new 'UK GAAP' standard. Board members suggested other issues to address in the update including:

- Going concern;
- Treatment of expenses;
- Approaches to the consideration of net numbers.

4. Revising ISA (UK and Ireland) 700 for application in Ireland

Mr Leonard reported on the approach being taken to enable the version of ISA (UK and Ireland) 700 effective in the UK to also apply in the Republic of Ireland. The proposed approach is predicated on accomplishing this outcome without changing the requirements of ISA (UK and Ireland) 700. It was noted that achieving this outcome would be dependent on the quality of drafting in any explanatory material that is added. It was agreed that further discussion of this approach should take place with Chartered Accountants Ireland. It was further agreed that amendments to ISA (UK and Ireland) 705 identified by the Board's Technical Advisory Group would be proposed at the same time. Whether amendments in relation to Effective Company Stewardship could also be dealt with concurrently would depend on progress made on this project in the next couple of months.

5. IAASB agenda for December meeting

Mr Grabowski outlined the approach that had been taken to the provision of information on the IAASB's agenda and sought views on the extent to which detailed papers should be circulated in future. It was agreed that only links to the relevant IAASB papers are needed in board papers, except where a comment letter is being drafted. It was agreed that the APB's due process in relation to the promulgation of finalised IAASB standards should be discussed further in early 2012.

Revisions to ISA 610 are due to be finalised at the December meeting and would permit direct assistance for the first time, with certain restrictions. It was noted that the draft standard was currently unclear on whether direct assistance is possible in a component audit where national law imposes a prohibition on such assistance at the group level.

In relation to the revision of ISA 720 Board members noted Mr Grabowski's concerns that there were lost opportunities as a result of the Task Force's current approach to accompanying documents and to reconciling financial data with other information sources. In addition to the focus on financial data, it was important to focus the requirements on ensuring that the more qualitative aspects of narrative information, including the key messages, are consistent with the auditor's understanding.

6. IAASB Audit Quality: update on project

Mr Grant explained why the Task Force is recommending to IAASB that the drivers of audit quality should be classified between three levels: the audit engagement, the firm and the country. In discussion on audit quality at the level of the audit engagement, the following points were raised:

- It might be helpful to define "in the wider public interest" so as not to widen the audit expectation gap.
- Knowledge currently focusses on the business of the audited entity, but this could be extended to what is going on in the macro-economic environment.

- At the level of the individual audit engagement, an important output is appropriate financial statements, rather than the current focus which is on the reliability and usefulness of audit reporting.
- Audit reporting provides confidence in entity reporting, rather than affecting user decision-making.
- Suggesting that the auditor is accessible to management is too one-sided and may give an inappropriate impression.
- Reporting to regulators and the interaction with audit inspectors could be added at the audit engagement level.

7. Review of APB's extant Bulletins

The Board concurred with the recommendation of the Technical Advisory Group (which was supported by the staff) that an update of Bulletin 2010/2, the Compendium of Audit Reports, is not necessary at this time. However, it was agreed that the need for updating should continue to be reviewed on an annual basis.

The Board concurred with the recommendation of the Technical Advisory Group that the definitive text of APB documents should be that maintained on its web-site rather than the published hard copy. The benefit of making this change would be to enable routine updating of APB documents to be undertaken by staff without the need for a consultation process. In agreeing to this change the Board noted that previous versions should be maintained on the web-site, together with a record of changes made. In addition, when changes were made to the versions on the web-site a Press Notice should be issued to alert users of APB documents.

Staff had recommended the withdrawal of six Bulletins and this was approved.

The Board discussed whether Bulletin 2005/3 on first time implementation of IFRSs is still relevant. It was noted that it was relevant to new listings, to other companies choosing to adopt such standards for the first time and for companies adopting the FRSME. It was agreed that a review of the current Bulletin would be undertaken to assess the extent to which the material may need to be updated.

It was agreed that a programme for the update of the remaining Bulletins would be brought to the January meeting.

8. Work programme

It was agreed that an update on auditor scepticism and non-audit services would be provided at the January meeting. On Practice Notes it was agreed that:

- PN14 would be amended with approval of an exposure draft targeted for mid to late 2012.
- An update on the approach to take to PN21 would be given at the January meeting in the light of a review of current proposed changes to the European Directives and FSA Rules associated with investment businesses.
- A detailed comparison of PN23 with IAPN 1000 would be presented to the January meeting when there will be further discussion of how to give any document promulgated in the UK appropriate status.

9. Next meeting

The next meeting of the Board will be held on Thursday 26th January 2012 at the offices of Herbert Smith.