

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Thursday 3rd March 2011

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

PRESENT:

Members

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

Observers

D Tyrrall (UK, Department for Business, Innovation and Skills)
R Thorpe (Financial Services Authority)

In attendance

Ms K Cearns	A Harkness (for agenda item 4)
S Haddrill	O Holt (for agenda item 5)

Staff

K Billing	S Leonard
J Grant	Mrs H O'Sullivan

ABSENT:

Members

Ms A Coates	M Ward
D Thomas	

Observers

I Drennan (Irish Auditing and Accounting Supervisory Authority)

1. Introduction

Mr Grabowski reported that the FRC would be setting up an inquiry into going concern assessments which will look at recent experience of the application of standards and guidance by both companies and auditors.

The Chairman reported that the recent EC Conference on Auditing had made it clear that some action would be taken, but it was not clear exactly which areas EU reforms would cover.

Mr Grabowski confirmed that an awayday might be held later in the year if Board members thought it would be worthwhile. Board members expressed a desire to continue with the practice of having such an event annually as it provided a good opportunity to take a step back from the detail of the APB's agenda. It was agreed that an event should be planned for September/October.

Mr Lee indicated that he would send an e-mail to all board members later in the day soliciting their feedback on the effectiveness of the Board. The results from this exercise would be collated into a report to the FRC at the end of the month.

Mrs O'Sullivan reported that a few amendments had been made to Practice Note 15 on Occupational Pension Schemes following comments from board members on the draft circulated for the January board meeting. No amendments had been made to Practice Notes 16 and 25 on bank reports and stocktaking following the board meeting. All these documents have now been published.

The Chairman noted that guidance for directors on adequate accounting records had recently been issued by the ICAEW. It was agreed that nothing further was needed for auditors in this regard.

The Chairman reminded Board members of their decision at the previous meeting that the 2004 (i.e. the unclarified) version of ISA (UK and Ireland) 700 should continue to apply in Ireland as changes to Irish company law that will affect the auditor's report have not yet been finalised. Some stakeholders had subsequently queried the rationale for this decision. It was agreed that discussions on this subject should be continued so as to clarify how long it may take before such changes are enacted and when it might be appropriate to apply the clarified version of ISA (UK and Ireland) 700 in Ireland.

Related to this the Chairman noted that there had been discussions in Ireland regarding the future modus operandi of the Board with respect to Irish matters. The consensus emerging is that APB should establish an Irish Sub-committee supported by both the APB staff and dedicated staff resource based in Ireland. The Chairman indicated that any definite proposals would be brought to the Board for approval.

2. Minutes of previous meeting

The minutes of the meeting held on 19th January were approved.

3. Auditor scepticism

The Chairman introduced a draft feedback paper on auditor scepticism for discussion. He explained that the feedback paper would be published alongside the joint

FSA/FRC Feedback Statement on the joint Discussion Paper, DP10/03 'Enhancing the auditor's contribution to prudential regulation' issued last year. In discussion the following points were made by board members:

- More emphasis should be given to the external evidence from the AIU and the FSA regarding concerns that insufficient scepticism is demonstrated in practice.
- More emphasis needs to be given to ensuring that scepticism is properly focused through a good business understanding and a thorough risk analysis.
- An additional point should be added to the Feedback Statement on reviewing the effectiveness of reviews of audit staff.
- If the intention is that audit committees should ensure an appropriate amount of scepticism is applied by auditors then audit committees will need guidance on what auditor scepticism means, what an adequate or appropriate level of scepticism is and what procedures audit committees would need to carry out to satisfy themselves that an adequate or appropriate level of scepticism had been applied.
- Some of the transparency that will help in demonstrating a sceptical approach to audits may come through action taken by the FRC in response to the 'Effective Company Stewardship' discussion paper (e.g. in connection with guidance for audit committees). This Feedback Statement should make a stronger link back to this work.
- Further guidance may be needed on the approach the auditor should take when considering whether the disclosures in the financial statements about matters that have been subject to significant challenge by the auditor as a result of a sceptical mindset are appropriate in the context of whether those financial statements give a true and fair view. However, it was recognised that this issue may also touch on accounting standards and the APB would therefore need to work with other parts of the FRC in relation to the development of any such guidance.
- The Feedback Statement should emphasise that the actions arising from this work do not only come about as a response to the financial crisis, but are broader and will be more generally relevant to the conduct of an audit. It was also thought that these actions may be relevant in countries other than the UK and the work may therefore be of interest internationally.

It was agreed that a further draft of the Feedback Statement would be circulated to the Board before finalisation.

4. Practice Note 10 (I) – Public Sector Audits in Ireland

Mr Harkness explained that the Practice Note had been developed by taking the UK version and replacing paragraphs relevant to UK legislation with Irish material. As there are less public sector audit agencies in Ireland, this results in simpler guidance. In addition he noted that the Office of the Comptroller and Auditor General also wanted public sector auditors in Ireland to follow the Clarified ISA (UK and Ireland) 700 on the auditor's report. It was agreed that, subject to inserting a new paragraph to make it clear that a different approach was being taken to audit reporting by private sector entities in the Republic of Ireland, the Practice Note could be published as an exposure draft.

5. Bulletin on Irish Corporate Governance matters

Mr Holt explained that the proposed Bulletin is equivalent to the UK Bulletin 2009/4. Separate guidance is needed for Irish auditors as legislation in Ireland implementing the EU Directive on corporate governance statements has not been enacted in the same way as the equivalent legislation in the UK. The principal difference is that in Ireland the auditor has a responsibility to report explicitly on the consistency of the Corporate Governance Statement with the group financial statements even if the corporate governance statement forms part of the Directors' Report. In the UK there is no effect on the auditor's report if the corporate governance statement forms part of the Directors' Report. The Bulletin was approved by the Board for publication.

The Board also discussed whether it should be providing guidance for auditors when reviewing statements made by directors in respect of the two provisions of the Irish Corporate Governance Annex, specified for their review by the Irish Stock Exchange Listing Rules. A number of options regarding the development of guidance were discussed. It was agreed that APB would consider developing such guidance provided that the Irish sub-committee structure, described by the Chairman in his introductory remarks, is put in place to oversee this work. It was also noted that the subject matter of those two provisions was such that this work could be relevant at some future time in the UK.

6. Practice Note 19 - "The audit of banks and building societies in the UK" – approval of revised Practice Note

Mr Billing reported that most of the comments made by respondents to the consultation had been implemented. He outlined three issues associated with the example reports that were included in the Practice Note. It was agreed that the example reports should remain as they were presented in the exposure draft as they remain appropriate and/or the FSA is satisfied that reporting should continue in line with current practice.

7. PN 11 – "The audit of Charities in the UK" – approval of revised Practice Note

Mrs O'Sullivan outlined the main points that had arisen as a result of the consultation on the exposure draft of the revised Practice Note. The problem arising in a charity where legacy income is accrued, but then is not paid was recognised. It was noted that the treatment set out in the Practice Note was in line with current accounting practice and was unchanged from the previous version of the Practice Note. The approach is likely to be revisited when an accounting standard for public benefit entities is developed by the ASB. On that basis the Practice Note was approved for publication.

8. SIR 2000 – "Investment Reporting Standards applicable to Public Reporting Engagements on Historic Financial Information" - approval of revised SIR

Mr Leonard commented on the draft revised SIR that the Board's Investment Circulars Sub-committee recommended the Board to approve. The principal purpose of the revision had been to conform the SIR with the requirements of (and terminology used in) the clarified ISAs. He also described the other changes which involved the deletion of what is Appendix 1 in the extant SIR and clarification of the wording of the accountant's report. Most respondents to the consultation had agreed with the proposed changes and the SIR was approved for publication.

One respondent had expressed the view that a more thorough review of SIR 2000 and its Annexure was needed. It was agreed that APB would wait for other changes to be necessary before undertaking such a project. It was also agreed that it would be helpful to have dialogue with the successor to the FSA on whether the authority of SIR 2000 could be formalised in the UKLA's Rules.

9. March IAASB agenda

Mr Grant summarised the approach being taken by IAASB working parties in respect of two projects that might touch on similar areas to current projects in the UK:

- **Other information.** ISA 720 is currently being revised to make it more rigorous. However, as currently envisaged, this would be based on the knowledge the auditor develops based on the current scope of the audit. The auditor would not be expected to conclude whether the other information is 'fair and reasonable' but would read and consider the other information in light of knowledge gained from the audit and undertake additional procedures only where an issue is identified. Although the FRC's paper 'Effective Company Stewardship' on related auditor reporting is different, Board members were supportive of the general direction of the proposals to make ISA 720 more rigorous.
- **Auditor reporting.** Mr Grant explained that stakeholders in other countries were also reporting some unrest with the current binary audit report and asking for more information to be included. IAASB is planning to issue a Discussion Paper and was striving to achieve a balance between outlining options on a neutral basis and offering specific suggestions about how auditor reporting could be improved. The Board noted this development and observed that it might be difficult to produce an international solution to this problem. It was suggested that an important issue for IAASB was to establish the extent to which there was international consensus on the nature and extent of the issues from investors' perspectives.

10. Any other business

Ms Cearns highlighted a forthcoming Government consultation on carbon reporting which is likely to include a question as to whether assurance should be provided on such disclosures. It was agreed that this would be a subject for discussion by APB when it is issued.

11. Next meeting

The next meeting of the Board will be held on Wednesday 20th April.