

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 30th June 2009 at 9.30am

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

PRESENT:

Members	Ms A Coates	I Pickering
	R Fleck (Chairman)	G Pimlott
	R Frith	M Powell
	J Grant (Executive director)	D Thomas
	J Hughes	T Troubridge
	P Lee	S Turley
	R Nolan	M Ward
Observers	J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)	
	R Thorpe (Financial Services Authority)	
In attendance	Ms K Cearns	
Staff	K Billing	Mrs H O'Sullivan

ABSENT:

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

1. Introduction

Recent publication

Mr Jon Grant noted that the EC had recently issued a consultation paper on the adoption of ISAs within Europe. A draft APB response will be tabled for discussion at the next meeting in July.

June IAASB meeting

Mr Grant explained that the recent IAASB meeting had been mostly concerned with standards on other assurance services. In his view it will be important for the APB to develop its own view on the issues associated with these standards and to work together with the accounting profession and other stakeholders in the UK to ensure that an appropriate standards are applied on such engagements. The most advanced project relates to ISAE 3402 which addresses reporting on controls in service organisations. It was agreed that Board members would be invited to a meeting, which is to include representatives of service organisations and users, in early September.

Ethics

The Chairman reported that the Revised IFAC Code of Ethics for Professional Accountants would be issued shortly following its recent approval by PIOB. He also noted that he and Mr Grant had recently met with officials from the SEC and the PCAOB to discuss differences between APB and US ethical standards.

Other matters

The Chairman noted that Mr John Kellas, a previous member of the APB and Chair of the IAASB, had been awarded a CBE in the Queen's Birthday Honours list. It was agreed that a formal note of congratulation from the Board would be sent.

Mr Jon Grant reported that Practice Note 12 on Money Laundering had recently been approved by HM Treasury. The interim version will therefore be converted to a final version, noting that this approval has been received.

2. Minutes of previous meeting

It was noted that the minutes of the meeting held on 15 April had been approved following circulation to Board members.

3. FRC matters

Code of Conduct for members of FRC Operating Bodies

The FRC's Code of Conduct was discussed. It was agreed that under the section on confidentiality within the Code, APB members would be able to consult with technical experts within their organisations on the issues and proposals for discussion at APB meetings. It was also agreed that points of detail under the section on Conflicts of Interest would need to be clarified before applying the Code to APB members.

Transparency of the FRC's standard setting bodies

The Board discussed the advantages and disadvantages of holding public meetings and publishing Board papers. Views expressed will be communicated to the FRC Board who would determine the way forward.

Board Evaluation procedures

It was agreed that the type of performance evaluation procedures set out in the FRC paper were appropriate.

4. APB sub-committees

Mr Jon Grant outlined the need for a standing sub-committee to deal with ethics related issues and for membership of other sub-committees to be revised to accommodate rotation. It was suggested that an investor representative be added to the Ethics sub-committee and that consideration of APB Ethical Standards be added to the SME Audit sub-committee objectives. Subject to this the proposals were agreed by the Board.

5. APB Work plan 2009/10

The Chairman emphasised that the updated work plan was a working document that is likely to change as the year progresses. No comments were made on the version that had been circulated.

6. Consultation on the provision of non-audit services by audit firms

Non-audit services

The Chairman outlined the recommendation made by the Treasury Select Committee (TSC) for the FRC to consult on a prohibition on audit firms conducting non-audit work for the same company. The FRC had decided that it would be appropriate for the APB to be the body to deal with this issue and a draft consultation paper had been prepared as a 'straw-man' to generate discussion at this meeting.

Points made in discussion included:

- Some Board members felt that the consultation needed to be seen as addressing the issues from a fresh perspective, others thought that it was important that the issues be explored in the context of APB's previous conclusions especially as these had been consulted upon.
- The disclosures of non-audit services in financial statements are inconsistent and do not generally provide information of value to investors.
- More information is needed on how companies purchase non-audit services including the role of the audit committee in the pre-approval of non-audit services.
- It will be important to gain input from the investor community and other stakeholders, such as employee organisations, for this consultation. A number of public meetings on the subject should be held during the consultation period so as to ensure that input from a broad constituency is obtained.

It was unclear as to whether the TSC's concern related to only financial institutions, only listed companies, or to all companies. It was agreed that further clarification of the scope of their recommendation might be sought before the next discussion at the Board's meeting in July.

Other matters relating to Ethical Standards

The current consultation on the Ethical Standards for Auditors has recently closed. The issues will be discussed at a forthcoming Ethics sub-committee meeting and a paper brought to the July Board meeting with a recommendation on whether these issues should be finalised now, or whether any amendments to the Ethical Standards should be combined with any amendments arising from the consultation on the provision of non-audit services.

7. APB input to review of the Combined Code on Corporate Governance

The Chairman reported that the FRC is reviewing the Combined Code alongside the Walker review on corporate governance in banks. Many of the points raised to date are at a higher level than the points raised in the paper tabled at this meeting. It was agreed that the following points would be raised with the Committee on Corporate Governance:

- Investors are looking for more information on the processes followed by audit committees. Whilst this might not provide new information, its absence can lead to doubt as to the rigour of an audit committee's process and the discipline of having to disclose such information might improve the processes in some organisations.
- A reference to the FRC document on the Drivers of Audit Quality might be included in the provisions on how audit committees undertake their annual assessment of the effectiveness of the external auditor.
- Points which will be dependent on other consultation processes:
 - Whether audit committees should be required to pre-approve the provision of non-audit services by the audit firm (linked with the consultation on non-audit services).
 - Whether disclosure of an extension to the normal rotation period for the audit engagement partner should be required (linked to APB's recent consultation).

8. Communicating the changes in the Clarity ISAs

At the March APB meeting it was agreed that there would be an update to Practice Note 26. An exposure draft of this document will be brought to the July meeting for approval so that it can be finalised and issued with the new standards in the autumn.

It was also agreed that further consideration should be given to how best to communicate the main changes in the standards. Two illustrative versions had been developed and discussed with both the APB SME Audit sub-committee and some of the accountancy bodies who both recommended that any document be kept as short as possible. It was agreed that the shorter version presented in the papers would be used as a template, but that some further detail on the reasons for changes being made in the standards would be added. This would be published at the same time as the Clarity ISAs as an introduction to the book of the new standards. It will be important that it is made clear that this is a statement of the main changes made to the standards and not a complete list of all changes not a set of requirements arising out of their implementation.

9. Role of bank auditors in credit crisis

It was agreed that this topic would be covered at a separate meeting which has been arranged for 9 July.

10. Next meeting

It was noted that the next meeting of the Board will be held on Wednesday 29th July.