

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 10 October 2006 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

Members	R Fleck (Chairman)	M Powell
	J Grant (Executive director)	W Rainey
	L Hughes	D Thomas
	K Nicholson	M Ward
	R Nolan	

Observers J Bellingham (UK Department of Trade and Industry)
Ms P Sucher (Financial Services Authority)

In attendance D Brewin (for item 3) J Hitchins (for item 3)

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

ABSENT:

Members	A Chambers	T Troubridge
	G Pimlott	S Turley

Observers I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)

D Loweth (ASB)

1. Introduction

Publications

Mr Jon Grant noted the recent publication of Bulletin 2006/6 on auditor's reports.

ISA 700

Mr Grant noted recent discussions at the Audit Quality Forum. The AQF's audit report working party is likely to encourage the Board to consider requiring more discursive reporting, possibly based on the new French approach. Board members commented on the importance of retaining the distinction between directors making those disclosures that help investors understand the financial statements and future developments and auditors auditing those disclosures. Recent developments in accounting standards provide an improved basis for such disclosures and the intention was that these would be supplemented in the Operating and Financial Review (OFR). There was discussion as to the extent that the Enhanced Business Review fulfilled the objectives of the OFR. It was suggested that the APB and the ASB staff should consider this and monitor the extent to which informative disclosures are made. It was noted that there would be a discussion on audit related research at the forthcoming APB Awayday.

SME Sub-committee

Mr Grant reported that the SME audit sub-committee had initially been established for a twelve month period about a year ago. The sub-committee had recently discussed how to move forward. It was pleased with the contributions that it had been able to make to the work of APB and it had been agreed that the sub-committee would continue for at least a further two years. It is expected that a majority of members would be prepared to serve on the sub-committee for a further two years.

2. Minutes of previous meeting

The minutes of the meeting held on 26 September were approved. The Chairman noted that there had been correspondence on the wording of one paragraph in the final version of the Ethical Standard for Reporting Accountants. The matter related to form rather than substance. A suggested final wording of that paragraph was circulated and agreed.

3. Practice Note 19

Mr John Hitchins introduced the final draft of a revision of PN 19: The audit of banks and building societies in the United Kingdom. He noted that four letters of comments had been received during the recent consultation period, all of which were broadly supportive of the draft. A number of changes had been made since the Board last reviewed the draft PN, in particular the addition of a new section of guidance on the review of interim net profits.

Board members discussed the guidance in the section on ISA (UK and Ireland) 505: External confirmations, and suggested drafting amendments. The difficulties involved in auditors obtaining confirmation of balances in certain circumstances were discussed more widely, and it was agreed that these would be further considered when the Board discussed the revised version of ISA 550 that the IAASB was working on.

As certain references to the updated FSA Handbook were still awaiting confirmation and a comparison exercise between the final versions of the revised banks and insurance Practice Notes had not yet been undertaken it was agreed that approval of the draft PN 19 would be deferred until the Board's meeting in November. The Chairman noted how grateful the Board was for the significant contribution made by audit practitioners to the maintenance of the APB's Practice Notes, and thanked Mr Hitchins and Mr David Brewin for their assistance in finalising the revision of PN 19.

4. ISRE 2410

Mr Grant introduced a discussion of issues arising in connection with the proposed adoption into the UK of ISRE 2410: Review of interim financial information performed by the independent auditor of the entity. The Board had discussed the possible adoption of the ISRE earlier in the year, but had decided not to issue an exposure draft until the FSA had finalised revisions to the Listing Rules to implement the Transparency Directive. It was understood that the new FSA rules will take effect for financial reporting periods commencing on or after 20 January 2007.

Mr Grant noted that the Transparency Directive requires directors to state that in their opinion the interim financial information gives a true and fair view: The ISRE however prohibits the expression of a true and fair view opinion on condensed accounts. If the ISRE were to be issued in the UK without any amendment then issues might arise in relation to differences in the wording used by directors and auditors.

Board members considered that the form of the auditor's review opinion was dependent both on the FSA's requirements and on the provisions of the Transparency Directive, and that further discussions should be held with the FSA before the draft ISRE was progressed further. It was agreed that a meeting with the FSA should be arranged as a priority matter.

5. ISA 720

Mr Will Rainey introduced a discussion of the IAASB project to draft a 'clarified' version of ISA 720: Reading other information in documents containing audited financial statements. He noted that as the process of clarification progressed it was becoming apparent that the existing ISA has various inconsistencies which need addressing.

Board members discussed a number of issues in the draft ISA, including the significance of the date audit work is finalised compared with the date of the audit report, and whether the auditor's responsibilities in relation to inconsistencies in the other information were the same as apparent misstatements of fact. Mr Rainey indicated that the Board's views would be taken into account when the clarified ISA was next discussed by the IAASB.

6. ISA 580

Mr Keith Billing introduced a discussion of the latest draft of ISA 580: Written representations, that was to be discussed at the forthcoming IAASB meeting. Board members discussed in particular the proposition in the ISA that general representations are audit evidence and the absence of them would lead to a disclaimed opinion. The Board suggested that the IAASB should be asked to include a specific question in the exposure draft on this issue.

7. Practice Note 16

Mr Grant introduced a proposed interim revision of PN 16: Bank reports for audit purposes. He noted that this had been issued as a consultation draft a year ago, but further discussions were now taking place between the audit profession and the BBA with a view to amending further the process for obtaining bank confirmation letters. As a further revised draft of PN 16 might not be available for some months, it was thought beneficial for the APB's guidance for the forthcoming year end to be clarified. It was therefore proposed that the existing version of PN 16 should be withdrawn and that last year's revision should now be issued as interim guidance. The Board approved of this proposal.

8. Audit Quality

The Chairman introduced the latest draft of the consultation paper: Promoting Audit Quality, which had been further developed following comments made at the last Board meeting. Board members made only a small number of further comments: one area where more emphasis should be given was thought to be the effect on audit quality of the recent introduction of accounting standards requiring fair values.

The Chairman noted that further meetings would be held within the FRC before the consultation paper was finalised and issued. During the consultation period it would be important that all significant stakeholders, particularly the investor community, considered the paper and made comments.

9. FRC strategic outcomes

The Board discussed briefly a draft document entitled FRC Strategic Framework, which sets out a hierarchy of strategic outcomes, supporting outcomes and components. A number of comments were made on it. The intention is that a final version of the Framework would be included in the FRC Regulatory Strategy document due to be published in January 2007.

10. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 28 November. The APB planning awayday is scheduled for 3 November.

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