

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Friday 15 December 2006 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

Members	R Fleck (Chairman)	G Pimlott
	J Grant (Executive director)	M Powell
	A Chambers	W Rainey
	L Hughes	D Thomas
	K Nicholson	S Turley
	R Nolan	M Ward

Observers R Thorpe (Financial Services Authority)
D Loweth (ASB)

In attendance Ms K Cearns R Gillin (for item 7)
R Tidbury (for item 5)

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

ABSENT:

Member T Troubridge

Observers J Bellingham (UK Department of Trade
and Industry)
I Drennan (Republic of Ireland Auditing and
Accounting Supervisory Authority)

1. Introduction

Publications

Mr Jon Grant noted the recent publication of the FRC Discussion Paper: Promoting Audit Quality.

8th Directive

Mr Grant reported briefly on a recent meeting with staff of the DTI to discuss the implementation of the Statutory Audit Directive in the United Kingdom. He noted the difficulties that may arise from the current intention to transpose material on auditor ethics from the Statutory Audit Directive in a schedule to the Companies Act.

IAASB

Mr Will Rainey reported on the IAASB meeting held the previous week in London, noting in particular the approval of:

- ISA 580 – written representations
- ISA 540 – accounting estimates (including fair values)
- ISA 320 – audit documentation
- ISA 720 – other information
- ISA 560 – subsequent events
- ISA 610 – internal audit
- ISA 805 – summarised financial statements

Mr Rainey reported that he had voted against ISA 580 and ISA 805 and explained the reasons. Mr Grant drew attention to the concerns of some regulators about the status of objectives in the new ‘Clarity’ standards as finalised by the IAASB in its Preface.

Audit Quality

The Chairman reported on a recent meeting with the chairman of the Audit Quality Forum (AQF). At the meeting the APB’s concerns on the ICAEW’s Interim Technical Release AAF 03/06 were discussed as well as the future plans of the AQF. He noted that the AQF was in the final stages of developing a paper on auditor’s reports which proposed, inter alia, the inclusion of a narrative section setting out matters that auditors consider should be brought to the attention of investors. The Chairman observed that he was not personally in favour of such a proposal and would be expressing these views at the AQF meeting on 18 January. Board members were invited to send their views on the matter to APB staff for onward transmittal to Mr Fleck in advance of the AQF meeting.

2. Minutes of previous meeting

It was noted that the minutes of the meeting held on 28 November had been approved following circulation to Board members.

3. SME audit documentation

Mrs Hazel O’Sullivan introduced a revised draft of a new Practice Note entitled: “Guidance on smaller entity audit documentation”, together with a consultation paper, indicating the changes made since the Board reviewed the draft at its previous meeting.

Certain Board members again expressed concern over the issuance of a draft Practice Note including illustrative examples of working papers on the basis that it was not the APB's role to provide training material. The alternative view was expressed, however, that there was a clear need for some body to provide guidance for practitioners in this area following the implementation of ISAs (UK and Ireland), and APB was best placed to do so.

Following discussion it was agreed that there should be a more specific question in the consultation paper regarding responsibilities for issuing training-type material and that the draft should be issued as draft 'guidance' rather than as a consultation draft of a Practice Note. When it was issued the Chairman would also write to the accountancy bodies to stimulate a discussion concerning the provision of training on ISAs. It was noted that this would be a much bigger issue in the future as the EU moved to the adoption of the new clarified and revised ISAs. On this basis the document was approved subject to clearance of the final amendments by the Chairman and Mr Grant.

4. ISRE (UK and Ireland) 2410

Mr Keith Billing introduced a proposed exposure draft of ISRE (UK and Ireland) 2410: "Review of interim financial information performed by the independent auditor of the entity". Mr Billing drew the Board's attention to a number of issues that had been considered whilst finalising the draft, including:

- that under the FSA's revised rules for listed companies, directors will not need explicitly to state that the condensed interim financial statements give a true and fair view providing they are stated to have been prepared in accordance with IAS 34 or pronouncements on interim reporting issued by the ASB and are not misleading,
- the timing of relevant legislation in the Republic of Ireland,
- the adoption of the ISRE (UK and Ireland) not altering the voluntary status of interim reviews, and
- the addition of APB 'Pluses' to include relevant guidance currently in Bulletin 1999/4.

Board members considered that the RIA section should be clearer that the impact on costs of performing interim reviews when compared with those currently incurred through following Bulletin 1999/4 was 5% at a maximum, in some cases it would be less.

As a related matter there was also discussion about the supplementary APB guidance relating to obtaining evidence that the interim financial information reconciles with the underlying financial records in group audit situations. It was agreed that a specific question should be directed towards obtaining views on APB's interpretation of the requirements in the original ISRE. On this basis the document was approved subject to clearance of the final amendments by the Chairman and Mr Grant.

5. PN 24

Mr Grant introduced a proposed revision of PN 24: "The audit of friendly societies in the United Kingdom". He indicated that the draft revision had been closely conformed

with the revision of PN 20: The audit of insurers where appropriate, but more introductory guidance had been included due to the relatively complicated regulatory environment for friendly societies. The Board approved the revision for issue as 'near-final' guidance before the end of 2006, with the final version being issued in early 2007 once references to the FSA Handbook had been finalised. The Chairman thanked Mr Ray Tidbury for his assistance in preparing the revised PN.

6. ODCE Bulletin

Mr Ronan Nolan introduced a draft revision of Bulletin 2002/1: "The duty of auditors in the Republic of Ireland to report to the Director of Corporate Enforcement". He observed that relatively minor amendments to the current Bulletin had been made to reflect proposed changes in legislation. The intention was to finalise the Bulletin once the relevant legislation had been commenced.

Mr Nolan stated that the Director of Corporate Enforcement (ODCE) had approved these amendments. The Chairman noted the importance to the APB of the relevant regulator being closely involved in the development of guidance such as this.

Most of the discussion related to footnote 10 on page 25 (relating to the ODCE not opening up past cases). The view was expressed that the Bulletin may not be the best mechanism for the ODCE to 'indicate' its policy on a matter of this nature. It was agreed that this issue would be discussed with the ODCE. Board members approved the revised Bulletin for issue once the amending legislation has been commenced.

7. Other auditor's reports

Messrs Richard Gillin and Steven Leonard introduced, for approval, a draft Bulletin "Example reports by auditors under company legislation in Great Britain". The primary content of the Bulletin is a number of example auditor's reports updating those set out in Appendix 1 to Practice Note 8. These examples are intended for use prior to the implementation of the Companies Act 2006.

Mr Leonard noted that the Bulletin was intended to be an interim measure; Practice Note 8 is out of date and will be updated in the period between the issuance of the Bulletin and the coming into force of the Companies Act 2006. The Board approved the Bulletin for issue, and the Chairman thanked Mr Gillin and the ICAEW working party for their assistance in preparing it.

8. FEE sub-group

Professor Andrew Chambers introduced a brief discussion of the work of the FEE working party sub-group on assurance on corporate governance statements. The sub-group was intending to issue a questionnaire to interested parties shortly and subsequently a discussion paper, and in the meantime was carrying out a comparison exercise between corporate governance codes in various European countries.

Board members commented briefly on the proposals, in particular that the review should not focus solely on the work of external auditors, but on that of internal auditors and compliance departments as well. A theme of the APB's work on corporate governance over the years was that many companies questioned the cost

effectiveness of external audit work in this area. It was agreed that the Board should be kept informed of the sub-group's progress.

9. Any other business

Mr Keith Nicholson referred to a recent meeting with staff of the FSA to discuss the FSA's proposed review of the use of auditors during 2007.

The Chairman reported that he had requested Mr Lew Hughes to carry out a confidential survey of Board members' views on the operation of the APB. This would focus not on what topics to work on (this had been covered by the recent APB away day) but rather how the work was performed.

The Chairman also thanked Board members and APB staff for their hard work during 2006 and wished everyone a happy Christmas.

10. Next meeting

It was noted that the next meeting of the Board would be held on Wednesday 31 January 2007.

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