

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 18 September 2007 at 9.30am

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

PRESENT:

Members	R Fleck (Chairman)	G Pimlott
	J Grant (Executive director)	W Rainey
	A Chambers	D Thomas
	L Hughes	T Troubridge
	P Lee	M Ward
	K Nicholson	

Observers J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)
I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)
D Loweth (ASB)
R Thorpe (Financial Services Authority)

In attendance	Ms K Cearns	P George
----------------------	-------------	----------

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

ABSENT:

Members	R Nolan M Powell	S Turley
----------------	---------------------	----------

1. Introduction

The Chairman congratulated Mr Paul George on his appointment as the FRC's Director of Auditing.

Publications

Mr Jon Grant noted the publication of a consultation draft of a revision of PN 21 on the audit of investment businesses, and that the final version of PN 26 on smaller entity audit documentation would be issued shortly. He also highlighted the large number of ISA exposure drafts published recently by the IAASB.

Audit quality

The Chairman noted that a feedback paper on the consultation on the discussion paper Promoting Audit Quality was due to be published shortly by the FRC. There is one issue that needs to be finalised in relation to the experience, training and supervision of student accountants, which need to be considered in the context of IES 8. IES 8 is a recent IFAC recommendation that 'audit professionals' should have three years practical training and then two further years of supervised experience.

ISAs

Mr Grant noted that the EC has issued an invitation to tender for two research projects in relation to the adoption of ISAs in the EU. The first would consider the cost of implementation, and the second will compare ISAs with the standards applicable in the US. Mr Grant was participating in an FRC tender for the second project with the assistance of two prominent US academics.

Charities

Mr Grant reported that progress on developing a revision of PN 11 on the audit of charities had been slowed down by cross-border issues arising from recently-enacted charity legislation in Scotland. It was still hoped that a consultation draft of the revised Practice Note would be issued before the end of the year.

Training

The Chairman noted that a meeting was to be held between CCAB training providers and practitioners in early October to discuss training relating to changes in auditing standards. Whilst the APB is not responsible for the provision of training it had an interest in the subject, and therefore Mr Grant and Mr Martin Ward would attend the meeting.

2. Minutes of previous meeting

In connection with the minutes of the meeting held on 24 July, the Chairman noted a proposed extra sentence to be added to the section on the revision of PN 21. Subject to this addition, the minutes were approved. The issue concerned, namely the interaction between industry expertise and professional judgment, would be discussed further at the October APB meeting.

3. ISA 200

Mr Keith Billing introduced a proposed APB letter of comment to the IAASB on a clarity revision of ISA 200: Overall objective of the independent auditor.

Board members made a number of comments in connection with the draft letter and it was agreed that it should be recirculated to Board members for final comment before it was submitted to the IAASB. Particular issues included the wish for the definition of audit risk to be extended and for a better link to be established between the audit opinion and the requirements of national law.

4. Group audits

Mr Grant introduced a discussion of two significant matters relating to group audits:

- a proposed addition to ISA (UK and Ireland) 600: Using the work of another auditor to reflect legal requirements arising from the Statutory Audit Directive (SAD) in relation to statutory audits of consolidated accounts, and
- the action the APB should take regarding the recent finalisation by the IAASB of ISA 600.

Board members agreed that the current ISA (UK and Ireland) 600 should be amended to make it consistent with SAD by requiring there to be documentation of the group auditors' review of other auditors' working papers. It was agreed however that this would be done in a way that did not introduce a new term 'significant components'. An exposure draft of this would be issued in November.

A number of different options were discussed in the context of the finalisation of ISA 600. It was agreed that a consultation paper should be issued, to accompany the exposure draft of ISA (UK and Ireland) 600 amended for the SAD, which would explore the issues and request comments on the alternatives for the period prior to the implementation of ISA 600 by the IAASB.

5. Ethical Standards

Mrs Hazel O'Sullivan introduced a discussion of proposed amendments to the Ethical Standards (ESs). It was noted that the intention was that there should be an open question on whether the maximum period for the audit engagement partner on a listed company audit should be changed from 5 to 7 years. Other key issues discussed included the need to change the definition of the term 'key audit partner' to link to the SAD requirement, and the amendment to ES 2 concerning the circumstances where immediate family member financial interests are not prohibited. It was agreed that a phrase other than 'audit client' should be used to describe the entities being audited and that confidentiality should not be used as an excuse for failure of proper communication with shareholders.

Board members approved the revised draft ESs for issue as an exposure draft; a consultation paper to accompany the exposure draft would be drafted for consideration at the APB's October meeting.

6. Cost of audit

Mr Grant introduced a staff paper on the cost effectiveness of the current audit regime. When finalised, this was intended to be an input to a FRC consultation paper considering the cost effectiveness of all its activities. The APB agreed with the main thrust of the paper that given the complex interaction between the need for audit quality and the likelihood that international auditing standards would be adopted in the EU this was not a suitable time to change auditing standards. Rather opportunities for changes in the cost of audit should be explored in areas such as changes in the audit exemption threshold and improved training of auditors. Additional areas identified during the discussion included removing the audit requirement for subsidiaries in groups of companies, and improved co-ordination of changes to legislation and regulations in different parts of the UK.

It was also thought that the paper should refer to the influence that APB had on the IAASB and its efforts to encourage regulatory impact to be better considered in the international standard setting process.

It was agreed that a draft of the FRC consultation paper would be circulated to Board members in due course.

7. IAASB meeting

Mr Grant noted that management representations and communicating deficiencies in internal control would be discussed at the forthcoming meeting of the IAASB in Madrid. While he thought that the planned approach to dealing with deficiencies in internal control was generally satisfactory Mr Grant had more concerns with regard to ISA 580.

The Board discussed the latest draft of ISA 580. Members were pleased that some changes had been made to address the concerns expressed in the APB letter of comment but there were still difficulties with the treatment of internal control as part of the premise upon which an audit was based and the over-strong link that was made to a disclaimer opinion when the appropriate representations was not obtained. The required disclosures of all control deficiencies and that all transactions had been disclosed by management also seemed over-burdensome. It was also observed that if a confirmation was obtained on the premise regarding the preparation of the financial statements other representations in other ISAs may now be made redundant.

8. Next meeting

It was noted that the next meeting of the Board would be held on Monday 22 October.

NOTICE TO READERS

© The Auditing Practices Board Limited

This document has been obtained from the website of the Financial Reporting Council (FRC) and its subsidiary Boards, which includes the Auditing Practices Board (APB). Use of the website is subject to the WEBSITE TERMS OF USE, which may be viewed in a separate section of the website. Readers should be aware that although the FRC and its subsidiary Boards seek to ensure the accuracy of information on the website, no guarantee or warranty is given or implied that such information is free from error or suitable for any given purpose: the published hard copy alone constitutes the definitive text.