

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 21 March 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 |
| | K Nicholson | S Turley |
| | R Nolan | M Ward |

Observers J Bellingham (UK Department of Trade and Industry)
R Thorpe (Financial Services Authority)

In attendance Ms K Cearns A O'Connor (for item 7)
J Kellas

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

ABSENT:

Member M Powell

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

1. Introduction

The Chairman welcomed Mr John Kellas, the Chairman of the IAASB, to the meeting.

Ethics

Mr Jon Grant noted the publication by the DTI of a consultation paper on the implementation of the Statutory Audit Directive, which will be relevant to the APB's forthcoming review of its Ethical Standards. It was agreed that copies of the DTI consultation paper would be distributed. The Chairman reported on a recent meeting of the IESBA, at which it was agreed to accelerate the revision of the independence requirements in the IFAC Code of Ethics; the target date was now April 2008.

Audit reports

Mr Grant reported that the first meeting of the APB working party set up to consider the AQF paper on audit reports had met; a second meeting was being arranged.

SIRs

Mr Grant noted that a meeting had recently been held with representatives of the IAASB to discuss the drafting of international equivalents of the APB's Standards for Investment Reporting (SIRs). Mr Tom Troubridge reported on a recent meeting of the SIRs sub-committee, which discussed the drafting of a new SIR 5000 and the status of SIRs in the United Kingdom. It was agreed that a meeting should be held between the FRC and the FSA to discuss the interrelationship between SIRs and the regulatory framework.

Meeting with ICAEW

The Chairman noted that he and Mr Grant were meeting the new president and CEO of the ICAEW that afternoon. Matters to be discussed included the international dimensions of APB's role, responsibilities for training in new auditing standards and accountants' services to small companies who took advantage of the audit exemption threshold.

2. Minutes of previous meeting

It was noted that the minutes of the meeting held on 27 February had been approved following circulation to Board members.

3. Ethics

Mrs Hazel O'Sullivan introduced a draft letter of comment to IESBA on proposed revisions to Independence sections 290 and 291 of the IFAC Code of Ethics concerning independence for assurance engagements. She indicated a number of areas of difference between the draft revised Code and the ESs, including:

- the definition of 'key audit partner' (as used for establishing rotation requirements),
- a prohibition on carrying out material valuations, and
- the absence of certain exemptions for smaller entities provided in ES-PASE.

The Board's views were being sought at this stage on the overall content and tone of the letter and on any other differences there are between the revised Code and the ESs which might be important in the APB's review of the ESs.

The Chairman noted that many of the differences with EC requirements were in the Definitions section, and the APB letter should highlight the difficulty that this caused in relation to international harmonisation while welcoming the steps already made by the IESBA towards the possible convergence of international ethical standards. A reference to the APB's Ethical Standards for Reporting Accountants might also be appropriate. It was agreed that a final draft of the letter of comment would be considered at the Board's April meeting.

4. ISA 580

Mr Keith Billing introduced a draft letter of comment to the IAASB on a proposed revision of ISA 580: Written Representations. He noted that a meeting with interested parties had been held by the APB on 22 February to discuss the revised ISA and comments made then, which supported many concerns about the ISA expressed at previous APB meetings, had been reflected in the draft letter.

Board members were asked for their views on the draft ISA 580. Several Board members again expressed strong reservations and observed that the proposed requirements relating to obtaining 'general' representations seemed to be more a risk management exercise than an attempt to improve the quality of audits. One Board member expressed the view that it was important to obtain 'general' representations but that the requirements of ISA 580 needed to be more closely linked with ISA 210 (engagement letters) and ISA 700 (audit reports).

The Board agreed with the need for auditors to confirm that directors understand their responsibilities relating to the preparation of the financial statements, but believed that this should be primarily addressed when establishing the terms of engagement. The draft ISA 580 should be more flexible over what representations were sought, in particular to allow conformity with national law and regulations where appropriate, although it was appreciated that the ISA also needed to provide for countries that do not establish directors' responsibilities in law and regulations. If directors refused to provide a requested general written representation it was agreed that would send a strong warning signal to the auditor, requiring further investigation. However, the Board believed that it was not appropriate for the ISA to require a disclaimer of opinion in all cases, regardless of any reason that may be given for not providing the representation. Overall, the ISA should allow more flexibility for the exercise of judgment by auditors on what representations they should obtain, and on how they should express their opinions in cases where representations are not forthcoming.

Mr John Kellas acknowledged the concerns of Board members, but noted that the fact that many duties of directors were set out in legislation in the UK is not reflected in all other jurisdictions. It was agreed that the Board would review a final draft of the letter of comment at its April meeting.

5. ISAs 230, 560, 610 and 720

Mr Billing introduced a discussion of amendments to the draft letters of comment on proposed revisions of ISA 230: Audit documentation, ISA 560: Subsequent events, ISA 610: Internal audit and ISA 720: Other information, which the Board had

considered at its February meeting. Board members approved the letters of comment for submission to the IAASB.

6. Material weaknesses

Mr Grant briefed the Board on a proposed new ISA: Control Deficiencies Noted in an Audit, in advance of the IAASB meeting in April. He observed that the origin of this work was the perceived need to clarify the term ‘material weakness’ which was used in several ISAs and also in EC legislation. A number of helpful observations were made to assist Mr Will Rainey at the IAASB meeting and one Board member noted that some of the requirements appeared burdensome for the auditors of SMEs. The Board noted that the draft ISA was at an early stage in the IAASB process and asked to be kept informed of developments.

7. Heritage assets

Mr Alan O’Connor introduced a discussion of the ASB’s FRED 40: Accounting for Heritage Assets. He noted that the FRED was considered to be more flexible than the original discussion paper, and required assets to be valued and included in the balance sheet only where this was practicable.

Mr Grant noted that FRED 40 had been discussed at the APB Public Sector sub-committee and the draft letter of comment set out the concerns that had been raised. In particular ‘practicability’ is not seen as a criterion that can be audited satisfactorily and the apparent encouragement of soft valuations, of low reliability, could cause significant difficulties in forming an opinion whether financial statements give a true and fair view. Other concerns were also identified in relation to the lack of guidance to determine what valuation methods are appropriate and relevant. It was likely that uncertainties such as these would result in auditors including emphases of matter in their reports in some circumstances and qualified or disclaimed opinions in others where there was deemed to be a limitation in audit scope. The Board supported the finalisation of the comment letter to ASB along the lines drafted. Mr O’Connor thanked the Board for its observations and looked forward to receiving the APB’s letter of comment in due course.

8. ISA 600

Mr Grant introduced a discussion of a draft of a revision of ISA 600: Audit of Group Financial Statements, which was also due to be discussed at the IAASB meeting in April. He updated the Board on the concerns that had been set out in a recent APB letter of comment, noting that most had been addressed. Board members observed that further work may be needed on the treatment of materiality which appeared overly complex.

9. Next meeting

It was noted that the next meeting of the Board would be held on Wednesday 25 April at Herbert Smith’s offices.

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