

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Monday 21 May 2007 at 9.30am

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

PRESENT:

Members	R Fleck (Chairman)	M Powell
	J Grant (Executive director)	D Thomas
	A Chambers	T Troubridge
	L Hughes	S Turley
	K Nicholson	M Ward

Observers J Bellingham/ Ms A Randhawa (UK Department of Trade and Industry)
I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)
R Thorpe (Financial Services Authority)

In attendance Ms K Cearns P George (for item 7)

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

ABSENT:

Members R Nolan W Rainey
G Pimlott

Observer D Loweth (ASB)

1. Introduction

Publications

Mr Jon Grant drew the Board's attention to three recently issued exposure drafts of revisions of ISAs 200, 250 and 500. The Chairman noted a recent paper from the ICAEW entitled: Reporting with integrity.

EGAOB

Mr Grant reported briefly on a meeting of the EGAOB ISA sub-group he had recently attended in Brussels, noting in particular discussions on the proposed revision of ISA 580.

Office for Climate Change

Mr Grant noted a recent meeting with a representative of the Office for Climate Change. Following this, a short paper was being drafted on possible assurance reports in respect of carbon trading, and a discussion on this would be held at a future Board meeting.

Independent examinations

Mr Grant reported on a meeting held with UK and Irish regulators the previous week. The principal matters discussed were audit exemption limits in sectors such as pensions and financial services, and whether the Charity Commission's independent examination requirements might have wider applicability for smaller entities in other regulated sectors. It was agreed that a further meeting would be held in the autumn.

Funds under management

Mr Grant noted a request from the Irish profession for a new Practice Note to be prepared on the audit of funds under management, a subject which will not be covered in the forthcoming revision of PN 21 on investment businesses. Board members considered that if such a Practice Note was to be prepared then it should be applicable to both the UK and Ireland. However, it was questionable whether a Practice Note on this subject was really needed, not least as much of the audit work was undertaken by the largest accountancy firms. It was agreed that Mr Grant should seek the views of the FSA and the Irish financial regulator on the necessity of this Practice Note at the present time. In conclusion, the Chairman noted how ironic it was that the APB was periodically encouraged to prepare new guidance on various topics by the same parties who also often objected to the degree of prescription in its publications.

SIRS

Mr Tom Troubridge noted a recent meeting that he and Mr Grant had held with senior staff of the FRC to discuss the status of the APB's SIRS. At present the SIRS were voluntary in status. While it seemed that in practice they were applied to most work undertaken by UK accountants, reporting accountants from many foreign jurisdictions did not follow them especially for GDR and IPO transactions. It was agreed that the FSA should be asked to express their opinion on the status of the SIRS, including in relation to transactions initiated from abroad. The Chairman also thought there would be benefit in exploring the status of the SIRS with the CCAB bodies.

2. Minutes of previous meeting

It was noted that the minutes of the meeting held on 25 April had been approved following circulation to Board members. In connection with an item in the minutes concerning the possible appointment of new Board members, the Chairman noted current discussions with the directors of the FRC concerning the overall size and composition of the Board.

3. Ethical Standards

Mrs Hazel O'Sullivan introduced a discussion of changes necessary to the Ethical Standards (ESs) to reflect the implementation of the Statutory Audit Directive (SAD). It is intended that the integrity and independence requirements will be incorporated into Schedule 10 of the Companies Act 2006 and a consultation on draft regulations will occur during the summer. Board members made a number of comments on certain issues arising, including:

- ES 1 might need extending to consider the issue of the ownership of audit firms,
- a new provision will be needed in ES 4 on the setting of audit fees,
- a clear definition of 'public interest' entities needed to be established with the DTI. There are a number of non-listed companies, such as large insurance companies, which are stand alone UK companies or subsidiaries of foreign listed companies that may be considered to be of public interest and may need to be covered by the listed company requirements of the ESs. In particular, the requirements concerning communication with audit committees might need extending to cover these types of entities,
- the SAD requires the rotation of 'key audit partners' (as defined) at least every seven years, whereas the ESs require rotation of the audit engagement partner every five years,
- there was concern over whether the 'cooling off' provisions extended to partners joining overseas companies. EU firms will be subject to SAD, but it may be necessary for the FSA to consider whether the Listing Authority should impose equivalent cooling off provisions on non-EU companies.

It was agreed that these issues would be discussed with representatives of the DTI at a meeting the following day. The relatively minor changes proposed to the ESs as a result of the SAD will be included in an overall revision to be exposed in autumn 2007.

4. SIR 5000

Mr Troubridge introduced a proposed exposure draft of SIR 5000: Public reporting engagements on financial information reconciliations. He noted that this was the last public reporting engagement that needed to be addressed in the SIRs.

Board members discussed three matters in particular: the level of knowledge a reporting accountant should have of the target's financial reporting framework, whether the standard should include an annexure on management's processes for preparing a financial information reconciliation, and whether the requirements for verifying adjustments made in the financial information reconciliation were sufficiently rigorous. It was agreed that these issues should be included in a

consultation paper to accompany the exposure draft, which was approved for issue. It should also be made clear in the consultation paper that SIR 5000 had been prepared in accordance with the APB's published work programme.

5. ISA 570

Mr Keith Billing introduced a draft APB letter of comment on a proposed clarity redraft of ISA 570: Going concern. Board members made a small number of comments on the draft letter, in particular:

- the proposed objectives of the ISA were believed to be appropriate, but it was noted that the draft requirements may not be sufficient to achieve them. The letter of comment would address this, and
- the section in the exposure draft relating to situations where the use of the going concern assumption was appropriate but a material uncertainty exists appeared to go too far in imposing potential disclosure requirements on management.

It was agreed that Board members should send any further comments to Mr Billing as soon as possible so that the letter of comment could be submitted to the IAASB by the end of the month.

6. 4th and 7th Directives

Mr Grant introduced a draft FRC response to the DTI on the implementation in the UK of amendments to the 4th and 7th Directives on the annual accounts of companies. He noted that the main issue relating to auditors involves the new requirement for mid-sized companies to disclose related party transactions that were not at normal market conditions. The APB agreed that these disclosures were likely to cause considerable difficulties for many companies and their auditors. It was noted that the FRC was due to finalise the letter of comment by the end of the month.

7. Choice in the UK audit market

Mr Grant introduced a discussion of audit quality issues related to the MPG discussion paper on Choice in the UK audit market. Issues discussed included:

- The impact of changing firm ownership rules - Independence issues were identified in relation to any change in ownership rules which would allow greater than 50% of an audit firm to be owned by non-practitioners. In particular questions existed as to whether that firm should be allowed to audit fellow subsidiaries and potentially competitors of their owners. That said it was thought that there was no intention by the MPG to allow a single outsider to take a controlling interest,
- Developing guidance for audit committees on considerations relevant to using firms from more than one audit network - The APB concluded that it would be difficult to develop guidance other than to signal the advantages of using a single network which might be counter-productive to the MPG's goals,
- Authorities with responsibility for Ethical Standards should consider whether any rules could have a disproportionate impact on auditor choice - APB noted that its objectives in developing the APB Ethical Standards for Auditors had been to establish clear standards regarding objectivity and integrity; it would be difficult to temper these to allow for competition. However any anti-competitive features of the current APB ethical standards could be reviewed as part of the current revision plan provided that these were clearly identified by the MPG. To date The

MPG did not seem to have identified any particular issues other than those relating to partner rotation.

It was agreed that work should continue on developing the APB's response to certain of the recommendations, for internal communication to the Board of the FRC.

8. Any other business

The Chairman invited Mr Ian Drennan to provide the Board with a briefing over the coming months of IAASA's activities of relevance to the APB.

9. Next meeting

It was noted that the next meeting of the Board would be held on Friday 29 June.

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