

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 24 July 2007 at 9.30am

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

### PRESENT:

<b>Members</b>	R Fleck (Chairman) J Grant (Executive director) A Chambers L Hughes P Lee K Nicholson	R Nolan G Pimlott M Powell W Rainey D Thomas M Ward
<b>Observers</b>	J Bellingham (UK Department for Business, Enterprise and Regulatory Reform) D Loweth (ASB)	
<b>In attendance</b>	Ms K Cearns	A Vials (for item 3)
<b>Staff</b>	K Billing S Leonard	D Marston Mrs H O'Sullivan

### ABSENT:

<b>Members</b>	S Turley	T Troubridge
<b>Observers</b>	I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority) R Thorpe (Financial Services Authority)	

## **1. Introduction**

The Chairman welcomed Mr Paul Lee to his first Board meeting.

### Audit reports

Mr Jon Grant reported on a recent meeting of the APB Audit Reports working party. A consultation paper outlining relevant regulatory developments, discussing the AQF recommendations and setting out possible example auditors' reports is being drafted, and will be presented to the Board in the autumn. The Chairman noted that this work was of particular interest to the EC.

### IAASB

Mr Grant reported back on the most recent meeting of the IAASB held in Warsaw at which 9 exposure drafts of 'clarified' ISAs were approved for issue. In addition a revision of ISA 600 on group audits has been finalised. Mr Grant observed that, in due course, the Board would need to decide whether, and how, ISA 600 should be promulgated in the UK, to cover the period before the date when ISAs are adopted in the EU. One possibility would be to issue the revised ISA in the form of a Bulletin or Practice Note, as an example of best practice. The Board agreed that this was an interesting possibility and that an illustration of ISA 600 in the form of a Bulletin should be presented to the Board in September together with a paper discussing the advantages and disadvantages of other options. It was agreed that the various options would be discussed with the AIU before that meeting.

### European adoption of ISAs

The Chairman noted that prior to EU adoption of the ISAs the EC planned to carry out two research projects, one to evaluate the differences between ISAs and US standards, and the second to establish the cost impact of the adoption of the ISAs. He observed that he had raised the concern about how APB should react to any gap between the effective dates of the 'Clarity ISAs' as established by IAASB and date of ISA adoption in the EU at a recent meeting with staff of DBERR.

### Cost effectiveness

Mr Grant noted an FRC project on evaluating opportunities to improve the cost effectiveness of those parts of the regulatory system for which it is responsible. The APB has been asked to contribute a paper in relation to auditing standards and a draft paper would be discussed at the Board's September meeting. One issue that could be raised was the concern whether the accountancy bodies were ensuring that staff of smaller audit firms were provided with adequate training in new standards.

## **2. Minutes of previous meeting**

It was noted that the minutes of the meeting held on 29 June have been approved following circulation to Board members.

## **3. Practice Note 21**

Mr Andrew Vials introduced a proposed second consultation draft of a revision of PN 21: The audit of investment businesses in the United Kingdom. He noted that a first consultation draft had been issued in March 2006, but this had been overtaken by

changes in law and FSA rules and the APB had decided to defer its finalisation. The latest draft takes account of FSA rule changes up to 1 November 2007 but further changes can be expected in 2008.

The most significant changes to the first consultation draft are the insertion of new guidance on reviews of controls over client assets under FSA Handbook section SUP 3.10 and, where relevant, the alignment of the revised PN with PN 19: The audit of banks and building societies, which was issued in January 2007.

Board members made a number of comments on the proposed revision. After debate it was agreed that the section on conduct of business rules should be retained but could possibly be shortened. It was also agreed that there be an addition to encourage auditors of fair values to consider 'sensitivity analyses and unobservable inputs', and that the wording of the example auditors' reports should be amended, primarily to remove certain risk management elements. Board members also discussed the interaction between the need for professional judgment and industry specific knowledge. Subject to these comments, the Board approved the proposed revision for issue as a second consultation draft for a two month consultation period.

#### **4. SME audit documentation**

Mrs Hazel O'Sullivan introduced a discussion of issues in connection with finalising a proposed new Practice Note on smaller entity audit documentation. A consultation draft of the PN had been issued in January 2007, and the majority of commentators had expressed strong support for the proposals.

Two Board members, whilst recognising that the content of the material might be of assistance to smaller practitioners, did not believe that the APB should be issuing it. They took the view that the illustrative examples of working papers contained in appendices to the proposed PN were essentially training material and that issuing such material would be taken as a signal that APB was accepting a responsibility that it was insufficiently resourced to undertake and which rightly lay with the accountancy bodies. Other Board members, whilst accepting that it was not the APB's role to provide training to practitioners, considered that the examples of working papers were helpful in explaining the text of the proposed Practice Note and would provide valuable assistance to practitioners in deciding the extent of audit documentation needed to meet the requirements of ISAs (UK and Ireland). They thought that issuing this material did not set a precedent for the future and that this point should be explicitly referred to in the press release to accompany the publication of the final Practice Note.

It was agreed that:

- PN 26 on smaller entity audit documentation should be issued,
- PN 13: The audit of small businesses, should be withdrawn, and
- the subject of training in auditing standards should be discussed again by the APB after a forthcoming CCAB meeting with training providers which the Executive Director was planning to attend.

#### **5. ISA 250**

Mr Keith Billing introduced a proposed letter of comment to the IAASB on a clarity redraft of ISA 250: The auditor's responsibilities relating to laws and regulations in an

audit of financial statements. He noted that it now followed a similar approach to the current ISA (UK and Ireland). Subject to a small number of drafting points made by Board members, the letter of comment was approved for submission to the IAASB.

## **6. ISAs 200 and 500**

Mr Billing introduced a preliminary discussion of issues to be included in letters of comment to the IAASB on revisions of ISA 200: Overall objective of the independent auditor and ISA 500: Considering the relevance and reliability of audit evidence. It was intended that the Board would review final drafts of the letters at its September meeting.

On ISA 200 Board members agreed with the comments in the draft letter, in particular that:

- it was not appropriate to set out both the objective of the audit and the overall objective of the auditor, particularly as they were not symmetrical, and
- the use of the word ‘premises’ in the context of management responsibilities in the ISA was not helpful, and should be replaced by the word ‘basis’.

On ISA 500 it was noted that the revised ISA appeared to be lacking in substance for a topic of this significance. Whilst the APB recognised that relevant standards and guidance were included in other ISAs, including ISA 330, it was agreed that the APB should recommend that ISA 500 be expanded in scope. It was agreed that the Board did not need to review the letter of comment again before it was submitted to the IAASB.

## **7. Material weaknesses**

Mr Grant introduced a letter sent by the IAASB to the EC concerning its intention to define the term ‘material weaknesses’ in internal control and setting out three alternatives. After discussion it was agreed that option one (using the same definition as PCAOB) was probably the least attractive. Both of the other options were considered feasible although option three (removing the term ‘material weakness’ from the ISAs and replacing it with ‘reportable weaknesses’ seemed the most appropriate.

## **8. Audit quality**

The Chairman introduced a draft feedback paper on the FRC’s discussion paper: Promoting Audit Quality. He noted that there had been considerable support for the ‘drivers’ of audit quality that had been included in that paper and the intention was to finalise these for use by auditors, companies and investors.

The main issue discussed related to the use of junior staff on audits which was considered a complex issue meriting further study. One Board member thought that the issues relate to ‘are the right procedures being done by the right level of staff?’, ‘who decides what procedures are to be performed?’, and ‘would firms prefer to recruit staff who have already learnt the theory of auditing and accounting?’ Another member thought that the issue was more related to the time spent in the audit room than the experience of the staff.

The Chairman thanked Board members for their helpful comments and noted that the draft, including proposals for extending the reporting by audit committees on their work on evaluating audit effectiveness, were at a relatively early stage and would be discussed more fully within the FRC before the paper was finalised.

#### **9. Next meeting**

It was noted that the next meeting of the Board would be held on Tuesday 18 September.

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