

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 25 April 2007 at 9.30am

PLACE: c/o Herbert Smith
Exchange House,
Primrose Street,
London EC2

PRESENT:

Members	R Fleck (Chairman) J Grant (Executive director) L Hughes K Nicholson G Pimlott	M Powell W Rainey T Troubridge S Turley M Ward
Observers	J Bellingham/ Ms A Randhawa (UK Department of Trade and Industry) D Loweth (ASB) Ms P Sucher (Financial Services Authority)	
In attendance	Ms K Cearns	P George
Staff	K Billing D Marston	Mrs H O'Sullivan

ABSENT:

Members	A Chambers R Nolan	D Thomas
Observer	I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)	

1. Introduction

Meeting with ICAEW

The Chairman reported on a recent meeting he and Mr Jon Grant had held with the President and CEO of the ICAEW. Three matters in particular had been discussed:

- responsibility for training auditors in auditing standards; this was an especially important issue given the expected degree of change that will likely result from the adoption of the Clarified ISAs within the EU.
- review and compilation reports for Small and Medium-sized Entities (SMEs),
- future UK representation on the IAASB.

National Standard Setters

The Chairman reported briefly on discussions at a recent meeting between IAASB and the National Standard Setters of major countries that he and Mr Grant had attended in New York. Particular themes had included the implementation date for the Clarified ISAs, responsibilities for training, the development of implementation guidance especially for SME audits and alternative assurance services for SMEs.

APB Membership

The Chairman noted that two candidates, both representing investor groups, had shown interest in joining the APB. A finance director member was still being sought.

Sustainability

Mr Grant noted that a representative of DEFRA had asked for a meeting to discuss auditing in the context of the European Union Emissions Trading Scheme. Coincidentally whilst at the IAASB meeting he had had discussions with a past member of IAASB about work he was planning to undertake on the audit of carbon trading arrangements. The Board discussed briefly whether there was a role for APB to play in this area. It was agreed that further action would be deferred until after the meeting with DEFRA.

2. Minutes of previous meeting

It was noted that the minutes of the meeting held on 21 March had been approved following circulation to Board members.

3. IFAC Code of Ethics

Mrs Hazel O'Sullivan introduced a revised draft of a letter of comment to IESBA on revisions to Independence sections 290 and 291 of the IFAC Code of Ethics for professional accountants, a first draft of which was considered by the Board at its March meeting. Since then a meeting of stakeholders had been held to discuss the revisions. Three areas of concern expressed by some stakeholders were that:

- the revision appeared to lean more towards rules than principles,
- competition issues may be impacted by some of the amendments, and
- the applicability of the material as between sections 290 and 291 should be based on the level of public interest in the report given.

Board members made a number of comments on the draft; in particular to emphasise in the letter of response to IESBA that the forthcoming revision of the APB's Ethical Standards (ESs) will seek to ensure that the ESs meet all the requirements of the IFAC Code as a minimum, but that the APB may set a higher standard in some areas. In addition, the Board wished to emphasise the problem that differing definitions caused for international harmonisation and to recommend that the same definitions should be used within ethical standards as far as possible. It was agreed that, following agreement by the Chairman of further amendments made as a result of the comments at the meeting, the letter of comment should be submitted to IESBA.

4. Audit choice

Mr Paul George introduced an interim report of the Market Participants Group on Choice in the UK Audit Market, which had been published the previous day. The report had been issued in response to concerns expressed by investor groups and others that large listed companies in practice only had four audit firms to choose from; and in sectors such as financial services, due primarily to commercial relationships between companies and audit firms, the effective choice was even fewer. There was also the risk that one of the four might withdraw from the market at sometime in the future. It appeared desirable, therefore, that a greater number of audit firms were involved in auditing the FTSE 350 companies.

It was noted that comments on the recommendations in the report were requested within 11 weeks. It was agreed that there would be merit in the APB considering the recommendations that are directly applicable to audit quality, in particular:

- 1 – promoting wider understanding of the possible effects on audit choice of changes to audit firm ownership rules,
- 4 – encouraging appropriate participation on standard setting bodies by individuals from different sizes of audit firm,
- 5 – promoting understanding of audit quality and greater transparency of the capabilities of individual audit firms,
- 7 – providing independent guidance for audit committees on considerations relevant to the use of firms from more than one audit network,
- 11 – considering whether any ethical standards for auditors could have a disproportionately adverse impact on auditor choice,
- 12 - reviewing the Independence section of the Smith guidance to ensure consistency with relevant ethical standards for auditors.

5. ISA 580

Mr Keith Billing introduced a revised draft of a letter of comment to the IAASB on its exposure draft of a revision of ISA 580: Written Representations. The Board had reviewed a preliminary draft of the letter at its previous meeting, and it had subsequently been discussed at a meeting of the SME Audit sub-committee. He noted that the main concerns raised in the letter related to the level of detail proposed in general representations and to the proposed requirement for auditors to disclaim their opinions where representations were not forthcoming.

Board members supported the draft response and asked that it emphasise that the APB was not supportive of the revisions proposed to ISA 580. It was agreed that the letter

should be submitted to the IAASB following approval of final amendments by the Chairman and Mr Grant.

6. ISA 540

Mr Billing introduced a draft letter of comment to the IAASB on its exposure draft of a revision of ISA 540: Auditing Accounting Estimates. He noted that the proposed revised ISA incorporated the material currently in ISA 545 to extend its scope to include fair value accounting estimates. The SME Audit sub-committee had expressed concern that the exposure draft was overly long and complex. However this is largely attributable to the previous revision of ISA 540, which has been 'closed-off' by the IAASB. Some suggestions to help improve the flow of the standard were included in the draft APB response.

Board members made a small number of drafting comments, particularly concerning the definition of the term 'auditor's experts' and to clarify that the reference to subsequent events should be limited to those that bear on the accounting estimate. It was agreed that the letter should be submitted to the IAASB following approval of final amendments by the Chairman and Mr Grant.

7. Independent examinations

Mr Grant introduced a discussion on the audit of smaller regulated entities such as charities and pension funds. He noted that unlike for limited companies, audit exemption was either not available or exemption levels were relatively low. For these audits there was inevitably a question about the cost effectiveness of ISAs (UK and Ireland). One possible model that could be built upon was the Charity Commission (CC)'s requirement for 'independent examinations'.

APB staff had recently held a meeting with representatives of the CC to discuss its forthcoming consultation paper on its revised Directions and Guidance for independent examinations, following their becoming applicable to all charities with gross income or expenditure up to £500,000. A further meeting had been arranged on 17 May with the CC and other regulators to discuss whether independent examinations could be applicable to other regulated sectors.

Board members thought that this was a helpful development but warned against assuming that the independent examination model could necessarily be transferred into the corporate sector. In addition, it was likely that many companies below the audit threshold would not wish to have any form of verification report imposed on them and that any assurance service in this area would need to be voluntary. It was agreed that this subject was an important area which should be further discussed at the next APB Awayday.

8. Next meeting

It was noted that the next meeting of the Board would be held on Monday 21 May.

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