

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 27 June 2006 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

Members	R Fleck (Chairman)	M Powell
	J Grant (Executive director)	W Rainey
	A Chambers	D Thomas
	L Hughes	T Troubridge
	R Nolan	S Turley
	G Pimlott	M Ward
Observers	Ms E Ward (UK Department of Trade and Industry)	
	I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)	
	D Loweth (ASB)	
In attendance	Ms K Cearns	J Dean
Staff	K Billing	Mrs H O'Sullivan
	S Leonard	

ABSENT:

Member K Nicholson

Observer R Thorpe (Financial Services Authority)

1. Introduction

The Chairman welcomed Mr Martin Ward to his first APB meeting.

Bank confirmations

Mr Jon Grant reported on discussions that are being held, facilitated by the BBA, between certain banks and the accountancy bodies concerning auditors adopting a more risk based approach to obtaining bank confirmations. A number of Board members noted their disquiet with this as bank confirmations were seen as an important element of audit evidence. There was also increasing regulatory pressure on IAASB to mandate obtaining bank confirmations and it would be unfortunate if the UK were to change its approach only for this to be reversed in a short period through the adoption of ISAs in the EU.

Transparency Directive

Mr Grant noted that the APB's views, as discussed in the 30 May meeting, had been incorporated in a FRC response to the FSA's consultation paper entitled: 'Implementation of the Transparency Directive'. This response raised the issue of confusion around the Directive's requirement that condensed financial statements in interim reports were expected to give a true and fair view.

IAASB

Mr Will Rainey referred to the minutes of the 30 May meeting and requested that further consideration should be given to integrating APB meetings with the timetable and agenda of future IAASB meetings. The Chairman referred back to the discussions at the 30 May meeting which had sought to achieve a pragmatic balance between identifying key issues sufficiently in advance for APB views to impact the substance of the debate within IAASB, whilst not burdening APB members with all of the detailed matters that would be covered by IAASB during the course of its five day meetings. The Chairman agreed to meet separately with Messrs Rainey and Grant to discuss whether more could be done.

ISA 600

Mr Grant reported that an open meeting to discuss the draft of ISA 600 had been scheduled for 3 July. While about 20 individuals had accepted the invitation to attend the majority were audit practitioners. Although APB staff had contacted a number of stakeholder organisations asking them to attend and to bring investors and corporate representatives, there had been little uptake on this.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 30 May had been approved following circulation to Board members.

3. Corporate Governance Bulletin

Mr Steven Leonard introduced a draft Bulletin on corporate governance, which it was intended would replace Bulletins 2004/3 and 2004/4 and would be applicable to both the UK and Republic of Ireland. He explained to the Board the changes that had been made to reflect the discussions at the 30 May APB meeting.

The main issue that was debated concerned the linkage between the new 'Turnbull' requirement that directors should confirm in their statement on internal control that they have taken or are taking action to remedy any significant weaknesses and the auditor's responsibility under auditing standards to report material weaknesses in control. It was agreed that the Bulletin should make clear that the auditors were not required to second guess the directors' evaluation as to which weaknesses in control were to be considered 'significant weaknesses'. On the basis that this change would be made the Bulletin was approved for issuance.

4. Irish public sector guidance

Mr Grant introduced a version of PN 10 (I) that had been updated to reflect the comments received on the exposure draft. The Board was informed that the Irish Comptroller and Auditor General supported the changes made and the APB approved the Practice Note for issuance in final form.

5. Audit of Insurers

Mr James Dean introduced a revised draft of PN 20 that had been updated to reflect the comments received on the exposure draft issued in December 2005. He observed that commentators had called for the draft to provide additional guidance on some areas that were especially important for the auditors of insurance companies, including the audit of accounting estimates. Commentators had also noted that the draft was rather long and could usefully be shortened by the elimination of generic guidance that was not specific to the audit of insurance companies. The opportunity had been taken, when redrafting to accomplish these goals, to harmonise more closely the content with PN 19 on banks.

Given the extent of changes made, the Board agreed to re-expose the draft of PN 20. Finalising the document at the same time as the Practice Notes for banks and investment businesses would also allow for further harmonisation of their content. To facilitate this, and to allow for issuing PN 20 in time for December 2006 year end audits, the Board agreed to a shortened exposure period.

6. Group audits

Mr Keith Billing explained that he had had individual meetings with most of the major firms and in addition there would be an open meeting on 3 July. He explained that generally the draft ISA had been well received and described the main issues that had been identified to date on the exposure draft of ISA 600. Views as to the extent of the impact of ISA 600 on audit costs varied but was generally not seen to be significant; the major issue involved the extent of documentation that the AIU was likely to expect especially regarding the extent of the knowledge of other auditors. The Chairman explained that a draft APB response would be discussed at the Board's 25 July meeting and asked that the draft be circulated as far in advance as was practicable.

7. Management representations

Mr Grant introduced a discussion of the IAASB's current proposals for a revised standard on management representations (ISA 580). Key features of the draft which is to be discussed at the next IAASB meeting includes additional requirements to obtain general representations and to disclaim an audit opinion if these are not forthcoming.

A number of Board members took the view that this approach was excessive and that there was a risk that the requirements could be perceived as a risk management exercise by audit firms. There was concern that some of the general representations might be incompatible with UK and Irish legal requirements and that there did not seem to be latitude for variation of language in the actual representations obtained. There was also concern that directors and management had not been involved in the preparation of ISA 580 and that, as a result, the requirements and guidance might have only been viewed from a narrow auditor's perspective.

8. Audit quality

The Chairman introduced a discussion of a draft consultation paper on audit quality which would, in due course, be issued by the FRC. The objectives of the paper were to better inform the debate on audit quality which had been instigated by certain investor groups in 2005 and to help develop a common view on the main components of audit quality across the FRC's operating bodies. He observed that the draft paper was at an early stage of preparation and that the steering group had identified a number of issues that had yet to be reflected in the draft. There was a wide ranging discussion of the topic and a number of very helpful suggestions were given as to how the consultation paper could be further developed. A note of these has been distributed separately. It was agreed that the Board would have a further opportunity to comment on the paper at its next meeting.

9. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 25 July.