

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Friday 29 June 2007 at 9.30am

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

PRESENT:

Members	R Fleck (Chairman)	M Powell
	J Grant (Executive director)	W Rainey
	L Hughes	D Thomas
	K Nicholson	S Turley
	R Nolan	M Ward
Observers	J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)	
	I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)	
	R Thorpe (Financial Services Authority)	
In attendance	Ms K Cearns	E Hogg (for item 8)
Staff	K Billing	D Marston
	Mrs H O'Sullivan	

ABSENT:

Members	A Chambers	T Troubridge
	G Pimlott	
Observer	D Loweth (ASB)	

1. Introduction

Publications

Mr Jon Grant noted the recent publication of an exposure draft of SIR 5000 on Financial Information Reconciliations. He also noted that the AIU had recently issued two documents:

- the results of audit quality inspections 2006/07, and
- a consultation paper on the public reporting on audit quality monitoring.

Audit reports

Mr Grant reported on a recent meeting of the audit reports working party, which was considering how UK audit reports might be changed in the light of ISA 700 (Revised), European developments and a report issued by the Audit Quality Forum. It was noted that the outcome of the working party's deliberations would be discussed by the APB in the autumn.

IOSCO

The Chairman reported briefly on a 'roundtable on auditing' organised by IOSCO that he and Mr Grant had recently attended. Audit quality, liability and choice had been the principal topics discussed.

EGAOB

Mr Grant noted a recent meeting of the EGAOB's ISA sub-group, at which EC comment letters on various ISA exposure drafts had been discussed. He noted his concern about the EC's failure to set a timetable for the implementation of ISAs in the EU and observed that a planned research study on the cost impact of ISAs and their inter-relationship with US standards may delay the process.

Ethics

The Chairman reported on a recent meeting of IESBA in Berlin to review comments received on the proposed revision of the IFAC Code of Ethics and to issue an exposure draft on a small number of further amendments. The goal remains that the full revised Code would be finalised by June/July 2008.

Accounting records

The Chairman noted that work had started within the FRC to develop guidance on the provisions in the Companies Act 2006 relating to books and records, which become effective in April 2008.

2. Minutes of previous meeting

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

3. ISRE 2410

Mr Keith Billing introduced a proposed final version of ISRE (UK and Ireland) 2410: Review of interim financial information, which it is intended will replace Bulletin 1999/4. The Board discussed three particular issues:

- the implementation date – Board members agreed that the new standard should apply in respect of accounting periods ending on or after 20 September 2007. While this was a relatively demanding timetable for the firms this was considered feasible and it is desirable to apply the standard as soon as practicable to half-yearly reports prepared under rules and regulations implementing the European Transparency Directive,
- APB ‘pluses’ – Board members were content with the pluses which had been added to the ISRE, including the two elevated to bold text requirements. This was regarded as a change in form rather than substance from the exposure draft,
- AIM companies – Board members agreed that the ISRE did not need to include guidance specific to AIM companies.

One member asked the Board to note that he believed that paragraph 25-1 in the standard could be construed as an ISRE minus, by making the requirement set out in paragraph 25 of the original IAASB text less onerous than it would be otherwise. It was noted, however, that the majority of responses to the exposure draft had agreed with the view that it did not give rise to an ISRE minus and this position is to be explained in the document giving feedback on the exposure draft that will be made available on the APB’s website. Subject to a small number of further drafting comments, the ISRE (UK and Ireland) was approved for issue in final form.

The Chairman expressed the view that some work might usefully be carried out on AIM companies to assess whether guidance specific to that sector on audit, accounting or corporate governance issues should be published. It was agreed that the Chairman and Mr Grant should discuss this matter further within the FRC.

4. Practice Note 16

Mr Grant introduced a proposed consultation draft of a revision of PN 16: Bank reports for audit purposes. A previous consultation draft was currently in issue as interim guidance, and this had been amended following recent meetings between representatives of the CCAB bodies and the British Bankers Association (BBA). He noted in particular the inclusion of new bank request forms which would (as from 26 December 2008) require auditors to list main account numbers and sort codes for all companies in a group.

Some Board members expressed reservations as to why account numbers needed to be provided but accepted that this was likely to speed up the whole process for obtaining bank confirmations. The draft PN was approved for issue as a consultation draft.

5. ISA 550

Mr Billing introduced a draft letter of comment to the IAASB on a proposed revision of ISA 550: Related parties. The main issue discussed was the interrelationship between the definition of related parties and that of parties with ‘dominant influence’. The Board thought that the draft letter to IAASB should be extended to address this issue. It was also agreed that the response should indicate that issues related to ‘implicit assertions’ that related party transactions are at arm’s length should not be addressed in the ISA on the basis that this is an issue specific to European legislation and accordingly should be addressed by European regulators. It was agreed that final amendments to the letter would be approved by the Chairman and Mr Grant before it was submitted to the IAASB.

6. Ethical Standards

Mrs Hazel O'Sullivan introduced a paper setting out the current views of the ethics working party in relation to their review of the APB's Ethical Standards (ESs). The Board noted that APB staff had undertaken a survey of directors and an analysis of company accounts; the findings of this work would be published shortly. The working party has also had access to research undertaken by the accountancy bodies and academics.

The main issues discussed were as follows:

- whether to consult on a change to the partner rotation requirements on listed companies. The current requirement is for the rotation of the audit engagement partner and independent review partner every 5 years. The working party believes that a case can be made for extending this to 7 years in line with the IFAC Code and the Statutory Audit Directive (SAD). Board members noted that the current 5 year rule in the UK resulted from an agreement between the CCAB bodies and the Government, and it would therefore be appropriate to seek the views of DBERR in advance of any consultation; it was also suggested that the views of institutional investors should be obtained.
- the working party has noted that the ESs appear to be less rigorous than international standards in the area of providing valuations, and believe that the consultation should explore whether the subjectivity criterion should be removed in the case of listed company audits. Board members did not think that a change of this nature was likely to cause difficulties in practice.
- whether to retain the provisions of ES-PASE and, if so, whether the reliefs and exemptions should be incorporated into the ESs.

It was agreed that the APB Ethics Group would take Board members' views into account as it continued to revise the ESs. A marked-up version of the proposed revised ESs would be circulated to Board members in due course.

7. Statutory Audit Directive (SAD)

Dr Jim Bellingham noted that the consultation period for proposals to implement the SAD in the UK had now ended, and draft Regulations were due to be issued in July. APB staff had already provided comments on the proposals, and it was agreed that they would review and, if necessary, comment further on the draft Regulations once they were issued.

8. Carbon trading

Mr Edward Hogg from the Office of Climate Change introduced a discussion on the future verification of carbon trading reports in the EU. Two possible ways forward were being considered:

- continuing with the present arrangements for independent reports to be commissioned by the companies involved,
- centralising the verification process by introducing reviews to be carried out by a central authority such as the NAO,

Board members considered that a third option existed, namely introducing requirements for company auditors to carry out verification reviews. If this approach was to be feasible however it would need to focus on reviewing managements' compliance with the rules and requirements on carbon trading. There was also a view that external disclosure of carbon trading information in annual reports may drive demand for accountants to provide some assurance as to their reliability.

9. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 24 July.

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