

**Minutes of the Auditing Practices Board's Public Sector Sub-Committee
meeting held on 15 September 2006**

Meeting: Auditing Practices Board (APB) Public Sector Sub-Committee (PSSC)

Date: 15 September 2006

Held at: APB offices, Aldwych, London

Members attending: Lew Hughes (APB and chair of PSSC)
John Buckley (OCAG Ireland)
Kieran Donnelly (Northern Ireland Audit Office)
Janet Eilbeck (PricewaterhouseCoopers)
Martin Evans (Audit Commission)
David Richards (National Leadership and Innovation Agency for Healthcare - Wales)
Martin Sinclair (National Audit Office)

Apologies from: Bob Alexander (South East Coast NHS Strategic Health Authority)
Jeremy Coleman (Auditor General for Wales)
David Cruden (HM Treasury)
Russell Frith (Audit Scotland)
Rita Greenwood (London Borough of Havering)
Nigel Johnson (Deloitte)

Also in attendance: David Aldous (Audit Commission) – Secretary
Keith Billing (APB)
Simon Edge (Wales Audit Office) – attending for Jeremy Coleman
Jon Grant (APB)
Andrew Lennard (ASB) – for item 7 only
Alan O'Connor – for item 7 only

Item		Actions
1	The above apologies for absence were noted. The chairman also reported with sadness the news of the death of Nicholas Elphick who had been a longstanding member of the APB's public sector sub-committee.	
2&3	Minutes of previous meeting held on 17 February 2006 were agreed. There were no matters arising.	
4 4.1	APB work programme for 2006/07 Jon Grant (JG) provided an update on the APB's work programme. It was noted that there were potentially matters of public sector interest in the following areas in the	

4.2	<p>programme:</p> <ul style="list-style-type: none"> • the research project on audit quality, and, in particular, assessing audit effectiveness, which would be of interest to audit committees; • work to revise Practice Note 11 – charities; • work to revise Practice Note 15 – pensions schemes; and • assurance engagements (item 5 on this agenda). <p>APB secretariat to circulate any relevant papers to public sector sub-committee members, via David Aldous (DA), for comment as appropriate.</p>	JG, Keith Billing (KB) and DA
5	<p>Assurance engagements</p> <p>5.1 Reference had been made, under the previous item, to the lack of guidance on non-audit assurance work and that the ICAEW's public sector audit committee had discussed this at its recent meeting. Lew Hughes (LH) then introduced this item referring to previous APB considerations of the need for guidance on assurance engagements and the ICAEW's Audit and Assurance Faculty's 2003 publication, <i>Audit 03/03: Public Sector Special Reporting Engagements – Grant Claims</i>.</p> <p>5.2 Members of the sub-committee commented that, regarding assurance engagements in relation to grant claims, the ICAEW publication is a useful application of the international framework principles. The guidance is helpful but the problem continues to be to ensure that grant paying bodies, those receiving grants and accountants accepting engagements understand and apply the guidance.</p> <p>5.3 It was noted that there is also ICAI guidance in Ireland on grants and the responsibilities of grant paying bodies, and that it may be helpful to compare this with guidance in the UK.</p> <p>5.4 In relation to other forms of assurance engagement, reference was made to the increasing importance to public services of various forms of partnership and other joint arrangements. These are leading to an increase in the need for assurance to public bodies in relation to the services and/or performance of third parties. The increased importance of ensuring that there is adequate governance of partnerships and the need for clear arrangements in relation to, for example, pooled budgets was noted. It was also noted that the Audit Commission's Code of Audit Practice requires auditors to consider risks arising from</p>	

<p>5.5</p> <p>5.6</p>	<p>audited bodies' participation in partnerships and joint arrangements, but only in relation to arrangements to secure value for money in the use of resources.</p> <p>Members noted that there is a potential danger of the external auditor being seen as filling a vacuum, or gap in the assurance framework, when it is the audited body's responsibility to ensure that it has adequate assurance in relation to the services / performance of partner organisations.</p> <p>The issue, therefore, is how organisations may obtain assurance, where this is valuable to them, and the role, if any, of reporting accountants engaged to provide such assurance. It was noted that the Assurance Panel (TAP) in ICAEW's Audit and Assurance Faculty is looking at the need for guidance for accountants accepting assurance engagements in relation to third party service delivery, but this will have a mainly private sector focus. Further updates on the development of any guidance will be reported to members of the sub-committee, as appropriate.</p>	<p>DA</p>
<p>6</p> <p>6.1</p> <p>6.2</p>	<p>IAASB's Clarity Project</p> <p>LH introduced this item, referring to the ambitious timetable for the project and the need to consider how best the public sector sub-committee can contribute to the APB's responses to redrafted ISAs. Members reviewed the IAASB's latest timetable and agreed that certain Exposure Drafts (EDs) of redrafted ISAs will be of greater interest from a public sector perspective than others. In the order in which EDs are expected to be issued over the next few months to February 2007, the following were identified as having particular relevance to the sub-committee:</p> <ul style="list-style-type: none"> • ISA 260 (communication with those charged with governance) • ISA 320 (materiality in planning and performing an audit) and ISA 450 (evaluation of misstatements identified during the audit) • ISA 230 (audit documentation) • Combined ISA 540 (auditing accounting estimates and related disclosures) and ISA 545 (auditing fair value measurements and disclosures) • ISA 580 (management representations) • Expected new ISA on material weaknesses in internal control <p>In addition the following EDs, expected after February 2007, were identified as being of interest to the sub-committee:</p>	

6.3	<ul style="list-style-type: none"> • ISA 600 (audit of group financial statements) • ISA 620 (using the work of an expert) • ISA 700 (auditor's report) <p>It was agreed that, as batches of the EDs of redrafted ISAs are issued, David Aldous (DA) would liaise with the APB secretariat on timescales for collecting public sector sub-committee comments and circulate copies of the relevant EDs to members. Comments would need to be sent to DA for collation and sharing with the APB secretariat to inform the preparation of the APB response.</p>	DA
7	<p>Heritage assets</p> <p>7.1 Andrew Lennard (AL) and Alan O'Connor, ASB secretariat, joined the meeting for this item, and reported on the ASB's work on an ED to amend FRS 15 (tangible fixed assets) in relation to heritage assets. The proposals would introduce new requirements for reporting of heritage assets, including the need to report in the balance sheet at a valuation where it is practicable to obtain a valuation.</p> <p>7.2 The APB secretariat had circulated a paper to members of the sub-committee on audit issues for consideration in relation to the proposed changes to accounting requirements. In particular, the paper highlighted concerns that there should be a clear requirement for valuations to be reliable.</p> <p>7.3 Members noted the historical context to the long running debate on recognising heritage assets. The sub-committee noted the existing compromise that had been reached whereby institutions only recognise on their balance sheets acquisitions made since 2002, which was not entirely satisfactory. Against this background, the ASB's proposals were a step forward towards a more consistent approach, albeit with remaining difficulties for practitioners and auditors.</p> <p>7.4 The question was raised of the applicability of the proposals to heritage assets such as castles and monuments, since much of the debate seemed to be driven by the concerns to recognise the value of museum collections.</p> <p>7.5 Concerns were raised about auditability – in particular, in relation to the independence and reliability of valuations. While it seemed more appropriate to have a value rather than nil or a nominal figure, the proposals would mean that a higher test of reliability would apply to other categories of</p>	

	assets. This could have implications for audit reports and the possible need to consider emphases of matter.	
7.6	ASB officers emphasised that arbitrary values would not be permitted. It was also likely that these proposals would be signalled as an interim step by the ASB which will wish to monitor implementation.	
7.7	Members of the sub-committee commented further that the proposals represented a step forward from the current unsatisfactory compromise, and the default position would be the disclosure requirements of the standard when valuation was not practicable. However, there remained difficulties – for example, in relation to determining whether valuation would be by collection category or for the collection as a whole.	
7.8	LH thanked ASB officers for attending the meeting.	
8	Any other business	
8.1	It was agreed that a further representative of the firms would be sought to join the sub-committee. Suggestions to DA will be welcome and DA will liaise with LH.	DA/LH
8.2	Martin Sinclair (MS) reported that the Companies Bill includes clauses giving powers to the Auditors General to audit government owned companies. A connected potential issue is the question of who the regulator would be for these company audits. Martin Evans reported that the Audit Commission is expecting to be given a power to appoint auditors of local government controlled companies.	
8.3	MS also reported that the Government Accountability Office (GAO) in the US has expressed a wish to review the NAO's work in relation to UN agencies.	
9	It was agreed that the next meeting would be held in February 2007.	DA