

MEETING SUMMARY

MEETING OF: APB SME audit sub-committee

DATE AND

TIME: Monday 24 October 2005 at 9.30am

PLACE: Aldwych House - London WC2

PRESENT:	Richard Fleck (Chairman)	James Hunt
	John Brace	Peter Hollis
	Jayne Clifford	Robert Holland
	Alan Donaldson	Craig Jenkins
	David Finch	Martin Longmore
	Jane Grant	Prof Neil Marriott
	Jon Grant	Valerie Steward
	Staff	Hazel O'Sullivan

APOLOGIES: Malcolm Bacchus Alan Farrelly

1. Introduction

Richard Fleck described the background to setting up the sub-committee. He observed that the sub-committee was free to contribute to the totality of APB's agenda. However given the time available, the sub-committee would need to determine for itself which particular issues it wished to focus on. Over time the role of the sub-committee and the relationship with APB and its working parties would evolve.

No changes were proposed to the name of the sub-committee or the terms of reference. It was noted that there may need to be further representation on the sub-committee from accounts preparers. It was agreed that a summary of each meeting would be prepared and made public once agreed by participants.

2. Auditing and Ethical Standards and associated guidance for SMEs

The background to the development of Auditing and Ethical Standards was explained and the following points were made in discussion:

- The application of auditing standards to a small entity audit is often not problematic, but their drafting is sometimes over-complex for the needs of auditors of small entities and the documentary requirements are onerous (better to document what has been done rather than what has not been done).
- In some situations the use of IT tools and checklists to drive the audit methodology detracts from the application of judgment in the audit process.

A number of options were explored for the development of guidance or alternative standards (such as an audit 'FRSSE') appropriate for those SMEs where there is no differentiation between the stakeholders and management of the entity being audited. It was recognised that this would increase the volume of technical material that a practitioner needed to have knowledge of given that most firms audit a wide variety of entities including both small owner managed companies and some public interest entities (e.g. pension funds and charities). Furthermore any new standards that led to an alternative wording in the audit report might devalue such audits and would not be recommended. After a discussion about the IAASB 'Clarity' project and its objectives, it was agreed that the sub-committee should provide views to APB as to whether 'clarified ISAs':

- Give a clear message as to the objective of each standard.
- Clearly differentiate between requirements and guidance.
- Add an unacceptable level of extra burden on the small practitioner as a result of the new requirements.

As regards the Ethical Standards, it was agreed that guidance on implementation issues could be developed through the FAQ process agreed with CCAB Ethics Group. A thorough review is not anticipated until 2007 and would tie in with potential changes happening in the EC and IFAC.

3. POBA Research

Paul George and Julian Rose introduced the POBA research. This was undertaken in order to establish the needs of smaller companies and users of their accounts and to identify areas where these needs are not currently met cost-effectively. The following points were made in the subsequent discussion:

- There is limited appreciation of the role of a professional accountant. Educating users of accounts as to the value of having statutory accounts prepared by a CCAB qualified accountant might enhance this, supplemented by a clear statement of the work carried out.
- The value of an audit is not fully understood by users of accounts and terminology is misused (eg some small businessmen consider that they have had an 'audit' when a compilation service has been provided).
- A minority of small companies have not taken advantage of the increase in the audit exemption threshold, inter alia, for the following reasons:
 - Where funding is dependent (or thought to be dependent) on an audit being carried out (examples cited were trade credit agencies, local authorities and banks).
 - To give confidence in the numbers included in the accounts, either internally or externally (e.g. in order to give a signal to HMRC that the company is 'doing it right').
 - Where there are plans to grow a business to the point at which it exceeds the audit exemption threshold or where a sale is forecast.
 - In a distress situation.

- Where a company wants an open trading relationship with customers.
- In some cases users really require assurance on a specific process or use of funds provided but an audit is taken as proxy for such a report.
- The cost differential of having an audit where accounts have been prepared is not significant (although it is increasing with the development of auditing and ethical standards).
- CCAB bodies have differing requirements relating to compilation reports.

4. Audit or alternative services

Peter Upton introduced draft guidance on assurance reports prepared by one of the CCAB bodies as a product to be positioned between an audit and a compilation report.

Following discussion, the sub-committee was firmly of the view that if assurance reports were to be introduced this should be part of a broader approach to providing assurance on small entity financial statements. Furthermore, several members of the APB SME audit sub-committee doubted whether there was a market for the new assurance report for smaller entities and others were concerned that the guidance material was insufficient to clearly distinguish the assurance service from an audit.

5. Next steps

The sub-committee will input to the APB responses on the 'clarity ISAs'. Views on documentation of compliance with the ISAs would also be requested. It was agreed to research the feasibility of using a discussion board on the APB website.

A list of future topics for the APB was circulated. It was agreed that quarterly meetings would be appropriate for the sub-committee in 2006. The next meeting in January would focus on a follow up to the POBA research, the 'clarity ISAs', the new standard on the OFR and directors' report and audit quality.