

## **Minutes of the Auditing Practices Board's Public Sector Sub-Committee meeting held on 15 October 2010**

Held at: APB Offices, Aldwych, London

Members attending: Russell Frith (APB, Audit Scotland and chair of PSSC)  
Andrew Baigent (National Audit Office)  
Caroline Al-Beyerty (Audit Commission)  
Tim Drew (PKF)  
Simon Edge (Wales Audit Office)  
Janet Eilbeck (PwC)  
Marek Grabowski (APB)  
Louise Mason (Northern Ireland Audit Office)  
Gerry Smyth (OCAG Ireland)

Apologies from: Bob Alexander (Department of Health)  
Nigel Johnson (Deloitte)  
David Richards (The Welsh Assembly Government)  
Mike Suarez (London Borough of Lambeth)

Also in attendance: Keith Billing (APB) - secretary  
Andrew Jones (AIU)

## **1. Minutes of previous meeting**

The minutes of the previous meeting had been previously circulated and agreed.

## **2. Update on current developments at APB and IAASB**

Mr Grabowski updated the committee on developments that may be relevant to the public sector. These included:

- The Lords Economic Affairs Committee consultation on “Auditors: Market concentration and their role”. The FRC has submitted a written response; evidence will also be presented in person to the Committee.
- The FRC is preparing a paper looking at corporate reporting from a wide perspective, themed around ‘stewardship’.
- The EC has published its Green Paper on ‘Audit Policy: Lessons from the Crisis’. This addresses a very broad range of audit related issues, but with little analysis in the paper itself. The FRC will be preparing a response.
- A need to monitor the effect of the implementation of the new auditing standards.

Mr Baigent informed the committee of EC proposals to establish a legal framework for determining levels of tolerable risks of error for the European Court of Auditors to use tailored to the risks and specificities of each EC policy area. These levels will be influenced by factors such as legislative complexity and the costs of controls, and may also be affected by political imperatives or levels of reputational risk.

IAASB projects include:

- A proposed new International Auditing Practice Statement 1000 on auditing complex financial instruments. The APB’s PN 23 working party made significant contributions to this and will be used to help develop the APB response to the exposure draft.
- An exposure draft of proposed revisions of ISA 610 on using internal audit, and related amendments to ISA 315. The changes include extending the scope to cover ‘direct assistance,’ a matter that is currently covered in supplementary guidance in the APBs clarified ISA (UK and Ireland) 610.
- Working groups established to look at auditor’s reports; disclosures; and revision of ISA 720. These are all in the relatively early stages.
- Projects that include consideration of what is ‘limited assurance’ – this may be relevant to matters such as sustainability reporting in the public sector. Currently the IAASB has not reached a consensus of views. Related issues include that different professions (e.g. engineers and auditors) may report on the same matters in very different ways.

Mr Baigent gave an update on the work of the IAASB Task Force that is revising International Standard on Assurance Engagements 3000, which addresses assurance engagements other than audits or reviews. This is likely to be of interest to the public sector as it may be possible to use it for direct reporting such as on VFM.

### **3. Update on INTOSAI activities**

Mr Baigent informed the committee that INTOSAI was endorsing the financial audit guidelines (level 4). Its level 3 material on fundamental auditing principles, however, is out of date. A project to update the level 3 material has been commenced – the NAO are involved with this and will bring issues to the attention of this committee.

EUROSAI is developing a paper on standard setting that should be published later this year.

### **4. Update of Bulletin 2008/7**

Mr Frith introduced a discussion of issues related to the update of Bulletin 2008/7, 'Illustrative auditor's reports on public sector financial statements in the United Kingdom.' It was considered that:

- The description of scope of an audit should be given solely in the auditor's report with no option at this time for a more detailed version being maintained on a website. However, consideration would be given in the future to how a website version might be developed that addresses the various different public sector reporting requirements.
- Generally the order of opinions used by the NAO, with the Regularity opinion before the opinion on the financial statements, was logical - opinions on other matters should come after the opinion on the financial statements.
- It was not essential to have a reference point (e.g. legal requirement) for the other matters reported on by exception.
- The current range of examples remains appropriate.
- The updated wording proposed in the APBs exposure draft of revisions to ISA (UK and Ireland) 700 should be adopted.

The project will be coordinated by staff from Audit Scotland and the APB. Individual agencies are to look at the examples and propose amendments as necessary.

A draft Bulletin should be presented to the APB for consideration at its meeting on 19<sup>th</sup> January 2011. (*Subsequent to the meeting it has been agreed that the draft Bulletin will be deferred to the APB meeting on 3<sup>rd</sup> March 2011.*)

### **5. Non-audit services – APB consultation on revision of Ethical Standards**

Mr Frith introduced a brief discussion of the APB's consultation. A potential issue for the public sector was consideration of services provided to the Government Department above an audited body – it was considered that this should be acceptable provided appropriate safeguards were in place for threats to objectivity.

There was also discussion of the position where audit work in a particular area is extended at the request of management, to provide them with assurance beyond what

the auditor requires for the purpose of the audit of the financial statements, and whether this should be regarded as ‘other services’ rather than, as indicated in the exposure draft of ES 5 (Revised), ‘audit related services’. It was noted that the APB position is that such work is acceptable providing it is integrated with the work performed in the audit and is performed on the same principle terms and conditions as the audit.

## **6. Auditor scepticism – APB Discussion Paper**

Mr Frith introduced a discussion of the APB Discussion Paper ‘Auditor scepticism: Raising the bar’.

It was observed that even though scepticism may have been applied appropriately, it was often difficult to appreciate this from the audit documentation. It was suggested that retaining review notes on audit files might help address this.

Other comments related to the Discussion Paper included that while Audit Completion Memoranda can be used to document more fully the rationale for key audit judgments, in practice they can also result in less information being included in the other working papers and those working papers receiving less attention from audit partners.

A particular issue for the public sector was suggested to be the increased frequency, compared to the private sector, of auditors being required to tender for reappointment. This was thought to increase the risk of some management using the tendering process to ‘pressure’ auditors on some matters.

## **7. Occupational pension schemes – APB consultation on revision of PN 15**

Mr Frith introduced a brief discussion of the proposed revision of PN 15. It was suggested that it could be clearer that only parts of the guidance were applicable to some public sector bodies.

## **8. Bank reports for audit purposes – APB consultation on revision of PN 16**

Mr Frith drew attention to the proposed revision of PN 16. No public sector specific issue were identified.

## **9. Audit Scotland – consultation on revised Code of Audit Practice**

Mr Frith drew attention to Audit Scotland’s revision of its Code of Audit Practice. No issues for further discussion were identified.

## **10. AOB**

It was noted that that after further consideration of their use in practice the Public Sector Corporate Governance Bulletins (2003/1, 2003/2, 2004/2) were being withdrawn rather than updated.

Mr Frith informed the committee that Ms Eilbeck was now standing down from the committee. The committee thanked Ms Eilbeck for the valuable contribution she had made to it during her membership.