

MEETING SUMMARY

MEETING OF: APB SME audit sub-committee

DATE AND

TIME: Tuesday 10th January 2006 at 11.00am

PLACE: Aldwych House - London WC2

PRESENT:

Richard Fleck (Chairman)	Jon Grant
John Brace	James Hunt
Malcolm Bacchus	Peter Hollis
Jayne Clifford	Robert Holland
Alan Donaldson	Craig Jenkins
Alan Farrelly	Martin Longmore
Jane Grant	Prof Neil Marriott
Staff	
Hazel O'Sullivan	

APOLOGIES: David Finch Valerie Steward

1. Introduction

Jon Grant gave a summary of recent APB activity and identified probable topics for the forthcoming meetings in January and March. There was some discussion on the issues associated with money laundering, although it was recognised that any follow up on the cost impact of the current reporting requirements would be a matter for the accountancy bodies, rather than APB.

2. IAASB Clarity project

The background to the approach adopted by IAASB in their clarity project and the APB's approach to formulating its response to the IAASB exposure drafts were explained. It was agreed that members of the sub-committee would review individual ISA exposure drafts and provide input on specific points (relevance of requirements to SME audits, SME guidance and improvements to drafting) by mid February.

The following points were made in discussion:

- The new structure of the ISAs already exposed was thought to be very helpful. The restructuring added to the clarity for three of the ISAs but was less successful in relation to ISA 240.
- The SME guidance seems fairly simplistic. It would be helpful if it could be linked more clearly to the requirements of the ISA.
- Some of the requirements may only be applicable where the entity being audited has certain characteristics (e.g. communications with those charged with governance).
- Objectives are currently drafted inconsistently. They would be improved if they were all 'output' orientated, rather than a repetition of the audit process. It would also be useful to see the objectives

developed on a 'top-down' basis commencing with the over-arching objective for the audit as a whole.

- The four ISAs seemed to have been developed separately. It would be important to determine how IAASB intends to respond to comments to achieve greater consistency.

3. Documentation considerations relating to SME audits

It was felt that the specific documentation requirements contained in the ISAs are onerous for SME audits. ISA 230 should be sufficient especially if it focuses on documenting the rationale for the key auditor judgements. There was discussion as to whether the specific documentation requirements contained in the ISAs could be limited to the audits of listed companies only and extended at a national level to other 'public interest entities'. Whatever approach was followed it would be important that benefits could be extended to medium sized companies and similar entities, rather than limiting its application to only non-statutory audits.

Although this issue was somewhat separate from the IAASB clarity project it was agreed that it was sensible to raise it at the same time.

4. ISA (UK and Ireland) 720 – Section A

It was agreed that a separate section of ISA 720 was helpful and that the requirements related to directors reports would not present a problem in the case of SME audits.

5. POBA Research

Julian Rose outlined the key issues likely to be included in the draft report and there was some discussion of the results of a review of the quality of accounts. It was noted that results needed to be interpreted with caution, particularly as it can be difficult to tell when a professional accountant was involved. Tracey Neilson explained the background to the need for greater clarity on the involvement of a professional accountant. The following points were made in the subsequent discussion:

- There are a number of reasons why compilation reports are not normally included in the version of accounts filed with Companies House, even if the report has been made to the entity itself.
- The use of any wording in a set of accounts to describe the involvement of a professional accountant should:
 - be phrased positively;
 - only be used in clearly defined circumstances (e.g. would not be likely to extend to situations where accounting advice only had been provided); and
 - not be made mandatory.

6. APB Ethical Standards

The general approach taken to the areas noted in the Appendices to the Briefing Paper was supported. Issues raised in discussion included:

- Although there was a recognition that some problem areas do exist regarding dependency on larger clients, some sub-committee members expressed concern that the nature of the provisions relating to economic dependence creates an unwarranted constraint for some practitioners. More guidance would be useful on the application of the word 'regularly'.
- Some sub-committee members also expressed concern about the lack of logic behind not including non-practice income of a sole practitioner in the calculation relating to economic dependence.

7. SME Audit discussion forum

Hazel O'Sullivan explained how this forum could be accessed. It was agreed that the input promised under agenda item 2 would be provided through this forum so that other members of the group could contribute to the pairings agreed. Sub-committee members were requested to provide comments on the redraft of Bulletin 1997/1 on abbreviated accounts to test the approach.