

MEETING SUMMARY

MEETING OF: APB SME audit sub-committee

DATE AND

TIME: Thursday 10th March 2011 at 11.00am

PLACE: Aldwych House - London WC2

PRESENT:

Jayne Clifford	Robert Holland
Lorcan Colclough	Len Jones
Richard Fleck (Chairman)	Prof Neil Marriott
Marek Grabowski	Des O'Neill
Sara Harvey	John Tiltman
Sandra Higgins	

Staff: Hazel O'Sullivan

APOLOGIES:

Ian Davies	Jane Grant
James Ecclestone	Martin Ward

1. Introduction

Richard Fleck explained that a number of current initiatives were aimed at deregulation in the SME sector. In particular, changing the audit threshold and introducing an alternative reporting regime for micro-entities would result in an overall benefit for UK companies as the audit and accounting regime could be tailored more towards larger entities. The impact of such changes on non-corporate entities would need to be assessed before considering how they might be implemented in other regulated areas.

Richard Fleck introduced a number of other activities in which the APB is currently engaged, leading to the following points being made in discussion:

- Feedback on the EU Green Paper is unlikely to come before November and changes will be focussed on larger entities and firms. There remains a desire in the EU to reduce the burdens on SMEs.
- APB will review the basis for a different approach to the adoption of ISA 700 in Ireland so that the clarified version of ISA (UK and Ireland) 700 is applied in Ireland as soon as is appropriate.
- Understanding the nature of professional scepticism and its role in the conduct of an audit is just as important in the SME sector as elsewhere in the audit market.

2. Compilation and review engagements

Marek Grabowski introduced the two APB response letters to IAASB consultations on compilation and review engagements.

In discussion it was noted that both letters might emphasise more that it should be very clear in reporting and in setting the scope and purpose of an engagement that a compilation/review engagement is not an audit. This might also be achieved in marketing the different products by accounting firms, although this is unlikely to be reflected in the standard.

Some concern was expressed over recommending that the compilation engagement standard should anticipate it being made mandatory in different jurisdictions. It was suggested that it be made clearer that this recommendation related only to certain categories of circumstance where the use of such a standard might be appropriate (e.g. in regulated sectors, such as charities, where there was a clear public benefit to the use of a standard). In non-regulated areas sub-committee members agreed that the use of a standard may help to raise the profile of professional accountants, but it would be better to leave it to the market to decide on its appropriateness.

Different views were expressed as to the wording of a compilation report. It was thought that the use of a shorter report which is clearly different from an audit report would speed up the educative change needed in users. However, others thought that the report needs to be clear about what work the accountant has done and a shorter report may leave greater uncertainty in this respect. It was noted that if the use of the standard meant that the wording of the report was constrained according to the requirements of paragraph 37 (i.e. that it should include the responsibilities of management, the responsibilities of the practitioner, a description of what a compilation entails and additional information in the case of special purpose financial information), this might be a reason why the standard would not be widely adopted internationally.

Other detailed points raised on the draft compilation standard were:

- The standard is unclear that it could apply to a wide variety of engagements, particularly as the illustrative reports are all geared towards statutory type reporting.
- The proposal for the directors to acknowledge their responsibility for the accounts at the end of the engagement need not come in the form of a letter, but could be made in the director's report (or equivalent).

On review engagements, it was recognised that there is a need for a standard as such engagements are widely undertaken in some jurisdictions. However, sub-committee members felt that the assurance framework made it difficult to write a standard for a limited assurance engagement. Problems that were identified with the current approach included:

- The approach needs to be markedly different to an audit, but the references to 'sufficient and appropriate evidence' mean that this is not the case;
- The resulting standard is not clear about the level of work involved in an engagement. In the UK the implementation of such a standard would

require more guidance in order that effective monitoring could be carried out;

- It is unclear how the practitioner will be able to gain the appropriate level of knowledge about the entity in order to make the necessary assessments as required by the draft standard where there is not an on-going relationship of an audit nature.

It may help to understand the extent of work involved in current review engagements through information on fee levels relative to audit fee levels. This may be information that could be gathered by IAASB through the national standard setters group.

3. ISA implementation survey

Richard Fleck outlined that this survey was intended to provide a broad idea about the scale of change that has been associated with the introduction of the clarified ISAs (UK and Ireland) and, if this is large, to identify specific areas where issues exist. A number of practitioner sub-committee members, who had not already provided nominations, committed to providing input from one or two audits each on this basis.

4. Guidance for directors on accounting records

Richard Fleck explained that the recent ICAEW paper confirmed that there had been no change in the requirement to keep accounting records when the description of such records was changed in legislation from 'proper' to 'adequate'. Some concern was expressed over the wording of paragraph 14 of the guidance, as the level of 'organisation' of vouchers and documents in some entities was limited. However, it was recognised that the guidance on being able to construct a trial balance was helpful as this distinguishes between entities of different sizes: in the SME sector, the completeness of the vouchers and documents is the most important aspect. Sub-committee members noted that it was not necessarily in the public interest for accountants to disassociate themselves from their clients where they need help in reaching an appropriate level of organisation and in consistently applying accounting policies where judgment is required. It was thought by some members of the sub-committee that future inspection of books and records by HMRC is likely to lead more entities to pay attention to this guidance.

5. Next meeting

The next meeting will be held on Thursday 9th June. It was agreed that the September meeting would not be necessary.