

MEETING SUMMARY

MEETING OF: APB SME audit sub-committee

DATE AND

TIME: Wednesday 3rd June 2010 at 11.00am

PLACE: Aldwych House - London WC2

PRESENT:

Ian Davies	Sara Harvey
Alan Donaldson	Peter Hollis
James Ecclestone	Prof Neil Marriott
Jane Grant	Martin Ward
Jon Grant	

Staff: Hazel O'Sullivan

In attendance Jo Iwasaki

APOLOGIES:

Malcolm Bacchus	Marek Grabowski
Jayne Clifford	Robert Holland
Lorcan Colclough	Des O'Neill
Richard Fleck	Valerie Steward

1. Introduction

Jon Grant welcomed Ian Davies who was attending his first meeting and expressed thanks to retiring members of the sub-committee (Malcolm Bacchus, Alan Donaldson, Peter Hollis and Val Steward).

Apologies were received from a number of people as the meeting had been re-arranged from a later date. Jon Grant explained that both Richard Fleck and Marek Grabowski were unable to be at the meeting as they were at a National Standard Setters meeting which had been re-scheduled from April when travel difficulties had been experienced.

Jon Grant provided an update on APB's activities since the last meeting. Future events and publications that will be relevant to the APB SME Audit sub-committee are:

- A forum on reviews and compilations which will be held in the morning of 21st July. Invitations will be sent to sub-committee members.
- An EC Green Paper on auditing to be published in the autumn. This is likely to provide a topic for discussion at the next sub-committee meeting.

2. Update on consultation on Audit Firms Providing Non-audit Services to Listed Companies that they audit

Jon Grant outlined the background to this consultation which resulted from a Treasury Select Committee recommendation that the FRC consult on a prohibition on audit firms conducting non-audit work for the same company. Approximately 150 responses had been received and APB is planning to issue an exposure draft on amendments to the Ethical Standards and a further consultation on specific issues in July.

In a review of the actions that were being proposed or consulted on the following points were relevant to SME audited entities:

- Non-audit services for SME clients will often be greater in value than the audit fee, although the split between the services is sometimes difficult to distinguish. It would be impractical for firms to set out a procedure requiring a review by the Ethics Partner to be undertaken in all situations where this was the case. Consideration would be needed to how the additional requirements relating to the Ethics Partner apply to smaller audit firms.
- Some extended audit services had been provided to SME clients, although their identification might lead them to be included as part of the audit approach. Care will be needed so that accounts preparation is not encompassed in the definition of extended audit services.
- In the SME sector, the auditor is sometimes involved in restructuring services, although the partial prohibition requirement was thought to be workable. Where an SME is 'in distress', there are rarely opportunities for a restructuring and this often leads to insolvency.
- In family businesses there are a variety of people who may have an influence on the management and it may be difficult to identify all of them.

3. IAASB project on reviews and compilations.

Research by the Open University was reviewed and a number of points were noted about its usefulness which would be passed on to POB.

The discussion on the IAASB project concentrated on the compilation engagement standard. The following key points were made:

- (i) The scope of the standard appeared to be too wide and unclear. One of the consequences is that a variety of services which practitioners currently provide may be considered to be a compilation and therefore would require practitioners to follow the detailed standard. Also the standard appeared to be drafted to address a wide variety of engagement circumstances which makes it very long. A number of options to limit the scope were discussed, including (a) applicable only when the practitioner needs to attach a report (e.g. external users exist), (b) the use of a widely recognised published accounting framework, (c) limiting it to only incorporated entities, (d) limiting it only to the preparation of annual [statutory] accounts. Greater clarity is needed on

what the scope of the ISRS is. In particular, there continues to be circularity in the objectives of a compilation engagement and in some of the definitions.

- (ii) In the UK compilation engagements are typically undertaken for relatively small entities. However, the standard seems to be addressed to a wide variety of engagements including much larger or sophisticated entities where an underlying trial balance (or similar information) is provided by management for presentation by the accountant. In practice UK accountants would not tell management what they should do, but would simply make amendments themselves if appropriate, and present a set of accounts at the end of the engagement. Many of the related requirements presume that management make decisions over the financial information and practitioners challenge these. Such requirements are more akin to review type procedures rather than compilation related procedures.
- (iii) The preconditions for a compilation engagement and the need to agree the financial reporting framework, intended use and distribution (which are difficult to define in practice, especially for unincorporated businesses) in the engagement letter make the performance of the engagement too restricted.
- (iv) The requirement to follow ISQC 1 adds significant cost to these engagements.
- (v) More could be included on what it means to follow the IFAC Code of Ethics for Professional Accountants, in particular with reference to the need for professional competency and due care which sub-committee members considered to set the bottom line for compilation engagements.

4. Next meeting

New members for the sub-committee to replace those rotating off will be sought from the accounting bodies before the next meeting which is scheduled for Tuesday 2nd November.