

MEETING SUMMARY

MEETING OF: APB SME audit sub-committee

DATE AND

TIME: Wednesday 4th July 2007 at 11.00am

PLACE: Aldwych House - London WC2

PRESENT:

Richard Fleck (Chairman)	Robert Holland
Malcolm Bacchus	Peter Hollis
John Brace	Prof Neil Marriott
Jayne Clifford	Des O'Neill
Jane Grant	Martin Ward
Jon Grant	

Staff: Hazel O'Sullivan Keith Billing

In attendance: Julian Rose, Paul George (agenda item 4)

APOLOGIES:

Alan Donaldson	Martin Longmore
James Hunt	Valerie Steward
Craig Jenkins	

1. Introduction

Jon Grant welcomed Des O'Neill as a member of the sub-committee, following his nomination by ICAP.

2. Review of APB Ethical Standards for Auditors

Hazel O'Sullivan gave an outline of the approach which is being taken to the review of ethical standards. One of the key issues that will be considered as part of this review is the approach to ES – PASE. Research indicates that two provisions of this standard in particular have been used by practitioners over the past two years. APB's proposed approach is to maintain the status quo, but integrate the provisions into ES 1 to 5. The following points were made in respect of each provision:

- *Economic dependence.* There could be more guidance on the threats arising from individual partners within larger firms being dependent on one client. More flexibility may be needed on the set up of new audit firms; the economic dependence provisions in ES 4 should be kept under review in the future as the number of registered auditors is likely to decrease. Material from the FAQ on sole practitioner income should be incorporated into ES 4.

- *Self review threat.* Further guidance on what is necessary for there to be 'informed management' is needed.
- *Management threat.* Where a firm is considering use of this provision, the audit engagement partner might encourage the client to consider alternatives to an audit (if one is not required by regulation), where the threats to independence are significant.
- *Tax advocacy threat.* Most members of the sub-committee thought that the relief should be retained. The usage level is misleading as only a small percentage of companies go to a tax tribunal. In practice there may be little difference in the work undertaken to that involved in dealing with tax enquiries by the Revenue. A consistent approach to all existing ES - PASE provisions would be easier to justify.

3. Finalisation of Practice Note 26 - Guidance on Smaller Entity Audit Documentation

Hazel O'Sullivan gave a summary of the comments made about this document and plans for how it would be released. The sub-committee acknowledged that APB may be reticent to accept a wide remit for implementation guidance, but in respect of the illustrative examples given, it was noted that accounting standards include examples in a similar style. A number of amendments were suggested to the document, which will be presented for finalisation at the July APB meeting. It was thought that none of the material from Practice Note 13 need be included as SME guidance in the Clarity ISAs following the withdrawal of this document.

There was a discussion on the training need for smaller firms, during which the following points were made:

- Some kind of interaction between APB and training suppliers in the future would be useful. An event for training suppliers (with APB staff involvement) is being organised in October 2007 by ICAEW. It would be valuable if other bodies were also involved in this.
- The accountancy bodies should have a role in relation to training in auditing standards and could influence the CPD undertaken by practitioners through effective monitoring of individual CPD records.
- There are two areas of training need:
 - Improvements in connection with points that arise on a regular basis from practice reviews by QAD and other bodies.
 - Where new standards come out, an awareness only of the changes is not sufficient. Training also needs to cover interpretation and application.

4. Update on CCAB compilation report

Sub-committee members expressed disappointment at the illustrative wording provided by the CCAB working party in respect of compilation reports. There was a discussion as to whether there is a market demand for this kind of report to be available on the public record. It was emphasised that value can only be gained if the report includes some information on what it means to be a professional accountant, in order to provide a 'floor' for the debate on whether a review or similar type of engagement is required. It was not thought that the current draft wording achieves this.

5. IAASB Clarity Project

The following points were made on the three ISAs being reviewed:

- ISA 200 provides a top-level framework. Some of the paragraphs appear circular (for example, 21 and 24).
- Many of the overarching concepts have been moved to other standards and, as a result, ISA 500 has few requirements. This approach was broadly agreed, although the remaining text might also be moved, so that this ISA is no longer required. Alternatively points in relation to sufficiency of audit evidence, which are currently covered in ISA 330 might be transferred to this ISA.
- In respect of ISA 250, paragraphs 17 and 18 could be better linked.

The next sub-committee meeting is likely to involve a large number of ISAs for review. It was agreed that these would be shared around the group, so as to minimise the volume of material for individual members.

6. Next meeting date

The next meeting is due to be held on Thursday 4th October 2007.