

MEETING SUMMARY

MEETING OF: APB SME audit sub-committee

DATE AND TIME: Wednesday 4th October 2006 at 11.00am

PLACE: Aldwych House - London WC2

PRESENT:

Richard Fleck (Chairman)	Jon Grant
John Brace	Peter Hollis
Jayne Clifford	Robert Holland
Alan Donaldson	James Hunt
Alan Farrelly	Craig Jenkins
David Finch	Prof Neil Marriott
Jane Grant	Valerie Steward
	Martin Ward

Staff: Hazel O'Sullivan Keith Billing

In attendance: Dries Schockaert - IRE, Belgium (agenda item 4)

APOLOGIES: Malcolm Bacchus Martin Longmore

1. Introduction

Jon Grant gave a summary of APB activities. It was agreed that it would be useful for this sub-committee to have a discussion on the Audit Quality discussion paper at the next meeting, with a view to developing the issues in relation to SME audits.

2. Review of sub-committee role and membership

Jon Grant summarised the background to the sub-committee being set up. A number of benefits that had been experienced by APB were identified:

- The UK has been able to make an impact internationally, for example, in the SME guidance to be included in clarified ISAs;
- There has been a greater clarity of thinking on SME issues, such as the debate on the ICAEW Assurance Service.

Sub-committee members gave the following observations:

- Members felt that their voice was being listened to constructively.
- There was a value in having contributions from members of different professional bodies. Equally, the fact that there was representation from small business and the academic and training world was valuable.

- Although feedback was provided to each professional body, members brought an independent view to the discussions.
- One debate for the future might be the divergence between the needs of small and medium sized entities.

It was agreed that the sub-committee would be continued in its current form for a further two years as it is likely that there will be a number of issues for this group to consider. It would be worthwhile to review representation from other constituencies, in particular the not-for-profit sector. There would be communication with each member to ascertain whether they would be happy to continue in this role. In due course, the professional bodies will be informed.

3. ICAEW Assurance Service on Unaudited Financial Statements

The chairman started by emphasising that the FRC's interest in this area is limited to public reporting. Consideration of the value of the ICAEW assurance service needs to be seen in the context of other developments including POB's work on compilation reports. Some members of the sub-committee expressed the view that:

- While this may be an appropriate time for an alternative assurance service to be developed, they were not sure that this was the right product. Some favoured positive assurance on specific elements in the financial statements.
- There was a danger that the review service would confuse external users especially if it was to be promoted to the banking community.
- It would be unhelpful if the other accountancy bodies were to respond by developing rival services.
- Market demand for the new service was unsubstantiated. The ICAEW research was very limited.

It was agreed that the development of any communication with the ICAEW would need to be co-ordinated with other parts of the FRC. A copy of such communication would be sent to sub-committee members.

4. Smaller Entity Audit Documentation Guidance

Hazel O'Sullivan outlined the approach that had been adopted in the development of the document. The following points were made:

- The example on the team discussion would be expanded to include a consideration of fiscal fraud.
- An update will be made before publication as an exposure draft to incorporate any messages that have been developed and published by IAASB on the approach being taken in newly 'clarified ISAs'.
- The appendix provides valuable practical guidance. The consultation paper should seek views on this, having explained why APB is issuing this material (i.e.:

- It is difficult to explain appropriate documentation in any other way.
- If others were to develop this material, it is unlikely that a consistent approach would emerge.)

Jon Grant will discuss how to obtain the views of IAASB, most likely by sending a copy of the exposure draft.

5. Practice Note 13

It was agreed that it would be recommended to APB that they should issue the exposure draft on documentation as Practice Note 26 and PN 13 would be withdrawn at the same time. Within the consultation document, specific questions would be asked about:

- What format the final Practice Note might take, recognising that there is also currently IFAC work on SME audits and SME guidance being included in the 'clarified ISAs' by IAASB.
- How valuable would practitioners find guidance of the type in PN 13.

6. APB implementation survey

The following points were made about the proposed approach to an implementation survey:

- A survey of 15 firms is not representative of the population as a whole.
- Interviewees might be reticent about certain points if they were being interviewed by a competitor or APB staff – it is probably best if this type of survey is undertaken independently.
- In-depth interviews should not start with the questions being shown to the interviewee.
- Identifying interviewees from members' own contacts will introduce bias, but it might be difficult to persuade others to participate.

An alternative option of using a focus group format was discussed, noting that such a meeting would need to be more unstructured and involve staff from a variety of levels within the firms represented. It was agreed that APB staff would rethink the proposed approach, perhaps to apply a mix of approaches in order to determine which worked best for a fuller exercise in 2007.

7. Practice Note 15

Jon Grant outlined the development of the Practice Note, which incorporates a variety of updates. One particular point of note was that in reporting on the statement of contributions, the auditor considers materiality, whereas before there was no such consideration. Sub-committee members who had pension scheme clients were asked to consider the document and provide comments where appropriate.

8. Next meeting date

The next meeting is due to be held on Thursday 11th January 2007, starting at 11am.