

MEETING SUMMARY

MEETING OF: APB SME audit sub-committee

DATE AND TIME: Wednesday 4th October 2007 at 11.00am

PLACE: Aldwych House - London WC2

PRESENT:

Richard Fleck (Chairman)	Jon Grant
Malcolm Bacchus (items 1 and 2)	Robert Holland
John Brace	Peter Hollis
Jayne Clifford	James Hunt
Alan Donaldson	Martin Longmore
Jane Grant	Valerie Steward

Staff: Hazel O'Sullivan Keith Billing

APOLOGIES: Prof Neil Marriott Martin Ward
Des O'Neill

1. Introduction

Jon Grant provided an update on the CCAB compilation report. Sub-committee members expressed disappointment at the lack of progress that had been made. Sub-committee members expressed a concern that, as market forces lead more companies to take advantage of the audit exemption, there is likely to be a further decline in the standards of financial reporting. These quality problems may be exacerbated if the EU goes ahead with its simplification proposals. It was thought that an alternative assurance product and a consistently agreed compilation report may help to solve some of these issues.

A summary of APB activities since the last meeting was reviewed. Input will be sought from sub-committee members on the drivers of audit quality when the feedback paper on responses to 'Promoting Audit Quality' is published.

Jon Grant noted that Craig Jenkins had tendered his resignation from the sub-committee. The Chairman expressed his gratitude for Mr Jenkins' contribution since the inception of the sub-committee. It was agreed that further representation from the small business community should be sought.

2. Review of APB Ethical Standards for Auditors

Jayne Clifford gave a summary of the ICAS research that had been published earlier in the week.

Richard Fleck outlined the approach that had been taken to ES – PASE. The integration of ES – PASE into ES 1 to 5 had been explored with the APB but this proved problematic and APB had decided that ES – PASE would continue as a stand-alone document.

Hazel O’Sullivan summarised the clarification that had been added to the draft revised ESs on informed management. Useful suggestions were made on some amendments and further guidance was requested on the documentation that is required.

3. IAASB Clarity Project

Peter Hollis gave a summary of the points that had been made on the discussion forum in relation to ISQC 1:

- Much of the material included in the green paragraphs represents guidance rather than requirements. Many of the requirements related to how to carry out a policy, rather than the outcome that is sought to be achieved.
- ISQC 1 had impacted inspections of firms much more than the ISAs. It was suggested that the exposure draft be discussed with QAD and the ACCA Monitoring Unit.
- A distinction might be made between a hot review that is undertaken on a small audit and full engagement quality control review. The additional requirements relating to engagement quality control reviews could act as a deterrent from performing hot reviews in smaller audit firms.
- Guidance could be added that policies and procedures in small firms might constitute a simple ‘rule’ for staff.

John Brace summarised the points made in connection with ISA 220. It was recognised that much of the material overlaps with ISQC 1 and also accountancy body material, which may prove confusing. The objective and paragraph 2(a) are inconsistent and regulatory requirements are not relevant.

Robert Holland outlined that there were no points to be raised on ISA 510 but on ISA 530 commented that:

- The objective is tortuous.
- Paragraph 10 is not needed and suggests that replacement items might be sought in cases where a selected item actually represents a deviation.
- In the case of small audits, a link to ISA 500 may be required to emphasise that sampling may not be appropriate, as substantive testing may cover a large proportion of the population in any case and controls may not be sufficiently robust to warrant testing on a sample basis.

4. Charity Commission Independent Examinations

Jon Grant outlined the background to the APB's interest in the Charity Commission's Independent Examination regime. Each of the draft Directions was reviewed and the following comments were made:

- Each of the Directions would benefit from being reduced to one short sentence with guidance providing any necessary distinction between company and charity requirements.
- Direction 1 should emphasise that the examiner will use preliminary information available in making the assessment, prior to undertaking any detailed work. In 1.1 the requirement to 'be satisfied' is not appropriate.
- Direction 2 and associated guidance needs to be clear that the examiner will not look at internal control as part of their work.
- The guidance under Direction 5 should make it clear the type of situation that constitutes a 'material failure'.
- The word 'detailed' in Direction 7 may suggest an inappropriate level of work.
- In Direction 8:
 - 'compliance' may be more appropriate than 'consistency';
 - the words 'consider' and 'review' may not be appropriate; and
 - 'significant' might be replaced by 'important' as professional accountants might attach an inappropriate specific meaning to this term.

Val Steward said that she would try to attend the working group meeting on 17th October to discuss the APB comment letter.

5. 2008 meetings

Jon Grant outlined the agenda for the sub-committee in 2008, which might include:

- Completion of the sub-committee's input to the IAASB Clarity project (ISAs on confirmations and experts will be reviewed at the next meeting) and the Review of the ESs.
- Input to the IFAC SME guidance on ISAs.
- Contributions to work on compilation reports and other assurance services.

It was agreed that three meetings would be sufficient.