

MEETING SUMMARY

MEETING OF: APB Ethics sub-committee

DATE AND

TIME: Thursday 5th November 2009 at 10.00am

PLACE: Aldwych House - London WC2

PRESENT:

Richard Fleck (Chairman)	Peter Hughes
Tony Bromell	Andrew Jones
Alyson Coates	Michael McKersie
Jon Grant	Tom Troubridge

Staff: Hazel O'Sullivan

In attendance: Paul George
Oliver Tant (for introduction to agenda item 2 only)

APOLOGIES: Graham Pimlott
Minnow Powell

1. Introduction and minutes

Richard Fleck summarised developments since the last meeting of the sub-committee on 25 August. He noted that the Audit Quality Forum was holding a meeting on 24 November to discuss the APB consultation on non-audit services.

The summary of the previous meeting was agreed.

2. Provision of extended scope audit services

Oliver Tant outlined KPMG's approach to the provision of extended scope audit services. He emphasised that this type of service has been developed in response to market demand for better value from the audit. He explained that reducing the duplication between internal and external audit allows internal audit resources to have more time for other activities, thereby adding to the overall assurance provided. The type of work undertaken as part of the extended work is of a normal audit nature with any additional testing agreed being restricted to financial controls.

In discussion the following points were made without any conclusions being formed at this stage:

- Some held to the view that the service had implications both for corporate governance and external auditor independence.

- Duplication of work carried out by internal audit may not always be a bad thing as sometimes there is benefit in two groups addressing the same issue in different ways.
- Currently external auditors are accustomed to liaising with internal audit to determine what reliance can be placed on internal audit and this may influence the overall scoping and division of work between internal and external audit.
- Extended external audit services may create a blurring of the internal and external audit roles and a change in the nature of the relationship between the two. The extent of direct audit committee involvement in the extended scope external audit work is important in determining who the work is undertaken for.
- Press comments suggest that there may be a perceived loss of auditor independence. The perception is likely to grow the more work is performed by the external auditor.
- The nature of the extended audit service (structured set of procedures with separate reporting and possibly a separate engagement letter) might indicate that this is a non-audit service.
- While the initial arrangements may seem to be acceptable there is a danger that the nature and extent of the work performed and the relationships will change over time.
- There may also be a difference between working on financial controls at a small overseas subsidiary and work on operational controls at a core operation.

3. XBRL and APB Ethical Standards

Jon Grant set out the background to the planned use of XBRL in the UK by HMRC and Companies House. It was thought that the restricted use of XBRL tags in the immediate future should not present a major problem for auditor independence. However there was a concern that work performed by the audit firm in year one will 'anchor' the tagging for subsequent years. Independence issues are likely to increase over time as the XBRL tags are used for purposes other than filing tax information.

4. Business relationships

Jon Grant explained that there was a concern relating to whether the provisions of ES2 paragraph 28 were consistently applied by all firms. In discussion it was observed that the issues arising relate more to confidentiality and conflicts of interest than auditor independence. It was agreed that there may be benefit in clarifying the relationship between ES2 and ES5 on this issue and this would be considered at the time that changes to ES5 are next considered.

5. Any other business

The sub-committee noted the FEE publication on Integrity and agreed that it was not necessary for APB to comment on it.