

MEETING SUMMARY

MEETING OF: APB SME audit sub-committee

DATE AND

TIME: Tuesday 12th February 2008 at 11.00am

PLACE: Aldwych House - London WC2

PRESENT:

Malcolm Bacchus	Peter Hollis
Jayne Clifford	James Hunt
Alan Donaldson	Martin Longmore
Jane Grant	Des O'Neill
Jon Grant	Martin Ward
Robert Holland	

Staff:

Hazel O'Sullivan	Keith Billing
Steve Leonard (item 6)	

APOLOGIES:

John Brace	Prof Neil Marriott
Richard Fleck	Valerie Steward

1. Introduction

During a discussion on current APB projects, it was agreed that topics for discussion at the June meeting should include:

- Discussion Paper on the Auditor's Report;
- The FRC Audit Quality Framework and whether any adaptation is needed for smaller entity audits.

In a discussion on the 'credit crunch' sub-committee members reported their views on what is happening in practice. It seems that banks are becoming more demanding in terms of the information they request and covenants are being made more rigorous. There are also particular issues relating to the construction industry.

2. IAASB Clarity Project

A number of clarity ISAs were discussed and a number of points were raised, including:

ISA 501	<ul style="list-style-type: none">• Many of the elevated paragraphs would be better as guidance, particularly in respect of litigation which is a subjective area where prescription is not helpful.• The meaning of 'inventory' should be clarified. Does this, for example, include houses in the course of construction? Also, there is
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	<p>no significant material currently included on work-in-progress considerations.</p> <ul style="list-style-type: none"> • In paragraph 8 it needs to be clearer that the auditor needs to obtain a satisfactory confirmation or perform other procedures.
ISA 402	<ul style="list-style-type: none"> • The ISA should be explicit that there is no intention for it to apply to services provided by the audit firm (e.g. accounts preparation or payroll). • It would help to have more emphasis on audit procedures that can be performed at the user entity before consideration is given to obtaining reports from the service organisation's auditor. • Material in paragraphs 12 to 17 is not particularly relevant to SME audits, but paragraph 18 is. It might be better to move this paragraph further forward in the document.
ISA 265	<ul style="list-style-type: none"> • There is a need for SME guidance in this ISA as the current material assumes a much larger audited entity. It was agreed that draft suggestions covering material such as informal reporting, repeating prior year weaknesses, inherent problems in relation to the segregation of duties and control structures operated by management will be circulated for comment by sub-committee members. • Paragraphs A6 and A7 push the auditor to report all deficiencies rather than to report on a category of deficiencies, which will often be more appropriate in a smaller entity. • Paragraph A18 appears to be inconsistent with paragraph 6b.
ISA 620	<ul style="list-style-type: none"> • Paragraphs 10 and 12b are too prescriptive and may be impractical to comply with. • Auditors will find it hard to assess aspects of the expert's work (e.g. paragraph 12b). • Experts are rarely used in an SME audit. • In the conforming amendments to ISA 500 paragraph A30g is an important consideration but may prove difficult to achieve in practice.
ISA 505	<ul style="list-style-type: none"> • A number of paragraphs could be improved. For example, the second sentence of paragraph 3 is too long and paragraphs 10 and 11 could be combined. • As negative confirmations are of limited value and not done often, it might be better to move paragraph 14 to guidance (although this would lose the mandated restrictions on the use of negative confirmations). • Paragraph 15 is already covered by paragraph 7e (although it should be made clear that 7e is not part of controlling the requests and responses).

3. Consultation on group audits

In respect of the introduction of clarity ISAs, such as ISA 600 on group audits, members of the sub-committee agreed that a 'big bang' approach is preferred to the introduction of new standards one by one. The reliance of many

auditors on methodology and training provided by a third party means that one update is better than many. If new ISAs were introduced as guidance, there is the risk that this would not be followed consistently, leading to confusion amongst the profession.

4. Adoption of Clarity ISAs – Regulatory Impact Assessment

Jon Grant explained the background to a need for information on the costs associated with the implementation of the clarity ISAs. It was agreed that any RIA should consider both the one off implementation costs (for example, training, new manuals and on-the-job learning associated with implementation which may continue for two to three years) and the on-going additional costs. Information from recent experience with the introduction of ISAs (UK and Ireland) may help with the estimation of the implementation costs, but help is also needed from practitioners on the on-going costs.

The sub-committee discussed possible options for obtaining information on cost impacts and concluded that pilot testing on actual audits is likely to be impractical. It was agreed that members of the sub-committee would consider whether they would be able to hold a discussion within their firms, attended by APB staff, on the substantive differences in the clarity ISAs. This would enable an estimate to be made of the costs associated with these differences and would also mean that the individuals attending the discussion would be well prepared for the changes in the future.

5. Compilations and reviews for small companies

Sub-committee members confirmed that they have been invited to the CCAB event in late February. It was agreed that the accountancy bodies need to come to an agreement on the issues, but that there are differing views. The view was expressed that to date there has been no demand from business or the profession for a compilation report, but others took the view that some form of public report on accounts compiled by professional accountants might prove to be valuable for a number of reasons.

This topic will be revisited at the next sub-committee meeting in June. A concern was expressed that there is little public information about some of the FRC's activities relating to auditing and accounting practice in the SME sector.

6. Draft APB Bulletin - Reporting under the small and medium sized companies regimes (including the special auditor's report on abbreviated accounts) in the United Kingdom

Steve Leonard explained the background to the development of this Bulletin and the alternative regimes that are available for filing accounts under the Companies Act 2006. The following points were made:

- What happens in practice will depend largely on accountancy software providers since producing abbreviated accounts for filing currently carries no extra cost.
- The filing of a balance sheet, associated notes and the auditor's report provides more information, but the auditor's report would not make much sense. However, it is important that auditors are made aware that their report could be used in this way.
- The auditor's procedures on abbreviated accounts were thought to be appropriate.

7. IFAC SMP Implementation Guide

The IFAC Guide to using ISAs in the audits of small and medium sized entities was distributed to sub-committee members. It was agreed that this would be reviewed at the June meeting, with particular attention paid to the case study material and the associated questions posed by APB staff.

8. Next meeting

The next meeting will be held on Thursday 12th June.