

Audit and Assurance Council

Minutes of a meeting of the Audit and Assurance Council of the FRC
held on 5 September 2012 at Aldwych House, 71-91 Aldwych, London WC2B 4HN

PRESENT:

Members	Nick Land Russell Frith John Hughes Scott Knight Paul Lee Robert Talbut Allister Wilson	Chair
Observers	Pat Sucher Aidan Lambe	Financial Services Authority Institute of Chartered Accountants in Ireland
Staff	Melanie McLaren Marek Grabowski Keith Billing Jon Grant	Executive Director, Codes and Standards Director, Audit Policy
In attendance	Oliver Holt	(For items 3 and 4)

APOLOGIES

Members	Sue Harris Ray King	
Observers	Ian Drennan R Rottenberg	Irish Auditing and Accounting Supervisory Authority UK, Department for Business, Innovation and Skills

1. Introduction

- 1.1 The Chairman welcomed everyone to the first meeting of the Audit and Assurance Council and in particular Scott Knight, who had not been a member of the Auditing Practices Board, and Aidan Lambe who has agreed to be an observer and give input on matters of relevance to Ireland. It was explained that, having only recently been appointed members, Sue Harris and Ray King were unfortunately unable to attend the meeting at what was, for them, relatively short notice.

2. Report of the Director of Audit Policy

- 2.1 Mr Grabowski introduced his report. Particular attention was given to the following matters.

IAASB – Auditor Reporting Project

- 2.2 It was noted that the IAASB project is driven, and to an extent limited, by the IAASB's remit. The FRC has a wider remit and is able to look at corporate reporting and reporting by auditors on a more holistic basis, as it is doing in the Effective Company Stewardship (ECS) project.
- 2.3 The AAC working party that is considering how the FRC should respond to the IAASB's proposals is reflecting this more holistic approach in the example reports it is developing. These examples are intended to build on, rather than depart significantly from, the IAASB's proposals. The FRC executive will be discussing the example reports in meetings with stakeholders during September and early October and will inform the working party on a timely basis of key points raised.
- 2.3 It was observed that there is a risk that the expanded auditor reports could result in increased boiler plate text and the examples should seek to avoid this as far as possible; for example with descriptions of the significant risks identified by the auditor in relation to the particular audited entity and its circumstances. Information given in the reports should help investors start a dialogue with management and the auditors about the audit.
- 2.4 One particular concern raised in connection with the IAASB approach is the proposed loss of emphasis of matter paragraphs, which could make it more difficult for the auditor to highlight very significant issues when considered appropriate to do so.

IAASB – Proposed Revision of ISA 720

- 2.6 Mr Grabowski outlined the proposals of the IAASB in revising ISA 720, which addresses the auditor's responsibilities relating to 'other information', and asked for views.
- 2.7 There was some discussion of what documents were 'in scope'. It was generally agreed that the criteria set out in the proposed revised standard were clear, but it was questioned whether a document that would not be available until after the date of the auditor's report could ever meet scope definition given that it would need to be prepared 'in connection with the initial release of the audited financial statements'.

PN 14 – Housing Associations

- 2.8 The proposed approach to updating PN 14, starting with a 'blank sheet', was noted and that care would be needed to avoid omitting something of importance. Notwithstanding this, it was agreed that it was appropriate to explore this approach. The executive working on the revision would be alert to areas where consistency with other current guidance might need to be considered.

AAC Away-day

- 2.9 Mr Grabowski explained that some alternatives to the proposed date for the away-day would be circulated soon to see if a date better suited to more of the members and observers could be found. However, the current planned date of 30 October (with dinner the night before) should be held in diaries in case it turns out to be the best option.

3. Effective Company Stewardship

- 3.1 Mr Grabowski introduced the paper and the proposed changes to finalise the revisions to the auditing standards.
- 3.2 The summary of the main issues raised on consultation was considered and their proposed disposition was agreed. There was discussion of whether it was appropriate to introduce a materiality consideration in relation to identifying incorrect information and it was concluded that it was.
- 3.3 Subject to any conforming amendments necessary in relation to any changes to the UK Corporate Governance Code and the Guidance for Audit Committees, the AAC confirmed its advice to the FRC Board to approve the proposed revisions to the standards.

4. ISAs (UK and Ireland) 700, 705 and 706

- 4.1 Mr Grabowski introduced the paper and the proposed changes to finalise the revisions to the auditing standards.
- 4.2 The summary of the main issues raised on consultation was considered and their proposed disposition was supported, subject to processing the agreed minor drafting points and the following.
 - There had been some support from respondents to maintain the description of the scope of an audit of Irish private sector entities on the FRC website. There were no objections to maintaining this on either the FRC or IAASA websites. The executive will resolve this in consultation with the authorities in Ireland.
 - The wording of paragraph A10 in ISA (UK and Ireland) 700 explaining that UK and Irish law follow similar principles needs refining. The executive will resolve this in consultation with the authorities in Ireland and having regard to the guidance in this area in the Foreword to Accounting Standards
- 4.3 Subject to the executive resolving the above points, the AAC confirmed its advice to the FRC Board to approve the proposed revisions to the standards.

5. Irish Auditor Reports – Proposed Compendium Bulletin.

- 5.1 Mr Grabowski introduced the paper and the proposed Bulletin.
- 5.1 Subject to final typographical and proofing checks by the executive, the AAC confirmed its advice to the Codes and Standards Committee to approve the proposed Bulletin.

6. PN 23 Auditing Financial Instruments – Proposed Consultation Draft of Updated Guidance

- 6.1 Mr Billing introduced the paper and explained the development of the proposed updated guidance which is based on the recently revised IAASB guidance supplemented with additional guidance from the current PN that is still believed relevant and new guidance in a small number of areas.
- 6.2 Some drafting points that had been raised after the agenda papers had been circulated were described and the proposed disposition of them was supported. A small number of other drafting points raised during the meeting were also supported.

- 6.3 It was noted that one member of the working party that assisted with the development of the updated PN had suggested that one element of the guidance should not be included on the grounds that it reflected a position that had not been widely discussed and agreed outside the FRC. This is the guidance in paragraph 140-1 that explains that disclosures are not deemed less significant simply by virtue of being disclosed in a note, rather than on the face of the primary statements, and the auditor needs to plan to obtain reasonable assurance about material disclosures on a consistent basis. Council members considered that this guidance was appropriate and its retention was supported.
- 6.4 The suggestion that the executive should request a member of the Actuarial Policy team to review the guidance relating to the use of models to check it is not inconsistent with the Technical Actuarial Standard on modelling was also supported.
- 6.5 Subject to processing the drafting points agreed during the meeting and any matters that may arise from the review by the Actuarial Policy team, the AAC confirmed its advice to the Codes and Standards Committee to approve the proposed Consultation Paper.

7. Influencing

- 7.1 Mr Grabowski referred to the update on FRC activities in relation to EU audit policy developments in his report and a brief update was provided on recent meetings. Further updates will be distributed between meetings where appropriate.
- 7.2 Mr Land reminded the attendees that contributions that could add to the FRC's intelligence would be welcomed.

8. Research

Role of the Engagement Quality Control Reviewer

- 8.1 Mr Grabowski introduced a paper that had been developed to assist consideration of whether the FRC should recommend changes to the requirements and guidance relating to the EQCR in its response to the IAASB's review of the implementation of the ISAs. The paper addressed concerns raised by the FRC's Audit Quality Review team about the quality of the documentation of the EQCR and the role of the reviewer.
- 8.2 In discussion it was identified that there are significantly varying views of what is the appropriate objective of the EQCR and the role of the reviewer. A working group will be established to explore this further in early 2013.
- 8.3 Council members were supportive of identifying this as an area of concern in the FRCs response to the IAASB's review of the implementation of the ISAs.

Specialists and Experts

- 8.4 Mr Grabowski introduced the paper that had been developed to assist consideration of whether the FRC should recommend changes to the requirements and guidance relating to the use of experts and specialists in its response to the IAASB's review of the implementation of the ISAs. The paper addressed issues identified by the FRC's Audit Quality Review team and by the executive during the development of updated guidance for auditors in the Practice Notes.
- 8.5 There was general support for the positions taken in the paper and the recommended action set out therein. This includes that it should be made clear in the auditing

standards that all individuals (including auditor's internal and external experts) who perform audit procedures (intended to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and enable the auditor to draw reasonable conclusions on which to base the opinion) should be a member of the audit team and should take appropriate direction from the audit engagement partner.

- 8.6 Council members supported the proposal that the FRC response to the IAASB's review of the implementation of the ISAs should cover this matter. A draft of the response is expected to be presented to the AAC for consideration at its next meeting.

Horizon Scanning

- 8.7 The following matters were noted:

- A BIS bulletin for directors and other executives drawing attention to cyber risks has recently been issued. Reference to cyber and IT risks will be considered in the update of the Turnbull guidance later this year.
- Reflecting on some of the major reputational corporate crises of the last few months, it seems that some industries may be better than others at getting their processes 'right' to minimise failures and to correct, and prevent repetition of, failures that do arise. This involves, amongst other things, evaluation of what failures may be deemed 'acceptable' and where the main effort should be focused on improving processes. Consideration could be given to what the auditing profession might learn from those industries that do this well.

9. Any Other Business

- 9.1 None noted.

10. Next Meeting

- 10.1 The next meeting is on Monday 1 October at the FRC's offices, commencing at 2.00pm (lunch available from 1.30pm).