



Minutes of a meeting of the Audit & Assurance Council held on Thursday, 13 September 2018 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

Sue Harris	Chair of Council
Olivier Beroud	Member
Mary Cleary	Member
Paul Cox	Member
Bryan Foss	Member
Jane Fuller	Member
Kari Hale	Member

In attendance:

Mark Babington	Deputy Director of Audit Policy
Anu Bhartiya	Committee Secretary
Keith Billing	Project Director
Kate Dalby	Project Director
James Ferris	Project Director

1. Welcome and apologies for absence

The Chair welcomed everyone to the meeting. Apologies were noted from Council Members Scott Knight, Stephen Oxley and Jerry Wedge and Council Observers Lisa Campbell (IAASA), Michael Gaull (PRA) and Lee Piller (FCA). The Chair informed that Stephen Oxley, whose term on Council comes to an end on 30 September 2018, is stepping down in view of his other work commitments. She recorded her appreciation for his contribution to the Council.

2. Declaration of conflicts of interests

There were none reported.

3. Minutes of the last meeting and rolling actions

Minutes

- 3.1 The minutes of the Audit & Assurance Council meeting held on 14 June 2018 were approved for publication.

Rolling actions

- 3.2 The matters arising log which included rolling actions from previous meetings was noted.
- 3.3 Ms Dalby provided a brief progress update on the project *Going Concern* which will assess whether the requirements relating to the auditor's work in this area are sufficient or need to be strengthened. The Council noted that the working group to support the project has been set up and the first meeting would take place in October 2018.

4. Chair's Update

- 4.1 The Chair provided an update on the matters considered at the Codes & Standards Committee meeting held on 20 June 2018, which included:
- A detailed discussion on *The Guidance on Strategic Report*;
 - The Actuaries' Code – the draft Guide;

- FEHE SORP and the Consultation on proposed amendments to the FRC Taxonomies.
- 4.2 The Council also received an update on the following matters:
- The FRC's submission to the call for evidence in respect of Sir John Kingman's independent review of the FRC;
 - The ongoing recruitment of members on the Council; and
 - The transitional arrangements of the Audit Division, following the departure of the Executive Director, Audit & Actuarial Regulation.
- 5. Audit & Assurance Team: Annual work plan 2019 - 2020**
- 5.1 Mr Babington introduced a paper that set out the projects to be delivered over the coming year. The Council noted that the work plan was separated into work that is driven by proposals developed at the international level and those that are FRC driven. However, the limited resources of the Audit & Assurance Team will require the careful prioritisation of work. The work plan will form the basis of the Team's contribution towards the overall FRC Strategy and Workplan.
- 5.2 The Council expressed concerns about the involvement of the ICAEW in the leadership of the project on the 'Future of Audit'. It was reported that the matter will be discussed at the Board meeting on 19 September 2018 which will determine the FRC's role in this workstream. Through discussion, the Council highlighted that the scope of the project should capture the need for assurance of information by investors and other users. It was also queried whether integrated reporting as set out by the International Integrated Reporting Council should be adopted as the model for narrative reporting. It was suggested that the FRC Chief Executive would be invited to the next Council meeting to provide an update on the two projects 'Future of Audit' and 'Future of Corporate Reporting'.
- 5.3 In response to a query as to which projects as set out in the paper would be prioritised for 2019-2020, the Council noted that the priorities would be aligned with FRC's Strategy and Workplan, which will be discussed by the Board in the coming months.
- 6. Revision of FRC SORP Policy**
- 6.1 Mr Babington provided a brief update on the revised SORP Policy and noted that the Corporate Reporting Council had discussed and supported the changes to the Policy.
- 6.2 In response to a query in relation to the purpose of the SORP Policy, it was clarified that the Policy sets out FRC's formal role with regards to SORPs and various processes to be undertaken by the SORP-making bodies for issuing and reviewing SORPs.
- 6.2 The Council agreed to give its advice to the FRC Board in support of the revisions to the Policy.
- 7. Audit Committee Chairs' Quality Survey 2018 - Results**
- 7.1 Mr Babington provided an update on the annual survey of Audit Committee Chairs which was conducted to gather feedback on audit quality. The results of the survey showed a slight drop in audit committee chairs' satisfaction with the focus, approach, risk assessment, mind-set, culture and professional skepticism of their auditors.
- 7.2 However, the overall message continued to be a positive one which is not consistent with the outcome of the FRC's AQR inspection work. With regards to this inconsistency, the Council debated the perspectives of both noting that an audit committee chair is more engaged in assessing the quality of key audit policy decisions, judgements and communication to facilitate better operation and reporting by the Board, whilst the AQR

inspection is a detailed review of documentation on audit file to assess compliance with standards. It was clarified that in the past couple of years, the work of the AQR has increasingly focused on the areas of judgement, risks and communication with audit committee and these are reflected in the AQR findings.

- 7.3 The Council noted that the outcome of the survey highlighted auditors' response to regulatory oversight and greater transparency of procedures. However, the survey does not bring out the benefits to the recipients of the information which may not only be the investors but also employees, suppliers and wider society. Therefore, it was felt there was more value in undertaking quality surveys such as 'confidence in audit' which was undertaken a couple of years ago or alternative questions were used for the audit committee chairs quality surveys to tease out better quality responses.
- 7.4 The Chair informed that the details of the outcome of the survey will be included within the 'Developments in Audit 2018' Report.

8. Developments in Audit 2018

- 8.1 Mr Ferris introduced the item and noted that the draft Report, since circulated to the Council, had been restructured following the Executive and the Conduct Committee meetings. The 'Enforcement' section has been shortened and the 'Future of Audit' section will be revised after the Board meeting on 19 September 2018.
- 8.2 The Council expressed a concern in respect of the FRC's Audit Quality Review inspections results which showed a fall in reported audit quality since last year. The Council felt that this is an ongoing concern that many of the issues identified from the inspections were recurring and audit firms have failed to address them successfully.
- 8.3 The Council considered the draft Report and through discussion, made a number of observations and suggestions, including the following advice that:
- A drafting amendment could be made within the Executive Summary in respect of audit fees to ensure consistency between the numbers and messages;
 - Greater emphasis could be placed on future audit projects. The Council noted that following the Board meeting on 19 September, there would be more clarity on this topic;
 - The Stakeholder Confidence in Audit section could present investors' comments in speech quotes. One of the reasons for stakeholder dissatisfaction could be high profile corporate failures.
 - The Executive Summary could be strengthened by highlighting the investigations and enforcement procedures that underpin the public interest perspective;
 - The description of the trend in audit quality inspections could be reviewed to provide greater context to statistics whilst emphasizing the public target of at least 90% of FTSE 350 audits by 2019 requiring no more than limited improvements;
 - With regards to the favourable feedback from audit committee chairs which is significantly more than the AQR inspection results, the scope of both works could be clarified to justify the differences.
- 8.3 A number of suggestions were provided in respect of placing more prominence on certain topics by changing the order of presentation. Mr Ferris agreed to take the Council's comments and suggestions into consideration while finalising the Report.

9. Any other business

There was none.

10. Date of next meeting

The Council noted that the next meeting would take place on 8 November 2018.