

Audit and Assurance Council

Minutes of a meeting of the Audit and Assurance Council of the FRC
held on 17 May 2013 at Aldwych House, 71-91 Aldwych, London WC2B 4HN

PRESENT: Nick Land (Chair)
Russell Frith
Sue Harris
Ray King
Scott Knight
Paul Lee
Richard Talbut
Allister Wilson

IN ATTENDANCE:	Marek Grabowski	Director, Audit Policy
	Keith Billing	Project Director
	Francesca Chittenden	Council Secretary
	Jon Hooper	Project Director
	Steven Leonard	Project Director
	Mark Mainwaring	Project Director
	Melanie McLaren	Executive Director
	Trevor Rushe	Observer, Irish Auditing and Accounting Supervisory Authority
	Pat Sucher	Observer, Prudential Regulation Authority

1. APOLOGIES AND INTRODUCTIONS

- 1.1 Apologies were noted from Aidan Lambe (Observer, Chartered Accountants Ireland), Jon Grant (FRC) and John Hughes (Council member).
- 1.2 The Chairman welcomed the new Council Secretary, Francesca Chittenden.

2. MINUTES OF THE PREVIOUS MEETING HELD ON 3 APRIL 2013

- 2.1 The minutes of the AAC meeting of 3 April 2013 were approved.

REPORTS

3. Chairman's Update

- 3.1 The Chairman provided a verbal update of the open meeting 'implementing Sharman' and on the formal feedback received in response to the consultation. It was noted that whilst the principles continued to be well received, a number of concerns were raised

in relation to the implementation of the proposals and that a simple redraft would not be possible.

- 3.2 The Council noted the main issues raised, as summarised by Marek Grabowski (MG).
- 3.3 MG informed the Council that the FRC Board were scheduled to discuss the issues raised including the issues raised that resulted from using the term 'going concern' with two different meanings.
- 3.4 MG noted that both FASB and the IASB were also looking at going concern accounting and financial reporting disclosure requirements and that a FASB exposure draft was due to be released quite soon.

4. Report of the Director of Audit Policy

- 4.1 Mr Grabowski introduced his report which was taken as read. Particular emphasis was given to the following matters.

EU Policy Developments

- 4.2 MG informed the Council that a draft compromise text from the Irish Presidency for both the Directive and Regulation had been produced within the last week and, encouragingly, a lot of the detail had been moved from the Regulation to the Directive.
- 4.3 MG provided a high level summary of the draft text. He noted that some of the significant issues, such as those relating to rotation and non-audit services, had been escalated to the Competitiveness Council for discussion. It was also noted that, due to Commission staff strikes, the most recent meeting of the European Council Working Group on the audit proposals had been cut down to half a day, rather than the two days scheduled.

NAO – issues relating to the application of the Ethical Standards

- 4.4 MG informed the Council that the staff had met with the NAO to discuss the issues they had raised regarding application of the Ethical Standards by the NAO and in the public sector generally and were now waiting for further detailed feedback from them. MG advised that once the feedback had been received, the FRC's Public Sector Advisory Group would be asked to review the issues identified and advise the Council on how they should be addressed.
- 4.5 In response to a Member question, MG stated that it was unclear at this stage whether the new Code of Audit Practice which the NAO were taking responsibility for would raise issues relating to the Ethical Standards. FRC staff are on the Stakeholder Group established by the NAO to oversee the preparation of the new Code and would bring any significant issues to the Council's attention.

Update of PN 14 on the audit of Housing Associations

- 4.5 MG informed the Council that development of the PN was proceeding and that he was planning to present this at the next meeting of the Council.

Joint research project with ICAS

- 4.6 Allister Wilson (AW) informed the Council that the two projects were in the early stages but that he was enthusiastic about the outcomes. The Council noted the relevance to the work on 'repairing confidence in audit'.

Notes of the IAASB meeting in New York (paper 2A)

- 4.7 MG referred the Council to paper 2A and summarised the key issues raised at the meeting. He emphasised the focus on auditor reporting and key audit matters. It was

noted that the development of exposure drafts of revised auditor reporting and related standards, including ISA 701, was still on track to be considered for approval by the IAASB at its meeting in June 2013.

Standards and Guidance

5. Feedback on responses to audit report consultation

- 5.1 Steven Leonard (SL) introduced paper 3, Feedback on responses to audit report consultation and asked the Council to advise the FRC Board to issue the proposed feedback statement and the proposed revision of ISA (UK and Ireland) 700.
- 5.2 SL detailed the feedback which had been received and summarised the key issues which had been raised. The Council noted that in general there was significant support for the proposals but that some detailed comments, primarily relating to drafting matters, needed to be addressed. The discussion included the following points and observations:
- 5.3 The Council noted that some commentators were reluctant to see the FRC revise ISA (UK and Ireland) 700 prior to the IAASB finalising its revision of ISA 700. There was a lack of understanding or awareness among commentators that the IAASB's position was evolving and that drafting changes to the IAASB ISA could bring it more in line with ISA (UK and Ireland) 700 as updated in October 2012.
- 5.3 The Council noted that only one response had been received from preparers of financial statements and concluded that, although this was not unusual in relation to these proposals in particular, it would be beneficial to reach out to preparers more proactively in future.
- 5.4 The Council noted that a number of those who responded seemed not to have fully understood the changes to audit committee and auditor reporting implemented in October 2012 which focused on the judgments of the auditor in the out put phase of the audit rather than those made in the input phase. In order to clarify this, and raise awareness of the changes introduced last autumn, it was suggested that the FRC should communicate the need to integrate changes to auditor reporting arising from both the currently proposed changes (should they be approved by the FRC Board) and those issued last year.
- 5.5 The Council discussed the various amendments to the draft standard, and corresponding guidance, which had been made in response to the comments received through consultation. The Council suggested further minor amendments to improve clarity and acknowledged that the text in paragraph A9A mirrored the discussion which had been included in the feedback statement. Subject to the amendments the Council confirmed its advice to the FRC Board to issue the proposed feedback statement and proposed revisions to ISA 700.
- 5.6 It was confirmed that the aim was that revised ISA (UK and Ireland) 700 would be published as soon as possible, subject to FRC Board approval.

6. ISA (UK and Ireland) 610 – Results of consultation on prohibition of direct assistance

- 6.1 Keith Billing (KB) introduced paper 4 and summarised the key points therein. KB invited the Council to consider the draft feedback statement and advise the FRC Board in relation to it and on proposed changes to the definition of the 'audit team' for the purpose of the Ethical Standards.

- 6.2 The Council reviewed the paper and the discussion included the following points and observations:
- 6.3 The Council acknowledged that the prohibition may result in some logistical / practical issues. In particular, it would affect overseas group audits who may place reliance on direct assistance, and on audits of entities who use third party service organisations for which the entity auditor may consider using reports prepared by the service organisation auditor. However, the Council agreed that these concerns did not justify not implementing the prohibition, accordingly, its advice to the FRC Board was that it endorse the feedback statement and proposed changes to the definition of 'audit team'.
- 6.4 The Council acknowledged the concerns that some respondents had raised in relation to the time frame for implementation, given that planning of work with internal audit often takes place early in the period being audited. Accordingly, the Council's advice was that the FRC Board agree the proposal that the prohibition be made effective approximately one year after it is confirmed and the revised standard is issued. The Council also advised that the revised standard should be issued as soon as possible, subject to FRC Board approval.

7. PN 23 (financial instruments) review of responses proposed and final PN 23

- 7.1 KB introduced paper 5, Auditing Financial Instruments, *Finalisation of revision of PN23*. The Council were reminded that the revisions had been made on the basis of taking the guidance in the International Auditing Practice Note (IAPN) 1000 as issued by the IAASB and supplementing it where relevant with material from the existing PN23, and some new guidance, that was not included in IAPN 1000 but was considered important.
- 7.2 The Council reviewed and endorsed the amendments which had been made by the working party following consultation. Accordingly, the Council's advice to the Codes and Standards Committee is that the proposed revision of PN23 be approved and published.

Influencing

8. Response to IAASB consultation on Framework for Audit Quality

- 8.1 Jon Hooper (JH) introduced paper 6, IAASB Framework for Audit Quality *Proposed response to IAASB consultation*.
- 8.2 The Council reviewed the draft response letter (paper 2a) and noted that it incorporated feedback from AQR staff. The Council identified that it would be beneficial to users of the Framework if it was clearly stated how the Framework maps across to the Standards. The Council also identified that further work would be useful in making the Framework relevant to a wider group of stakeholders. The Council suggested a small number of drafting amendments and, subject to the completion of the amendments, advised that the letter should be submitted to the IAASB.

Research

9. Repairing confidence in the value of the audit

- 9.1 JH introduced paper 7, Repairing confidence in the value of audit in the UK *Project Update* and asked the Council to comment on the project plan which had been

updated following consideration by the Council at its previous meeting. JH highlighted that the project plan should be viewed as a living document which would be updated regularly.

- 9.2 The Council noted the brief for the stakeholder outreach exercise and that the process to select a service provider to undertake the exercise was underway. The Council considered whether there should be a greater emphasis on 'the interconnectivities and interdependencies' amongst the audit team and audit committees; JH confirmed the exercise would draw this out.
- 9.3 The Council also considered whether the scope of the outreach exercise should extend outside of the UK, however, the Council felt widening the scope for this particular project would not be practicable.
- 9.4 The Council noted the suggested survey participants and highlighted the importance of ensuring the research offers a broad and representative view. MG explained the restrictions around the timescale and cost of the outreach programme, and the challenge in identifying individuals with the level of understanding necessary to offer comprehensive responses. It was noted that the outreach would take place in two phases, initially focused on policy makes and stakeholders who are users of the audit, extending this to include those who provide or are the subject of the audit in the second phase.
- 9.5 The Council noted that the detailed timetable was yet to be finalised but that it was hoped the outreach exercise would begin before the end of June and conclude in September.
- 9.6 The Council noted that the four individual components of the project could run concurrently and that each could start before the outreach exercise had been concluded.
- 9.7 In conclusion, the Council welcomed the project plan and noted that a further update would be provided in due course.

10. Horizon scanning

- 10.1 The Council highlighted the potential for an increase in expectations on auditors in relation to corporate tax reporting and disclosures and that auditors may look to the FRC for guidance around this.
- 10.2 The Council noted that the EU had agreed that the requirements for 'country by country reporting' would be reviewed after a number of years and that this was likely to consider whether the requirement should be extended to other industries.

11. Any other business

- 11.1 None.

12. Next Meeting

- 12.1 The next Council meeting is on the morning of Wednesday 19 June, starting at 9.30am.