Audit and Assurance Council

Minute of an additional meeting of the Audit and Assurance Council of the FRC held on 28 November 2014 at the FRC Office, 8th Floor, 125 London Wall, EC2Y 5AS

PRESENT:

Nick Land (Chair) – by call
Sue Harris – by call
John Hughes
Ray King – by call
Scott Knight
Maggie McGhee

IN ATTENDANCE:

Keith Billing Project Director, Audit Policy
Francesca Chittenden Council Secretary
Marek Grabowski Director, Audit Policy
Eileen Townsend Observer, IAASA – by call
Marian Williams Director, Codes & Standards

Apologies and introduction

Apologies were noted from Jane Fuller, Robert Hingley, Conall O'Halloran, Allister Wilson (Council Members), Melanie McLaren (Executive Director, Codes & Standards), Lee Piller (FCA Observer) and Pat Sucher (PRA Observer).

1. EU Audit Directive and Regulation – FRC Consultation on the Member State Options

1.1 Keith Billing (KB) introduced the latest draft of the FRC consultation document – Auditing and Ethical Standards – Implementation of the EU Audit Directive and Audit Regulation. KB highlighted that the details of edits circulated the previous day responded to comments made by members of the Codes & Standards Committee at its meeting on 24 November.

The Council noted that the FRC consultation was intended to work with the BIS consultation. The FRC had assisted BIS with the drafting of its own consultation.

1.2 The Council were reminded that the consultation sets out various approaches the FRC is considering in relation to the Member State Options should responsibility for addressing the options through the Auditing and Ethical Standards be delegated to the FRC (such delegation being consulted on by BIS), and that, on the advice of the Council and the Codes & Standards Committee, the consultation is drafted in an open and balanced manner to engage stakeholders and explore stakeholder views in relation to the possible approaches to exercising those options. In response to a query it was confirmed that it had not yet been clarified what particular services, in relation to the cap on fees for non-audit services, would fall within the scope of being ‘a requirement of law’ (and thereby excluded from the cap) but
that the FRC, PRA and FCA would be working with BIS in the New Year to clarify the position.

1.3 KB summarised the key points raised by members of the Codes & Standards Committee at its meeting on 24 November as follows:

- The CSC had advised that the consultation should draw attention to the inconsistency in the Regulation between the scope of the prohibitions on non-audit services and the scope of the cap.
- The CSC had advised that the consultation should highlight the possible difficulties the cap may give rise to.
- The CSC had advised that reference to the term ‘gold plating’ should be taken out as this could be considered prerogative.
- Some members of the CSC had expressed significant concern in relation to the possible introduction of a ‘white list’ setting out specified allowed non-audit services that would be allowed. The Council noted that a particular concern expressed by some members of the CSC was the risk of omitting services from the list that in hindsight should have been included. In response to the concern the Council agreed that the consultation document should identify this risk and that possible actions to mitigate the risk could be explored (such as approval by the Audit Committee in exceptional circumstances of a non-audit service not on the white list, with disclosure thereof).

1.4 The Council was asked to give its advice in relation to the consultation document and consultation questions. Through discussion the following suggested amendments were made:

- It would be helpful to amend the table at para 3.19 (work that falls within the scope of AQR) to make it clear on first glance, what entities would and would not fall within the scope of a public interest entity (PIE).
- Question 7 should be split in to two questions to give better balance to the questions around consideration of whether a white list is appropriate.
- The reference to public sector bodies that may be considered as PIEs (para 3.20) should be revised so that size it is not restricted to ‘large’ bodies.
- Paragraph 4.43 – It would be helpful to provide context to para 4.43 to support the discussion of the possible consequences of an inadvertent breach of the ethical standards.

1.5 The Council noted that a final draft would be circulated to the Council for before submission to a sub-Committee of the FRC Board for consideration on 9 December and the FRC Board for agreement to be issued on 10 December. The Council noted that it was the intention to issue the consultation as soon after the FRC Board meeting as possible and that there would be a three month consultation period.

2. Next Meeting

2.1 The next formal meeting of the Audit & Assurance Council will be held on 12 December 2014.