

Audit and Assurance Council

Minutes of a meeting of the Audit and Assurance Council of the FRC
held on 11 January 2013 at Aldwych House, 71-91 Aldwych, London WC2B 4HN

PRESENT:

Members	Nick Land (Chair) Russell Frith Sue Harris John Hughes Scott Knight Paul Lee Robert Talbut Allister Wilson	
Observers	Aidan Lambe Pat Sucher Trevor Rushe	Chartered Accountants Ireland Financial Services Authority Irish Auditing and Accounting Supervisory Authority
Staff	Melanie McLaren Marek Grabowski Keith Billing Jon Hooper Steven Leonard Mark Mainwaring Jon Grant	Executive Director, Codes and Standards Director, Audit Policy
APOLOGIES		
Members	Ray King	
Observers	Helen Hall R Rottenberg	Irish Auditing and Accounting Supervisory Authority UK, Department for Business, Innovation and Skills

1. Introduction and minutes of the previous meeting

- 1.1 The minutes of the AAC meeting of 26 November 2012 were approved.
- 1.2 The Chairman welcomed Jon Hooper to the Audit and Assurance Team.

2. Report of the Director of Audit Policy

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

Activities since the last AAC meeting

- 2.2 The ICAEW's Audit Futures initiative was noted. The Council's advice is that there should continue to be FRC engagement with the professional bodies to explore how they might contribute to the FRC's work on repairing confidence in the value of the audit.

IAASB - Revision of ISA 720, The auditor's responsibilities relating to other information

- 2.3 The Council was informed that the paper identifying the main differences between the proposed revised ISA 720 and the recently revised ISA (UK and Ireland) 720A had been circulated to stakeholder groups, with a request for comments that could be taken into consideration when developing the FRC response to the IAASB.

IAASB – Auditor reporting project

- 2.4 The Council was informed that, currently, the project was developing in a way that was encouraging with regard to allowing flexibility in national reporting requirements. June remains the firm target for the IAASB to issue an exposure draft. Resources were being concentrated on this project given the very demanding timetable.

IAASB – Disclosures project

- 2.5 The Council was informed that the IAASB in relation to the audit of disclosures had commenced and Marek Grabowski was a member of the IAASB Task Force. Early activities will include considering the application of the 'management assertions' in the ISAs to the various types of disclosures identified in the IAASB's Disclosures consultation paper.

EU developments

- 2.6 The Council was updated on developments under the Irish Presidency to begin to develop a 'compromise text' for Member States. This was at an early stage.

Sharman

- 2.7 The Council was informed that the FRC Board had agreed in substance the proposed revised Guidance for Directors and proposed revisions to the auditing standards but had asked that the Guidance for Directors should be made more concise. Some matters for clarification had also been identified including, in particular, the meaning of 'actions outside the normal course of business' as a possible indicator of significant solvency/liquidity issues.
- 2.8 Comments made in the discussion by the Council suggested that appropriate disclosures about business models and associated risks were important and that a

company with a high risk product shouldn't be assumed to have a material uncertainty about going concern just because of that.

- 2.9 The Council's advice is that the FRC should host some round-table discussions with stakeholders to get views on the draft guidance once it is exposed for comment.
- 2.10 The Council was also informed that the Financial Reporting Lab was experimenting with enhanced disclosures by audit committees. The Council's advice was that it could be helpful to also experiment with auditor commentary if possible.

ICAEW guidance on assurance relating to LIBOR

- 2.11 The Council was informed that the ICAEW was moving ahead with exposing draft guidance on assurance reporting on benchmarks. FRC staff had communicated FRC concerns about the timing – before the new LIBOR administrator is in place and its requirements known – but the ICAEW believed there would be a demand for assurance services before the administrator was established. The ICAEW intends to monitor developments and amend its guidance if necessary.

3. Using the work of internal audit - Revision of ISAs (UK and Ireland) 315 and 610

- 3.1 Mr Billing introduced the papers that were being prepared for the FRC Board meeting at the end of January. These papers are intended to inform the FRC Board of the results of the consultation on the proposed revision of ISAs (UK and Ireland) 315 and 610, and the advice of the Council in relation thereto, as discussed at the November 2012 Council meeting. A key matter for the FRC Board's attention is the advice of the Council that direct assistance from internal audit staff should no longer be allowable for audits conducted in accordance with ISAs (UK and Ireland) – as it is a breach of the principle of independence - and that there should be a further, limited, consultation on that.
- 3.2 The Council was supportive of the papers subject to some drafting changes, including amending the paragraph that sets out the reasoning for prohibiting direct assistance. The Council advised that the paragraph should be restructured to give priority to the point that direct assistance is a breach of the principle of independence and may give rise to a poor perception about the audit, regardless of any safeguards that may have been established; and to give more explanation of why direct assistance is distinguished from using the work product of the audit function. The staff will circulate the amended wording to the Council. The council also advised that the revised standards should be clear that the prohibition would extend to work on audits of components for group audit purposes.
- 3.3 The staff were also asked to amend the covering paper for the FRC Board to provide more context about the original APB consultations that had preceded the current position of allowing direct assistance, and to include more detail about the basis for the Council's advice rather than cross referring to the draft Feedback Statement for the consultation.

4. Client assets

- 4.1 Mr Leonard explained that the Client Assets Working Group's advice was that new standards for providing assurance on client assets should not be developed until changes to the CASS Regime, which is in the process of being revised, had been completed. Such standards would likely need to be ready for mid-2014. In the

meantime the Working Group advised supplementing the current guidance as set out in the agenda paper.

- 4.2 The Council supported the advice of the Working Group regarding deferring the development of new standards. It also supported the advice of the Working Group for the development and issuance of a supplementary Bulletin on Third Party Administrators, subject to seeing the text of the proposed guidance which is expected to be ready at the end of January.
- 4.3 The Council also considered the Working Group's proposals regarding the material in Appendix 1 of the current Bulletin. The Council agreed with the Working Group's view that the material did not belong in the main body of the Bulletin but did not support it being issued separately by the FRC as lower level guidance. The Council's advice was that it may be appropriate for such guidance to be provided by the professional bodies.

5. Stakeholder pensions

- 5.1 Mr Leonard explained that the proposed reissuance of Bulletin 2002/3 included some substantive changes to reflect the current regulations. The Council's advice is that the Bulletin be issued but Appendix 2, which sets out example paragraphs for engagement letters, should be excluded. The Council did not consider the material in Appendix 2 to be incorrect but its view was that it is not necessary for the FRC to give guidance on such matters.

6. IESBA Exposure Draft on responding to illegal acts

- 6.1 Mr Billing introduced the proposed FRC response to the IESBA proposals to amend the international *Code of Ethics for Professional Accountants* to address circumstances where a professional accountant has the right or duty to override the principle of confidentiality and disclose a suspected illegal act to an appropriate authority.
- 6.2 The Council's advice is that the response is appropriate, subject to stating more strongly that the external auditor should not be established as the default party to which a professional accountant should disclose any concerns where that accountant is unable to escalate the matter with in the entity; and adding a point to state that reporting matters, of which the accountant is aware and has concluded there is a concern, in the public interest should not be restricted to those which fall within the expertise of the accountant.

7. Repairing confidence in the value of audit

- 7.1 Mr Land and Mr Grabowski introduced the agenda item. The Council was informed that a paper would be presented to the FRC Board, at its 30 January meeting, to provide preliminary views on outline proposals for taking forward this project which is one of the FRC's strategic priorities for 2013/14 and beyond. The Council was invited to give advice on matters that might be addressed in the outline proposals.
- 7.2 In discussion, matters identified by the Council included:
 - A clear outline of the project is needed, including:
 - An explanation of the problem that is being addressed (avoiding just restarting a perennial debate, but actually aiming to move things forward);

- The objectives of the project and how to identify and measure achievement of them;
- The main areas of work. The framework should not be restricted to audit requirements – this is a cross cutting project and it is likely that relevant considerations will include accounting/corporate reporting, corporate governance and conduct.
- The FRC should consider how the results of audit inspections are conducted and reported – some Council members were concerned that currently an overly negative view of the quality of audit is conveyed.
- Guidance is needed on how to evaluate audit quality. The IAASB is about to consult on a proposed ‘audit quality framework’, which may provide helpful input. Jon Grant is Chair of the IAASB Task Force. A copy of the consultation paper will be circulated to the Council when available.
- International developments should be taken into consideration, but the FRC should not be restricted by them.
- The project needs to be UK and Ireland centric but recognise that some proposals may need/be helped by international consideration.
- The objectives need to take into consideration who are the interested stakeholders, what do they want and are there conflicts between different groups that need to be addressed. Stakeholders may include:
 - The ‘general public’;
 - Politicians;
 - Investors (recognising there are various investor groups that may have different wants).
- Training and/or education of auditors, preparers and stakeholders are important considerations.
- Having regard to the project framework, there needs to be further detailed consideration of where research could most usefully be undertaken and identifying where helpful information already exists.
- There should be further identification of other initiatives that are being undertaken or are planned that affect the objectives and outcome of this project, within the FRC and by other parties such as the IAASB, Competition Commission and Government departments/committees.

6. Horizon scanning

6.1 Matters identified were:

- New Irish Companies Bill
 - Finalisation is expected to take at least 12 months;
 - Limited changes to auditing and financial reporting requirements;
 - Requirement for directors’ compliance statements remains but there is no longer a requirement for auditors to report whether the statements are fair and reasonable.

- The FPC November financial stability report and the statement about assets in banks being significantly overstated. The FRC is already considering this with the FSA.
- Whether media attention to company tax avoidance schemes will give rise to questions about whether auditors should have ensured more disclosure was given about them.
- Corporate failures in the retail sector may give rise to further questions about why the auditors didn't give warnings.

7. Other matters and any other business

- 7.1 Ms McLaren informed the Council the FRC would soon be consulting on its plan and budget for 2013/14. A presentation on this will be given at the next Council meeting.

10. Next Meeting

- 10.1 The next Council meeting is on the afternoon of Wednesday 27 February, starting at 2.00pm at the FRC's offices. Lunch will be available at 1.30pm.