

Audit and Assurance Council

Minutes of a meeting of the Audit and Assurance Council of the FRC
held on 22 January 2014 at Aldwych House, 71-91 Aldwych, London WC2B 4HN

PRESENT:

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

IN ATTENDANCE:

Keith Billing	Project Director
Francesca Chittenden	Council Secretary
Marek Grabowski	Audit Policy Director
Jon Hooper	Project Director
Aidan Lambe	CAI Observer
Steven Leonard	Project Director
Mark Mainwaring	Project Director
Carol Page	Director, Corporate Reporting Review Team (minute 5 only)
Gareth Rees	Executive Counsel, Professional Discipline Team (minute 6 only)
Pat Sucher	PRA Observer
Eileen Townsend	IAASA Observer (in place of Trevor Rushe)

1. Apologies and introduction

- 1.1 Apologies were noted from John Hughes (Council Member) and Lee Pillar (FCA Observer).

2. Minutes of the previous meeting and rolling actions

Minutes

- 2.1 The minutes of the Audit & Assurance Council meeting of 16 December 2013 were approved as an accurate record of the meeting.

Rolling Actions

- 2.2 The Council noted that the Codes & Standards Committee (CSC) at its meeting on 15 January had:
- a. Approved PN 14 – Housing Associations to be issued. The Council noted that the CSC had considered the scope of the PN and whether it was too broad but that following discussion had concluded that in this instance the scope was appropriate. The Council also noted that the CSC had highlighted a need to ensure the FRC adopts a consistent approach to all externally developed guidance that it endorses, particularly in relation to SORPs.
 - b. Approved the publication of a Bulletin on other information as an interim measure pending the IAASB's finalisation of ISA 720. The Council noted that the Bulletin would be drafted within the next three months.
- 2.3 The Council noted that all other rolling actions were in hand or addressed on the agenda.

Reports

3. Chairman's Update

- 3.1 The Chairman informed the Council Members that there was nothing to report that was not already covered on the agenda.

4. Report of the Director of Audit Policy

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

EU Reform

- 4.2 The Council noted that the EU proposals were progressing through the final stages of the legislative passage and had been considered and approved by the JURI Committee. The Council noted that it was anticipated that the implementation date would be in 2016 and that the proposed transition period would be two years from the date of implementation; MG confirmed that the relevant Regulation was expected to be in force from the implementation date. The Council noted that although the Regulation promotes harmonisation, the proposals do allow individual states to go beyond the requirements set out.
- 4.4 The Council noted that agreement on the framework for audit oversight co-operation would be led by the Committee of European Audit Oversight Bodies (CEAOB) with input from the European Securities and Markets Authority (ESMA) and that as regulator the FRC considered this to be appropriate. MG confirmed that in addition to agreement on a process for ISA implementation the Committee would be responsible for establishing an audit inspection regime, encouraging better co-ordination and protocols and gathering data on trends.

UK & Ireland Auditing and Assurance Standards

- 4.5 The Council noted that approval would be sought from the CSC to develop a standard in relation to Client Assets and that a report to the Council would follow in due course.
- 4.6 The Council noted the two concerns that had been identified by the NAO in relation to the application of Ethical Standards in the public sector and that those issues would be

considered by the FRC's Public Sector Advisory Group (PSAG) and would be brought in to the relevant strand of the improving confidence in the value of audit project.

Research

4.7 The Council noted that the ICAS / FRC research on auditor competencies was progressing and that more detailed feedback would be provided following a meeting of the steering group in March.

Proposed ICAEW Guidance for the performance of assurance work on benchmarks and indices

4.8 The Council noted that the ICAEW is continuing to develop guidance in response to the manipulation of LIBOR and EURIBOR that does not address the significant concerns raised in feedback from the FRC. The Council also noted that the FRC had communicated those concerns to the FCA.

4.9 Through discussion the following observations were made and points were noted:

- The FCA is responsible for setting Regulations in the area and under those Regulations will be rules which the FCA will enforce;
- The FCA will have to determine whether or not it considers the guidance to be sufficient, if the FCA does not consider this to be the case the FCA may ask the FRC to develop a standard;
- The scope of the guidance is broader than LIBOR and EURIBOR, it addresses benchmarking in a more general sense;
- The absence of a standard in support of any rule imposed by the FCA creates a risk for the auditor and also for the FRC which may be perceived as not addressing a regulatory need;
- The absence of a standard may also affect public confidence in the value of audit.

4.10 In conclusion the Council considered that the FRC is best placed, and ultimately holds responsibility for setting a standard in this area should one be required. The Council requested that the Executive determine whether the criteria developed by the CSC for establishing guidance and standards support development by the FRC of a standard in this area. Should the Executive conclude that it would be appropriate for the FRC to develop such a standard; the Executive should propose this to the FRC CSC & Board and the FCA. The Council noted that the development of a standard would require significant resource and would take a relatively long period of time, however, the Council considered it to be a priority issue for the FRC to address.

4.11 The Council also suggested that in the immediate term the FRC should hold a high level meeting with relevant Executives at the FCA to highlight its concerns in relation to the ICAEW guidance and consider whether a standard should be developed once the FCA rules had been finalised.

IAASB Future Strategy 2015-19 and related work programme – consultation

4.12 The Council noted that the IAASB had issued a consultation paper on its proposed strategy for 2015-19 and proposed work programme for 2015-16 and that the draft FRC response would be brought to the Council at its March meeting.

4.13 The Council noted that although some areas the FRC had identified as areas of concern were not on the IAASB work plan, the three areas the FRC Executive had identified as giving rise to significant concern would be addressed through proposed IAASB projects for 2015-16 (engagement quality review and the use of 'auditor experts') and for 2017 (group audits).

4.14 Through discussion of the proposed strategy and work programme the following observations were made:

- The strategic statements resemble operational objectives and should be reconsidered. The Council suggested that the IAASB could consider the following strategic objectives:
 - Global harmonisation of auditing standards and increasing the number of countries who adopt the ISAs
 - A reduction in the burden of documentation requirements imposed on auditors
 - Improved dialogue and liaison with regulators
- The Council noted that the resources of the IAASB are limited and that this affects:
 - the length of time the IAASB predicts it will take to produce a high quality standard, currently four years;
 - the work plan and prioritisation of projects, it was noted that aspirations for the IAASB to look beyond the audit and at other assurance services are considered to be less important than the ISAs;
 - the delayed start date of projects the FRC considers to be relevant now.The Council suggested that the issue of resourcing should be addressed in the consultation response.
- The Council also noted that a project to look at global requirements in relation to preliminary announcements is out of scope of the IAASB.
- The Council discussed whether the location of the IAASB office in New York is strategically the best location bearing in mind the importance of the ISAs in Europe.

4.15 MG asked the Council to reflect on the proposed work plan outside of the meeting and to email MG any comments or suggestions to include in the FRC's consultation response.

Other issues

4.16 The Council noted that the FRC had arranged a one day meeting to be held in March at which standard setters from Germany, France and the Netherlands would attend to begin to look at auditing issues from a European perspective.

5. Feedback from the Corporate Reporting Review Team (CRRT)

5.1 The Council received a presentation from Carol Page (CP), Director of the FRC's Corporate Reporting Review team in relation to the function of the CRRT and the process through which they undertake that function.

5.2 The Council noted the following points:

- the CRRT review up to 300 sets of reports and accounts a year from all UK Listed, UK AIM quoted and large private companies; however, the CRRT is considering whether this figure should be reduced in order to improve the quality of reviews undertaken;

- accounts are selected on a risk based approach (FTSE 350 companies are prioritised) but there is also a rotational element to the selection and companies can expect their accounts to be reviewed at least every three years;
- if intelligence is received in relation to a company's reports and accounts a review may be brought forward;
- only half of the reports and accounts that are reviewed warrant correspondence from the FRC and the vast majority of companies undertake to improve;
- the FRC can issue press notices which name the company and the issue identified and feedback on this output suggests that companies find having an example to consider is useful in improving reporting;
- the CRR annual report highlights common errors and issues that have been identified by the CRRT throughout the year and the report is circulated to all companies that are subject to review and to the Chairs of FTSE companies;
- the FRC has a memorandum of understanding with the EECS and works collaboratively with the organisation;
- more errors are identified in smaller companies due to a lack of resources and inexperienced auditors and the FRC has been undertaking outreach with small firm auditors to address these issues and will be directing guidance for smaller firms;
- the CRRT endeavours to be proportionate and constructive in the recommendations it makes;
- the CRRT has been working with the team responsible for developing guidance on narrative reporting and frequently advises companies on how they can 'de-clutter' their reports.

5.3 The Council noted that the FRC has begun issuing Conduct Committee references which require the company to refer to the FRC's intervention in the set of accounts in which the correction has been made. The Council noted that the introduction of this action was partly in response to a challenge over the transparency of the work the CRRT undertakes and partly to raise the profile of the work the CRRT undertakes and that in addition to the requirement for companies to refer to the intervention in their own accounts, the intervention will also be referred to in the CRR Annual Report. CP informed the Council that a draft consultation paper on Conduct Committee references would be issued shortly and that steps were being taken to consider how to improve transparency more widely.

5.4 The Council noted that there are a number of steps being taken internally to improve the effectiveness of the corporate reporting review function. Whilst the Council welcomed the actions listed it cautioned using conduct committee references as a key performance measure.

5.5 The Council discussed the read across from the findings of corporate reporting reviews and the implications for the auditor. CP also indicated that CRRT now copy all correspondence to the Audit Committee Chair and to the company's finance director, so as to encourage the engagement of the auditor and the audit committee and that due process has been undertaken in responding to the correspondence.

Standards and Guidance

6. Improving confidence in the value of audit

6.1 The Council were invited to comment on the draft briefing papers which had been produced as part of the improving confidence in the value of audit project.

Briefing paper 1 – current legal and regulatory framework for corporate reporting in the UK

6.2 Through discussion of the briefing paper the following suggestions and observations were made:

- The Council considered that the content was appropriate but suggested that greater emphasis should be placed on the importance of recognising activities which will increase the economic activity of a company;
- the Council requested that the wording of paragraph 1 on page 10 should be revised; the role of audit committees has been enhanced and the audit inspectors' responsibilities have increased but they should not be perceived as a proxy for the public interest;
- The Council considered that the questions are too broad in scope and should be more specific. It was noted that the FRC wants to know whether those responding consider the current practice to be working effectively, and if not, to identify where there are issues and concerns and to identify practical solutions; accordingly, the Council requested that the questions be redrafted with this output in mind;
- The Council suggested the greater emphasis should be placed on how confidence and trust in financial information facilitates effective investment and that the Executive should consider including questions to address this.

6.3 The Council also highlighted the importance of ensuring that there is sufficient representation on the stakeholder consultation groups from individuals with practical experience who can bring practical solutions which can be implemented in the immediate future.

Briefing paper 4 – Historical roots of audit

6.4 The Council were supportive of the paper but considered that it could be strengthened by including an introduction drawing together the conclusions reached. The Council also suggested that it would be helpful, and appear more complete if the paper was extended to continue up to current times.

Briefing paper 9 – Expectations of auditors with respect to acting in the public interest

6.5 The Council suggested that the questions were too narrow in scope and should be broadened. It was requested that the wording of question 11 be revised to ask whether public interest concerns are different for the public sector, such as to justify a different approach to independence, without suggesting that such an approach would necessarily be "less rigorous".

6.6 The Council discussed the content of the paper and highlighted the importance of putting sufficient focus on the entity that is being audited and the potential conflicts that may arise.

6.7 The Council noted the potential for overlap and repeated messages / statements across the suite of briefing papers that were being developed and highlighted the importance of guarding against this.

7. Horizon Scanning Discussion

7.1 The Council did not consider there to be any issues for consideration that were not already on the FRC agenda at that time.

8. Any other business

8.1 None.

9. Next Meeting

9.1 The next meeting of the Audit & Assurance Council will be held on Monday 10 March at 9am.