

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 28 September 2004 at 9.30am

PLACE: 117 Houndsditch
London EC3

PRESENT:

Members	R Fleck (Chairman)	G Pimlott
	G Ward (Vice chairman)	I Plaistowe
	J Grant (Executive director)	M Powell
	J Beckerlegge	W Rainey
	L Hughes	D Thomas
	Ms G Laver	S Turley
	K Nicholson	
Observers	G Innes (United Kingdom Department of Trade and Industry)	
	I Drennan (Republic of Ireland Audit and Accounting Standards Authority)	
In attendance	Ms K Cearns	R Taylor
	T Troubridge	
Staff	K Billing	H Morgan
	S Leonard	Ms H O'Sullivan
	D Marston	

APOLOGIES:

Member	S Murray
Observers	D Loweth (ASB)
	R Thorpe (Financial Services Authority)

1. Chairman's introduction

Members and observers

The Chairman welcomed Mr Tom Troubridge as a new member of the Board from 1 October, and Mr Ray Taylor as an observer from the DTI. He also congratulated Ms Gill Laver on her recent appointment as Director of Finance and Central Services for the Archbishops' Council of the Church of England.

Publications

Mr Jon Grant noted that the IAASB was currently consulting on amendments to its due process and working procedures. He noted that the APB would be submitting a short letter of comment which, inter alia, would recommend that exposure periods were longer than three months so that national standard-setters could expose the documents in parallel.

Mr Grant also noted that CESR had published draft 'Level 3' guidance on the EC Regulation on prospectuses. An APB letter of comment was currently being prepared by the SIRS Sub-committee, and would be circulated shortly to the Board for approval.

Recent meetings

Mr Steven Leonard noted a recent staff meeting with the DTI on the impact of IFRS on parent company accounts.

The Chairman reported on a recent meeting of the CCAB Audit Strategy Forum. He noted that there was significant concern amongst those attending the Forum that international harmonisation should not lead to 'rules-based' Standards.

The Chairman also noted a recent meeting of POBA that he and Mr Grant had attended. He emphasised the importance of keeping POBA informed of APB activities and suggested that it was likely that POBA representatives would attend an APB meeting early in 2005.

IAASB

Mr Grant reported on the most recent IAASB meeting in New York. He noted in particular that an exposure draft on documentation had been approved, and as a result a revised ISA (UK and Ireland) 230 would be circulated to APB asking for approval that it be issued as an exposure draft in the UK and Ireland.

Mr Grant also reported on the IAASB's 'clarity' project. An exposure draft and consultation paper had been issued by IAASB which seemed to herald a significant increase in the number of professional requirements in ISAs. It was agreed that the APB would consider the IAASB draft at its October meeting together with a draft APB response currently being prepared by the Chairman and Mr Will Rainey with input from the FSA and the DTI.

Mr Ian Plaistowe noted the significant input that the UK was making at present to the work of the IAASB.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 28 July had recently been approved, following circulation to Board members.

3. Work programme

Mr Grant introduced a discussion of a draft APB work programme for 2005/06. It was noted that this would be included in an FRC work programme to be published in January 2005, and that it had already been discussed with the chairmen of the CCAB auditing committees.

Board members made a small number of comments on the draft, which contained proposals for each of the APB's six objectives. In particular it was agreed that the process for preparing Practice Notes in respect of entities such as banks and insurance companies (which were largely audited by the 'big four' firms) would be discussed further at the next APB meeting. The benefit of Practice Notes for the many small firms auditing entities such as charities and pension schemes was acknowledged.

It was agreed that the work programme should be finalised at the October meeting, at which time the IAASB's programme could also be discussed, and it should then be posted on the APB's website together with a press release requesting comments.

4. ISA (UK and Ireland) 700

Mr Grant introduced a proposed exposure draft of ISA (UK and Ireland) 700 'The auditors' report on financial statements'. It was noted that, as the draft was based on the existing ISA 700, which was in the process of revision by IAASB, the goal was to minimise the number of changes to the auditors' report during the transitional period. The Board considered a number of issues raised, as follows:

- it would be acceptable to adhere to the ISA 700 position of expressing a disclaimer of opinion instead of adding an emphasis of matter paragraph for multiple uncertainties;
- the broader approach taken by ISA 700 to the use of emphasis of matter paragraphs (as compared to that in SAS 600) should be followed;
- it is preferable that a statement of directors' responsibilities is made by the directors in an appropriate note to the accounts, and only included in the auditors' report if this is not done. It would be helpful for an illustrative example of such a statement to be included in the Bulletin on audit report examples which will accompany the ISA (UK and Ireland);
- it would not be appropriate for the section on 'compliance with relevant accounting requirements' to be carried over from SAS 600, because it does not address IFRS; and
- the term 'material and (as distinct from or) pervasive' in deciding whether to include a qualification, disclaimer or adverse opinion, was the correct one to use.

Whether there was a need to retain ‘pervasive’ in the longer term was something to be discussed with the IAASB.

The Board agreed that the draft ISA (UK and Ireland) 700, amended to take account of comments made at the meeting, should be issued as an exposure draft with a six week period for comment, so that it could be published in final form with the previously issued ISAs (UK and Ireland).

5. Ethical Standards

The Chairman introduced a discussion of the latest drafts of the Ethical Standards (ES) by thanking those Board members who had recently submitted comments. The APB Ethics working group had met the previous week and wished to raise with the Board three issues in particular:

- whether all partners in firms should be prohibited from investing in shares in an audit client – this approach was supported by the APB;
- whether the limit on the percentage of fees earned from one client should take account also of the fees earned by the firm from subsidiaries of the client and of fees earned by network firms – it was agreed that it would be appropriate to include fees earned from subsidiaries but not to include fees earned by network firms; and
- whether overseas network firms are prohibited from providing non-audit services both to a UK-based parent company and to significant affiliates, and whether ‘non-network’ firms auditing an affiliate should be prohibited from providing non-audit services to the parent company - it was agreed that both would be appropriate.

The final drafts of ES 1-5 were then reviewed and, after some discussion, it was agreed that:

- auditors of listed companies should be prohibited from preparing accounting entries in respect of tax calculations, particularly as this was prohibited under the EC Recommendation;
- in relation to any perceived threat posed by large fees from non-audit work, auditors should discuss any concerns with those charged with governance in the first instance so that an appropriate course of action is taken;
- the transitional arrangement in ES 4 relating to the prohibition on earning more than 10% of fee income from one client should remain. Any flexibility on this matter should be considered as part of the consultation on small entity exemptions; and
- guidance should be given on factors to consider where an audit firm was tendering for a new audit engagement, and had previously provided non-audit services that would have been prohibited had it been the auditor at the time.

The Chairman introduced a draft new Ethical Standard ‘Exemptions Available for Small Entities’(EASE), and drew the Board’s attention to two matters in particular:

- in the context of the management threat arising from the provision of non-audit services, the original (undefined) term ‘knowledgeable management’ was creating an inaccurate perception that the prohibitions of such services in the ES were widespread. It was proposed that this term should be changed to ‘informed management’. It was agreed that, as a matter of principle, management should be sufficiently competent to prevent the need for decision-making being delegated to the auditors, and that the new term was an appropriate alternative; and
- the ‘cut-off’ test for companies being eligible for EASE was currently set at the Companies Act definition of a small company (ie turnover of £5.6 million). Following discussion, the Board agreed that the turnover limit should not be altered for the purposes of the exposure draft of EASE.

The Board unanimously approved the issue of ES 1-5 in final form on the APB website following approval of any final drafting amendments by the Chairman and Mr Grant. ES- EASE was also unanimously approved for exposure and will be accompanied by a consultation paper which will include a number of specific questions, and a section providing feedback on the comments received on ES 1-5. Comments would be requested by 19 November, so that all the ESs could be published in final form in December.

6. Other agenda items

Mr Grant reported on the status of the remaining agenda items as follows:

- the revision of PN 15 ‘The audit of occupational pension schemes in the United Kingdom’ would be considered at the October meeting;
- comments on the ODCE consultation on directors’ compliance statements would be discussed with ODCE staff during a forthcoming visit to Ireland; and
- a letter of comment concerning legal privilege in connection with the obligation of accountants to report money laundering under the Proceeds of Crime Act 2002 would be submitted to the Home Office shortly.

7. Mr Graham Ward

The Chairman noted that Mr Ward was retiring from the Board with effect from the end of the meeting in order to take up the position of President of IFAC, and he expressed the Board’s thanks to Mr Ward for his work as Vice-chairman over the last two years.

8. Next meeting

It was noted that the next meeting of the Board would be held on Monday 18 October.

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