

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 16 July 2003, at 2.00pm

PLACE: Herbert Smith,
Exchange House,
London EC2A 2HS.

PRESENT:

Members

R Fleck (Chairman)	G Pimlott
G Ward (Vice-chairman)	W Plaistowe
J Grant (Executive director)	P Smith
M Evans	Ms G Saunders
L Hughes	D Thomas
S Murray	

Observer

R Thorpe (representing the Financial Services Authority)

In attendance

Ms K Cearns	P Ashton (for item 3)
J Collier (for item 6)	

Staff

K Billing	D Marston
R Charlesworth	
S Leonard	

APOLOGIES:

Members

A Palmer	S Turley
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Observers

P Donegan	(representing the Republic of Ireland Department of Enterprise, Trade and Employment)
C Wobschall	(representing the Accountancy Foundation)
J Grewe	(representing the United Kingdom Department of Trade and Industry)

1. Chairman's introduction

A summary of relevant publications and events which had occurred since the last APB meeting had been distributed in advance of the meeting. The following matters were discussed:

OFR working group

The Chairman noted that the OFR working group on Materiality had now issued a consultation paper. The Government had also recently indicated that regulations would soon be issued requiring listed and large companies to publish an OFR. It was understood that these regulations would include a requirement that the auditors would review the process for the preparation of the OFR rather than report on the substance of its contents. The Chairman indicated that a working party to prepare guidance for auditors would be set up shortly.

Company law review

The Chairman reported that the Government had indicated that new legislation reflecting the widespread reforms recommended by the CLR was not expected in the short term. However, the DTI intends to bring forward legislation in support of the new arrangements for accountancy regulation before the end of the year.

Audit threshold

The Chairman noted the publication by the DTI of a consultation paper concerning its proposal to raise the audit threshold for companies to a turnover level of £5.6 million. While individual Board members had differing views on the proposal it was agreed that, as a standard setter, the APB should welcome the proposal as an increase in the exemption level would ease the Board's task in developing standards that applied to both very large and very small audits. It was also agreed that the Board should alert the DTI to relevant findings from the research undertaken into the Independent Professional review.

One related issue that might require further consideration over time concerned the need to ensure that the term 'audit' was only applicable to work carried out in accordance with Auditing Standards.

FRC Chairmens' meetings

The Chairman reported that the APB's Aims and Objectives had now been agreed by the FRC, and a copy would be circulated to Board members shortly.

PCAOB

The Chairman noted that he was due to meet the chairman of the United States' PCAOB in August, at which he planned to explain the background to the APB and emphasise the benefits of international convergence of auditing standards.

IAASA

Mr Grant reported on a recent meeting with representatives of the interim Irish Auditing and Accounting Supervisory Authority (IAASA) and a representative of the Department of Enterprise Trade and Employment (DETE). The meeting covered the

future working relationship between the APB and IAASA and the Board's response to the Companies (Auditing and Accounting) Bill 2003. The representatives indicated, on behalf of interim IAASA, their support for the continued application of the APB's Auditing Standards in the Republic of Ireland and appeared receptive to exploring alternative approaches for developing audit guidance specific to Ireland. A letter was to be written to IAASA confirming the points made at the meeting.

Money laundering

The Chairman noted that the implementation date for the new money laundering regulations was likely to be postponed again, perhaps until the end of the year.

Combined Code

The Chairman reported that a new version of the Combined Code was due to be considered shortly by the FRC. He noted that he had been in discussion with the FRC in relation to the review work to be required of auditors. The Chairman indicated his support for an approach that focussed more on the overall processes rather than on a small number of objectively verifiable matters. The Board supported this approach but noted the danger of an expectation gap developing if the auditors' review was restricted to process. It was suggested that a paper should be prepared which set out arguments for and against the new approach, and which considered the risk of an expectation gap developing. Such a paper would also be beneficial in the context of the OFR.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 24 June had recently been approved, following circulation to Board members.

3. Revision to ISA 540

Mr Philip Ashton reported on progress made by a joint APB/IAASB Task Force revising ISA 540: 'The Audit of Accounting Estimates'. He noted that the Task Force wished to introduce greater rigour and scepticism into the audit of accounting estimates, and a proper framework for communicating misstatements and differences to those charged with governance. An issues paper had been prepared for a forthcoming meeting of the IAASB, following which an exposure draft would be finalised for issue hopefully by the end of the year.

The Board discussed a number of issues concerning the proposed ISA, including the extent to which an 'emphasis of matter' paragraph should be used by auditors for estimates where there is a wide range of possible outcomes. The Chairman expressed the view that the black letter paragraphs should not only recognise the possibility of an emphasis of matter in the auditors' report but also the possibility of qualification.

There was discussion as to whether the revised ISA 540 would be ready in time for the adoption of ISAs in 2005. Mr Grant commented that it was not one of the ISAs intended to be adopted in 2005. The Chairman noted that, depending on when ISA 540 (Revised) was finalised, the Board may need to consider early adoption of ISA 540 in the UK and Ireland.

4. Publication of agenda papers

In response to a discussion at the previous meeting Mr Lew Hughes introduced a paper setting out the reasons why the working party he had chaired had previously decided that the APB should not publish its agenda papers on its website. Mr Hughes noted that the working party would probably need to re-convene in the near future when the transfer to the Financial Reporting Council had been completed.

Members of the Board observed that whilst publication of agenda papers might be appropriate for an international body such as the IAASB whose meetings were open to the public, the same logic did not necessarily apply to a national body holding closed meetings. It was suggested instead that meeting agendas, which are already published on the APB website, should be more detailed so that readers could have a better understanding of what was being discussed and what stage various projects had reached. To complement this, publication of quarterly newsletters in future was considered likely to be helpful. However one Board member believed strongly that, as the APB is setting standards in the public interest, it is appropriate for it to follow the highest standards of transparency and therefore to publish its agenda papers in full.

The matter will be considered further when the working party revises the APB's Scope and Authority statement to reflect its transfer to the FRC. In doing so it will take note of the nature and balance of the views expressed.

5. Ethical Standard 2

The Chairman reported on a recent meeting with the CCAB Joint Ethics Group to discuss the APB's new Ethical Standards. He noted that the Group had agreed to undertake a preliminary review of the draft standards to ensure that no issues of significance were omitted. The Board made a number of initial comments on ES 2: 'Financial, business, employment and personal relationships', including the need to clarify some of the terminology and definitions. It was suggested that consideration be given to providing a more detailed analysis of the nature of particular 'threats' to independence. There was also debate regarding whether auditors of a company could also act as trustees holding investments in that company. It was recognised that at the September APB meeting Board members would need a detailed comparison of the draft ESs to the current IFAC guidance and the EC Recommendation.

6. Research on SAS 610

Mr John Collier introduced the results of his research on communication between auditors and audit committees and requested the Board to consider how and when it should be published. The Board considered that it would be premature to publish the conclusions and recommendations as it had not yet had an opportunity to discuss these. However, there would be no objection to publishing the findings subject to Mr Grant agreeing presentational issues with Mr Collier. It was agreed that the recommendations relating to SAS 610 would be discussed at a future meeting when revisions to SAS 610 were to be finalised.

7. IAASB exposure drafts on Quality Control

Mr Grant introduced two new IAASB exposure drafts - ISQC 1: 'Quality control for audit, assurance and related services practices' and ISA 220: 'Quality control for audit engagements'. He noted that the task force that developed these drafts had included

himself and Mr Ian Plaistowe, and that they were broadly content with both the documents. The Board made a small number of comments to be incorporated into a letter of comment being drafted by the staff. This would be distributed to APB members for comment before being finalised by the Chairman.

8. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 30 September for the whole day, and would focus on the proposed consultation paper on Ethical Standards and the associated draft standards.

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