

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 24 June 2003, at 9.30 am

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

### **PRESENT:**

#### **Members**

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

#### **Observer**

R Thorpe	(representing the Financial Services Authority)
J Grewe	(representing the United Kingdom Department of Trade and Industry)

#### **In attendance**

Ms K Cearns

#### **Staff**

K Billing	D Marston
R Charlesworth	H Morgan
S Leonard	

### **APOLOGIES:**

#### **Observers**

P Donegan	(representing the Republic of Ireland Department of Enterprise, Trade and Employment)
C Wobschall	(representing the Accountancy Foundation)

## **1. Chairman's introduction**

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

### Meeting with Opra

The Chairman reported on a constructive meeting that he and Mr Jon Grant had held recently with the chairman and chief executive of Opra. Prior to the meeting the APB had submitted a letter of comment setting out points of detail on ON 1 (Revised); following the meeting a second letter was sent which addressed the matters covered in the meeting including the appropriate interface between guidance issued by APB and that issued by Opra.

### IAASB

Mr Grant noted that the IAASB had recently issued exposure drafts of standards on quality control; it was intended that the Board would consider these at its next meeting.

### Ministerial changes

Mr John Grewe reported that the Minister at the DTI now principally responsible for accountancy and audit matters was Ms Jacqui Smith. Mr Gerry Sutcliffe, another new Minister, would have an involvement with certain specific issues.

### FRC Chairmans' group

The Chairman reported on a recent meeting of the FRC Chairmans' group. The main issue discussed had been the FRC's international relations including developing a closer working relationship with the PCAOB in the United States and IAASA in the Republic of Ireland.

### IFAC

Mr Richard Thorpe advised the Board of recent discussions between international regulators and IFAC concerning the oversight by regulators of the standard-setting process. The Board reiterated its view that the international standard setter should be fully independent of the profession. Nevertheless, the approach that is evolving through discussion between regulators and IFAC would lead to a measure of independent oversight that might be sufficient to satisfy public interest concerns.

### International Standards on Auditing

Mr Grant reported that staff of the IAASB had very recently drafted a paper concerning 'bold letter' paragraphs in international standards, in which it was suggested that the word 'should' would be used in the 'grey letter' guidance and, as a result, would be used more often. The Board shared Mr Grant's view that such a development would lead international standards to becoming more procedural and more difficult to apply. Concern was expressed for the implications of such a change in the style of ISAs on the EC plans to adopt international standards by 2005. Mr Ian Plaistowe agreed to pursue this issue with IAASB.

## **2. Minutes of previous meeting**

The Chairman noted that the minutes of the meeting held on 30 April had recently been approved, following circulation to Board members.

## **3. Ethical Standards**

The Chairman introduced a discussion of a draft of Ethical Standard (ES) 1 ‘Integrity, objectivity and independence’. He indicated that the ethics sub-committee hoped to be able to issue a number of draft Ethical Standards and a Consultation Paper addressing aspects of non-audit services in the autumn. The Board expressed support for the draft ES 1 and agreed with the general direction of the project.

The Board discussed whether the Ethical Standards should refer to compliance with the IFAC Code of Ethics and the EC Recommendation. A number of Board members expressed their hope that APB would make a statement of compliance as this would be the more helpful approach for practitioners and other readers and would avoid confusion. Mr Grant alerted the Board to the subjectivity that was likely to be required in making a statement of compliance and commented that he believed that the onus of compliance was with the Government (for the EC Recommendation) and the accountancy bodies (for the IFAC Code) rather than individual auditors. It was agreed that this matter should be discussed further within the sub-committee and with the accountancy bodies.

## **4. Attendance at stocktaking**

Mr David Marston introduced a revised draft of a new Practice Note on ‘Attendance at stocktaking’. He indicated that Messrs Plaistowe, Smith and Thomas had assisted in addressing comments made at the previous meeting. A small number of drafting points were proposed and the Chairman requested Board members to submit any further comments to Mr Marston by early in the following week. Subject to the Chairman’s review of the final detailed drafting, the Board approved the publication of the Practice Note as a consultation draft.

## **5. Money laundering**

Mr Grant introduced drafts of SASs 120 and 620 revised only to reflect the new anti-money laundering regulations. In response to a question raised by the working party it was agreed that SAS 120.1 did not require auditors to carry out extra procedures to identify money laundering offences. A number of detailed comments were made on the drafts.

He noted that there had been a further delay in ‘laying’ the regulations. It was agreed that the draft SASs would be exposed following finalisation of the regulations with a press release alerting auditors to the new requirements rather than being accompanied by a longer briefing paper.

## **6. Materiality**

Mr Graham Ward introduced a discussion on the principles in a revision of ISA 320 ‘Audit materiality’. This revision to ISA 320 was being undertaken by a joint APB / IAASB task force. The Board supported the task force’s conclusions. Issues raised included whether differences in judgement needed to be covered by management representations, the treatment of prior year unadjusted misstatements and whether the definition of materiality should refer to the likelihood or probability that the

misstatement would influence a user's decision.

## **7. Assurance engagements**

Mr Grant introduced a draft APB letter of comment on two IAASB exposure drafts on assurance engagements. The draft response was broadly supportive of the proposed 'International Framework for Assurance Engagements' but raised concerns as to whether the draft ISAE 2000 - 'Assurance Engagements on subject matters other than historical financial information' was in the public interest. After discussion the Board concluded that ISAE 2000 was not sufficiently specific to provide an effective standard for individual assurance engagements and, as such, reference to it could be misleading. A number of comments were made on the draft letter, and it was agreed that the draft should be circulated to firms and accountancy bodies who had submitted comments. It was agreed that a final copy of the draft response would be circulated to the Board.

The Chairman asked Prof. Stuart Turley to consider the broader issues in relation to the definition of assurance engagements in preparation for a discussion on the subject by the Board in the near future.

## **8. Any other business**

The Chairman reported on discussions he had recently held concerning the co-option of new practitioner members onto the Board. He intended circulating details to the Board shortly.

## **9. Next meeting**

It was noted that the next meeting of the Board would be held on the afternoon of Wednesday 16 July.

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