

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 25 February 2003, at 9.30 am

PLACE: CIPFA
3 Robert Street
London WC2

PRESENT:

Members

RJH Fleck (Chairman)	WID Plaistowe
GNC Ward (Vice-chairman)	P Smith
JEC Grant (Executive director)	Ms G Saunders
L Hughes	S Turley
S Murray	
G Pimlott	

Observers

P Donegan	(representing the Republic of Ireland Department of Enterprise, Trade and Employment)
R Thorpe	(representing the Financial Services Authority)
C Wobschall	(representing the Accountancy Foundation)

In attendance

Ms K Cearns	R Charlesworth
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Staff

K Billing	H Morgan
DC Marston	

APOLOGIES:

Members

M Evans	A Palmer
D Thomas	

Observer

J Grewe	(representing the United Kingdom Department of Trade and Industry)
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1 Chairman's introduction

Minutes of last meeting

The Chairman noted that the minutes of the Board's meeting on 28 January 2003 had been approved, following distribution to the members.

Irish legislation

Mr Jon Grant reported that the Companies (Auditing and Accounting) Bill 2003 had recently been published in the Republic of Ireland which would lead to the setting up of the new Irish Auditing and Accounting Supervisory Authority (IAASA). Consideration was being given to whether the APB needed to comment on the Bill and, in due course, it was likely that the Board would need to issue a Bulletin giving guidance on the scope of the auditors' review of the compliance statement.

Audit regulation

The Chairman noted the publication of the final report of the CGAA and of the 'Swift' report on audit regulation in the UK. It was anticipated that the new working arrangements would be brought into effect as soon as possible, possibly in advance of the related legal arrangements. The ESB was planning to hold its final meeting in March, and thereafter its former responsibilities for oversight of the development of ethical standards for accountants would be passed to the new Professional Oversight Board.

At the forthcoming APB Awayday aspects of the APB's remit would be discussed, including:

- the division of responsibility for the issue of ethical standards between the APB, the Professional Oversight Board and the CCAB Bodies,
- the distinction between 'audit' and 'assurance', and
- the APB's international responsibilities.

This will lead to discussion of the way that APB should structure its activities to reflect its prime future responsibilities for:

- Auditing Standards,
- Ethical requirements,
- Capital markets standards pursuant to EU Directives, and
- Responses to urgent issues.

Consideration will also be given to the public sector and small audit aspects of our remit.

Money laundering

Mr Grant reported that a list of issues concerning the new money laundering regulations had been prepared and that three law firms had been invited to tender for advising on them. The working party had yet to reach a decision as to which firm should be appointed. A meeting had been held between staff of the APB and HM Treasury, and another was planned, to include representatives of the Home Office. The aim was to develop guidance, by way of a revision of Practice Note 12, which would be approved by HM Treasury.

IFAC meeting with regulators

Mr Graham Ward reported on a recent meeting between IFAC and various international regulators, at which the public-interest aspects of IFAC were discussed.

2 APB response to Smith Report

The Chairman introduced a draft APB response to the Combined Code guidance in the Smith Report that had been prepared by the staff. He observed that the draft letter welcomed the Report which reflected the APB's long held views that company audit committees should have an important role in relation to the appointment and remuneration of auditors and in evaluating their independence. The letter also commented on difficulties associated with the proposed interface between the requirements in the Smith Report and the provisions in the Combined Code.

A number of Board members expressed concern that unrealistic expectations might develop about what non-executive directors could achieve in practice. There was a danger that over-formalising the responsibilities of the audit committee could lead to a reduction in the quantity and quality of people who are prepared to serve as non-executive directors. If this happened there was a risk that the existing value of audit committees could be diminished to the detriment of the external audit. Mr Grant was asked to revise the draft letter to reflect these and other comments made, and then to circulate the revision to the Board for approval.

3 Response to IAASB Preface/black lettering

Mr Grant introduced a draft APB letter of comment on an IAASB Exposure draft on the IAASB's Terms of Reference, its Preface to international standards and its Operations Policy on bold-type lettering. Board members supported the policy on black lettering but expressed concern that Practice Statements could be issued without previously having been exposed for consultation. In addition, it was thought beneficial to refer in the letter to the potential for confusion if ISAs required compliance with the IFAC Code of Principles which differed from national ethical requirements. It was agreed that the letter would be amended to reflect these and other comments made, and would then be circulated to the Chairman and to Messrs Ward and Plaistowe for approval before being submitted.

4 APB's Scope and Authority of Pronouncements

Mr Grant reported that the consultation period for a revision to the APB's Scope and Authority of Pronouncements had recently ended, and that 5 letters of comment had been received. He noted that the recently issued Government report on audit regulation should also be taken into account. The Board had the option of deferring its statement on the Scope and Authority of Pronouncements until the new arrangements were finally in place or could issue the document recognising that it would need to be revised at a later date. The Board took the view that the latter approach was preferable.

Whilst the commentators had broadly welcomed the Exposure Draft some had reservations regarding the incorporation of the 'Fundamental Principles for Auditors' in the Scope and Authority of Pronouncements. In addition, because some of the fundamental principles relate to ethical matters doubts were expressed as to whether it was premature further to emphasise these until the Board had had the opportunity of considering them more fully as part of its expanded remit.

Following discussion, it was agreed that the APB working party, chaired by Mr Lew Hughes, which had developed the Exposure Draft should consider the comments received with a view to issuing an interim Statement on Scope and Authority. This would then be revised again once the new regulatory regime had been implemented and the APB had fully considered its remit for developing ethical standards. The Chairman asked that the interim Statement be available for the next meeting on 31 March, and suggested that discussions might usefully be held with the ACCA concerning its comments on the transparency of APB operations.

5 IAASB drafts on Quality Control and Interim Reviews

Mr Grant noted that at its next meeting IAASB was due to approve for exposure three ISAs, one on interim reviews and two on quality control for audit work. He asked whether the APB wished to expose these in parallel with exposure by the IAASB. The Board indicated that, even though it was likely to issue standards in conformity with the ISAs, it did not think that a parallel exposure process would be practical. Instead the Board concluded that it should publicise the IAASB exposure drafts and indicate that it was minded to adopt these in due course. It was considered important that representatives of small firms, in particular, should be alerted to the IAASB consultation.

6 Any Other Business

The Chairman indicated that Board members would be welcome to attend the next meeting of the Technical Advisory Group on 28 March.

7 Next Meeting

It was noted that the next APB meeting would be held on Monday 31 March, commencing at 9.30am.

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