

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 28 January 2003, at 9.30 am

PLACE: The Strand Palace Hotel
372 The Strand
London WC2

PRESENT:

Members

RJH Fleck (Chairman)	A Palmer
GNC Ward (Vice-chairman)	WID Plaistowe
JEC Grant (Executive director)	P Smith
M Evans	Ms G Saunders
L Hughes	D Thomas
S Murray	S Turley

Observers

P Donegan (representing the Republic of Ireland Department of Enterprise, Trade and Employment)

J Grewe (representing the United Kingdom Department of Trade and Industry)

In attendance

Ms K Cearns	J Collier
R Charlesworth	S Braid
Ms F Banks	

Staff

K Billing	H Morgan
DC Marston	

APOLOGIES:

Members

G Pimlott

Observers

R Thorpe (representing the Financial Services Authority)

C Wobschall (representing the Accountancy Foundation)

1 Chairman's introduction

Minutes of last meeting

The Chairman noted that the minutes of the Board's meeting on 17 December 2002 had been approved, following distribution to the members.

Guidance on audit committees

The Chairman noted the recent publication of two reports on corporate governance - 'Audit Committees - Combined Code Guidance' (the 'Smith' Report) and 'Review of the role and effectiveness of Non-Executive Directors' (the 'Higgs' Report). Copies of the Smith report had been distributed to the Board, and copies of the Higgs report were available on the DTI website. A number of initial comments were expressed on both reports, and it was agreed that they should be discussed further at the Board's February meeting. It was observed that APB would need to consider an update to SAS 610 'Communications of audit matters to those charged with corporate governance' in light of the Smith Report.

Audit reports

The Chairman noted the recent publication by the ICAEW of a Technical Release giving guidance for auditors on the wording of their reports following the 'Bannerman' case.

Review of Accounting Regulation

Mr John Grewe drew attention to two reports due to be issued the following day concerning the future regulation of the accountancy profession. It was noted that the Board would discuss the implications of these reports at its next meeting and at its Awayday on 7 March.

IAASB meeting

Mr Jon Grant reported on a recent meeting between the IAASB and national standards setters. One of the issues discussed was the practical implications of the current EC proposal that ISAs should be implemented in Member States in 2005. There had been discussion as to whether, to facilitate orderly implementation of ISAs, it would be desirable for IAASB to announce that there would be a moratorium during which no new ISAs would become effective. (It is understood that IASB have agreed that, although new international accounting standards might be issued during the period, none would have an implementation date between 31 March 2004 and 1 January 2006). APB's detailed plans for the implementation are closely related to (a) progress IAASB will have made in its revisions programme and (b) the detailed EC proposal regarding the implementation of ISAs. It was agreed that this would be discussed at the Board's Awayday at which time, it was hoped, further information might be available concerning these two variables.

Mr Grant also noted that there was support for a project to develop standards for reporting accountants working on prospectuses.

2 Pro-forma information in preliminary announcements.

Mr Grant noted that, as part of the Board's work on Aggressive Earnings Management, the APB had considered that there was a need for guidance for companies on the presentation and content of pro-forma information. Both FSA and ASB had made recent announcements. While the APB considered that further guidance for companies was necessary it thought that it would be appropriate for the Chairman to write to the auditors of listed companies to

highlight the recent guidance for companies and to emphasise the relevance of APB's guidance for auditors contained in Bulletin 1998/7 'The auditors' association with preliminary announcements'. Given the public interest nature of this issue the press should be informed of the action APB has taken.

It was agreed that a draft press release should be circulated to the Board. In addition it was agreed that a working party would be set up to prepare guidance on pro-forma information included in annual reports and interim and preliminary releases. Mr Tim Pope would chair the working party which would also include Mr Andrew Palmer.

3 Money Laundering Regulations

Mr Hugh Morgan introduced a draft response to HM Treasury consultation document - 'Proposed revision of the Money Laundering Regulations 1993 and 2001'. He noted that the proposed Statutory Instrument extended whistle-blowing responsibilities to cover the proceeds of all types of criminal activity. The draft regulations differed from the EU Money Laundering Directive by referring to 'accountancy services'. The APB discussed the need for clarification that auditing was a relevant business and its concerns regarding the timetable for implementation of the new requirements. It was noted that the CCAB was likely to issue guidance to professional firms concerning necessary control procedures and the APB was planning to update Practice Note 12 'Money laundering'; it was important that these two projects should be coordinated and cross references established between the two documents. A number of further comments were made on the draft letter of comment, and it was agreed that a revised version would be distributed to the Chairman, the Vice-chairman and to Messrs Grewe and Palmer for comment before it was issued.

4 Research on SAS 610

Mr Grant introduced a proposed research project into how the requirements of SAS 610 had been implemented in practice and whether changes to the Standard were needed. The research would also be an opportunity to identify any additional communication needs arising from the Smith Report. It was proposed that this research would be carried out by Mr John Collier, the former Secretary General of the ICAEW. Mr Collier made some initial comments on his approach to this project. He noted that, in deciding on any amendments to SAS 610, both the Higgs and Smith Reports would need to be considered. The APB agreed that the focus of the research should be on listed companies but asked for the remit to be extended to include large public interest entities. The Board also discussed other research needs in this area. Mr Lew Hughes observed that the APB Public Sector sub-committee would discuss any implications for the public sector. Mr Grant was also requested to explore whether separate research can be undertaken into smaller companies and other smaller entities such as charities.

5 Fair values

Mr Grant introduced a discussion paper on whether the APB should develop an Auditing Standard on auditing fair value measurements and disclosures. The APB questioned whether this was the right time to decide on this project given the current uncertainty regarding accounting requirements and the timetable for adopting ISAs in Europe. It was agreed that discussions should be held with the ASB concerning its plans regarding a new accounting standard on fair values and to obtain their views on an appropriate timetable for any work to be carried out by the APB.

6 Registered Social Landlords

Mr Simon Braid introduced a proposed consultation draft of a revision to PN 14 - 'The audit of registered social landlords in the United Kingdom'. He indicated the main changes that had been made following the Board's last meeting in December 2002. Only one of the changes was considered to require further amendment, and this concerned the paragraph giving guidance on the audit of bad debts. The draft was therefore approved for issue as a consultation draft subject to approval of the further amendment by the Chairman.

7 Any other business

2002 Annual Review

The Chairman noted that certain changes would be necessary to his statement in the Annual Review as a result of the shortly-to-be-announced review of accountancy regulation. The Review could then be finalised and sent for printing.

Awayday

The Chairman indicated that the APB Awayday on 7 March would focus on the APB's scope of work following the review of accountancy regulation and the Higgs and Smith reports, and on how the Board would discharge its future responsibilities.

8 Next Meeting

It was noted that the next meeting of the Board would be on Tuesday 25 February, commencing at 9.30am.

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