

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 29 April 2003, at 9.30 am

**PLACE:** ACCA  
29 Lincoln's Inn Fields  
London WC2A 3EE

### **PRESENT:**

#### **Members**

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

#### **Observer**

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

#### **In attendance**

Ms K Cearns	R Charlesworth
T Pope (for item 4)	P Burrell (for item 4)
S Cogman (for item 4)	

#### **Staff**

K Billing	H Morgan
-----------	----------

### **APOLOGIES:**

#### **Members**

M Evans	WID Plaistowe
A Palmer	D Thomas

#### **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 Board. The following matters were discussed:

### International Auditing and Assurance Standards Board Publications

Mr Jon Grant noted the recent IAASB publications and the APB discussed how it should react to them as follows:

*IAPS 1014 "Reporting by Auditors on Compliance with International Financial Reporting Standards"*. This provides guidance for auditors reporting on compliance with International Financial Reporting Standards where financial statements are:

- (i) prepared solely in accordance with International Financial Reporting Standards
- (ii) prepared in accordance with International Financial Reporting Standards and a National Financial Reporting Framework
- (iii) prepared in accordance with a National Financial Reporting Framework with disclosure of the extent of compliance with International Financial Reporting Standards

The Board concluded that it should not issue IAPS 1014 as a Bulletin at this time as much of the material it contains is not currently relevant to the UK and Ireland, as the preparation of accounts in accordance with IFRSs is not permitted at this time. The Board agreed to review the need for guidance on IFRSs after the adoption of international accounting standards in 2005 and to keep the need for specific guidance, in relation to financial statement footnote references to compliance with IFRSs under review.

*Exposure Draft of Revision to IAPS 1005 "The Special Considerations in the Audit of Small Entities"*. IAPS 1005 is not directly relevant in to the UK and Ireland as APB has issued Practice Note 13 "The Audit of Small Businesses". It was agreed that further consideration would be given to the need for guidance on the audit of small businesses in 2005.

*Exposure Draft of International Framework for Assurance Engagements*. This provides a high level framework for audit and other assurance engagements. The Board agreed that a response to the exposure draft should be developed.

*Exposure Draft of ISAE 2000 "Assurance Engagements on Subject Matters Other than Historical Financial Information"*. The objective of this document is to provide 'default' standards for assurance engagements where specific standards do not exist. Mr Grant suggested that the Board should seek to ascertain the possible impact of the proposed standard on existing practice in the UK and Ireland while obtaining more general views on the document. The Board agreed that staff should consult with the accountancy bodies and a sample of firms to obtain their views as to whether the application of the proposed standard would cause unreasonable difficulties in the context of existing assurance engagements.

### Opra Consultation Draft on Opra Note 1

The Chairman reported that Opra had issued a Consultation Draft on revisions to Opra Note 1. It was agreed that the APB pensions working party should be asked to prepare a draft response for the Board to consider.

### Meeting of Chairmen of FRC Boards

The Chairman gave a report of the meeting held on 14 April 2003 and noted that matters that had been discussed included the future working relationship between the FRC and the bodies to be established under it. There was discussion regarding the likely corporate structure that would exist and the impact of this on liability issues.

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

The Chairman noted that the minutes of the APB meeting held on 31 March had been approved following circulation to the Board.

### **3. Integrity, Objectivity and Independence - Strategic issues**

Mr Jon Grant introduced a discussion on the style and structure of future standards in relation to auditor integrity, objectivity and independence. The Chairman emphasised that the objective of the discussion was solely to explore presentational issues, the intention was not to discuss the substance of the example standards that had been prepared; these would be considered in detail by the ethics working party.

The Board supported a proposal that the ethical standards should use the same convention as applied to Auditing Standards; that is a combination of bold text principles and supporting grey text guidance. There was also support for a “framework” standard being supported by a number of other standards dealing with specific aspects of auditor independence.

Further discussion would take place in the working party regarding the timetable for publication of the standards but, at this stage, the Chairman indicated that he hoped that it would be possible to issue them by the end of 2003. To facilitate this aggressive timetable it was likely that the Board would focus first on standards for audit and address other assurance engagements at a later date. The Board commended Mr Robert Charlesworth on the quality of the example standards that had been presented.

### **4. Money Laundering - Revision of Practice Note 12**

The Chairman welcomed to the meeting Mr Tim Pope (the Chairman of the Money Laundering working party) and Mr Peter Burrell and Ms Susannah Cogman (of Herbert Smith who are providing legal advice to the working party).

Mr Pope gave a brief overview of The Money Laundering Regulations 2003 and The Proceeds of Crime Act 2002 and the implications for auditors. Mr Pope noted that a issue of major concern is that, with effect from 1 June 2003 [following the meeting HM Treasury announced the deferral of the implementation of the new legislation to a date around 15 September] auditors will be required to investigate and report to NCIS all suspected breaches of law which result in criminal property. The new definition of ‘money laundering’ includes the “proceeds” of any criminal activity. There are no ‘de minimis’ levels and in consequence the scope of potential reporting is vast (for example, it would include all individual cases of shop lifting identified or suspected in

the audit of a retail shop). Failure by auditors to make an appropriate report will be a criminal offence.

The expanded definition of “money laundering” is likely to have a significant impact on auditors. In a broader context the view was expressed that the new legislation could have an adverse impact on audit quality as auditors could be distracted from their primary objective of reporting on the truth and fairness of the financial statements.

The Board discussed an early draft of revisions to Practice Note 12 and, in particular, the division of responsibilities between the APB and the accountancy bodies for providing guidance on particular aspects of the new laws and regulations. The Board agreed that the Practice Note should address matters that relate to the money laundering reporting requirements of auditors, implications for the audit of the financial statements and provide guidance that will help maintain the quality of audits. Other matters, such as the detailed content of training, should be dealt with by the accountancy bodies.

It was agreed that, in due course, a revised draft of the Practice Note would be circulated to the Board, taking account of the drafting issues discussed and the results of the meeting that will take place on 30 April with representatives of HM Treasury and the Home Office.

#### **5. Response to FSA Consultation Paper Concerning New Responsibilities for Auditors of Life Assurance Companies**

Mr Jon Grant introduced a draft response. The Board agreed with the concerns set out in the draft response but requested some changes to the wording and an additional point to be made regarding terminology; the term ‘examination’ should be used in place of ‘audit’ to make the FSA rules consistent with Practice Note 20.

It was agreed that a revised draft would be circulated to the Board before being submitted to the FSA.

#### **6. Response to Irish Companies (Auditing and Accounting ) Bill 2003**

Mr Jon Grant introduced a draft response. It was noted that the proposed legislation required auditors, when forming an opinion as to whether the Section 43 statements by the directors are fair and reasonable, to have regard to information obtained in the course of non audit work and audit related work. The view was expressed that this was likely to be impractical. It was agreed that the response would encourage the focus of the audit work to be on the directors’ process for making the statements - a similar approach to that being developed in the UK for the proposed statutory Operating and Financial Review. It was agreed that a revised draft would be circulated to the Board before being submitted to the Tanaiste.

The Board discussed whether a meeting should be arranged with IAASA to clarify arrangements in relation to the setting of Auditing Standards for Ireland. It was agreed that this should be discussed with the FRC to ensure a co-ordinated approach.

# NOTICE TO READERS

© The Accountancy Foundation Limited

This document has been obtained from the website of The Accountancy Foundation Limited and its subsidiary companies (The Review Board Limited, The Auditing Practices Board Limited, The Ethics Standards Board Limited, The Investigation and Discipline Board Limited). Use of the website is subject to the WEBSITE TERMS OF USE, which may be viewed at <http://www.accountancyfoundation.com/terms>. Readers should be aware that, although The Accountancy Foundation Limited and its subsidiary companies seek to ensure the accuracy of information on the website, no guarantee or warranty is given or implied that such information is free from error or suitable for any given purpose: the published hard copy of the document alone constitutes the definitive text.