

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Friday 30 May 2003, at 9.30 am

PLACE: CIPFA
3 Robert Street
London WC2N 6BH

PRESENT:

Members

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

Observer C Wobschall (representing the Accountancy Foundation)

In attendance Ms T Sienkiewicz (for item 5)

Staff

K Billing	D Marston
R Charlesworth	H Morgan
S Leonard	

APOLOGIES:

Members

M Evans	G Ward
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Observers

P Donegan	(representing the Republic of Ireland Department of Enterprise, Trade and Employment)
R Thorpe	(representing the Financial Services Authority)
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 to the meeting. The following matters were discussed:

Meeting of European Audit Standard Setting bodies

The Chairman reported that he and Mr Jon Grant had attended a meeting of European Audit Standard Setting bodies in Brussels. At the meeting an EC official had given a presentation on the recently published Communication 'Reinforcing the statutory audit in the EU'. The Chairman noted that whilst the Communication proposed that an Audit Regulatory Committee would be created it was currently unclear whether international standards would need to be endorsed, which body would be responsible for such endorsement and what the timing of it might be. Mr Grant noted that the EU appeared to require certain 'flanking' measures to be in place before the introduction of international auditing standards in the EU. He expected that these would be further discussed at the forthcoming EC Committee on Auditing meeting that he and Mr John Grewe (representing the DTI) were planning to attend.

FRC Chairmans' meeting

The Chairman noted that a further meeting of the FRC Chairmans' group had recently taken place at which individual boards' aims and objectives had been discussed. Mr Grant had also been asked to prepare a paper on international issues.

Ethics sub-committee

The Chairman reported that the first meeting of the APB's Ethics sub-committee had been held at which Draft Ethics Standards 1 had been discussed.

IAASB

Mr Grant reported on a recent meeting of the IAASB at which exposure drafts of two standards concerning quality control had been approved for publication. IAASB was also voting on an exposure draft of a new ISA on auditor reviews of interim financial statements.

Public Sector sub-committee

Mr Lew Hughes noted that a draft letter of comment to the ICAEW on the audit of public sector grant claims had been circulated before the meeting. It was agreed that the response should be submitted as drafted.

FRC response to DTI on legislative proposals concerning the regulatory regime of the accountancy profession

The Chairman noted that a response to the DTI proposals had been prepared for submission by the FRC and the Accountancy Foundation jointly. The response addressed the issues that had been discussed within APB.

2. Minutes of previous meeting

The minutes of the APB meeting held on 29 April were approved by the Board.

3. APB's aims and objectives

The Chairman drew attention to the recently approved statement of FRC aims and objectives and explained that these formed the basis of the draft APB aims and

objectives. He noted that an additional objective would be required relating to APB's international role and asked for comments.

There was debate regarding the definition of assurance services and it was agreed that, to the extent that a definition was required, it should be included in the next version of the APB's Statement of Scope and Authority rather than in the aims and objectives.

The Board discussed whether it was appropriate to have an aim of issuing 'rigorous' standards not least as it seemed to be inconsistent with the requirement for the Board to have due regard to cost-benefit analysis. Some Board members thought that reference to setting standards in the public interest was a preferable approach.

It was agreed that a revised draft of the APB's aims and objectives would be circulated early in the following week, and that any comments should be provided to the Chairman by the end of that week.

4. Money Laundering - changes to SASs

Mr Hugh Morgan introduced a discussion on the new anti-money laundering regulations. He noted that since the APB's last meeting HM Treasury had announced that the implementation date for the new regulations had been postponed by three months to 15 September 2003.

Mr Morgan also reported that a meeting had been held with officials from the Home Office and HM Treasury. At that meeting the APB working party representatives had proposed a 'two-tier' reporting system under which suspicions that related to offences which were likely to be of material significance to enforcement bodies would be reported individually and other suspicions would be reported by means of a summary report. The APB working party believed such an approach would be more practical than requiring all suspicions to be reported individually and would result in significant cost savings. The APB working party had been asked by the Home Office officials to estimate the potential costs arising from alternative scenarios. Mr Grant observed that, as the form of reporting was such an important issue, in the view of the working party there would be little benefit in publishing a consultation draft of PN 12 (Revised) until after a decision on this had been made by Home Office.

The APB working party now thought that the best way forward was to issue, as soon as is practical, an explanation of the new regulations together with exposure drafts of revisions to SASs 120 and 620. By exposing the SASs in the summer Auditing Standards could then be finalised soon after the new anti-money laundering legislation became effective. A consultation draft of PN 12 (Revised) would be issued as soon as the approach to two-tier reporting had been agreed but this was unlikely to be until the autumn.

Mr Grant summarised the approach enshrined in SAS 120 and described to the Board the changes that he thought needed to be made to the standards to make them consistent with the new legislation. The Board confirmed that, in view of the forthcoming changes to standards arising from the adoption of international standards, it would be undesirable to amend them now any more than was absolutely necessary.

The Board agreed with the proposed indicative timetable for the issue of revisions to PN 12 and to SASs 120 and 620. It also agreed that SAS 110 did not need updating at this stage, and that the APB money laundering working party should continue its discussions with the Home Office and HM Treasury with oversight by the Chairman and Mr Grant.

5. Response to Opra Consultation Paper on reporting to Opra

Mr Grant described the APB's advisory role in the original version of Opra Note (ON) 1 on reporting to Opra, and in its first revision in 1999. He explained that Opra had now issued a consultation draft of another revision to ON 1, and various points for possible inclusion in an APB letter of comment were considered.

The APB welcomed Opra's initiative aimed at providing greater clarity on matters which may be of 'material significance' to it. The Board, however, identified some associated issues in the draft ON 1 and it was agreed that a letter of response should be drafted and submitted to Opra. A final draft of this letter would be circulated to the Board for comment.

In addition, the APB had serious concerns regarding those parts of the consultation draft which seemed to extend the auditors' responsibilities or described how the auditor should meet existing responsibilities. This material was thought to be inconsistent with legal requirements and APB's own guidance. It was agreed that the Chairman and Mr Grant should meet with the chairman and chief executive of Opra to express the APB's significant concerns over these parts of the draft ON 1 and to seek to avoid the risk of two regulators issuing differing guidance for auditors.

6. Practice Note on attendance at stocktaking

Mr David Marston introduced a draft Practice Note which, when published, would replace APC Guideline 405: 'Attendance at stocktaking'. He pointed out in particular that the APB working party had recommended that the revised material should be in the form of a Practice Note rather than a Standard, notwithstanding the fact that the international guidance on this subject was included in ISA 501. It was hoped that the Practice Note would have value in supporting ISA 501 if, and when, it is adopted by APB.

A number of comments were made on the Practice Note and it was agreed that a small number of Board members should meet with Messrs Grant and Marston to consider changes to the draft with the intention that an updated version be presented at the next APB meeting.

7. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 24 June, commencing at 9.30am, and that the date of the following meeting had been changed to the afternoon of Wednesday 16 July.

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