

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 14 March 2006 at 9.30am

**PLACE:** Aldwych House  
London WC2

### PRESENT:

<b>Members</b>	R Fleck (Chairman)	G Pimlott
	J Grant (Executive director)	M Powell
	J Beckerlegge	W Rainey
	K Nicholson	D Thomas
	Mrs G Laver	T Troubridge
	R Nolan	S Turley

**Observers** Ms E Ward (UK Department of Trade and Industry)  
Ms P Sucher (Financial Services Authority)  
Ms H Hall (Republic of Ireland Auditing and Accounting Supervisory Authority)

<b>In attendance</b>	Ms K Cearns	A Vials
	A Robertson	

<b>Staff</b>	D Marston	Mrs H O'Sullivan
	S Leonard	

### ABSENT:

**Member** L Hughes

**Observer** D Loweth (ASB)

## **1. Introduction**

### 'Clarity' meetings

Mr Jon Grant noted recent meetings organised by the CCAB Bodies to discuss the IAASB's Clarity Project and discussions within the APB SME audit and Public sector sub-committees. He also observed that the EC was planning to respond to the IAASB on 'Clarity' and that there had been three meetings of the European Group of Audit Oversight Bodies (EAOB) – ISA sub-group to discuss the response. Mr Grant noted that the EC's response to IAASB should not be seen as the first step in an ISA endorsement process and, in his view, there was a considerable amount of work to be done before the EC would be in a position to adopt ISAs for application in the EU.

### Anti-money laundering

Mr Grant reported on progress on redrafting Practice Note 12 giving guidance for auditors on money laundering. A draft had been submitted to HM Treasury for approval, but a number of further detailed comments had been made. A revised version will be resubmitted and it was hoped that the document would be approved shortly.

### Public sector sub-committee

Mr Grant noted a recent meeting of the APB Public sector sub-committee, at which the APB's proposed work programme was discussed. The sub-committee had expressed interest in auditing guidance on grants being prepared.

### Bank confirmations

Mr Grant reported on a recent meeting with representatives of the BBA and the ICAEW, following the recent consultation on a revision of PN 16: Bank reports for audit purposes. Despite the prior consultation that had taken place a number of commentators, including one large bank, had expressed dissatisfaction with the way the process was presently operating, and it was agreed that representatives of the banks should meet with the CCAB Bodies to discuss further the process for bank reports in the future. One proposal in particular was that more use should be made by auditors of annual facility letters now commonly sent by banks to their customers.

### IAASB

Mr Grant reported on the meeting of the IAASB held the previous week in Hong Kong, which he and Mr Will Rainey had attended. He noted that an exposure draft of ISA 600 on group audits had been approved for issue. The Chairman observed that whilst this ISA when finally issued was likely to have an implementation date of the end of 2007, it may be appropriate to implement an equivalent ISA (UK and Ireland) earlier as there was no equivalent standard in the UK at present.

Mr Grant then drew the Board's attention to two potential issues arising on other current IAASB projects. The first was a proposal to clarify that ISAs applied to special purpose engagements. This could lead to supplementary material being added to individual ISAs (including ISA 700 on audit reports) which could have the effect of reducing the clarity of the standards and guidance to be applied on a 'true and fair' audit. The second issue related to a proposal for auditors to obtain general representations from management concerning their responsibility for the preparation

of the financial statements, and to disclaim their audit opinion if such representations were not forthcoming. Board members agreed that such developments seemed undesirable, and the Chairman undertook to raise the Board's concerns at the next meeting of the IAASB National Standard Setters at the end of March. It was agreed that the agenda for the IAASB National Standard Setters meeting would be circulated to Board members.

#### Audit Quality Forum

The Chairman reported on a meeting of the AQF the previous evening which he and Mr Grant had attended. The principal matters discussed included the projects on the purpose of an audit and the principles v. rules approach. The APB representatives also gave a presentation on the IAASB Clarity Project and described the likely APB response to it.

The Chairman then drew attention to a set of slides on the subject of audit quality which had recently been prepared by staff of POBA, and were to be presented to a group of audit committee chairmen that evening. Some Board members expressed disappointment that the presentation did not appear to take a holistic approach to the subject of audit quality but instead concentrated on matters that audit firms needed to address. It was agreed that other constituents of audit quality, such as the accounting framework, the new arrangements for audit regulation and corporate governance would also be covered at the evening presentation.

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

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

#### **3. Clarity Project**

Mr Grant introduced a draft APB response to the IAASB on its consultation on the Clarity Project, concerning which the Board had held a preliminary discussion at its January meeting. Board members discussed a number of issues, in particular the extent to which the letter should encourage a relaxation in audit documentation requirements for small and medium-sized entities (SMEs). Board members expressed the view that it needed to be made clearer that any relaxation of documentation requirements should not lead to a lower standard of audit for SMEs. It was agreed that a revised draft of the letter would be circulated to Board members for final comment before it was sent to the IAASB.

Mr Grant also noted a recent article related to the introduction of ISAs (UK and Ireland). This indicated that cost increases exceeded the estimates prepared by the accountancy bodies in 2003. The APB's SME audit sub-committee was due to consider the subject at its next meeting.

#### **4. Practice Note 21**

Mr Andrew Vials introduced a draft revision of PN 21: The audit of investment businesses in the United Kingdom, which had originally been issued in 2000 and in respect of which supplementary guidance had subsequently been issued in Bulletins 2001/7 and 2005/2. The draft was approved for consultation subject to the need for additional guidance in the ISA (UK and Ireland) 210 section on arrangements for reporting to the FSA.

The Board also expressed the view that more work was needed to ensure the consistency of approach in the various financial sector Practice Notes before they are finalised. It was also recommended that Mr Vials should hold discussions with the FSA to determine the appropriate definition of ‘accounting records’ for reporting purposes. The Chairman thanked Mr Vials and Mr Alastair Robertson for their assistance in developing the revision.

## **5. ISA (UK and Ireland) 720**

Mr Minnow Powell introduced a revision of ISA (UK and Ireland) 720 concerning other information in documents containing audited financial statements. Issues arising from the recent exposure draft of this standard and the consequences of the government’s decision to abolish the requirement for a statutory OFR were considered by the Board at its January meeting.

Board members made a small number of drafting suggestions, including extending the footnote reference to non-statutory information to conform it more to Bulletin 2004/1. In addition it was agreed that reference would be made to both ‘inappropriate’ and ‘undue’ presentation in the footnote. Subject to these changes the draft was approved for issue. It was agreed that the accompanying press release would refer to the lingering uncertainty regarding the mandation of the OFR pending finalisation of the DTI’s consultation on Business Reviews.

## **6. Abbreviated accounts**

Mr Steven Leonard introduced a draft of a Bulletin concerning reporting on Abbreviated Accounts, which it was intended would replace Bulletin 1997/1. The drafting of the Bulletin had been undertaken by a working party formed by the ICAEW. He noted that only a small number of changes had been made to the previous Bulletin, and requested the Board’s opinion on three issues that had arisen during drafting:

- inclusion of emphasis of matter (previously fundamental uncertainty) paragraphs in the special auditor’s report – the Board agreed that the ‘recommendation’ included in the existing Bulletin was too weak and that the revised Bulletin should adopt a stronger position;
- ‘other matters’ paragraphs – the Board agreed that in normal circumstances these should be included in the auditor’s special report;
- reference to events occurring after the date of the audit report on the full financial statements – the Board also agreed that there should be consistency with the approach taken in the APB Bulletin on summarised accounts.

Subject to the comments made, the Board approved the publication of the revised Bulletin.

## **7. SIRs in Ireland**

Mr Leonard introduced a draft Bulletin entitled ‘Regulatory and legislative background to the application of the SIRs in the Republic of Ireland’. He noted that due to timing pressures SIRs 1000, 2000, 3000 and 4000 do not indicate that they apply in the Republic of Ireland and do not include references to relevant Irish law and regulations. The previous SIRs had specifically applied to both the UK and the

Republic of Ireland. The purpose of the draft Bulletin was to give the relevant Irish legal references so that the new SIRs would be fully usable in Ireland.

Mr Leonard explained that the ICAI was discussing the application of the SIRs in Ireland with Irish regulatory authorities. The Board supported the approach of issuing a Bulletin. The alternative of re-issuing the SIRs at this stage with Irish references included was not considered appropriate as the new SIRs had only been published very recently. Board members approved the Bulletin for publication once it had been approved by the Irish Regulators.

#### **8. APB membership**

The Chairman noted that Mr Jonathan Beckerlegge and Mrs Gill Laver were retiring by rotation from the Board as from the end of the meeting, and thanked them on behalf of the Board for their notable contribution over several years.

#### **9. Next meeting**

It was noted that the next meeting of the Board would be held on Tuesday 25 April.

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