

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Wednesday 21 January 2004 at 9.30am

PLACE: 117 Houndsditch
London EC3

PRESENT:

Members

R Fleck (Chairman)	G Pimlott
G Ward (Vice-chairman)	I Plaistowe
J Grant (Executive director)	P Smith
M Evans	Ms G Saunders
L Hughes	
S Murray	

Observers

J Beckerlegge (CGA Accountancy)
J Grewe (United Kingdom Department of Trade and Industry)
M Powell (Deloitte)
W Rainey (Ernst & Young)
R Thorpe (Financial Services Authority)

In attendance

Ms K Cearns	T Troubridge (for item 3)
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Staff

K Billing	D Marston
S Leonard	H Morgan

APOLOGIES:

Members

A Palmer	S Turley
D Thomas	

Observers

P Donegan (Republic of Ireland Department of Enterprise, Trade and Employment)
K Nicholson (KPMG)

1. Chairman's introduction

A summary of relevant publications and events which had occurred since the last APB meeting had been distributed in advance of the meeting. The following matters were discussed:

Publications

The Chairman noted that Bulletin 2004/1 'The auditors' association with preliminary announcements' and exposure drafts of SAS 120 (Revised) and SAS 620 (Revised) had recently been published. He also noted that PN 25 'Attendance at stocktaking' and a consultation draft of PN 15 (Revised) were shortly to be issued.

Anti-money laundering

Mr Jon Grant noted that discussions were continuing with NCIS concerning the process for reporting suspicions of money laundering, and it was hoped that NCIS would publish guidance on this matter before the Regulations became effective on 1 March. It was planned that the Board would discuss a draft of PN 12 (Revised) at its next meeting.

IAASB

Mr Grant noted that exposure drafts of revisions to ISA 700 'Audit reports' and ISA 600 on group audits had recently been issued for comment.

IASB

The Chairman reported on a recent meeting with the chairman of the ASB to discuss the implementation of IASs into the UK and Ireland for 2005. A number of implementation issues are likely to arise and Ms Kathryn Cearns will be working with ASB staff to develop guidance. It is hoped that the guidance will be available for issue in the summer.

Auditor liability

The Chairman noted that a consultation document on director and auditor liability had recently been issued by the DTI. The APB agreed that, as auditor liability was not central to the Board's remit, it was unlikely that it would wish to contribute new ideas to the debate. However, as APB had commented to the DTI on liability in the past it would probably be helpful to the DTI, if these comments were repeated at this stage. APB staff were requested to summarise previous comments for discussion at the next APB meeting.

Introduction of ISAs

Mr Grant reported on a recent meeting with the CCAB Bodies to discuss the implementation of ISAs in the UK and Ireland. No particular preference had been expressed as to whether ISAs should be implemented in 2005 or 2006, but the view had been expressed that it would be appropriate for APB to indicate soon what its plans were so that firms can arrange for staff training. It was agreed that APB would indicate its intentions when it publishes drafts of the Audit Risk Standards in February or March.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 16 December 2003 had recently been approved, following circulation to Board members.

3. FSA CP 203

Mr Tom Troubridge, the chairman of the APB Investment Circulars sub-committee, introduced a draft APB letter of comment on the FSA's consultation paper 203 'Review of the Listing Regime'. He noted that the draft proposals could significantly affect the work of reporting accountants, and it was therefore appropriate for the APB to submit a letter of comment.

Mr Steven Leonard indicated that the draft response was in two parts - responses to specific questions posed by the FSA and broader comments on changes in the regulatory environment including possible changes to the 'sponsor regime'. In commenting on the draft a number of members of the Board emphasised the importance of maintaining the quality of financial information made available to the capital markets. However, there was concern that the consultation paper did not address the proposed role for reporting accountants in a 'disclosure' based regime.

Some members of the APB supported the continuation of a 'merit' based reporting regime rather than a disclosure based regime and felt that the APB letter should express strongly the Board's concern over the reduction in investor protection that is likely to result from implementation of the proposals. Other members of the Board did not think that it was appropriate for APB, as the body responsible for establishing auditing standards, to express views on such matters.

It was agreed that the Chairman and Mr Grant would revise the draft letter of comment in the light of comments made by Board members, and that it would be circulated to Board members again before being submitted to the FSA by the end of the month. The Chairman also agreed to report to the Board at its next meeting concerning the appropriate level of publicity for the APB's views on this matter.

4. Auditors' reports

Mr Grant introduced for discussion an illustrative UK auditors' report based on the requirements of the exposure draft of ISA 700 (Revised). He noted that the report was in two parts, the first part being mandatory wording under ISA 700 and the second part setting out country-specific matters.

The Board agreed that an illustrative report should be circulated to certain audit firms and user representatives to obtain their views, which could then be incorporated into the APB's letter of comment on ISA 700 due to be submitted to the IAASB by the end of March. In addition it was also agreed that an illustrative report for the Republic of Ireland should also be prepared and circulated for comment. Certain Board members expressed a number of concerns over the ISA proposal to separate the report into two parts and preferred the existing approach where a single opinion covered all aspects of the auditors' work.

5. Materiality

Mr Keith Billing introduced a draft of ISA 320 (Revised) 'Audit materiality' that had been prepared by an APB/IAASB task force chaired by Mr Graham Ward. He drew attention to changes made to the previous draft, including the focus on a single level of materiality for the financial statements taken as a whole. It was also proposed that, when assessing risk at the assertion level, auditors would have regard to a level of tolerable error, to be known as 'acceptable misstatement', which would be lower than the overall level of materiality. The Board was generally content with the direction of the document but suggested that the task force should reconsider certain of the terms used, including 'acceptable misstatement', and clarify the guidance on 'reasonable decisions' made by users of financial statements. It was requested that the task force be informed of these comments so that any necessary amendments can be made to the draft before it is presented to the IAASB at its meeting in April.

6. Accounting estimates

Mr Leonard introduced a draft of ISA 540 (Revised) 'Auditing accounting estimates and related disclosures' that had been prepared by an APB/IAASB task force chaired by Mr Philip Ashton. He noted that the principal purposes of the draft were to introduce more rigour and scepticism into this aspect of an audit, and to provide a framework for the analysis and communication of misstatements and possible evidence of management bias. Mr Leonard noted that the task force was in general agreement on the proposed requirements dealing with risk assessment, categorisation of estimates and responses to significant measurement uncertainty: the task force was, however, divided over the categorisation of misstatements and what should be regarded as a misstatement when an accounting estimate falls within a range of reasonably possible outcomes.

Members of the Board considered that the draft needed to be clearer with respect to the reporting of misstatements and management bias to those charged with governance, and should address this in a self-contained way rather than simply cross-referring to applicable guidance in ISA 320. As with ISA 320, a number of Board members expressed concern over the proposed use of the term 'acceptable misstatement': it was thought inappropriate for an ISA to express or imply that any misstatement might be 'acceptable', and it was recommended that an alternative term be used. Mr Leonard undertook to relay the Board's views to the chairman of the task force before a draft was presented at the February IAASB meeting.

7. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 24 February commencing at 9.30 am.

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