

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Monday 18 October 2004 at 9.30am

PLACE: 117 Houndsditch
London EC3

PRESENT:

Members	R Fleck (Chairman) J Grant (Executive director) J Beckerlegge Ms G Laver S Murray	K Nicholson G Pimlott M Powell T Troubridge
Observers	I Drennan (Republic of Ireland Audit and Accounting Standards Authority) D Loweth (ASB) R Thorpe / Ms P Sucher (Financial Services Authority)	
In attendance	Ms K Cearns K Clark	D Lindsell
Staff	K Billing S Leonard D Marston	H Morgan Ms H O'Sullivan

APOLOGIES:

Members	L Hughes I Plaistowe W Rainey	D Thomas S Turley
Observer	G Innes (UK Department of Trade and Industry)	

1. Chairman's introduction

Ethical Standards

The Chairman noted the recent publication of Ethical Standards (ES) 1-5, and subsequent correspondence concerning their application to the audit of small entities. It was agreed that these issues would be further discussed at the APB's November meeting and in the meantime meetings would be held with a number of interested parties.

National Standard Setters meeting

Mr Jon Grant reported on a recent meeting of European national standard setters in Brussels, at which the Prospectus Directive and a draft consultation paper that FEE intends to issue in respect of the Directive and related CESR guidance were discussed. It was noted that, given the differing environments, there was concern that the standards that would be applied by reporting accountants in the different Member States might differ. In order to reduce the degree of divergence it was agreed that relevant APB working parties would explore the degree to which ISAE 3000 might provide a useful framework for developing standards relating to profit forecasts and pro-formas.

FRED 34

The Chairman reported on a recent meeting with the chairman of the ASB to discuss issues for auditors that would arise following the finalisation of FRED 34 'Life Assurance'. It was agreed that whilst it was possible that the proposals in FRED 34 might be modified, the APB needed to be ready to issue guidance, particularly on the wording of auditors' reports, on the basis of the existing FRED.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 28 September had recently been circulated for approval by Board members. Two minor wording changes were suggested for incorporation into the final version of the minutes.

3. Pension Schemes

Mr Kevin Clark introduced a revision of Practice Note 15 'The audit of occupational pension schemes in the United Kingdom', which had been amended following comments received on the consultation draft. He noted that the major issue related to whether auditors should consider materiality when reporting on the Statement about contributions. Mr Clark noted that the Board had previously decided that materiality could not be taken into account until pensions legislation specifically allowed for this but alerted the APB to changes that had been made to the illustrative example of a Statement in the Practice Note. Board members made a number of comments on this revised wording.

The Board approved the revision of PN 15 for publication in final form, but noted that the document would need further revision in the foreseeable future to take account of changes in regulations and the introduction of ISAs (UK and Ireland).

4. Materiality

Mr David Lindsell provided the Board with an update on the joint APB/IAASB Task Force project for the proposed revision of ISA 320 'Audit Materiality', and introduced the latest draft of the revision. He drew the Board's attention in particular

to new guidance concerning percentages that may be applied to benchmarks to determine materiality, and it was agreed that amending the text to make it clearer they were only illustrative examples would be useful. Board members also agreed on the desirability of disclosing materiality levels to audit committees and noted that there was the possibility of an expectation gap arising in relation to the wording used in paragraph 9 (b) and (c) concerning the level of understanding of users of financial statements. It was suggested that IAASB explore this issue in the context of the revision of ISA 700.

5. Clarity

Mr Grant reported on the IAASB's 'Clarity' project and on a recently issued exposure draft on the subject. A draft APB letter of comment had been prepared and discussed with a working party. The APB observed that it was important that international standards were useful to the audits of non-listed entities as well as listed entities, and that the standards should be based on fundamental principles rather than requiring a large number of detailed procedures to be performed. Board members considered that it would be helpful to discuss APB's views with other countries over the next few months.

6. Work programme

Mr Grant introduced a discussion on the APB's work programme for 2005-06, and drew attention to the IAASB's programme for the same period. Board members commented that the APB should become involved with any international project on auditor reporting on internal controls at an early stage.

Concerning the preparation of Practice Notes, the Board considered that this was an important APB function, and that the process for developing and updating Practice Notes should therefore continue unchanged.

There was support for the Chairman's proposal that the Board should consider the broader issues relating to the quality of auditor performance and proposed that a number of firms be asked to consider these issues in advance of an APB 'awayday' in April/May 2005.

7. Insurance Bulletins

Mr Keith Nicholson noted that an APB working party was currently developing Bulletins, primarily providing guidance for auditors of insurers and friendly societies on the use of reviewing actuaries in forming their opinions on regulatory returns to the FSA. He noted that the relevant FSA rule required auditors to engage reviewing actuaries who were 'independent', and that the working party would welcome the Board's view on how independence was to be defined, particularly in circumstances where a firm of actuaries was hired externally.

Board members considered that the APB's Ethical Standards could not be directly imposed on the actuarial profession, but that the Bulletins should give guidance to audit engagement partners on the principles for determining whether an actuary could reasonably be considered as being independent. Such guidance should be consistent with the Ethical Standards.

8. Prospectus Directive

Mr Tom Troubridge introduced a draft APB response on the CESR consultation paper 'CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses no. 809/2004'. On the specific issues proposed to be raised in the letter he noted that there was a need for pan-European accounting guidance on historical, pro forma and prospective financial information. He drew particular attention to the need for a proper definition of 'properly compiled' which is the expression that reporting accountants are required to use when reporting on both profit forecasts and pro forma financial information. Board members approved the letter of comment for submission to CESR subject to a small number of detailed drafting changes being made.

9. IFAC Code of Ethics

Mr Grant introduced a draft APB response to an exposure draft on Independence guidance in the revised IFAC Code of Ethics, which included in particular new requirements concerning the rotation of the person responsible for the audit engagement quality control review. The Board agreed that this provided an important opportunity to encourage IFAC to undertake a more broadly based revision of its Code of Ethics and the letter of comment was approved for submission to IFAC.

10. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 23 November.

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