

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 18 October 2005 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

Members	R Fleck (Chairman)	G Pimlott
	J Grant (Executive director)	W Rainey
	L Hughes	D Thomas
	Mrs G Laver	T Troubridge
	K Nicholson	S Turley
	R Nolan	

Observers R Leyland (UK Department of Trade
and Industry)
Ms P Sucher (Financial Services Authority)

In attendance Mrs K Cearns

Staff	K Billing	D Marston
	Mrs H O'Sullivan	

ABSENT:

Members	J Beckerlegge	M Powell
----------------	---------------	----------

Observers I Drennan (Republic of Ireland Auditing and
Accounting Supervisory Authority)
D Loweth (ASB)

1. Introduction

Revised 8th Directive

The Chairman noted that the revised 8th Directive had recently been approved both by the European Parliament and by the Council of the European Union. It would not however become effective until translated into the 20 Member State languages which was expected to be completed by spring 2006. Article 26 provides for the endorsement of international auditing standards in Europe although the process for this, and its timing, was still unclear.

IFAC Ethics Forum

The Chairman reported on a recent meeting of the IFAC Ethics Forum that both he and Mr Jon Grant had attended. He noted that IFAC is planning to revise its Code of Ethics and, at this stage, it seems likely that these changes would reflect many of the features of the APB's Ethical Standards. The Chairman also noted that the SEC in the United States was developing new requirements in the areas of contingency fees and aggressive tax planning.

Interim reports

Mr Grant noted that, following the recent issue of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', a working party had concluded that an ISRE (UK and Ireland) should be prepared to supersede Bulletin 1999/4. The working party recognises that in preparing the new standard, consideration would need to be given to the extent to which it might increase the cost of reviews of the interim statements of listed companies.

Republic of Ireland

Mr Grant reported on his recent meeting in Dublin with the ICAI's Auditing Standards Committee, at which the APB's current work programme was discussed and the need to update a number of Irish Practice Notes highlighted.

Audit Quality Forum (AQF)

The Chairman noted that he had been invited to join a new AQF steering group which has been set up to oversee future AQF activities. The next meeting of the AQF is on 30 November, and Board members would be welcome to attend.

Takeover Panel

Mr Tom Troubridge reported on a recent meeting he had held with the Takeover Panel. In particular, SIR 3000 had been discussed together with the wording of reporting accountants' reports on profit forecasts. The Panel had also been given a draft of the APB's proposed Ethical Standard for Reporting Accountants (ESRA).

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 27 September had been approved following circulation to Board members.

3. ISA (UK and Ireland) 720

At the 27 September APB meeting the Board approved a revision of ISA (UK and Ireland) 720 for issue as an exposure draft subject to clarifying in the consultation paper, and if necessary within the standard itself, the issue regarding the relationship between the auditors considering the ‘balance’ of the OFR and the limitations within ASB Reporting Standard 1 regarding disclosures that could be seriously prejudicial.

Mr Grant highlighted the changes that had been made since the Board reviewed the draft standard in September, and commented particularly on the circumstances where the omission of information, of which the auditor is aware, from the OFR was deemed to be so significant that the auditor would consider the OFR to be misleading.

Board members discussed the changes and agreed amendments to the documentation requirements in Section A and the description of a material inconsistency in Section B paragraph 19. It was agreed that the draft should be amended and then issued as an exposure draft. The Board also discussed the tension that exists between providing as long an exposure period as possible and needing to issue the final standard before 31 March 2006. It was agreed that it would be appropriate to have an exposure period ending no later than 9 January 2006.

4. ISA (UK and Ireland) 230

Mr Keith Billing introduced a proposal to issue a revision of ISA (UK and Ireland) 230 ‘Audit Documentation’ based on the recently issued ISA 230. The main issue discussed was whether the implementation date should be accelerated. It was agreed that the IAASB date would be applied and that the new ISA (UK and Ireland) would apply for accounting periods commencing on or after 15 June 2006 although earlier adoption would be encouraged. Board members approved the publication of ISA (UK and Ireland) 230 (Revised).

5. Bulletin 2005/3

Mrs Kathryn Cearns introduced a proposed final version of Bulletin 2005/3 ‘Guidance for auditors on first-time application of IFRSs’, an interim version of which had been issued in April 2005. The latest draft reflected the outcome of the debate within the European profession over the way in which the IFRS financial reporting framework ought to be described in auditors’ reports. It also included amendments to reflect subsequent changes in law and regulation. Whilst FEE had agreed on the description of the way in which the IFRS financial reporting framework ought to be described it had referred this matter to the EC. The Board agreed not to finalise the Bulletin until the EC position was known.

Board members recommended clarification of the wording concerning directors taking legal advice in cases where they considered there was a ‘good reason’ for some companies in the group not to follow the same accounting framework. It was also recommended that a footnote should be inserted to refer to the FRC publication discussing the true and fair view. Otherwise it was agreed that the Bulletin should be issued in final form once the outcome of the forthcoming EC meeting is known.

6. Bulletin 2005/4

Mr Grant introduced a proposed final version of Bulletin 2005/4 ‘Auditor’s reports on financial statements in Great Britain and Northern Ireland’, which had been issued for

comment in an interim form in May. Finalisation of the Bulletin was also dependant on the way in which the IFRS financial reporting framework ought to be described in auditors' reports

He drew the Board's attention to a number of comments that had been received and how they had been dealt with. Board members discussed a number of the comments, particularly the suggestions that the example reports should include 'Bannerman' wording and that an example of a directors' responsibilities statement for listed companies should be included in the Bulletin. It was agreed that the Bulletin should be finalised and issued following the EC meeting referred to under item 5 above.

7. APB process on exposure drafts

The Chairman introduced a draft consultation paper on the process that the APB should adopt to respond to exposure drafts issued by the IAASB in connection with its 'Clarity project'. There were dual objectives: there was a need to obtain views from UK and Irish stakeholders on the IAASB standards as well as to undertake due process prior to the issuance of ISAs (UK and Ireland). The consultation paper proposed that the APB should gather views from UK commentators on ISAs as they were issued, but should defer the exposure of 'clarified' ISAs (UK and Ireland) until at least early 2007.

Board members agreed with the approach set out in the paper but thought more emphasis needed to be placed on the APB's direct influence at the IAASB and its taskforces and that the APB needed to show leadership in gathering views on IAASB standards. In addition, it was thought that the APB had an important role in representing the UK at the proposed EC committees that would consider the endorsement of the ISAs.

It was agreed that the focus of the consultation paper should be more on commenting to the IAASB and less on the process for issuing ISAs (UK and Ireland). Once amended the consultation paper should be circulated for approval prior to issue.

8. ESRA

Mr Grant introduced a draft consultation paper to accompany the draft Ethical Standard for Reporting Accountants, which was considered by the Board at its September meeting. He noted that the draft ESRA itself has been sent to the CCAB Ethics committee.

9. ISAs 701 and 800

Mr Grant introduced draft APB letters of comment on proposed ISA 701 'The independent auditor's report on other historical financial information' and ISA 800 'The independent auditor's report on summary audited financial statements'.

He expressed the opinion that the proposed ISA 800 did not adequately address the needs of UK legislation and, to avoid difficulty with the EC adoption process, it would be preferable for the IAASB to issue it as an Assurance Standard rather than an ISA. ISA 701 did not affect the work of auditors in the UK significantly, but would be important for auditors reporting in countries such as Germany. The key issue related to whether a 'true and fair view' could be expressed on a single financial amount. Board members shared the view that it was inappropriate to express a true

and fair view on a specific element, account or item of a financial statement. It was agreed that further emphasis should be given to this in the letter to the IAASB.

10. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 29 November commencing at 9.30am. The APB's Awayday would be held on Friday 11 November.

NOTICE TO READERS

© The Auditing Practices Board Limited

This document has been obtained from the website of the Financial Reporting Council (FRC) and its subsidiary Boards, which includes the Auditing Practices Board (APB). Use of the website is subject to the WEBSITE TERMS OF USE, which may be viewed in a separate section of the website. Readers should be aware that although the FRC and its subsidiary Boards 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 alone constitutes the definitive text.