

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 22 February 2005 at 9.30am

**PLACE:** Aldwych House  
London WC2

### PRESENT:

<b>Members</b>	R Fleck (Chairman) J Grant (Executive director) J Beckerlegge L Hughes Ms G Laver S Murray	K Nicholson G Pimlott I Plaistowe M Powell D Thomas T Troubridge
<b>Observers</b>	Ms J Ford /G Innes (UK Department of Trade and Industry) D Loweth (ASB) Ms P Sucher (Financial Services Authority)	
<b>In attendance</b>	Ms K Cearns K Desmond (for item 4)	P Hughes (for item 4)
<b>Staff</b>	K Billing D Marston	S Leonard Ms H O'Sullivan

### APOLOGIES:

<b>Members</b>	W Rainey	S Turley
<b>Observer</b>	I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)	

## **1. Introduction**

### Publications

Mr Jon Grant noted the recent publication of Bulletin 2005/1 ‘Audit risk and fraud – supplementary guidance for auditors of charities’.

### EU Prospectus Directive

Mr Grant reported briefly on a recent meeting with standards setters from France and Germany to discuss the implementation of the Prospectus Directive in the context of the revision of the APB’s Statements of Investment Circular Reporting Standards (SIRS). It had been agreed that there was benefit in trying to achieve consistency between the three countries in at least three areas – the format of reports, the definition of criteria, and compliance where possible with the IAASB’s ISAE 3000 (Revised). Another meeting had been scheduled for 17 March.

### National Standard Setters

The Chairman reported on a recent meeting of National Standard Setters that he and Mr Grant had attended. The main subject discussed had been the IAASB’s ‘Clarity’ project. Responses to the recent exposure draft had been varied and IAASB have not yet decided how to move forward. However IAASB acknowledged the importance of this topic to National Standard Setters and agreed to arrange another meeting later in the year to discuss the approach to be adopted towards the structure of, and the degree of prescription in, international standards.

### Ethical Standards

The Chairman reported on events following the finalisation of the Ethical Standards (ESs) in December. He noted in particular that the accountancy bodies had adopted the ESs but that a press release issued by the ICAEW called for the APB to revisit the ESs, primarily with regard to unlisted entities with turnover above £5.6 million. This led to an article critical of the APB in a business newspaper and the subsequent publication of a letter from the Chairman. The Chairman noted that the FRC was fully in support of the position taken by the APB in the final versions of the ESs.

Mr Grant noted that preliminary discussions had been held with the CCAB Ethics Group concerning the preparation of answers to ‘frequently asked questions’ on the ESs. In principle, the Board agreed that any such answers should be finalised by the APB following consultation as necessary with the Ethics Group.

In addition, Mr Grant reported that discussions with IFSRA were still continuing concerning the definition of small financial service entities in the Republic of Ireland in the context of the ES-PASE.

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

The Board noted that the minutes of the meeting held on 25 January had recently been approved following circulation to Board members.

### **3. Audit Quality**

The Board had discussed the work of the ICAEW's Audit Quality Forum at its January meeting. The Chairman noted the progress made to date on four of the Forum's specific projects:

- Questions to the auditors – this was proving to be the most difficult project. The working party considering this subject was looking at the possibility of auditors being required to answer 'appropriate' questions at AGMs. The challenge was the definition of 'appropriate'. In this connection, it was noted that in Australia questions have to be submitted five days before the AGM, and auditors can choose which of these to answer;
- Auditors' letters of resignation – in practice very few resignations of auditors are accompanied by the Section 394 statement. The working party is likely to recommend a change to the Companies Act to ensure that more information regarding the circumstances of an auditors' resignation is made public. This is a subject on which the APB will likely need to issue guidance in due course once the relevant legislation is finalised;
- Audit partners signing audit reports – the change from a firm's signature to that of a named partner is likely to be introduced following the adoption of the EC 8<sup>th</sup> Directive. It is likely that an exception to this new rule will be allowed on grounds of the personal security of the partner signing the report;
- Publication of audit engagement letters – the working party was proposing that, for listed companies the Combined Code should encourage the contractual terms of engagement letters to be made public. An issue to be addressed will be whether the information so provided will be of use to readers and, if not, what particular information would be useful – in particular, consideration may need to be given to whether information on the audit planning process should also be disclosed.

It was noted that the Audit Quality Forum was due to meet again on 7 March to consider the results of these projects, and that the Board would review them again subsequently.

### **4. SIRS**

Mr Tom Troubridge introduced proposed exposure drafts of SIR 1000 'Investment Circular Reporting Standards applicable to all engagements involving an investment circular' and SIR 2000 – 'Accountants' reports on historical financial information in investment circulars'.

Concerning SIR 1000, Mr Troubridge noted that it covered 'overarching' issues relating both to public and private reporting engagements, and was based to a large extent on the existing SIR 100. Board members made a number of comments on the wording of the draft, and noted in particular that the quality control procedures in ISQC (UK and Ireland) 1 should in principle apply to private reporting engagements as well as to public reporting engagements.

Board members also made a number of comments on the drafting of SIR 2000, noting in particular that a reporting accountant's procedures should meet the requirements of

the relevant ISAs (UK and Ireland) unless this would not be possible (as distinct from practicable). Board members also discussed the extent to which reporting accountants could rely on work carried out by the auditors, and it was agreed that the auditors' qualifications, independence, professional competence and the quality of their work should be considered by reporting accountants at an early stage in their engagement. The Board noted that the Appendix concerning accounting conventions had been reviewed by ASB and FSA staff, who had made helpful suggestions regarding its contents, and were content with it being appended to the SIR.

It was agreed that amended versions of the SIRS would be circulated to the Board for approval for issue as exposure drafts. A draft Consultation Paper, referring to matters such as the applicability of Ethical Standards and the relationship of the SIRS to ISAE 3000, would be published at the same time as the exposure drafts of the SIRS. The consultation period would need to be completed by the end of May so that the final SIRS could be issued as near as possible to 1 July.

#### **5. First time application of IFRS**

The Chairman noted the debate surrounding the description of the accounting framework in auditors' reports. FEE are planning to issue a consultation paper on this matter and there seemed to be benefit in APB inputting to this process and awaiting an international consensus even if this might take until the early summer.

The Board deferred consideration of the draft Bulletin 'Guidance for auditors on the first time application of IFRS in the United Kingdom' to its March meeting by which time the FEE paper should be available. At its March meeting the Board would need to consider whether it would be preferable to issue the Bulletin as soon as possible or await finalisation of the reporting issue. Further consideration may also be needed on the effect of changes in the law on the application of the 'true and fair override'.

#### **6. Next meeting**

It was noted that the next meeting of the Board would be held on Tuesday 29 March commencing at 9.30am.

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