

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 24 February 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	D Thomas
	S Murray	S Turley

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	T Pope (for item 3)	Ms K Cearns
	Ms F Banks	Ms S Cogman
	P Burrell	

Staff	K Billing	H Morgan
	S Leonard	Ms H O'Sullivan
	D Marston	

APOLOGIES:

Members A Palmer

Observers

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

1. Chairman's introduction

New staff member

The Chairman welcomed Ms Hazel O'Sullivan as a new member of the APB staff.

Publications

The Chairman noted the publication of a consultation draft of PN 15 (Revised), and the final version of PN 25 - 'Attendance at stocktaking'.

The letter of comment to the FSA on CP 203 'Review of the listing regime' had also been submitted. The Chairman indicated that he would present APB's views on CP 203 at the next FRC meeting.

FRC issues

The Chairman reported on a number of matters in connection with the FRC:

- he had recently written to Sir John Bourn to arrange a meeting to discuss the future relationship between the APB and the POBA,
- a revised Memorandum and Articles of Association were currently being prepared for the new APB Ltd, and
- an advertisement was shortly to be published recruiting new members for the various subsidiary boards of the FRC. In the case of the APB, changes to membership would be needed to replace some members who were shortly to retire, and to ensure that practising auditors were appropriately represented.

IAASB

Mr Jon Grant reported on recent meetings of the IAASB and National Standard Setters. At the January 2004 National Standard Setters meeting a joint UK/French paper had been discussed concerning how Standards could be clarified and simplified. It is understood that the IAASB will give active consideration to this matter in the future. At the February 2004 IAASB meeting new Standards on fraud and quality control had been approved.

Ethical Standards

The Chairman reported on a number of meetings that he and Messrs Grant and Ward had held recently to discuss the consultation drafts of the Ethical Standards for Auditors. Further meetings were to be held shortly with organisations such as Hermes, the NAPF and the CBI. Concerns had been voiced at some of these meetings with respect to the application of the Ethical Standards on audits of smaller entities. Related to this there is uncertainty as to what is meant by 'public interest entities'. The Chairman indicated his wish to give priority to resolving these matters. A summary of the issues and proposals to address them would be presented to the next meeting of the APB ethics group and would be tabled at the March APB meeting. If there was agreement as to how to address the issues there may be benefit in a paper being circulated to other interested parties to seek their views.

8th Directive

Mr John Grewe reported that the proposed revision to the EC 8th Directive was due to be available in March: this version is likely to contain new provisions on the rotation of audit partners and firms. As this Directive would be a significant influence on the

future development of the APB's work, it was considered important that the Board makes use of any future opportunities to comment on the revised Directive before it was published in final form.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 21 January had recently been approved, following circulation to Board members.

3. Money laundering

Mr Tim Pope introduced a revision of Practice Note 12 'Money laundering'. He noted that the new money laundering regulations were to become effective on 1 March 2004, and by then it was hoped that NCIS would have issued guidance on the process for aggregating reports of 'limited intelligence value'.

Mr Pope noted that the purpose of the PN was to explain the impact of the legislation on the auditors' responsibilities when auditing and reporting on financial statements. The aim was not to provide general guidance on the anti-money laundering legislation, as this had been provided in related CCAB guidance. It was agreed that the relevant CCAB guidance issued recently on the anti-money laundering legislation should be distributed together with the consultation draft of PN 12 (Revised).

Mr Pope explained why, for various reasons, the APB working party developing the guidance had not considered it appropriate to seek HM Treasury approval for the draft Practice Note. The Board considered that, whilst formal Treasury approval of the PN might not be necessary, it would be appropriate to discuss the document with staff of HM Treasury during the consultation period to establish whether they had any comments.

The Board noted the inevitable level of uncertainty that existed in relation to the new anti-money laundering legislation including whether use of the NCIS reporting forms and guidance would ensure full compliance with the regulations. In the circumstances it was considered appropriate that the PN should refer in the introduction to the current lack of certainty surrounding the regulations and the reporting process, and therefore that auditors should consider taking legal advice where necessary.

It was agreed that a new introductory section to the PN should be drafted, and other amendments arising from the Board's comments would be made, before the PN was circulated to Board members for approval for issue as a consultation draft. The Chairman closed the discussion by thanking both Mr Pope and Mr Peter Burrell of Herbert Smith for their efforts in developing the revised PN.

4. ISA+s

Mr Grant introduced a discussion on the adoption of International Standards on Auditing in the UK. It was agreed that the Board would implement at least the new audit risk, quality control and fraud ISAs by 2005. It was further agreed that this should be communicated to audit firms soon so that they could plan for the training of their staff. It was agreed that a press release would be issued in the week following this meeting.

The Board discussed the timing of issue of the new exposure draft ISAs on audit risk, quality control and fraud. It was noted that the Board was to hold an all-day meeting on 5 April, and it might be better to issue the draft ISAs after that date so that Board members could consider them further. It would also be important for the terminology describing 'management' and 'those charged with corporate governance' to be clarified before the drafts were issued.

5. Audit reports

Mr Grant introduced a proposed consultation paper concerning the format of auditors' reports following the adoption of ISA 700. The intention was for the APB to submit a letter of comment to the IAASB on the draft revised ISA by the end of March, and to assist in doing this a consultation paper on the format of future auditors' reports in the UK would be distributed to a selection of audit firms to seek their views.

The Board made a small number of comments on the draft proposed auditors' report, and agreed that an amended version of the consultation paper should be distributed to audit firms.

6. Audit liability

The Chairman noted a summary of comments that the APB had made in the past to the DTI, which had been provided to the FRC to assist it in commenting on a recent DTI consultation paper 'Director and Auditor Liability'. It was agreed that Board members would be able to review a draft of the FRC letter before it was finalised.

7. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 30 March commencing at 9.30 am.

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