

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 25 January 2005 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

Members	R Fleck (Chairman)	K Nicholson
	J Grant (Executive director)	G Pimlott
	L Hughes	I Plaistowe
	Ms G Laver	T Troubridge
	S Murray	S Turley

Observers Ms J Ford (UK Department of Trade and Industry)
D Loweth (ASB)
R Thorpe (Financial Services Authority)
I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)

In attendance	Ms K Cearns	S Hextall (for item 5)
	Ms D Chaplin (for item 4)	P Hughes (for item 5)

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

APOLOGIES:

Members	J Beckerlegge	W Rainey
	M Powell	D Thomas

Observer G Innes

1. Introduction

Publications

Mr Jon Grant noted that the IAASB had recently published the drafts of revised ISA 320 and ISA 540 as well as the finalised ISA 700 on the auditor's report which has an effective date for the new report wording of 31 December 2006. While there was an opportunity for early adoption of this in the UK, Mr Grant did not advise this given the number of other accounting and auditing initiatives in 2005.

Mr Grant also noted the publication of the FRC's regulatory strategy and work plan for 2005/06, which included a synopsis of the APB work programme. A full version of the APB work programme had been posted to the website.

Mr Grant noted that the FRC consultation paper on a review of the 'Turnbull' Code had been issued recently. It was agreed that the executive summary of the review should be circulated to Board members so that a decision could be made as to whether APB should respond.

Fees for non-audit services

Mr Grant noted that APB staff planned to meet with staff of the DTI to discuss the DTI consultation paper on the presentation of fees for non-audit services, in the context of the APB's Ethical Standards.

Freedom of Information Act

The Chairman reported that the FRC had been asked to consider certain aspects of the Freedom of Information Act including whether public sector auditors might need to make available copies of working papers. It was considered that guidance on this subject could be included in the forthcoming revision of PN 10 if necessary.

Companies Act

The Chairman noted that the provision in the Companies (Audit, Investigation and Community Enterprise) Act 2004 requiring the CCAB Bodies to adopt Auditing and Ethical Standards comes into force on 6 April.

EC 8th Directive

Mr Grant noted that a draft of the 8th Directive was now being reviewed by the European Parliament. Inter alia, the draft included the requirement for countries to follow ISAs as adopted by the EC but allowed for a two year transitional period for Member States to have additional requirements. Debate was continuing as to the approach to be adopted on the provision of non-audit services by auditors of public-interest entities.

2. Minutes of previous meeting

The Board approved the minutes of the meeting held on 14 December 2004 which had recently been circulated to Board members.

3. Ethical Standards

Mr Grant reported that final versions of the Ethical Standards (ESs) had been published on the APB website in December, and that letters had been sent to all those

who had commented on the exposure draft of ES – Provisions Available for Small Entities (PASE) to explain the final amendments made.

It was understood that both the ACCA and the ICAS had now adopted the ESs in their final form and that the ICAI had adopted the ESs in principle, although there was an outstanding need to clarify the definition of unincorporated small entities in Ireland. The Chairman and Mr Grant had recently had a meeting with Messrs Druckman and Morris of the ICAEW to discuss certain outstanding issues, and the ICAEW Ethics Sub-committee was due to meet the following week.

Going forward, there was likely to be a need to prepare answers to ‘frequently asked questions’ in relation to ESs; the Board would discuss a model to achieve this at its next meeting.

Mr Grant explained that POBA had decided to undertake a review of the demand for audit and other services by small entities and the provision of this by the accountancy profession. The APB had been invited to participate in this work given its relevance to APB’s discussions regarding an alternative assurance service for small entities.

4. Audit quality

Ms Julie Ford indicated that, as part of the DTI’s company law reform work which included consideration of auditors’ liability, the Secretary of State had called upon industry, investors and the profession to work together to identify ways to maintain and improve the effective operation of the UK audit market. The ICAEW had responded to the initiative by setting up the Audit Quality Forum to consider a number of matters raised by investors, and the Forum was due to report to the DTI by the beginning of March.

Ms Deborah Chaplin of the ICAEW’s Audit and Assurance Faculty indicated that the Forum was at present considering five subject areas:

- contractual terms and letters of engagement,
- shareholders’ questions to auditors,
- identification of the audit engagement partner in the auditors’ report,
- auditors’ resignation statements, and
- competition and choice between audit firms.

Ms Chaplin noted that the ICAEW’s role is to facilitate discussion between interested parties. To assist transparency, a website was being created for papers as they were drafted. Once the Forum has submitted its views to the DTI, the DTI will then consult organisations such as the FRC before any decisions are made.

It was observed that the review had been initiated by certain members of the investment community who were concerned that auditors and management were aware of information about companies which was not being fully communicated to shareholders. Some Board members took the view that the review was more about transparency than audit quality: audit quality depends primarily on the quality of audit staff and how well they are trained.

Nevertheless, Board members considered that there would be merit in the APB participating in the projects on engagement letters, auditors' resignations, the identification of audit engagement partners and questions to auditors at Annual General Meetings and that the Board should discuss these matters further at its February meeting so that representations can be made to the DTI if there are serious concerns over any of the basic concepts.

5. SIRS

Mr Tom Troubridge introduced a discussion of the Statements of Investment Circular Reporting Standards that were currently either being revised or drafted. The EU Prospectus Directive, which revises the prospectus requirements, will come into force on 1 July 2005 and it is important that SIR 2000 is finalised by that time. As SIR 2000 refers to parts of SIR 1000, it will be necessary for that also to be finalised by then. The remaining new SIRS in the '3000 series' should be finalised as soon as possible after that. A meeting with French and German standard-setters was to be held shortly to discuss having a similar approach as far as possible, and the FSA was at present in the process of revising the Listing Rules.

Mr Peter Hughes drew the Board's attention to certain issues arising in the drafting of SIR 2000. He noted in particular that:

- guidance on the preparation of the financial information on which the reporting accountants' opinion will be based was set out in an appendix to the SIR,
- the SIR's guidance was based on the principle that reporting accountants could place reliance on the work of the auditors, subject to their having carried out their own risk assessment, and
- the SIR disapplies certain of the ISAs (UK and Ireland) from the reporting accountants' work.

Board members noted that it was not generally the role of the APB to issue accounting guidance; however, in the absence of any rules or guidance from other bodies, there may be benefit in APB issuing guidance in a non-mandatory format. The Chairman proposed that a meeting should be arranged with the ASB and the FSA as a matter of urgency to obtain their views on the guidance and how best it might be promulgated.

It was also agreed that SIR 2000 should have further contextual information at the beginning setting out the issues surrounding the reporting accountants' work. The SIR should then give guidance on the extent to which the work was based on the requirements of the ISAs (UK and Ireland), bearing in mind that some of these would not be relevant. Further attention would be given to the relationship of SIR 2000 and the IAASB exposure draft on group audits although it was acknowledged that the work of reporting accountants was different from that of a group auditor and it would in practice add significantly to costs for reporting accountants to have to re-perform a large proportion of the audit work.

The Board agreed that the further development of SIRS 1000 and 2000 should proceed as a matter of urgency, with a view to final drafts being available for the February meeting and then being issued for public consultation in March.

Mr Stephen Hextall commented briefly on progress on developing the other SIRS in the 3000 series, and in particular the SIR on PFI. It was agreed that the Board would consider these further once SIRS 1000 and 2000 had been finalised.

6. ISA 230

Mr Keith Billing introduced a draft APB response to the IAASB on a proposed revision of ISA 230 'Audit Documentation'. He noted that the draft letter was supportive of the proposed revised ISA as it will help improve the quality and consistency of audit documentation. However, a number of concerns in respect of particular requirements had been identified.

Board members discussed whether the proposed rule on closing working paper files in 60 days was needed and took the view that specifying a date could encourage auditors to defer preparing documentation which, in turn, could have a negative impact on audit quality. It was agreed that the response should be submitted to the IAASB following approval of the amendments by the Chairman.

7. Audit risk and fraud

Mr David Marston introduced a draft Bulletin 'Audit Risk and Fraud – Supplementary Guidance for Auditors of Charities'. He noted that, following the issue of the ISAs (UK and Ireland), the majority of the APB's Practice Notes would need updating over the next 12-18 months. As significant regulatory developments were occurring during 2005 for charities, it made sense to update PN 11 (Revised) at the end of the year. A Bulletin setting out guidance on the ISAs (UK and Ireland) 315, 330 and 240 relating to audit risk and fraud had therefore been prepared for issue shortly.

It was noted that certain 'bold letter' requirements only had been selected from the ISAs (UK and Ireland) for comment in the Bulletin, and these had been listed individually in grey-shaded boxes. It was agreed that more explanation should be included in the introduction concerning the selection of the bold letter requirements and the context in which they were included in the Bulletin. Subject to this, the Board approved the Bulletin for issue in final form.

8. Listing Rules

Mr Steven Leonard introduced a draft letter of comment to the FSA on consultation paper 04/16 'The Listing Review and Implementation of the Prospectus Directive'. He drew the Board's attention to a small number of matters, including a request that the FSA should explain why it had changed the original requirement on reporting accountants for 'due and careful enquiry'.

It was suggested that an introductory paragraph was inserted in the section concerning the duty of care of issuers and sponsors to clarify the APB's interest in this subject. Otherwise, the Board approved the letter of comment for submission to the FSA.

9. Any other business

Mr Troubridge raised the issue of potential difficulty for reporting accountants in reporting in true and fair terms when comparative figures in financial statements had not been prepared in accordance with IFRS. It was agreed that this would be discussed by the SIRs sub-committee.

10. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 22 February commencing at 9.30am.

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