

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 25 May 2004 at 9.00am

PLACE: 117 Houndsditch
London EC3

PRESENT:

Members

R Fleck (Chairman)	G Pimlott
G Ward (Vice-chairman)	I Plaistowe
J Grant (Executive director)	M Powell
J Beckerlegge	W Rainey
L Hughes	Ms G Saunders
S Murray	D Thomas
K Nicholson	S Turley

Observers

G Innes (United Kingdom Department
of Trade and Industry)
R Thorpe (Financial Services Authority)

In attendance

Ms K Cearns	S Hextall (for item 7)
M Evans (for item 3)	T Troubridge (for item 7)

Staff

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

APOLOGIES:

Observer

P Donegan (Republic of Ireland
Department of Enterprise, Trade
and Employment)
D Loweth (ASB)

1. Chairman's introduction

Publications

The Chairman noted the recent publication of the APB's review of Activities 2003/04, and the forthcoming issue of revisions to SAS 120 and SAS 620.

IAASA

The Chairman reported that a letter had been sent to IAASA requesting a meeting to discuss various matters concerning audit in the Republic of Ireland, in particular the implementation of ISAs and the Ethical Standards.

OFR

The Chairman noted that an APB working party, to be chaired by Mr Minnow Powell, had been set up. One of the objectives of the working party is to contribute to a combined FRC submission commenting on the draft DTI regulations on Operating and Financial Reviews.

Combined Code

The Chairman noted a recently issued FSA consultation paper concerning the auditors' review responsibilities relating to the new Combined Code. The consultation paper proposed that, for 2005, auditors would objectively verify 10 provisions of the Combined Code and suggested that, in the medium term, the audit role might be expanded to involve 'due and proper enquiry' of the directors' overall statement of compliance with the Code. The APB expressed disappointment that the requirements were unlikely to be finalised until late in 2004 and noted that this would leave APB little time in which to develop appropriate guidance for auditors. The Chairman agreed to meet with the FSA to discuss how communications with the APB could be strengthened.

Money laundering

Mr Jon Grant reported on a recent meeting with staff of HM Treasury concerning HMT approval of the guidance contained in the draft revision of Practice Note 12.

POBA

The Chairman reported on a recent meeting with the Chairman and senior management of POBA, at which it was agreed that staff of the APB and POBA should meet every four months to discuss matters of common interest.

IAASB

Mr Grant noted that the next IAASB meeting was in June. Major topics on the agenda included a standard on planning and an exposure draft of a standard on documentation.

First time implementation of IFRSs

The Chairman noted that Ms Kathryn Cearns, with the assistance of Mr Andrew Lennard of the ASB, was preparing a guidance document on the implementation of

IFRSs in 2005. Staff planned to consult with members of the APB's Technical Advisory Group before the document was considered by the Board. The APB took the view that it would also be appropriate for the FRC to encourage listed companies to prepare 'impact analyses' in respect of the implementation of IFRSs.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 26 April had recently been approved, following circulation to Board members.

3. Corporate Governance Bulletin

Mr Martin Evans introduced a draft Bulletin entitled 'Corporate Governance: Requirements of Public Sector Auditors (Local Government Bodies)'. He noted that this was the third in a series of Bulletins for public sector auditors. This Bulletin had been deferred pending new legislation (the Accounts and Audit Regulations 2003) and subsequent guidance from CIPFA.

Board members suggested a small number of detailed changes to the draft, including the need to emphasise more that the guidance was primarily for use in England. Subject to these, the Board approved the Bulletin for issue in final form.

4. Adoption of existing APB pronouncements

Mr Grant explained that constitutional changes to the APB necessitated the Board to adopting the existing APB pronouncements as at 31 March 2004. A listing of APB publications was reviewed and, subject to the addition of the exposure drafts of APB documents where the exposure period had closed and the consultation paper 'Fraud and Audit: Choices for Society', was adopted.

5. ISAs (UK and Ireland)

Mr Grant introduced a consultation paper, a revised APB Statement 'Scope and Authority of Pronouncements' and exposure drafts of some 29 standards. He noted that the APB had reviewed the majority of the draft standards at its 5 April meeting and that representatives of CCAB had now reviewed all of the standards. The Board discussed the main issues raised by CCAB as follows:

- The CCAB was concerned about the references in certain of the ISAs (UK and Ireland) to the IFAC Code of Ethics – APB recognised the practical difficulties that could arise from requiring auditors to comply with several, differing, ethical codes but noted that the problem arises from the specific wording of the ISAs. The APB also indicated concern with how CCAB planned to present ethical guidance in the UK and Ireland to ensure that such guidance is compatible with APB standards on the integrity, objectivity and independence of auditors. APB agreed that these matters should be raised with IAASB and the accountancy bodies with a view to clarifying the position prior to the finalisation of the ISAs (UK and Ireland).
- The CCAB had requested clarification of whether IAASB's International Auditing Practice Statements (IAPSs) would be adopted – it was agreed that APB's existing Practice Notes and Bulletins would be retained and a paragraph would be added to the consultation paper to this effect.

- The CCAB thought that it was unnecessary to have a separate series of standards just to accommodate SAS 620 – the APB agrees with this view and decided that SAS 620 should be added, as section B, to ISA (UK and Ireland) 250.

The Board reviewed the draft consultation paper that would accompany the exposure drafts. It was agreed that the ‘invitation to comment’ should make clear what aspects of the exposure drafts readers were being asked to comment on. It was agreed that an amended draft of the consultation paper would be circulated to Board members for final comment.

It was suggested that the APB press release accompanying the consultation paper should refer to the welcome given to the APB’s introduction of ISAs by the IAASB and the CCAB as well as encouraging firms to update their methodologies and train their staff.

The Board noted that, since it had last reviewed a draft, the revised Statement on the Scope and Authority of Pronouncements had had a diagram added setting out the structure of APB Pronouncements and the ‘Auditors’ Code’ had been inserted. Subject to some further minor adjustments, the Statement was approved for issue as an exposure draft.

The Board also reviewed the draft ISAs (UK and Ireland) and made a small number of comments. The drafts were approved for issue for public comment.

6. Ethics

The Chairman noted that the issues concerning the application of APB’s draft Ethical Standards to smaller audits had been discussed at the previous meeting. He introduced a paper proposing that relief would be provided on the audits of small entities by way of a new standard ‘Ethical Standard – Small Entity Reliefs’. Auditors relying on this new standard would be required to disclose this fact. It was proposed that the relief in respect of small audits would be in place initially for three years, after which it would be reviewed by the APB. The Board supported the proposal that a paper setting out these proposals would be circulated shortly to the UK and Irish governments, some regulators and the CCAB for comment. The Chairman indicated that he would be commenting on the approach to small audits during his speech at the ICAEW annual conference in July.

The Board also commented on a number of other issues papers. Comments would be fed back to the ethics working party to assist with the redrafting of ES1, ES2, ES3 and ES4.

It was noted that transitional arrangements for the implementation of the Ethical Standards had still to be agreed with the CCAB.

7. Prospective Financial Information

Mr Tom Troubridge, Chairman of the Investment Circulars Sub-committee, introduced Mr Stephen Hextall, Chairman of the Prospective Financial Information Working Party. By way of introduction, Mr Troubridge noted that the Prospectus Directive would be implemented in the UK by July 2005, and that the Directive required public reporting by auditors or reporting accountants on historical financial

information, prospective financial information and pro forma financial information. As a result the Sub-committee proposed to revise SIRs 100 and 200, to reflect the requirements of the Directive and the EC Regulation, and to develop new SIRs to address prospective and pro forma financial information. A working party had been active for some time with respect to prospective financial information. Working parties were in the process of being established for each of the other projects with the aim of exposure drafts being issued by the end of 2004 and the SIRs finalised by mid 2005.

Mr Steven Leonard made a brief presentation on the background to reporting on PFI, together with an explanation of the way the APB had addressed the issue in recent years. Previous attempts to develop a SIR on prospective financial information had foundered because of a lack of guidance for directors when preparing prospective financial information for inclusion in investment circulars. Mr. Leonard commented that the publication, by the ICAEW, in 2003 of comprehensive guidance for directors would resolve this difficulty. Copies of this guidance had previously been circulated to members of the Board.

Mr Stephen Hextall then reported on various issues that had arisen in developing a SIR on prospective financial information:

- the relationship of the SIR with the ICAEW Guidance for directors - Board members commented that the ICAEW guidance, especially the business analysis principle, should be enshrined in the SIR as a platform for reporting accountants to “push against” However the SIR should not go so far as to require compliance with the ICAEW guidance;
- meaning of ‘properly compiled’ - there was support for the Subcommittee’s recommendation that the basis of opinion should state when a historical component of PFI has been either audited or reviewed. It was also suggested that the basis of opinion might also state the proportion of a forecast that is future oriented information, how much is historical and the source of the historical information;
- should reporting accountants provide positive assurance on assumptions - there was support for the Subcommittee’s view that reporting accountants should not be looking for evidence regarding the appropriateness of assumptions. However, the basis of opinion should state if anything has come to the attention of the reporting accountants to cause them to believe that any assumptions necessary for an understanding of the forecast have not been disclosed or if any assumptions appear unrealistic;
- modified opinions – the SIR should include guidance on all forms of modified opinions;
- merger benefit statements – these should not be addressed pending the development of guidance on “due and careful enquiry” with respect to Operating and Financial Reviews.

Mr Troubridge commented that although the Sub-committee's proposals were not "raising the bar" in terms of the level of assurance provided, they did seek to align the work undertaken by reporting accountants with the ICAEW Guidance for Directors and move practice forward in terms of the clarity of the basis of opinion. The SIR is likely to be seen within Europe as adopting a leadership position.

The Chairman thanked Messrs Troubridge and Hextall for attending the meeting and for the efforts of the Sub-committee and working party to date. He had come to the view that it would be important to have an APB member on each of the working parties revising or developing the SIRs. Mr. Ian Plaistowe had agreed to join the Prospective Financial Information Working Party. The Chairman requested other Board members to let him know if they were interested in participating in this work.

8. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 29 June.

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