

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Monday 26 April 2004 at 9.30am

**PLACE:** 117 Houndsditch  
London EC3

**PRESENT:**

|                |                              |               |
|----------------|------------------------------|---------------|
| <b>Members</b> | R Fleck (Chairman)           | G Pimlott     |
|                | G Ward (Vice-chairman)       | I Plaistowe   |
|                | J Grant (Executive director) | W Rainey      |
|                | J Beckerlegge                | Ms G Saunders |
|                | S Murray                     | S Turley      |

**Observers** G Innes (United Kingdom Department  
of Trade and Industry)

|                      |             |          |
|----------------------|-------------|----------|
| <b>In attendance</b> | Ms K Cearns | D Loweth |
|                      | M Evans     |          |

|              |           |                 |
|--------------|-----------|-----------------|
| <b>Staff</b> | K Billing | H Morgan        |
|              | S Leonard | Ms H O'Sullivan |
|              | D Marston |                 |

**APOLOGIES:**

|                |          |             |
|----------------|----------|-------------|
| <b>Members</b> | L Hughes | K Nicholson |
|                | D Thomas | M Powell    |

**Observers** P Donegan (Republic of Ireland  
Department of Enterprise, Trade  
and Employment)

R Thorpe (Financial Services  
Authority)

## **1. Chairman's introduction**

### APB membership

The Chairman noted that letters of appointment had been sent to all members of the new Board and this was the first meeting of the APB reconstituted as part of the FRC. The Chairman noted that three members of the previous Board, Messrs Martin Evans, Andrew Palmer and Philip Smith, had retired as members of the APB, and he thanked them for their significant contribution to the APB's work.

### Publications

The Chairman noted the recent submission of letters of comment to the IAASB concerning Group Audits and Audit Reports. The APB would also be commenting in due course on a recent DTI consultation paper on the modernisation of accounting Directives.

### Auditor liability

The Chairman reported that he and Sir Bryan Nicholson had recently met with the DTI to discuss responses to the DTI's consultation document 'Director and Auditor Liability'. The DTI had received a number of comments from institutional investors concerning audit quality. The Chairman had agreed to meet with a selection of these commentators to discuss their concerns.

### Turnbull guidance

The Chairman noted that the 'Turnbull' guidance would be reviewed over the next 18 months in the context of the requirement in the US Sarbanes-Oxley Act for 'statements on effectiveness'. The APB will be represented on the review group.

### 8<sup>th</sup> Directive

The Chairman reported on a recent meeting he and Messrs Grewe and George of the POBA had had with the DTI to discuss the EC 8<sup>th</sup> Directive. The discussion had focussed on individual countries' ability to supplement ISAs when they were adopted in Europe, particularly in respect of issues of national importance that the IAASB were not be able to incorporate into ISAs quickly.

### IAASB

Mr Jon Grant reported on a recent IAASB meeting in Toronto at which the draft standards on materiality and accounting estimates had been discussed. It was agreed that the drafts would be developed further before the September 2004 IAASB meeting. Other draft standards discussed included those on planning, documentation and communications to those charged with governance.

### IFAC

The Chairman congratulated Mr Graham Ward on his forthcoming appointment as Deputy President of IFAC.

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

The Chairman noted that the minutes of the meeting held on 30 March had recently been approved, following circulation to Board members.

## **3. 8<sup>th</sup> Directive**

The discussion on this agenda item are noted in the Chairman's introduction above.

## **4. Ethical Standards**

Mr Grant introduced a paper summarising the significant comments made by small practitioners on the draft Ethical Standards for Auditors and the preliminary views of the ethics working group.

The greatest concern from small firms related to the apparent prohibition on small firms providing a mix of audit, taxation and accountancy services to the same client. This arose because of the requirement for there to be 'knowledgeable management' at the client entity and the need for safeguards to be adopted by even the smallest auditing firms. The Board explored the possibility of changing the existing principle that there should be 'knowledgeable management' to oversee non-audit services and indicated its preference that the principle should be maintained. The Board discussed the implications that this could have for existing practice, including the work of sole practitioners. The Chairman indicated that the ethics working group would reconsider the issue and that it would probably be necessary to discuss this with the Government.

The ethics working group is also giving further consideration to the definition of 'public interest entities' and whether quantified guidance can be provided. The Board noted the benefit of basing the definition on that used in the draft 8<sup>th</sup> Directive. There was discussion on whether the new UK audit exemption threshold could be used to quantify the definition, at least as it related to companies. If such guidance is provided it was noted that the position in the Republic of Ireland would need to be agreed with IAASA.

Other issues on which greater flexibility was being considered concerned the provision of certain non-audit services, the requirement for small firms to have an ethics partner, and the appropriate percentage of fees from an audit client to avoid economic dependency.

It was noted that the ethics working group would consider these matters further and would make proposals to the Board at a subsequent meeting.

## **5. Money laundering**

Mr Hugh Morgan reported on amendments that had been made to the draft revisions of SAS 120 'Consideration of law and regulations' and SAS 620 'The auditors' right and duty to report to regulators in the financial sector' since the consultation period ended. Board members made a small number of detailed comments on the changes, and it was agreed that a revised version of the draft SASs would be circulated to the Board for final comment. If any comments then received were significant, the revised SASs would be discussed further at the May APB meeting.

## **6. ISA 260**

At the 5 April meeting the Board had agreed that a small working party should review the draft ISA (UK and Ireland) 260 'Communication with those charged with corporate governance', to ensure that it fully reflected the Smith guidance on audit committees, the recent research paper by Mr John Collier and the APB review of the DTI Inspectors' report of TransTec Plc. Mr Steven Leonard introduced a revised draft that reflected the views of the working party. The additions included requirements to provide copies of engagement letters and management representation letters to the audit committee, and that auditors should consider resignation if they believed that communications with those charged with corporate governance were not effective. Members of the Board made a number of comments on the draft. It was agreed that a further draft of the revised ISA (UK and Ireland) 260 would be considered at the May APB meeting.

## **7. Work programme**

Mr Grant noted that there would be a significant volume of material for the Board to consider over the next three months, and therefore that extended meetings might be necessary in May and June. The workload would include the approval of the final Ethical Standards for Auditors and of exposure drafts of ISAs (UK and Ireland).

## **8. ISA Consultation paper**

The Chairman distributed a draft of a Consultation Paper to accompany the exposure drafts of the ISAs (UK and Ireland) which it was planned would be issued in June. Board members made a number of comments on the draft, including the need to emphasise the APB's close involvement with the development of ISAs and the linkage of this work with the timetable for the revision of UK SASs.

It was agreed that it would be helpful for practitioners if a press release indicating the APB's timetable for the issue of ISAs (UK and Ireland) were also to be issued very shortly. It was agreed that a draft press release would be circulated to Board members for further comment.

## **9. Any other business**

Mr Grant agreed to circulate an up-to-date listing of members of the Board.

## **10. Next meeting**

It was noted that the next meeting of the Board would be held on Tuesday 25 May.

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