

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 26 April 2005 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

Members	R Fleck (Chairman)	G Pimlott
	J Grant (Executive director)	M Powell
	J Beckerlegge	D Thomas
	L Hughes	T Troubridge
	Ms G Laver	S Turley
	K Nicholson	

Observers G Innes /Ms E Ward (UK Department of Trade and Industry)
I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)
D Loweth (ASB)
R Thorpe (Financial Services Authority)

In attendance	Ms K Cearns	D Hilton (for item 3)
	S Hextall (for item 3)	H Morgan (for item 8)

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

APOLOGIES:

Member	W Rainey
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1. Introduction

APB membership

The Chairman reported that Mr Ronan Nolan had been appointed to the Board as the Irish representative in place of Mr Sean Murray. Mr Nolan is a partner in the Dublin office of Deloitte, and currently chairs the ICAI's auditing standards committee. He noted that the FRC was currently seeking to appoint a further two new members to the Board.

APB Publications

Mr Jon Grant noted the recent publication of Bulletin 2005/2 which provided supplementary guidance on audit risk and fraud for auditors of investment businesses. He also noted that the Ethical Standard (ES) - 'Provisions Available for Small Entities' had recently been re-issued to include a definition of small entities in the Republic of Ireland; in addition exposure drafts of ISAs (UK and Ireland) 260, 600, 705 and 706 had been issued for public comment.

FEE discussion paper

Mr Grant drew attention to a FEE discussion paper on reporting issues in relation to EC endorsed International Financial Reporting Standards (IFRS) and possible implications for the audit report. In this connection Mr Keith Nicholson commented on the use of the term 'those IFRS adopted for use in the European Union' in the Bulletin on first time adoption of IFRS approved at the March APB meeting. He raised a concern that use of such wording might encourage other countries to use similar references to IFRS in circumstances where the adoption of IFRS is less comprehensive than contemplated in the EU. In some people's view it may therefore be better to refer to financial statements complying with international accounting standards and remove specific reference to IFRS. Board members noted that this issue had been discussed at the March meeting and that a primary concern at that time had been one of timing. Differing views existed on this issue and if authoritative guidance is to be developed within Europe it is unlikely to be available until some time after the outcome of the FEE consultation is known. The APB had, however, concluded that there was a need to publish an interim position, not least because there would be a need to refer to the accounting framework on reviews of interim financial information. Because of this the APB had agreed to issue the Bulletin as interim guidance and to note therein that the position would be changed in the event of a different position being agreed within the EU. It was therefore reconfirmed that the proposed wording for the APB's Bulletin on the first-time adoption of IFRS would be retained and that this issue should be commented upon in the press release accompanying the publication of the Bulletin. It was also agreed that the APB would respond to the FEE consultation paper.

Clarity taskforce

Mr Grant reported briefly on the work of the IAASB Clarity taskforce, and noted that the Board would have a fuller briefing at the May APB meeting.

SIRS

Mr Grant noted a recent meeting that Messrs Troubridge and Leonard had held with representatives of the ICAI, the Irish Stock Exchange, the DETE and IFSRA, at

which it was concluded that the new and revised Statements of Investment Circular Reporting Standards (SIRS) could be implemented with minimal amendment in the Republic of Ireland.

Public Sector sub-committee

Mr Grant noted that the APB Public Sector sub-committee was currently updating PN 10 to reflect the adoption of ISAs (UK and Ireland), and that a draft of the revision would be available for consideration at the next Board meeting.

Anti-money laundering

Mr Grant reported that the Serious Organised Crime and Police Act 2005 had recently been passed, but was not as yet enacted. This new legislation addressed a number of concerns that the accountancy profession had relating to the reporting of suspicions, and its provisions should therefore be reflected in the APB's Practice Note 12 before this was approved by HM Treasury and re-issued in final form.

Audit Quality Forum

The Chairman noted that POBA and the APB would be representing the FRC in on-going discussions with the ICAEW's Audit Quality Forum. The AQF was currently consulting on future topics including the purpose of audits, the scope of audits and audit reporting, the role of audit committees, and the role of third party advisers in the audit process. The Board would be kept informed of developments.

FSA

Mr Richard Thorpe noted two developments to enhance the FSA's focus on audit and accounting matters. Mr Thorpe had been promoted to head up a group within the FSA which monitored accounting developments, and Mr Kari Hale had been put in charge of the FSA's liaison with the larger accountancy firms.

EC 8th Directive

Mr Gordon Innes noted a forthcoming meeting of European regulators, including the DTI and POBA, to discuss aspects of the EC 8th Directive, particularly future arrangements for audit oversight in Europe and the process for implementation of ISAs.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 29 March had recently been approved following circulation to Board members.

3. SIRS

Mr Tom Troubridge introduced a discussion of proposed SIR 4000 – 'Investment Circular Reporting Standards applicable to public reporting engagements on pro-forma financial information', and SIR 3000 – 'Investment Circular Reporting Standards applicable to public reporting engagements on profit forecasts'. He noted that further development work had occurred since the last APB meeting, but that further detailed drafting was necessary before they were suitable for issuance as exposure drafts.

Mr Dudley Hilton, the chairman of the SIR 4000 working party, introduced a discussion of the latest draft of SIR 4000. Board members made a number of comments, including noting that the inter-relationship of the draft and the relevant ICAEW guidance for directors was over-emphasised; in addition some of the other guidance was not clearly worded. It was also suggested that the 'outcome' was the pro-forma financial information rather than the compilation.

Mr Stephen Hextall, the chairman of the SIR 3000 working party, introduced a discussion of the latest draft of SIR 3000. Board members made a number of comments, including the need to explain why one of the four major criteria for prospectuses, 'relevance', was important for directors but not for reporting accountants. In addition, more guidance was needed on the reporting accountant's work on historical financial information, and how this should be referred to in the 'basis of opinion'.

It was agreed that both drafts would be amended to reflect the comments made, and would then be reviewed by the Chairman and Mr Grant before being circulated to Board members for approval for issue as exposure drafts.

The Chairman noted that a working party, which would include himself, Messrs Pimlott, Troubridge, Grant and Thorpe, Mr Peter Hughes and Professor Stuart Turley, would commence work shortly on developing Ethical Standards for reporting accountants. Initially the working party would seek to identify those parts of the current ES 1-5 which were applicable for reporting accountants. The goal was to issue an exposure draft at around the time that the new SIRS were finalised in the autumn.

4. OFR

Mr Keith Billing introduced an issues paper on the Operating and Financial Review (OFR), following the issue of new Regulations requiring the publication of OFRs by quoted companies. A working party, chaired by Mr Minnow Powell, had been set up to prepare updated guidance for auditors. This guidance was likely to be published as a supplement to ISA (UK and Ireland) 720, and the intention was to issue it in final form by March 2006.

Board members discussed two issues in particular. The first concerned the extent to which the engagement partner responsible for signing the OFR would be deemed to know relevant information about parts of the group or company which were audited by other firms or offices. The preliminary view was that while the engagement partner was not required pro-actively to look for issues in these areas there should be procedures in place for proper liaison between the various audit teams so that knowledge of inconsistencies can be communicated. The second issue was whether the APB guidance should apply to non-statutory documents called OFRs. In this context it was noted that the ASB standards apply to all documents that are titled an OFR. Mr Powell noted that these comments would be taken into account by the working party when drafting the guidance.

5. ISAs 320 and 540

Mr Billing introduced a draft APB letter to the Technical Director of the IAASB. He noted that as joint APB/IAASB working parties had drafted the exposure drafts a formal letter of comment on them was not proposed. Rather it was proposed that the

Board respond supporting the decision to address ‘earnings management’ in the drafts and noting that it was prepared to continue the collaborative approach when finalising the ISAs. The Board approved the letter for submission to the IAASB, with additions to note that detailed comments would be communicated through APB members on the working party, and that the working party may wish to consider the issue of the determination of materiality for the audits of banks and insurers where assets and liabilities are generally much larger than income and expense items.

6. Audit risk and fraud

The Chairman introduced two draft Bulletins giving supplementary guidance on audit risk and fraud for auditors of pension schemes, and of banks and building societies. Board members approved the Bulletins for issue, but recommended that the ‘bold letter’ requirements referred to in the sections on ISA (UK and Ireland) 240 should be similar in both documents, and that certain weaknesses listed under ‘control activities’ in the banks Bulletin should instead be listed under ‘control environment’.

7. Practice Note 13

Mr Grant noted that at the March meeting there had been discussion on the need to update PN 13 – ‘The Audit of Small Businesses’ following the adoption of ISAs (UK and Ireland) and the ESs. He introduced a short paper which concluded that it may not be appropriate to revise the PN immediately as it might be impacted by the ongoing work on the IAASB Clarity project, POBA’s research on the needs of small businesses and any emerging issues following the implementation of the ESs. Mr Grant therefore recommended that a Small Practitioners’ sub-committee of the APB should be set up to discuss PN 13 as well as provide input to the other projects. The Board agreed with this proposal.

8. Example auditors’ reports

Mr Hugh Morgan introduced a draft bulletin setting out examples of auditors’ reports, which was to accompany ISA (UK and Ireland) 700. Board members discussed whether the auditors’ opinion on the directors’ remuneration report and review of corporate governance issues should be included in the auditors’ report on the financial statements of the parent company or of the group. It was concluded that reference to the corporate governance review should be in the group financial statements and that the auditors’ opinion on the directors’ remuneration report should be included in the parent company accounts. It was also agreed that references in auditors’ reports to the historical cost convention should be removed, and that APB staff should give further consideration to whether reports should be addressed to ‘the members’ or to ‘the shareholders’. It was agreed that the Bulletin should be circulated to Board members for approval for issue as an exposure draft. The Board noted that the Bulletin was likely to be replaced in the foreseeable future once proposals for ‘two-part’ auditors’ reports had been finalised. In this regard the Board noted the desirability of giving bodies such as the NAPF and the CBI the opportunity to comment on this important development.

9. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 31 May commencing at 9.30am.

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