

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 26 September 2006 at 9.30am

**PLACE:** Aldwych House  
London WC2

### PRESENT:

<b>Members</b>	R Fleck (Chairman)	W Rainey
	J Grant (Executive director)	D Thomas
	L Hughes	T Troubridge
	G Pimlott	S Turley
	K Nicholson	M Ward
	M Powell	
<b>Observers</b>	I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)	
	R Thorpe (Financial Services Authority)	
<b>In attendance</b>	Ms K Cearns	
<b>Staff</b>	K Billing	D Marston
	S Leonard	Mrs H O'Sullivan

### ABSENT:

<b>Member</b>	A Chambers	R Nolan
<b>Observers</b>	R Leyland (UK Department of Trade and Industry)	
	D Loweth (ASB)	

## **1. Introduction**

### Publications

Mr Jon Grant noted the recent publication of Practice Note 10 (I), an exposure draft of Practice Note 15 and Bulletin 2006/5. He also noted that Bulletin 2006/6 on Auditors' reports was due to be published by the end of that week.

### Accounting records

Mr Grant reported on a recent meeting with a large institutional investor to discuss auditors' responsibilities in connection with accounting records. The investor believes that some auditors may not be fulfilling their statutory responsibilities in this area. In this connection there was discussion about the definition of proper accounting records and it was suggested there may be a need for guidance on this to assist both directors and auditors fulfil their responsibilities.

### IAASB

Mr Will Rainey reported on a meeting of the IAASB held the previous week in Montreal. It was noted in particular that the 'clarified' versions of the Preface and ISAs 300, 315 and 330 on planning and risk assessment had been approved. Progress had also been made on ISA 800 on special reports in a manner that was largely consistent with the APB response to the exposure draft.

Mr Grant reported that there had been discussion in Montreal about the status of the adoption of ISA 700 (Revised) on auditor's reports in the countries represented at the meeting. Some countries were planning to adopt ISA 700 (Revised) in 2007 others were not. The APB staff were asked to prepare a paper looking at the implications of APB deferring the implementation of ISA 700 (Revised) to its use of the designation ISAs (UK and Ireland) .

### Ethical Standards

The Chairman noted a recent meeting of the IFAC Ethics CAG and the work the IESBA is undertaking to revise the IFAC Code of Ethics. He noted that the APB is due to review the UK Ethical Standards in 2007, and there would be a need to keep this in step with international developments.

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

The Chairman noted that the minutes of the meeting held on 25 July had been approved following circulation to Board members.

## **3. ESRA**

Mr Grant introduced a draft of the Ethical Standard for Reporting Accountants (ESRA), which had been amended following comments received during the consultation earlier in the year. The theme of the comments had been for the APB to avoid slowing up a transaction, jeopardising the necessary confidentiality arrangements surrounding some transactions and reducing the choice of accountancy firm. A revised draft of ESRA had been shared with the CCAB and with the Takeover Panel, LIBA and the London Stock Exchange and actions that had been taken to address these concerns discussed. Mr Grant drew attention to the key changes, which included:

- the widening of the definition of the engagement client to include both the companies involved in some takeover situations,
- additional guidance to provide relief from searching for all business relationships and other services being provided where the auditor of one party to a proposed takeover acts as reporting accountant (but not auditor) for the other company involved,
- the clarification of a paragraph to address the situation where the provision of other services gives rise to an unacceptable management threat, and
- additional paragraphs to provide relief in relation to relationships in the ordinary course of business with established professional advisers connected with the investment circular.

Board members reviewed the revised draft and supported the changes that had been made. A number of wording changes were discussed, in particular, it was agreed that a new footnote would be inserted to clarify the circumstances in which judgments made by a reporting accountant in relation to a material aspect of an investment circular reporting engagement might preclude the earning of contingent fees. It was agreed that amendments arising from the comments made would be circulated to Board members for approval. In addition, the Board approved the Feedback paper to be issued with the final version of the ESRA.

#### **4. Audit Quality**

The Chairman introduced a revised draft of the FRC consultation paper ‘Promoting audit quality’, which had been amended following comments made at the Board meeting in July. He noted that the draft had been considered by the Audit Quality steering group and by the FRC Chairmen’s committee, and had also been discussed at a recent international forum.

Board members each expressed opinions on the draft, which included the following:

- the discussion of audit quality should be put into an international context and the draft should be clearer that it applies to the Republic of Ireland as well as the UK,
- the suggestion that the best staff are assigned to the largest clients seems an overstatement, in practice audits are graded by risk and that more experienced audit staff are allocated to the higher risk assignments,
- more emphasis should be made of the high quality of graduates recruited by the larger audit firms,
- the risks associated with the regular rotation of auditors should be more clearly set out alongside those from over-familiarity between auditors and clients,
- The threat posed by accelerated corporate financial reporting timetables should be noted.

It was agreed that another draft would be prepared taking into account the Board’s comments, and would be circulated to Board members for discussion at the 10 October meeting.

#### **5. APB Awayday**

Mr Grant introduced a draft of a possible agenda for the forthcoming APB Awayday, at which the principal topic would be the APB’s future strategy and work programme.

Board members agreed that the APB's future role in an environment where auditing standards were principally set internationally needed to be discussed. It was agreed that assurance engagements, small audits and methods for keeping Practice Notes up-to-date should also be considered, together with possible criteria for the evaluation of the Board's effectiveness. It was agreed that a more developed agenda would be circulated in due course.

#### **6. Heritage assets**

Mr Grant drew the Board's attention to an exposure draft of a proposed amendment to FRS 15: 'Tangible fixed assets' that the ASB was currently developing. This draft contains new requirements for the reporting of heritage assets, particularly for public sector entities and charities, some of which might cause issues for auditors. After discussion, Board members agreed that the APB should make an appropriate comment to the ASB during the forthcoming consultation period.

#### **7. FRC strategic outcomes**

The Chairman reported on a current FRC project to identify its key objectives, one of which was in relation to reliance on the audit process. A draft paper would be circulated for discussion at the 10 October meeting.

#### **8. Next meeting**

It was noted that the next meeting of the Board would be held on Tuesday 10 October. The APB Awayday is scheduled for 3 November.

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