

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 27 September 2005 at 9.30am

**PLACE:** Aldwych House  
London WC2

### PRESENT:

<b>Members</b>	R Fleck (Chairman)	R Nolan
	J Grant (Executive director)	G Pimlott
	J Beckerlegge	M Powell
	L Hughes	W Rainey
	Mrs G Laver	D Thomas
	K Nicholson	S Turley

**Observers**

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

**In attendance** Mrs K Cearns

<b>Staff</b>	K Billing	D Marston
	Mrs H O'Sullivan	

### ABSENT:

**Member** T Troubridge

## **1. Introduction**

### True and Fair

The Chairman reported on recent discussions following the circulation of a paper by an institutional fund manager which raised concerns about the adoption in the UK of international auditing and accounting standards. The FRC had felt it appropriate to issue a consultation paper (The implications of new accounting and auditing standards for the 'true and fair view' and auditors' responsibilities) in early August setting out its views on this matter. The Chairman observed that the two main reactions to this consultation paper he was aware of were, firstly, that a degree of certainty is needed in the definition of 'true and fair' which may well require legislation, and secondly that the FRC should develop its thinking in the area of 'audit quality'. He noted that audit quality is the theme of the APB Awayday on the 11 November.

### SME Sub-committee

Mr Grant reported on the progress made in setting up of a new APB Sub-committee for Small and Medium-sized Entities. He noted that members, who would serve initially for one year, had been selected following consultation with the CCAB Bodies. The Board approved the membership together with the Sub-committee's terms of reference, noting that additional members may be sought to represent small businesses and the DTI's Small Business Service.

### SIRS

Mr Grant noted the current status of the project to develop and revise the Standards for Investment Reporting (SIRS). SIRS 1000 and 2000 have now been issued in final form. Relatively few responses had been received on the exposure drafts of SIRS 3000 and 4000 and he hoped that APB would be in a position to finalise the standards at its November meeting. Work was underway to develop a listing of relevant law and regulations that apply in the Republic of Ireland.

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

The Chairman noted that the minutes of the meeting held on 28 June had been approved following circulation to Board members.

## **3. ISA (UK and Ireland) 720**

Mr Minnow Powell introduced a revision of ISA (UK and Ireland) 720: Other information in documents containing audited financial statements, which had been prepared primarily to take account of the new statutory reporting requirement for auditors in relation to Operating and Financial Reviews and directors' reports. The Board discussed a number of issues that had arisen during the drafting of the revision, the principal of which were as follows:

- the scope of the standards and guidance – the APB agreed that this should be consistent with the scope established in Reporting Standard (RS)1 issued by the ASB (ie all reviews that purport to be OFRs);
- legal advice – in the existing standard there is an encouragement that auditors take legal advice in the event that they believe a judgemental matter is inconsistent with the financial statements. The Board took the view that in the

light of the new statutory responsibilities it was no longer necessary to refer to the possible need for auditors to obtain legal advice;

- ‘balance’ in the OFR – an important aspect of the auditors’ review of the OFR relates to the auditors’ responsibilities when certain matters are not disclosed by the directors. It was agreed that auditors did not have a responsibility to seek out such matters; however if the auditor was aware of a matter there was a need to consider whether this had been addressed in the OFR. This issue is however made complex by the relief provided in RS 1 which allows directors not to disclose information about impending developments or about matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company. In such circumstances it was agreed that auditors could do no more than confirm such decisions with those charged with governance.

Board members approved the standard for issuance as an exposure draft subject to clarifying in the consultation paper, and if necessary within the standard itself, the issue regarding the relationship between the auditors to consider the ‘balance’ of the OFR and the limitations within RS 1 regarding disclosures that could be seriously prejudicial.

#### **4. IFAC Code of Ethics**

Mrs Hazel O’Sullivan introduced a draft letter of comment on a proposed revision of section 290: Independence – Assurance Engagements in the IFAC Code of Ethics. She noted in particular that the letter welcomes the new and wider definition of network firms, which is more consistent with that in the APB’s Ethical Standards (ESs). The letter of comment was approved for submission to IFAC.

The Board noted that a relatively minor consequential change may be appropriate to the ESs as a result of the IFAC revision, but agreed that this will be done as part of the formal review of the ESs to be carried out in 2007.

#### **5. Ethical Standard for Reporting Accountants**

The Chairman introduced a draft ES for Reporting Accountants (ESRA). Board members discussed a number of issues concerning the draft, as follows:

- application of ESRA – it was agreed that the ESRA should have the same scope as SIR 1000; this provides a clear distinction from other assurance engagements;
- the definition of the engagement client was agreed and there was support for the reporting accountant being required to consider independence issues relating to other parties especially other signatories to the engagement letter;
- separation of the audit and reporting accountant teams – the APB discussed this in the context of the DTI inspectors’ report on Maxwell. It was agreed that there were benefits in keeping the same team provided there was some independent involvement. It was agreed that the consultation paper should highlight this issue;
- economic dependence – it was agreed that it would not be appropriate to establish a specific fee level that constituted ‘economic dependency’ but that it was appropriate to disclose to those charged with governance and the parties

to the engagement letter circumstances where fees are greater than 5% of fee income in the relevant period;

- it was agreed that the relevant period was the engagement period, extended as necessary to include the period since the date of the last audited financial statements;
- provision of other services – the APB discussed whether a firm could act both as the reporting accountant and also as sponsor / Nomad. It was agreed that the FSA and the Stock Exchange would be consulted and there would be further discussion on this point.

Board members made a number of drafting comments on the ESRA, and it was agreed that the draft should be passed to the CCAB Ethics Group for comment before being considered again for approval as an exposure draft at the November APB meeting.

## **6. Practice Note 16**

Mr Grant introduced a revision of PN 16 Bank reports for audit purposes, which had recently been updated by a working party comprised of representatives of the ICAEW and the British Bankers' Association (BBA). It was proposed that the revision should be issued jointly by the APB and the BBA, and that steps should be taken to obtain the agreement of the Building Societies Association and the Irish Bankers' Federation during the consultation period.

Board members agreed with this proposal, but commented that efforts should be made to establish whether there were any relevant issues arising from the 'Parmalat' case that should be taken into account in the revision. It was noted that the final version of the consultation draft would be circulated to the Board for approval.

## **7. International Standards and APB's future work programme**

Mr Will Rainey reported on the recent IAASB meeting in New York, referring in particular to progress on the 'clarity' project and the consequential re-writing of many of the ISAs over the next two years. The Board discussed how best to provide UK input into the 'clarity' project and whether it was appropriate to issue ISAs (UK and Ireland) in parallel. It was agreed that APB should discuss this matter further at its October meeting at which time it would decide whether it should consult externally on this issue.

Other than international developments the Chairman noted two significant areas which will need to be addressed in the work programme:

- Responding to POBA's current research on SMEs, and
- Audit quality – following proposed discussion at the APB's forthcoming Awayday, further work will be needed including seeking the views of stakeholders in the audit process.

Board members agreed that the work programme should be further developed. It was also agreed that the APB should review its role during 2006 in the light of the findings from the broader consideration of audit quality, and reflecting international developments both in relation to the issuance of international standards by IAASB and their likely adoption within the EU.

**8. Any other business**

The Chairman drew the Board's attention to a recently-issued research paper on the role of IFAC as a global regulator serving the public interest, which was co-authored by Professor Stuart Turley.

**9. Next meeting**

It was noted that the next meeting of the Board would be held on Tuesday 18 October commencing at 9.30am.

## **NOTICE TO READERS**

**© The Auditing Practices Board Limited**

This document has been obtained from the website of the Financial Reporting Council (FRC) and its subsidiary Boards, which includes the Auditing Practices Board (APB). Use of the website is subject to the WEBSITE TERMS OF USE, which may be viewed in a separate section of the website. Readers should be aware that although the FRC and its subsidiary Boards seek to ensure the accuracy of information on the website, no guarantee or warranty is given or implied that such information is free from error or suitable for any given purpose: the published hard copy alone constitutes the definitive text.