

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 28 June 2005 at 8.30am

PLACE: Aldwych House
London WC2

PRESENT:

Members	R Fleck (Chairman)	W Rainey
	J Grant (Executive director)	D Thomas
	L Hughes	T Troubridge
	K Nicholson	S Turley
	R Nolan	

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

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

ABSENT:

Members	J Beckerlegge	Ms G Laver
	G Pimlott	M Powell

1. Introduction

Press comment on APB's decision to issue ISAs (UK and Ireland).

The Chairman referred to a paper which had recently been sent by a large institutional investor to the DTI in response to the Company Law White Paper. In the paper various criticisms were made in relation to the impact of APB's decision to base UK auditing standards on international standards and on APB's process leading to the issuance of the ISAs (UK and Ireland) in December 2004. This paper had been widely distributed and had attracted press attention.

The Chairman noted that he did not agree with many of the assertions in the paper and that he was disappointed that APB had not been given the opportunity to comment on them prior to publication. Of particular concern was the criticism that APB had not consulted on its decision to issue the ISAs (UK and Ireland). The investor's comments in this regard seemed to be based on a rather limited analysis of the information currently on the APB website and missed a number of important public communications on the topic including a specific consultation in September 2002. Discussions were currently being held with the DTI to clarify these matters.

Turnbull guidance

The Chairman noted the publication by the FRC of a revision of the 'Turnbull' guidance on reporting on internal controls. In particular, he noted that there was no requirement for auditors to review the effectiveness of internal control. A minor change was being made to the Turnbull guidance relating to directors commenting on the correction of internal control deficiencies. The review group did not think that this would lead to an extension of auditors' responsibilities but there may need to be consequential amendments to Bulletin 2004/3 in due course.

IAASB

Mr Jon Grant reported on the recent meeting of the IAASB in Rome. He noted in particular the approval of a standard on Interim Reviews, which the APB would need to decide whether to adopt in due course. In addition, exposure drafts of standards on Special Reports and Summarised Financial Information had been approved, and the APB would need to vote on these as exposure drafts of ISAs (UK and Ireland) in July. He indicated his personal reservations as to the value of ISA 800 on Summarised Financial Information.

Mr Grant also summarised the discussion relating to the 'Clarity' project. He noted that the IAASB had supported the 'package' of proposals presented to them but had decided to focus its efforts on developing audit 'Objectives' rather than 'Principles' at this stage. The 'package' would now be discussed by a group of regulators and national standard setters on 11 July.

Ethics FAQs

Mr Grant reported that following from a meeting with ICAEW staff representing CCAB, agreement had been reached as to an acceptable method for APB involvement in CCAB's process for answering Frequently Asked Questions on the APB Ethical Standards. This approach would be reviewed in the light of practical experience.

APB Awayday

Mr Grant noted that the date of the forthcoming APB Awayday had been fixed for 11th November. One significant agenda item will be a discussion with POBA staff on the implications for APB standards and guidance from the findings from the AIU audit inspections in 2004/5.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 31 May had recently been approved following circulation to Board members.

3. SIRS

Mr Tom Troubridge introduced final drafts of SIR 1000 – Investment Circular Reporting Standards applicable to all engagements involving an investment circular and SIR 2000 – Investment Circular Reporting Standards applicable to public reporting engagements on historical financial information, which had been amended following recent public consultation. Letters of comment had been received from the larger accountancy firms and from a small number of other parties such as IPMA. He noted that no letter of comment had yet been received from LIBA although, in a telephone conversation with its staff that morning, it had been confirmed that LIBA had no fundamental objections to the proposals.

The main issue of concern to investor groups related to the definition of the term ‘sponsor’ and to whom reports should be addressed. APB discussed these topics and, in relation to ‘addressees’ of the reporting accountants’ reports, agreed that this was a matter more appropriately left for negotiation between the parties to the transaction.

Board members noted that, although the new reporting requirements in the EC Prospectus Directive upon which the new SIRs are based would be applicable as from 1 July, the FSA are likely to allow a two month transitional period to 31 August for accountants reports following SIR 200.

It was agreed that the term ‘SIR’ should henceforth stand for ‘Standards for Investment Reporting’. Subject to this and a small number of minor amendments, SIRS 1000 and 2000 were approved for issue in final form. In so doing it was noted that supplementary appendices relating to relevant law and regulations applicable to the Republic of Ireland would be issued in due course.

4. Ethical guidance

Mr Grant introduced a draft Bulletin setting out interim guidance on the independence and objectivity for reporting accountants in the context of investment circulars. He noted that the intention was to replace the Bulletin with new Ethical Standards for Reporting Accountants in due course. Board members then discussed a number of issues and concluded that, in the interim period:

- the ‘client’ is the party responsible for presenting the financial information in the investment circular, but reporting accountants also consider threats arising from relationships with other parties to the engagement letter;
- the independence requirements in ES2 should only apply to members of the reporting accountant’s engagement team; and

- certain prohibitions under ES 5 in respect of non-audit services undertaken by a firm are extended to the work of the reporting accountant during the period of a reporting accountant's engagement.

Subject to amendment for a small number of drafting comments, the Bulletin was approved for issue.

5. Irish pension schemes

Mr Grant introduced a draft of interim Practice Note 15 (I) – The audit of occupational pension schemes in the Republic of Ireland. He noted that the draft was based on the UK PN 15 (Revised) and on the recently issued Bulletin 2005/5 on Audit Risk and Fraud. Mr Ronan Nolan noted that the draft was being proposed for issue in an interim form due to the possible revision of pension regulations later in 2005 and the planned revision of the UK PN 15 in early 2006. PN 15 (I) was approved for issue as a Consultation Draft.

6. ISA (UK and Ireland) 720

Mr Keith Billing introduced a discussion of certain issues which had arisen during the drafting of a revision of ISA (UK and Ireland) 720, which was being carried out primarily to reflect the statutory requirements to report on Operating and Financial Reviews (OFRs) and Directors' Reports. Board members considered the issues arising, as follows:

- in relation to opining on the consistency of the directors report / OFR with the financial statements it was agreed that the 'read' responsibility should be extended and auditors would be required explicitly to 'compare' the financial information with the audited financial statements,
- in relation to the additional responsibility to consider whether there are inconsistencies between the material in the OFR and the auditor's knowledge it was agreed that auditors should 'read and consider' the information in the OFR,
- the engagement partner decides on who within the audit team should consider whether there are inconsistencies in the OFR, this will usually be the senior staff in charge of relevant parts of the audit,
- in identifying inconsistencies, some allowance should be made for materiality/significance. Guidance should also be given to the need for auditors to consider the overall 'balance' of the disclosures in the OFR,
- it was agreed that there was no need to document matters over and above those relevant to the audit of the financial statements,
- the responsibility for deciding on whether the disclosure of certain information would be seriously prejudicial rests with the directors. If auditors do not agree with the decision, they should communicate their concerns to those charged with governance.

Taking account of the comments expressed by Board members, it was agreed that the working party would prepare a regulatory impact assessment and continue developing the revised ISA (UK and Ireland) for consideration by the Board at its September meeting.

7. ISA (UK and Ireland) 700

Mr Billing introduced a draft revision of ISA (UK and Ireland) 700 – The Auditor’s Report. He noted that the draft adopts the text of ISA 700 (Revised) that was issued by the IAASB in December 2004, and introduces the ‘two-part’ audit report. Whilst the proposed changes to auditors’ reports are effective on or after 31 December 2006, related conforming changes to ISAs 200 and 210 are effective for periods commencing on or after 15 December 2005 and it is therefore appropriate to issue an exposure draft of the revision as soon as possible. It was noted that auditors in the public sector may wish to adopt the revised standard early in 2006.

Board members discussed the supplementary standards and guidance added to ISA 700 and confirmed that auditors’ reports should be dated as at the dates they are actually signed. Subject to these, the draft revision was approved for issue as an exposure draft. The Chairman requested that hard copies of the exposure draft should be sent to members of the investment community to seek their views on the proposed changes to auditors reports.

8. ISA 600

Mr Grant introduced a discussion of the IAASB exposure draft of ISA 600 (Revised) ‘The audit of group financial statements’ in advance of preparing APB’s response to the IAASB exposure draft. Observations made during the discussion that followed included:

- the difference in work effort relating to components audited by ‘related’ and ‘unrelated’ auditors should be reconsidered. The current draft may be overstating the benefit to be obtained from firms being part of the same network,
- the definition of ‘financially significant’ areas of the auditors’ involvement as being 20% of group assets or liabilities, cash-flow, profit or turnover seemed a high percentage in isolation. Greater emphasis could usefully be placed on those components that were likely to represent significant risks, and
- more emphasis was needed on group auditors giving adequate consideration to the independence and objectivity of other auditors.

It was agreed that Board members should submit any further points they had to Mr Grant so that a letter of comment to the IAASB could be prepared for circulation to the Board during July.

9. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 27 September commencing at 9.30am.

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