

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 29 March 2005 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

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| Members | R Fleck (Chairman) J Grant (Executive director) J Beckerlegge L Hughes K Nicholson G Pimlott | I Plaistowe M Powell D Thomas T Troubridge S Turley |
| Observers | Ms J Ford /Ms E Ward (UK Department of Trade and Industry) I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority) D Loweth (ASB) | |
| In attendance | Ms K Cearns | D Hilton (for item 5) |
| Staff | K Billing D Marston | S Leonard Ms H O'Sullivan |

APOLOGIES:

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| Members | W Rainey Ms G Laver | S Murray |
| Observer | R Thorpe (Financial Services Authority) | |

1. Introduction

IAASB

Mr Jon Grant reported briefly on a meeting of the IAASB in Lima which he had recently attended. He noted in particular the publication by the IAASB of exposure drafts of ISA 600 (Group audits), ISA 260 (Communication with those charged with governance) and ISAs 705 and 706 (Modified audit opinions and emphasis of matter paragraphs). These will also be issued shortly as exposure drafts in the UK.

Board members debated the criteria that should apply to the retention of existing APB 'pluses' and agreed that these would be assessed on a case-by-case basis taking into account the importance of the matter and the practicality of the requirement. While the Board supported harmonisation of auditing standards internationally, its primary concern was to establish standards in the UK and Ireland that it considered were in the public interest. The UK drafts, together with any necessary UK additions, would be circulated to Board members shortly for approval before issue; the public consultation period would finish at the end of June.

Mr Grant also noted a recent meeting of the IAASB Clarity Task Force, where it had been agreed to propose to IAASB that the recently-issued ISAs should be re-worked by 2007. This would involve the identification of the key principles, clarification of the objectives of the ISAs, the elimination of 'present tense' guidance and a separation of the requirements of the standards from the guidance.

DTI publications

Mr Grant noted the recent publication by the DTI of a consultation paper on summary financial statements and a White Paper on Company Law Reform. While most of the proposals did not directly concern auditors some of the issues, including a new provision allowing comparative balances in financial statements not to be prepared on a comparable basis in certain circumstances, may be important. It was agreed that a working party would be established to consider how the APB should respond to the various company law consultations.

Ethical Standards

Mr Grant reported that the ICAEW was publishing on its website some 'answers' to 'frequently asked questions' on the APB's Ethical Standards. The ICAEW was aware that these answers had not been approved by the APB, and of the risk it was taking by publishing them. It was agreed that the currently-issued ICAEW answers should be circulated to Board members for information.

POBA meeting

Mr Grant reported on a recent meeting with POBA to discuss research into the audit and accountancy needs of small and medium-sized entities. POBA had commenced a research project on this matter, which would include the gathering of statistical information and conducting interviews with interested parties.

Audit Quality Forum

Mr Grant noted that the ICAEW Audit Quality Forum had met on the 7 March to approve a submission to the DTI. He understood that the APB would have an opportunity to discuss draft proposals from the DTI on this subject in due course.

2. Minutes of previous meeting

The Board noted that the minutes of the meeting held on 22 February had recently been approved following circulation to Board members.

3. ES-PASE

Mr Grant reported that discussions had taken place with IFSRA and IAASA on the criteria for a small entity for the purposes of Ethical Standard – ‘Provisions Available for Small Entities’ in the Republic of Ireland. Neither body wished to be involved directly in establishing the criteria but were prepared to accept the position that the criteria established for the UK should be extended to Ireland. It was agreed that ES – PASE should be reissued shortly with paragraph 4 reworked to accommodate the Irish position.

4. IFRS Bulletin

Ms Kathryn Cearns introduced a draft of a Bulletin giving guidance on the first time adoption of International Financial Reporting Standards (IFRS). The Bulletin had been exposed for public comment in August 2004.

It was agreed that the Bulletin should contain provisional guidance on how the financial reporting framework should be described in auditors’ reports. This guidance may need to be revised in the light of further discussions at the EU level. It was agreed that the reference should be to ‘those IFRS adopted for use in the EU’. As many entities will also be compliant with ‘full IFRS’ the Bulletin should, at this stage in the debate, provide an option of also referring to adherence to IFRS as issued by the IASB. In order to minimise possible confusion the APB’s preference is that reference to full IFRS would be given in a separate opinion paragraph and this would be illustrated in an appendix to the Bulletin.

The Board debated the extent of the auditors’ responsibilities with regard to the parent company requirement to ensure that the financial statements of all companies in a group be prepared using the same financial reporting framework unless there was ‘good reason’. The Board noted the subjectivity associated with assessing whether a reason was ‘good’ but thought that this did fall within the auditors’ remit and that in some circumstances it may be necessary for auditors to obtain legal advice on the matter.

The Board also discussed difficulties associated with reporting on interim statements prepared under IFRS for the first time. A particular issue related to the need for directors to anticipate the adoption of certain IFRSs by the EC. The Board took the view that as a degree of anticipation was likely, the auditors would need to discuss the risks inherent in such an approach with those charged with governance and ensure that this is disclosed in the interim statements and/or the auditors’ opinion on them.

5. SIR 4000

Mr Tom Troubridge introduced a discussion of the development and revision of the Statements of Investment Circular Reporting Standards (SIRs), and SIR 4000 in particular. He noted that a new numbering sequence for the SIRs had now been proposed by the SIRs sub-committee, as follows:

- 1000 –the ‘overarching’ principles for the work of reporting accountants;
- 2000 –historical financial reporting;
- 3000 – profit forecasts;
- 4000 – pro-forma financial statements.

Board members agreed with this proposal. Mr Dudley Hilton, the chairman of the SIR 4000 working party, then introduced a draft of SIR 4000: Pro-forma financial information (initially numbered as SIR 3200), and noted that this was based on the existing APB Bulletin 1998/8 as amended by the requirements of the EU Prospectus Directive. Board members made a number of comments on the draft and it was agreed that an amended draft, together with a draft of SIR 3000, should be considered further at the Board’s April meeting.

6. Audit risk/fraud Bulletin

Mr Grant introduced a draft Bulletin: Audit risk and fraud – supplementary guidance for auditors of investment businesses. The Board approved the draft for issue in final form.

7. APB work programme

Mr Grant noted that the small number of comments which had been received on the proposed APB work programme for 2005/06 had been circulated with the Board papers. The Board discussed various issues and requested Mr Grant to respond to the commentators. It agreed that the issue of whether Practice Note 13 on the audit of small businesses should be updated would be discussed at its next meeting.

The Chairman considered it important that the Board should focus on the matters relating to audit quality and, in order to discuss this further, an APB ‘Awayday’ would be arranged to take place in September/October. Representatives of the AIU and the FRRP would be invited to address this meeting.

8. Auditor remuneration

Mr Grant introduced a position paper relating to a recent DTI consultation paper on disclosure of auditor remuneration, including fees for non-audit services. Whilst it was not intended that the APB would submit a letter of comment, APB staff had met with DTI representatives to discuss certain issues. It had been agreed that further discussion with the DTI would take place when their proposals were more advanced.

9. APB membership

The Chairman noted that various changes in the membership of the Board were taking place because of the rotation rules in its constitution. He observed that Mr Sean Murray was retiring from the Board after representing the ICAI for three years, and thanked him for his contribution during that time.

In addition, the Chairman reported that Mr Plaistowe was retiring from the Board following the end of the meeting. Mr Plaistowe had been a member of the APB for eleven years, nine of which were as chairman; he had also been the UK representative on the IAASB for the previous three years. The Board warmly applauded Mr Plaistowe for his outstanding contribution to audit standard-setting, both for the UK and Ireland and internationally.

The Chairman also noted that Mr David Thomas had been reappointed to the Board for a further three years.

10. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 26 April commencing at 9.30am.

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