

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 29 November 2005 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

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

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

In attendance	J Dean	M Sinclair
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Staff	K Billing	D Marston
	S Leonard	Mrs H O'Sullivan

ABSENT:

Members	J Beckerlegge	G Pimlott
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1. Introduction

References to IFRS

The Chairman noted that, following the recent issue of Bulletins 2005/3 and 2005/4 concerning the first-time application of IFRS and auditor's reports, there was a possibility that the EC might favour a standard reference for compliance with IFRS that differs from that recommended by FEE and used in the Bulletins. The APB agreed that the appropriate response was probably to leave the Bulletins in issue but to publish a press release commenting on the difference in wording. A draft press release would be circulated to Board members in due course.

OFRs

The Chairman noted the announcement the previous day by the Chancellor of the Exchequer that Operating and Financial Reviews would not now be mandated. He noted the considerable amount of work that had been carried out to date by the DTI, the ASB and the APB in connection with OFRs, only part of which was likely to be applicable to the alternative proposal for Business Reviews. Discussions would now be held within the FRC to decide how matters should be taken forward, and in particular the status of the version of ISA (UK and Ireland) 720 that was currently out on exposure.

SME Audit Sub-committee

The Chairman reported on the recently-held first meeting of the Small and Medium-sized Entities Sub-committee, at which the IAASB Clarity Project, POBA research and the ICAEW review project had been discussed. The Chairman reported that it was intended that the Sub-committee would meet every three months and that a summary of its meetings would be posted to the APB website.

European national standard-setters

Mr Grant reported on a recent meeting of European national standard-setters, noting in particular that equivalents of the APB's Standards for Investment Reporting (SIRs) had not been issued in many European countries and therefore that there is a risk that differences in reporting practices may arise within Europe.

Audit Quality

The Chairman reported that, following the APB Awayday on 11 November, he and Mr Grant had met with Mr Paul George of POBA and agreed that a presentation should be prepared for briefing interested parties on the subject of Audit Quality. He thanked members of the Board who had attended the Awayday for their constructive contributions.

ODCE guidance

Mr Ronan Nolan drew the Board's attention to current discussions in the Republic of Ireland between the Director of Corporate Enforcement and the audit profession concerning the regulator's access to information held by auditors. This, and changes to the relevant legislation, are likely to lead to revision of Bulletin 2002/1 in due course.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 18 October had been approved following circulation to Board members.

3. SIRs

Mr Tom Troubridge introduced drafts of SIR 3000 – Investment Reporting Standards applicable to public reporting engagements on profit forecasts and SIR 4000 - Investment Reporting Standards applicable to public reporting engagements on pro forma financial information, which had been revised to take account of comments received during the exposure period. He noted in particular that certain sections of SIR 3000 had been discussed with staff of the Takeover Panel and of AIM.

The Board approved the SIRs for issue in early January 2006, noting that their effective date would be 31 March 2006 with earlier adoption encouraged. The Chairman thanked the SIRs sub-committee for its efforts over the last year in developing the new SIRs.

4. ISA (UK and Ireland) 700

Mr Grant introduced a discussion on the revision of ISA (UK and Ireland) 700 – The independent auditor's report on a complete set of general purpose financial statements, which had recently been exposed for comment. While a number of the comments received were supportive some investor groups expressed concern over the stated equivalence of the 'true and fair' view and 'presents fairly in all material respects', and on the description of the objective of the audit and legal responsibilities of auditors. The CBI had also expressed concern regarding the description of management responsibilities in the audit report.

Mr Grant noted that the EC was to develop a process of endorsing ISAs and was likely to give priority to ISA 700. As the final EC endorsed ISA 700 might differ from the current draft and, in order to avoid the risk of frequent changes to the auditor's report, Mr Grant took the view that it might be preferable to delay the issue of this standard. Deferral would also allow the Board to reflect the new UK Companies Act which includes sections affecting the responsibilities of auditors and directors. The Board supported the proposal to defer the finalisation of ISA (UK and Ireland) 700 but suggested that the views of the Audit Quality Forum, which was to meet the following day, should also be sought on the subject.

5. Practice Note 12 (Revised)

Mr Grant reported on progress in developing a revision of PN 12: Money laundering – Interim guidance for auditors in the United Kingdom. The application for approval by HM Treasury had been complicated by the enactment of The Serious and Organised Crime and Police Act 2005 and further new legislation concerning the matter of legal privilege was shortly to be issued. It was agreed that the working party should meet to reflect the new legislation in PN 12 and submit it to HM Treasury for approval.

6. ESRA

The Chairman reported on a recent meeting with CCAB representatives to discuss the draft Ethical Standard for Reporting Accountants (ESRA). He reported that whilst it is recognised by some CCAB members that public policy would probably favour the APB issuing standards in respect of accountants' reports issued in connection with circulars, this view would not necessarily extend beyond these. The Chairman had indicated that the APB was open minded on whether it would be appropriate to issue any further ethical standards (following the issue of the ESRA) relating to non-audit assurance engagements and had no current plans to do so.

Mrs Hazel O' Sullivan introduced a discussion of a number of issues and amendments that had arisen at recent ESRA working party meetings and from comments made by the CCAB Ethics Group since the Board had reviewed the draft in September. In particular, changes had been made to the guidance concerning the scope of application of the ESRA, relationships with other parties to the engagement letter, the 'relevant period' for other services and the provision of other services on a contingency fee basis. The Board discussed a number of detailed drafting amendments including the insertion of a materiality aspect to contingent fee prohibitions on the provision of other services.

The Board approved the ESRA for issue as an exposure draft, together with a consultation paper. The consultation paper would address the issue of regulatory impact noting that a full regulatory impact assessment was not considered to be necessary as the standard was not likely to lead to an increase in costs except possibly in cases where the reporting accountants were not also the company auditors.

7. Practice Note 20

Mr James Dean introduced a draft revision of PN 20: The audit of insurers in the United Kingdom. The revision primarily reflected the move from Statements of Auditing Standards to ISAs (UK and Ireland), and incorporated the supplementary guidance included in Bulletin 2004/5. Mr Dean noted a number of significant developments that had occurred since PN 20 was originally issued in 1999 including the Penrose Report of the Equitable Life Inquiry and the subsequent changes to FSA rules to require auditors of large with-profits funds to engage reviewing actuaries.

Board members suggested a number of drafting amendments relating to the auditor's consideration of going concern, reference to FRS 27, and the fact that the revision did not introduce new audit requirements other than those required by law or regulations. Subject to these, the draft was approved for issue as a consultation draft.

8. Practice Note 10

Mr Lew Hughes introduced a final draft of a revision of PN 10: The audit of financial statements of public sector bodies in the United Kingdom, which had been exposed for public consultation earlier in the year. He noted that only a small number of comments had been received during the consultation period, and that the amendments made had been reviewed by the APB Public sector sub-committee. The Board approved the issue of PN 10 (Revised) in final form, together with an accompanying Bulletin on public sector auditor's reports.

9. APB work programme

Mr Grant introduced a discussion of the draft APB work programme for 2006-07, the issuance of which was to be co-ordinated with that of the FRC's Plan and Budget. Board members made a number of comments on the draft, in particular that more emphasis should be given to the APB's international role both in assisting the work of the IAASB and in supporting the adoption of ISAs within the EU. It was agreed that an amended draft would be circulated to the Board for approval before being issued in early January 2006.

10. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 31 January 2006. The Chairman thanked Board members and the staff for their considerable efforts during what had been a very busy year and wished them a very Happy Christmas.

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