

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 30 March 2004 at 10.00am

PLACE: 117 Houndsditch
London EC3

PRESENT:

Members

R Fleck (Chairman)	I Plaistowe
G Ward (Vice-chairman)	P Smith
J Grant (Executive director)	Ms G Saunders
M Evans	D Thomas
L Hughes	S Turley
S Murray	

Observers

J Beckerlegge (CGA Accountancy)
J Grewe (United Kingdom Department of Trade and Industry)
K Nicholson (KPMG)
W Rainey (Ernst & Young)

In attendance

G Innes	Ms K Cearns
D Loweth	

Staff

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

APOLOGIES:

Members

A Palmer	G Pimlott
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Observers

P Donegan (Republic of Ireland Department of Enterprise, Trade and Employment)
M Powell (Deloitte)
R Thorpe (Financial Services Authority)

1. Chairman's introduction

New staff member/observer

The Chairman welcomed Mr David Loweth as the new ASB/APB Secretary, and noted that this appointment was likely to assist the interaction between the two Boards in the future. The Chairman also welcomed Mr Gordon Innes as the new DTI Observer on the APB, replacing Mr John Grewe who was joining the staff of POBA. The Chairman thanked Mr Grewe for his significant contribution to the APB's work during the previous six years.

Publications

The Chairman noted the recent APB Press Release concerning the adoption of ISAs, and noted the importance of clear communications concerning the introduction of ISAs into the UK and Republic of Ireland over the next few months.

8th Directive

Mr Grewe noted the issue of the proposed revised EC 8th Directive. The document will be discussed by Member States over the coming months. A number of the proposed articles impact APB and the Board asked to be kept informed of developments relating to auditing and ethical standards for auditors.

Penrose report

The Chairman noted the recent publication of the report of the Equitable Life Inquiry, and noted that the Board will probably need to update its guidance to auditors of life insurers in the event of changes to FSA's regulatory requirements and the review of relevant Accounting Standards by the ASB.

Auditor liability

The Chairman reported that the FRC had recently submitted a letter of comment to the DTI on its consultation paper 'Director and Auditor Liability'. The Chairman noted that he, together with other representatives of the FRC, would be involved in discussions with the DTI concerning the points made.

Due and careful enquiry

The Chairman reported on recent discussions with the DTI concerning the requirements of auditors relating to the Operating and Financial Review. He also noted the unsatisfactory position that the UKLA had still to progress the changes to the Listing Rules that are necessary to establish the auditors' role in relation to the new Combined Code.

FRC

The Chairman noted that the FRC had set up a corporate governance sub-group, of which Mr Graham Ward was a member. In addition he noted that the FRC planned to set up a working party to review the 'Turnbull' guidance on internal controls.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 24 February had recently been approved, following circulation to Board members.

3. Audit reports

Mr Steven Leonard introduced a draft APB letter of comment on a revision of ISA 700 'The independent auditor's report on a complete set of general purpose financial statements'. He noted that the letter welcomed the introduction of a two-part auditors' report and urged the IAASB to proceed with guidance on qualified reports in a revised ISA 701.

The Board discussed the statement in the draft ISA 700 that the terms 'give a true and fair view' and 'presents fairly in all material respects' are equivalent. Historically the APB has taken the position that there is a difference in substance between the two expressions. The Board noted that inclusion of the true and fair override within IFRSs has changed the position somewhat and noted that the EU Modernisation Directive of June 2003 required the statutory auditors to express their opinion as to whether "the accounts give a true and fair view in accordance with the relevant financial reporting framework". However, the Board also noted that the tenth recital to the Directive made clear that "The fundamental requirement that an audit opinion states whether the annual or consolidated accounts give a true and fair view in accordance with the relevant financial reporting framework does not represent a restriction of the scope of that opinion but clarifies the context in which it is expressed" and thought that similar wording could usefully be added to ISA 700.

The Board supported the view that a paragraph on management's responsibility need be included in the auditors' report only when management itself is not required to make a separate responsibility statement. The Board thought that the mandatory requirements in this regard should be reduced and drafted in a sufficiently flexible way to accommodate, for example, the public and charitable sectors.

With respect to the dating of the audit report it was suggested that paragraphs 44 and 46 of the draft ISA should be combined, and that some of the guidance in paragraph 45 should be revised, so that it is clear that auditors' opinions should not be dated earlier than the date of the directors' approval of the financial statements.

It was agreed that the draft letter of comment would be revised to reflect the Board's observations and would then be circulated to Board members again before being submitted to the IAASB.

4. Groups

Mr Keith Billing introduced a draft APB letter of comment on a revision of ISA 600 'The work of related auditors and other auditors in the audit of group financial statements' and a new IAPS 'The audit of group financial statements'. It was noted that the letter's main concern related to the decision by the IAASB to retain 'division of responsibility'. In this connection it was noted that whilst the EC 8th Directive supported the concept of the parent company auditors taking sole responsibility for the group accounts, this was not the position in the United States.

The Board strongly favoured the concept of sole responsibility and considered that the letter of comment should emphasise this by using the recent case of the Parmalat audit as a supportive example. It was agreed that the draft letter of comment would be revised to reflect the Board's observations and would then be circulated to Board members again before being submitted to the IAASB.

5. Ethical Standards

The Chairman noted that an early review of the response letters had indicated that there were two generic concerns (1) the impact of the draft standards on small firms and (2) the extra-territorial scope of the draft standards. These matters had been discussed by the APB ethics working group at its meeting on 19 March.

In relation to the extra-territorial scope of the standards some practitioners were concerned that the UK Ethical Standards appeared to apply to network offices in other countries. This would give rise to implementation difficulties as the standards differ in some respects from those applicable locally. To address this concern the ethics working group propose that the standards that relate directly to firms should not apply to overseas firms. However the ethics working party believes that those standards that apply to the audit engagement partner and audit teams, as well as the standards on non-audit services, should apply on a group basis. The APB was supportive of this position.

In relation to small firms, the accountancy bodies and many small firm practitioners had expressed strong concerns that certain parts of the draft standards imposed prohibitions that would significantly limit current activities of small audit firms. Many took the view that the restriction on the provision of tax and accounting services by auditors and the rules on economic dependency and rotation of audit partners were unnecessary, would impair the quality of smaller audits and would adversely affect the small companies that they served.

Two views had emerged in the ethics working group's discussions. One view was that greater emphasis should be placed on focussing relevant prohibitions on public interest entities. This, together with a clarification that the 'public interest' was a relatively high threshold, would allow much existing practice to continue. The contrary view was that a distinction should not be made between the audit of public interest entities and small audits and that all auditors should observe the same ethical standards regardless of the type and size of the entity being audited.

The Board discussed the relative merits of the two views. The majority of Board members considered that the requirements of ethical standards should apply to all types and sizes of audit in a similar manner. Several members took the view that an increase in the audit exemption threshold would reduce the number of audits of smaller companies. In the event that companies below the threshold request audits it is probably because of an external user; such external users would probably expect the ethical standards to apply in full. A minority of members took the view that the cost to smaller companies of changing existing arrangements may not match the benefit to users of the audited financial statements of smaller entities. They also noted that, at present, there is no alternative 'assurance' service available to smaller entities. It was agreed that the APB ethics working group would consider this issue further and obtain soundings from the accountancy bodies and regulators such as the Charity Commission.

6. Trans Tec

The proposed discussion of the DTI Inspectors' report on Trans Tec was deferred to the next meeting.

7. Next meeting

It was noted that an additional meeting of the Board would be held on Monday 5 April commencing at 9.30 am.

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