

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 30 May 2006 at 9.30am

PLACE: Aldwych House
London WC2

PRESENT:

Members	R Fleck (Chairman)	G Pimlott
	J Grant (Executive director)	M Powell
	A Chambers	D Thomas
	K Nicholson	T Troubridge
	R Nolan	S Turley

Observers R Leyland (UK Department of Trade
and Industry)
Ms P Sucher (Financial Services Authority)

In attendance Ms K Cearns

Staff	K Billing	Mrs H O'Sullivan
	D Marston	

ABSENT:

Members	L Hughes	M Ward
	W Rainey	

Observers I Drennan (Republic of Ireland Auditing and
Accounting Supervisory Authority)
D Loweth (ASB)

1. Introduction

The Chairman welcomed Professor Andrew Chambers as one of two recently appointed members of the APB, the other being Mr Martin Ward who was unable to attend the meeting. Another two members are still being sought.

APB performance review

The Chairman reported on a recent meeting he and Mr Jon Grant held with the directors of the FRC to review the APB's performance over the last year. The conclusions of the review had been very positive, and the Chairman thanked Board members for their contributions to achieving this result.

Audit Quality

The Chairman reported on a recent meeting of the FRC's audit quality steering group at which the objective and timetable of the project had been discussed. He noted that a consultation paper was being prepared which reflected the points made at the APB's November 2005 Awayday; the aim was to publish this in the autumn. It was planned that the consultation paper would be discussed at both the June and July APB meetings.

IAASB

Mr Grant reported on the meeting of the IAASB held the previous week in New York that he and Mr Will Rainey had attended. He was pleased to note in particular that the IAASB has now decided not to integrate standards on special purpose engagements with those on audits of general purpose financial statements. 'Close -off' versions of revised standards on materiality and communications with those charged with governance had been approved which would be exposed in the clarity format in due course. Progress had also been made on finalising revised standards on modified reports.

The Chairman noted that work had commenced on a document giving guidance on the application of ISA documentation requirements to auditors of small and medium-sized entities (SMEs). This would be discussed by the APB SME audit sub-committee in July and shared with the Belgium and New Zealand standard setters in August.

Limited liability agreements

The Chairman noted that two audit firms had recently written to him requesting that the APB develop guidance on the preparation of limited liability agreements which, following the finalisation of the Company Law Reform Bill, companies may wish to establish with their auditors. During discussion the Board formed the preliminary view that this was not a matter for the APB as it was not directly related to audit quality and was more in the nature of guidance for companies. If there was work to be done in this area, perhaps in the form of illustrative contractual terms, it was suggested that this needed to involve interested parties and might be best done under the auspices of the FRC. The Chairman agreed to discuss this matter with the FRC Chief Executive.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 25 April had been approved following circulation to Board members.

3. Corporate Governance Bulletin

Mr Grant introduced a draft Bulletin on corporate governance, which it was intended would replace Bulletins 2004/3 and 2004/4 and would be applicable to both the UK and Republic of Ireland. He noted that the intention of the update was to incorporate guidance on a new 'Turnbull' requirement that directors should confirm in their statement on internal control whether they have taken action to remedy any identified significant weaknesses.

Board members made a number of comments on the draft: in particular there was discussion regarding the proposal that auditors review the directors' process defined for identifying significant failings or weaknesses; doubt was expressed as to whether there would be a separate process from that established for the overall review of the effectiveness of internal control. It was also suggested that guidance be provided on the relationship between 'significant failings or weaknesses' (in the Turnbull guidance) and 'material weaknesses in control' (in ISAs (UK and Ireland)). In response to a question Mr Ronan Nolan noted that proposed new Irish legislation concerning compliance statements by directors referred to in Bulletin 2004/4 had not been enacted.

It was agreed that a revised draft of the Bulletin should be considered by the Board at its June meeting.

4. Responses to IAASB

Mr Grant introduced a discussion of suggested changes to the process for obtaining input for APB letters of comment on IAASB exposure drafts. He proposed that, in respect of particularly important revised ISAs such as ISA 600 on group audits, APB staff should seek input from the larger audit firms by means of individual meetings, and also arrange a 'public meeting' to which other firms and representatives of other interested parties such as investor groups would be invited. In relation to less important revised ISAs (including many of the IAASB exposure drafts of 'clarified' ISAs) he proposed that the existing process would continue with discussion within the APB and its sub-committees and the publicising of the exposure drafts on the APB website with a request for comments.

Board members agreed in principle with the approach suggested but considered that non-auditors may have little interest in the detail of proposed ISAs and should only be invited to meetings if there were issues of particular interest to them. In the case of the Republic of Ireland, it was suggested that comments should be obtained as necessary from the ICAI's Auditing Practices Committee. It was also agreed that the APB should consider issues likely to arise in exposure drafts at an earlier stage than at present so that input could be made to IAASB working parties at an appropriately early stage.

5. ISA 580

A discussion of the IAASB's proposals for a revised standard on management representations was deferred to the June Board meeting.

6. GAAP reconciliations

Mr Tom Troubridge introduced a discussion on a recommendation from the Investment Circulars sub-committee to develop a new Standard for Investment Reporting (SIR) on reporting on GAAP reconciliations. There was some support for completing the suite of SIRs on public reporting engagements although some Board members noted the absence of guidance for preparers in this area and hence the likely absence of 'suitable criteria' and questioned whether the effort was justified in the light of the relatively small number of such reporting situations.

The Board also discussed whether guidance on GAAP reconciliations included in annual financial statements was also needed. Reconciliations were often provided in the context of first time adoption of IFRS and staff were asked to review the extent and nature of guidance provided in Bulletin 2005/3 and ISA (UK and Ireland) 720.

Board members agreed that the next stage would be for the sub-committee to develop a more detailed proposal on what a new SIR might cover and the main issues that were likely to arise, for consideration at a future APB meeting.

7. APB work programme

Mr Grant introduced an updated draft of the APB work programme for 2006-07, together with a draft feedback paper. The work programme had been amended following discussion of it at the previous Board meeting in April. The feedback paper responded to a number of generic issues raised by commentators such as a request for APB to adopt international standards on assurance engagements. It was agreed that the revised work programme, together with the feedback paper, should be posted to the APB website.

8. Transparency Directive

Mr Grant introduced a discussion of possible APB input to a FRC response to the FSA's consultation paper entitled: 'Implementation of the Transparency Directive'. Board members supported most of the proposed comments but disagreed with the proposal that there should be formal reporting to the FSA on preliminary announcements. It was agreed that the comments as amended should be discussed with the FSA prior to being passed to the FRC for inclusion in its letter of comment.

9. Letter to ODCE

Mr Nolan introduced a draft response to the Office of the Director of Corporate Enforcement in Ireland on its recent consultation paper on guidance on audit committees. He noted that there were a few extra comments made by the ICAI which could usefully be included as well. It was agreed that Messrs Nolan and Grant should finalise the letter and submit it to the ODCE following signature by the Chairman.

10. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 27 June.

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