

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 31 May 2005 at 9.30am

**PLACE:** Aldwych House  
London WC2

### PRESENT:

<b>Members</b>	R Fleck (Chairman)	G Pimlott
	J Grant (Executive director)	M Powell
	L Hughes	W Rainey
	Ms G Laver	D Thomas
	K Nicholson	T Troubridge
	R Nolan	

**Observer** D Loweth (ASB)

<b>In attendance</b>	Ms K Cearns	Ms R Elliott (for item 3)
	S Braid (for item 7)	M Sinclair (for item 3)

<b>Staff</b>	K Billing	S Leonard
	D Marston	Ms H O'Sullivan

### ABSENT:

<b>Member</b>	J Beckerlegge	S Turley
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**Observers** G Innes (UK Department of Trade and Industry)  
I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)  
R Thorpe (Financial Services Authority)

## **1. Introduction**

### APB membership

The Chairman welcomed Mr Ronan Nolan to his first meeting of the Board as the Irish representative in place of Mr Sean Murray.

### APB Publications

Mr Jon Grant noted the recent publication of exposure drafts of SIRS 3000 and 4000 and Bulletins 2005/5 and 2005/6. He also noted that interim guidance on the wording of audit reports and on the first-time adoption of IFRS had been issued.

### Audit Quality Forum

Mr Grant reported that he and Mr Paul George of POBA had recently attended a meeting of the ICAEW's Audit Quality Forum (AQF) at which it had been agreed that one particular issue for future discussion should be the purpose of an audit.

### SIRS

Mr Grant noted a recent conference call of the SIRs sub-committee to discuss guidance for reporting accountants on 'private' reporting in connection with investment circulars. He noted that this was a difficult issue which overlapped with the contractual arrangements between reporting accountants and sponsors and others and the liability that these parties incurred. Although APB's primary focus was on public reporting engagements, the profession was seeking guidance on private reporting not least as the FSA had changed its rules regarding the responsibilities of sponsors. The Chairman noted that the overarching standards for the work of reporting accountants, including private reports, were provided in SIR 1000 and there was support for his proposal that these would be reconsidered during the completion process. At the same time discussions would be held with LIBA, ICAEW and others to determine the need for, and the nature of, more detailed guidance and who was best placed to develop it by when.

### Turnbull guidance

Mr Grant noted that a draft of a revision by the FRC of the 'Turnbull' guidance on corporate reporting was due to be issued shortly.

## **2. Minutes of previous meeting**

The Chairman noted that the minutes of the meeting held on 26 April had recently been approved following circulation to Board members.

## **3. Practice Note 10**

Mr Lew Hughes introduced a revision of Practice Note 10 'Audit of financial statements of public sector bodies in the United Kingdom'. He noted that the PN had been revised by a working party of the APB's Public Sector sub-committee primarily to reflect the adoption of ISAs (UK and Ireland), to reflect changes in the structure and regulation of the public sector and to address 'freedom of information' requirements. It was also noted that a version of the revised PN 10 applicable to the Republic of Ireland was in the process of being drafted.

Board members commented on aspects of the draft relating to the guidance on the freedom of information requirements, and the relationship between audit committees and ‘those charged with governance’ in the public sector. Subject to these amendments, the Board approved the revised PN for issue as a consultation draft.

#### **4. Public Sector sub-committee**

The Board noted an invitation to attend meetings of the Public Sector sub-committee that had been issued to the new Auditor General for Wales (or his nominee), and other minor changes to the sub-committee’s terms of reference.

#### **5. Clarity project**

Mr Grant briefed the Board on the current status of the IAASB’s ‘Clarity’ project. He noted that the IAASB’s initial objective had been to clarify which material included in the guidance in ISAs as ‘present tense’ actually represented requirements and should be designated as ‘shoulds’. Other objectives had, however, been added under the generic heading of matters that would enhance ‘clarity’. Suggested responses to these other objectives included moving the ‘guidance’ into a separate section of each ISA, which would make it easier to add in differences in national requirements, and to eliminate duplication between certain ISAs. The Board reviewed examples of ISAs 240 and 315 which had been amended to illustrate how some of the proposed changes to the ISAs would appear in practice. Following discussion, Board members supported the direction of the proposed clarity project especially the identification of principles and objectives, the restructuring of the ISAs and the elimination of duplication. However it was agreed that the clarity project should not be allowed to delay work on standards for group audits.

#### **6. Company law consultations**

Mr Keith Nicholson introduced draft APB letters of comment on three recent DTI consultations:

- Company Law Reform,
- Company Reporting: A consultation on extending the use of Summary Financial Statements and other minor changes, and
- European Company Law and Corporate Governance: Directive Proposals on company reporting, capital maintenance and transfer of the registered office of a company.

Mr Nicholson drew attention in particular to the proposal in the first paper that it should become a criminal offence for an auditor knowingly or recklessly to give an incorrect audit opinion. The Board discussed the difficulties that existed in using the term recklessly in the context of an audit and a number of alternatives were explored. It was agreed that this was a complex issue and the APB should suggest to the DTI that it work with them in the drafting of the legislation.

In relation to the paper on European Company Law, he noted the added complexity that would arise from including accounting requirements in revisions to the 4<sup>th</sup> and 7<sup>th</sup> Directives and the lack of specificity relating to some of the disclosure requirements connected with off-balance sheet arrangements and related party transactions.

It was agreed that the draft letters of comment would be amended to reflect comments made, and would then be circulated to Board members for final approval.

#### **7. Practice Note 14**

Mr Simon Braid introduced a revision of Practice Note 14 – The audit of registered social landlords in the United Kingdom, which had been prepared primarily to reflect the adoption of ISAs (UK and Ireland). Board members made a small number of drafting comments, and the PN was otherwise approved for issue as a consultation draft. The Chairman thanked Mr Braid and the RSLs working party for their work in producing the document.

#### **8. FEE discussion paper**

Mr Leonard introduced a draft APB letter of comment on the recent FEE discussion paper – Reporting issues in relation to endorsed IFRS and possible implications for the audit report, noting that the letter proposed audit report wording which was consistent with the guidance given in the recent APB Bulletins 2005/3 and 2005/4. The letter was approved for submission to FEE.

#### **9. ISA 701**

Mr Grant introduced a proposed revision of ISA 701 (formerly ISA 800) – The independent auditor's report on other historical financial information, which was due to be approved as an exposure draft at the IAASB's June meeting. He noted that there is currently no equivalent for the UK and Ireland and guidance on auditors' reports in other than 'true and fair' terms is given instead in Practice Notes and Bulletins, for example on regulatory returns for insurers in PN 20.

Board members noted the statement in the draft ISA that 'Examples of financial reporting frameworks that may be designed for a special purpose include... the financial reporting provisions established by a regulator to meet the requirements of that regulator', and expressed the wish that the ISA should not take precedence over established national regulations. In addition it would assist convergence if references to the Assurance Framework and the IFAC Code of Ethics were to be lessened or removed. It was also agreed that a version of ISA 701 applicable to the UK and Ireland should be developed in due course.

#### **10. Any other business**

The Chairman requested that Board members indicate their availability for the APB's next 'Awayday' as soon as possible. He also noted that there would be no Board meeting in July, and therefore the June meeting would start early and might need to continue into the afternoon.

#### **11. Next meeting**

It was noted that the next meeting of the Board would be held on Tuesday 28 June commencing at 8.30am.

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