



## **1. Chairman's introduction**

A summary of relevant publications and events which had occurred since the last APB meeting had been distributed in advance of the meeting. The following matters were discussed:

### Publications

The Chairman noted the recent publication of an Exposure Draft of the APB's five Ethical Standards for Auditors, and a Research Paper entitled 'Improving the auditing of entities subject to common control'.

### EC Committee on Auditing

Mr Jon Grant reported on a recent EC Committee on Auditing meeting. Issues covered included PCAOB registration of non-US audit firms and outline plans for updating the 8th Directive. The EC plans regarding the adoption of international auditing standards remain unclear. The Chairman requested that a note be prepared for the next meeting setting out the options available to APB.

### Money laundering

Mr Grant noted that the Money Laundering Regulations 2003 had still not been laid before Parliament. He noted, however, that the APB money laundering working party was considering draft forms developed by NCIS that illustrate a possible approach to summarised reporting of matters of 'limited intelligence value'.

### CCAB Chairmens' meeting

The Chairman noted a meeting that he and Mr Grant had recently held with the chairmen of the CCAB Bodies, at which they had discussed the APB's work programme.

### IFAC

Mr Graham Ward reported on IFAC's recent AGM, and on three matters arising in particular:

- Mr John Kellas of KPMG had been appointed as Chairman of the IAASB for the next three years;
- new observers, with the right of the floor, from the PCAOB, the EC and the Japanese Financial Services Agency would be co-opted onto the IAASB with effect from 1 January 2004; and
- the proposals for the Public Interest Oversight Board had been approved, and this was due to commence its work in the Spring of 2004.

## **2. Minutes of previous meetings**

The Chairman noted that the minutes of the meetings held on 28 October and 7 November had recently been approved, following circulation to Board members.

## **3. Auditors' reviews of OFRs**

The Chairman introduced a discussion of the auditors' proposed role in relation to Operating and Financial Reviews (OFRs). He noted recent discussions on this subject with the DTI and the FSA, and that the favoured approach at present was for the auditors to undertake sufficient work to allow them to conclude:

- that the directors had prepared the OFR after making due and careful enquiry;
- that the OFR was consistent with the financial statements, and
- that no matters had come to the auditors' attention in the course of their audit of the financial statements that were inconsistent with the information and statements included in the OFR.

It was noted that the 'due and careful enquiry' requirement would be set out in Regulations and that the ASB would issue a related Standard, or Standards, for directors. It was observed that, for the auditor 'review model' to work in practice, it would be necessary that the Regulations imposed a requirement on directors to ensure that statements in the OFR would be capable of subsequent 'verification' or that matters of opinion should be disclosed as such. Careful consideration would also need to be given in guidance for auditors on qualifications: it was thought likely that the experience gained by local government auditors in giving opinions on local government bodies' performance plans would be helpful to APB.

The Board observed that it would be necessary to define the boundaries of the auditor review carefully: the biggest challenge was likely to relate to omissions of information. It was also observed that auditors would be under considerable time pressure, not least because much of the information in the OFR would also be included in the Preliminary Announcement.

Use of the 'due and careful enquiry' model was also discussed in the context of any auditor review associated with the new Combined Code. It was noted that the FSA was considering the possible cost and perception issues associated with such an approach.

Mr Michael Stewart of the DTI joined the meeting to discuss the Board's views on the proposed approach to the audit of OFRs. He noted that the proposed Regulations would include a 'comply or explain' requirement, and that they would be issued for a three month consultation period early in 2004. It was noted that, based upon its previous discussions, in principle the Board supported the proposals. The reservations previously noted were explained and it was noted that the 'comply and explain' requirement might cause problems for auditors if it was interpreted that explain was an adequate alternative to comply. It was suggested that the emphasis of the Regulations should be on compliance.

#### **4. Auditors' work on the Combined Code**

The Chairman introduced a brief discussion on a proposed letter to be sent to auditors of listed companies clarifying their work on the Combined Code. It was suggested that the draft was too proscriptive. In particular the draft did not contemplate companies making reference to the extent of their compliance with the 'new' Combined Code in advance of the effective date. It was agreed that a revised draft of the letter should be prepared that addressed this possibility, and be discussed with the FSA before being sent to firms that audit listed companies.

## **5. IAASB Exposure Draft on fraud**

Mr Ian Plaistowe introduced a discussion of a draft APB letter of comment on a revision of ISA 240 - 'The auditor's responsibility to consider fraud in an audit of financial statements'. He noted that the revision was based on the US Standard and was therefore very long and detailed. There were two significant points made in the draft APB letter of comment:

- the revised ISA should be better integrated with the IAASB's new risk standards, and
- IAASB should give further consideration to how 'reasonable assurance' can be communicated to users of audit reports.

It was suggested that the comments on 'reasonable assurance' should be given more prominence. It was noted that the draft ISA required unrealistic management representations relating to management's assessment of fraud risk and that the wording in the draft response discouraging IAASB requiring 'standardised' representations should be strengthened. It was agreed that the Chairman, together with Messrs Grant and Pimlott, should review the final draft of the letter of comment before it was submitted.

## **6. IAASB Exposure Draft on planning**

Mr Grant introduced a draft APB letter of comment on a revision to ISA 300 - 'Planning the audit'. He noted that this ISA needed revision due to the introduction of risk standards: however the APB's main point was that the revision did not adequately reflect the new audit risk model. The Board approved the letter of comment for submission to the IAASB.

## **7. Update to Bulletin 1998/7**

Mr Grant introduced a discussion on how best to communicate to auditors the working party's continuing concern that undue prominence was being given to 'pro-forma' information in preliminary announcements. The pro-forma working party recommended an update to Bulletin 1998/7 - 'The auditors' association with preliminary announcements' but further work needed to be done on this before the APB would be in a position to approve it.

The APB concluded that the issue of how much non-statutory information should be allowed in preliminary announcements continued to be important but noted that it was for the FSA rather than the APB to issue guidance to companies on this matter. Whilst it was the Board's strong view that the FSA should be taking the lead in issuing guidance on this matter, it was accepted that the APB needed to assist auditors as far as possible. Given the timing pressure it was agreed that the letter sent to auditors by the APB in January 2003 should be re-sent to firms. APB would reconsider at its December meeting whether to revise Bulletin 1998/7 .

## **8. DTI Report on TransTec**

Mr Steven Leonard introduced an analysis of a recent DTI Inspectors' report on the collapse of TransTec Plc. He noted two points in particular - that the audit firm concerned had publicly disagreed with the Inspectors concerning their interpretation

of Auditing Standards, and the communication problem that had arisen between the auditors and the audit committee.

Some Board members expressed the view that any issues arising out of the report were more likely to affect education and training arrangements within firms than require changes to Auditing Standards per se: nevertheless Mr Leonard was requested to report to the Board in due course his views on whether there were any specific areas in the Standards that needed amendment.

**9. Any other business**

The Chairman indicated that another 'awayday' would be organised for the Board in May 2004, in order primarily to review the comments received on the consultation paper on Ethical Standards.

**10. Next meeting**

It was noted that the next meeting of the Board would be held on Tuesday 16 December commencing at 9.30 am.

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