

MINUTES

MEETING OF: THE AUDITING PRACTICES BOARD

DATE AND TIME: Tuesday 30 September 2003, at 9.30am

PLACE: CIPFA
3 Robert Street
London WC2

PRESENT:

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

Observers J Grewe (United Kingdom Department of Trade and Industry)
K Nicholson (KPMG)
W Rainey (Ernst & Young)
R Thorpe (Financial Services Authority)

In attendance	Ms K Cearns	S Braid (for item 5)
	K Osborn (for item 3)	

Staff	K Billing	D Marston
	R Charlesworth	H Morgan
	S Leonard	

APOLOGIES:

Members	S Murray	G Pimlott
	A Palmer	

Observers P Donegan (Republic of Ireland Department of Enterprise, Trade and Employment)
C Wobschall (Accountancy Foundation)

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:

New observers

The Chairman welcomed two audit practitioners - Mr Keith Nicholson of KPMG and Mr Will Rainey of Ernst & Young - to observe this and future Board meetings. He noted that he hoped that two further audit practitioners would be able to attend future meetings.

APB Constitution

The Chairman reported the FRC's intention to move APB Limited under the ownership of the FRC on or around 1 April 2004. He also noted that legislation concerning the statutory underpinning of the APB's work was likely to be laid in the near future. In the meantime the Accountancy Foundation had amended the Memorandum and Articles of APB Limited to enable the Board to issue Ethical Standards.

Publications

Mr Jon Grant noted that the research paper 'Communication between auditors and audit committees' written by Mr John Collier had been published recently. Another research paper entitled 'Improving the auditing of entities subject to common control' was due to be issued within the next month.

Public confidence in financial reporting

Mr Graham Ward reported briefly on the work of an IFAC Task Force of which he was a member which had addressed the rebuilding of public confidence in financial reporting in the post-Enron environment. Mr Ward noted that the Task Force was taking a 'holistic' approach to the issue, and considered in particular that the concept of truth and fairness should be the principal concern of all parties involved in the preparation of financial reports.

Opra

Mr Grant noted that Opra was shortly to issue a revised version of Opra Note 1 concerning whistle-blowing reports. APB staff had had the opportunity of commenting on the final draft of the document.

PCAOB

The Chairman reported on a productive meeting he had recently held with representatives of the United States' PCAOB. The Chairman indicated his hope that regular meetings would in future be held between staff of the APB and PCAOB to discuss areas of common interest.

International standard-setting

Mr Ward and Mr Richard Thorpe reported on the setting up of the Public Interest Oversight Board to provide oversight of IFAC's standard setting activities. It was noted that the Financial Stability Forum had publicly welcomed the establishment of the Board.

2. Minutes of previous meeting

The Chairman noted that the minutes of the meeting held on 16 July had recently been approved, following circulation to Board members.

3. Corporate Governance Bulletins

Mr Lew Hughes introduced final drafts of two Bulletins on Corporate Governance in the Public Sector (central government and NHS bodies). He noted that a third Bulletin, for local government auditors, would be presented to the Board in early 2004 once guidance for preparers of Statements on Internal Control had been developed. Mr Hughes indicated that there were some minor wording changes still to be made to the two Bulletins due to recent regulatory amendments issued by HM Treasury. The Board approved the documents for issue, subject to final wording being agreed between Mr Hughes and the Chairman.

4. Review of interim financial information

Mr Grant introduced a draft APB letter of comment on an IAASB exposure draft - 'Review of interim financial information performed by the auditor of the entity'. He noted that the principal concern in the letter was to the effect that Standards on this subject should be categorised as an ISAE rather than an ISA. The Board supported this view and thought it should be strengthened in the letter to IAASB. As the European Commission is expected to require ISAs to be applied to statutory audits from 2005, the Board noted that it is becoming increasingly urgent that Member States have a clear understanding of which Standards will be designated as "ISAs". Given the European Commission's focus on statutory audits, in the APB's view it would be most unhelpful for Standards that do not apply to the audit of general purpose financial statements to be included in the corpus of ISAs. Designation of the Standard on the review of interim financial information as an ISAE would not preclude the European Commission from adopting it for pan-European application if this were to be considered appropriate. It was also suggested that the letter to IAASB refer to concerns regarding representation letters and whether the guidance on the objective of a review engagement was consistent with the report. The Board approved the letter of comment for submission to the IAASB, subject to agreement by the Chairman of the further amendments made following the meeting.

5. Registered Social Landlords

Mr Simon Braid introduced a revised draft of PN 14 (Revised) 'The audit of registered social landlords in the United Kingdom'. He noted the comments that had been received during the recent consultation period and the consequential changes that had been made to the Practice Note. No comments were made by the Board on the draft of PN 14 (Revised), which was therefore approved for issue in final form. The Chairman thanked Mr Braid and his working party for their work.

6. Ethical Standards

The Chairman introduced a discussion on the Board's draft Ethical Standards. He thanked the APB Ethics Group and its Secretary, Mr Robert Charlesworth, for their considerable efforts over the summer in preparing the documents to be considered at the meeting. The draft documents for consideration at the meeting comprised a Consultation Paper entitled 'Ethical Standards for Auditors', which set the framework

covering the principal points together with questions to be answered by commentators, together with drafts of:

- ES 1 - Integrity, objectivity and independence,
- ES 2 - Financial, business, employment and personal relationships,
- ES 3 - Long association with the audit engagement, and
- ES 4 - Fees, litigation, gifts and hospitality.

The Chairman noted that ES 5 - Non-audit services, was not yet ready for consideration, but that certain aspects of it would be discussed later in the meeting. He also noted that he would be meeting with the Office of Fair Trading in order to identify any anti-competition issues in the drafts. He noted discussions with the profession in the Republic of Ireland (IAASA and the DETE) which suggested that Irish auditors would be required to apply APB Ethical Standards.

The Chairman noted that the drafts had already been reviewed in detail in the context of the EC Recommendation and that comments made by CCAB and IFAC staff had been incorporated as appropriate. It was agreed that a comparison would be undertaken between the draft ESs and the SEC requirements.

The Board considered the various documents at length. Particular emphasis was given to the issues that smaller audit firms might face in applying the standards. A specific question in the Consultation Paper asking whether there are any requirements which would be applicable only to audits of listed companies was considered to be appropriate. It was also noted that further guidance was needed, probably in footnotes, to clarify the applicability of certain requirements to the Public Sector.

There was discussion over the definition of several key terms in the ESs, including 'partner', 'key audit partner', 'close family members' and 'network firms'; the Ethics Group was asked to consider these issues and in particular the period of involvement with an audit that was appropriate for those 'key audit partners' who then became audit engagement partners.

The Board considered one specific issue to be included in ES 5 on non-audit services, namely the provision of tax advice. Discussion centred on whether the provision of tax advice by auditors should be restricted generally or whether restrictions should apply only to subjective tax advisory schemes. In general it was thought undesirable for auditors to become involved in charging contingency fees for creative tax structures or acting as advocate in defence of such schemes. The Ethics Group would consider these matters further.

It was agreed that the Ethics Group would consider the points raised during the discussions and would present final drafts of the Consultation Paper and the 5 ESs at the next APB meeting. The Chairman expressed his thanks to Board members for being willing to attend a whole day meeting so that the draft Ethical Standards could be considered in detail.

7. Next meeting

It was noted that the next meeting of the Board would be held on Tuesday 28 October commencing at 9.30 am.

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