

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Friday 7 November 2003, at 4.00pm

**PLACE:** 117 Houndsditch  
London EC3

### PRESENT:

<b>Members</b>	R Fleck (Chairman)	S Murray
	G Ward (Vice-chairman)	G Pimlott
	J Grant (Executive director)	I Plaistowe
	M Evans	Ms G Saunders
	L Hughes	S Turley

**Observers**

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

**Staff** R Charlesworth D Marston

### APOLOGIES:

<b>Members</b>	A Palmer	D Thomas
	P Smith	

**Observers**

P Donegan (Republic of Ireland Department of Enterprise, Trade and Employment)  
R Thorpe (Financial Services Authority)  
C Wobschall (Accountancy Foundation)

## **Ethical Standards**

The Chairman introduced this additional meeting of the Board to continue discussion of the draft Ethical Standards (ESs). The aim was to issue consultation drafts of the ESs on 24 November 2003.

A review was carried out of each of the 5 draft ESs in turn, alongside relevant sections of the draft Consultation Paper entitled 'Ethical Standards for Auditors'. The Board made a number of comments on the documents.

ES 1 - Integrity, objectivity and independence : Discussion took place on the definition of 'contingency fees', and particularly whether it included 'quantum meruit' payments. It was agreed that the definition included in the glossary to the ESs should be extended and that there would be further discussion of the issue in the Consultation Paper.

ES 2 - Financial, business, employment and personal relationships: It was noted that insurance policies and mortgages provided by client banks and insurance companies to audit partners were not prohibited as long as they were provided in the normal course of business.

ES 3 - Long association with the audit engagement: It was agreed that the Standard should not prevent a key audit partner becoming the audit engagement partner for the same client without a two year 'cooling-off' period.

ES 4 - Fees, economic dependence, remuneration and evaluation policies, litigation, gifts and hospitality: No specific comments were made.

ES 5 - Non-audit services for audit clients: It was noted that auditors should not provide tax services that involved inappropriate accounting or which would involve acting as advocate before a tribunal or court. It was agreed that whether such services might be problematical or not was a matter to be decided by the 'audit engagement partner' in consultation with the 'independent partner'. It was noted that the Commissioners of the Inland Revenue constituted a court for this purpose, and that APB would consider further the position of auditors of smaller companies following the exposure period.

Some amendments to the wording of the section concerning the provision of corporate finance services were suggested. Some Board members and observers believed that the restrictions in relation to corporate finance were too harsh and could have consequential effects that would impair the quality of financial reporting: others thought that the balance was right.

Discussion also took place on the provision of accountancy services to clients: it was confirmed that this would not be permitted for significant divisions and subsidiaries of listed companies and public interest entities. The Board confirmed that it did not consider that ES5 prohibited the explanation of accounting standards to audit clients.

Consultation Paper: It was also agreed that the ESs would honour any transitional arrangements laid down by the CCAB Bodies in existing ethical statements.

The Board approved the issuance of the Consultation Paper and the five ESs for exposure. It was agreed that the revised definition of contingency fees and the extended discussion of the subject in the Consultation Paper would be circulated to Board members for a 'fatal flaw' review.

The Board discussed the exposure process. Key features of the ESs that were noted as deserving particular emphasis were that they:

- comply with ethical standards issued by the EC,
- take account of the findings of the CGAA report,
- are more rigorous than previous ethical requirements,
- are principles-based, with an emphasis on objectivity from the standpoint of a reasonable and informed third party,
- address the particular concerns of smaller firms and their clients,
- are more clearly worded than the guidance issued by other bodies and, as such, should assist non-practitioners including audit committees understand relevant requirements, and
- dovetail with current developments relating to audit committees.

During the exposure process it was suggested that the APB should:

- encourage comments particularly from non-practitioners such as business leaders and investors,
- invite comments from large and small audit firms,
- promote the ESs in the Republic of Ireland and Scotland, and
- distribute the drafts to other international bodies with a view to influencing future international developments.

The Chairman observed that, other than extending the Board's work to address assurance services, there were no plans to prepare any other ESs at the present time, but any commentators' views on this matter would be considered.

The Chairman concluded the meeting by again expressing thanks to the Ethics Working Group and its secretary Mr Robert Charlesworth for their considerable efforts in developing the documents to this stage.

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