

SUMMARY MINUTES

MEETING OF: THE INVESTMENT CIRCULARS SUBCOMMITTEE
OF THE AUDITING PRACTICES BOARD

DATE AND TIME: Monday 28 June, at 2.30 p.m.

PLACE: Aldwych House
71-91 Aldwych
London WC2B 4HN

PRESENT:

Members	T. Troubridge (Chairman)	D. Cattermole
	K. Desmond	D. Hilton
	S. Hextall	P. Lee
	R. Nolan (<i>by telephone</i>)	S. Nyman
	I. Pickering	

Observers M. Grabowski (Executive Director, APB)
O Sattar (FSA)

Staff S. Leonard
J. Grant (for item 2)

APOLOGIES:

Members	L. Gallagher	M. Lomers
	J. Ward	

1. Chairman's introduction

The Chairman welcomed members to the twenty third meeting of the Sub-committee and commented that the APB was presently focused on ethics and non-audit services for auditors. APB would shortly be issuing a further consultation paper. The principal areas being discussed which may be of interest to Sub-committee members were:

- The ethical requirements surrounding contingency fees and differential fees;
- Whether the work of reporting accountants is "audit related"; and
- Better disclosure of fees including investment circular reporting fees.

The Chairman noted that APB would be turning its attention to revising the ESRA in 2011 and invited comments on matters that APB might address as part of its review of the ESRA. One member commented that the independence of reporting accountants acting as either a sponsor or NOMAD could be re-examined.

2. Consideration of a proposed response to the Exposure Draft of "ISAE 3420, Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus issued by the IAASB in April 2010.

Mr Dudley Hilton introduced a draft response to the Exposure Draft. Although the Sub-committee concurred with the general thrust of the letter supporting the substantive technical content of the proposed ISAE it did suggest some changes that needed to be made to the draft response.

Some Sub-committee members expressed the view that the requirement in the European Prospectus Regulation for the reporting accountant to report on "proper compilation" requires a work effort that is greater than reporting on the compilation process. One member described this as "compilation process plus". Some members commented that the greater work effort is

reflected in both SIR 4000 and in the proposed ISAE. The Sub-committee recommended that the letter be revised to suggest that:

- the ISAE should contemplate only the “properly compiled” opinion option; and
- the emphasis throughout the proposed ISAE that a pro forma engagement is primarily about compilation, rather than outcomes (including the title of the proposed ISAE), should be toned down.

The Chairman thanked Mr Hilton for preparing a draft for the Sub-committee to consider.

3. Consideration of a proposed revision to SIR 2000 “Investment Reporting Standards Applicable to Public Reporting Engagements on Historical Financial Information” updating it to reflect the requirements of the clarified ISAs.

Mr Steven Leonard introduced a proposed revision of SIR 2000 which would update the SIR to reflect the requirements of the clarified ISAs which are effective for accounting periods ending on or after 15 December 2010. Mr Leonard commented that most of the changes were of a routine nature and that the only substantive issue that had arisen concerned whether it continues to be necessary for the SIR to continue to include Appendix 1 setting out the specific requirements of ISAs (UK and Ireland) that are unlikely to apply to the reporting accountant’s exercise.

SIR 2000 requires that the procedures of the auditor and the reporting accountant, taken together, should meet the requirements of ISAs (UK and Ireland) unless:

- (a) a requirement is not applicable to the reporting accountant’s engagement; or
- (b) it is not practicable for the reporting accountant to undertake such procedures.

Appendix 1 details specific requirements of the ISAs (UK and Ireland) that are unlikely to apply to the reporting accountant’s exercise in relation to historical financial information in investment circulars.

The clarified ISA (UK and Ireland) 200 requires the auditor to comply with each requirement of an ISA (UK and Ireland) unless in the circumstances of the audit:

- (a) The entire ISA (UK and Ireland) is not relevant; or
- (b) A requirement is not relevant because it is conditional and the condition does not exist.

As the ISAs (UK and Ireland) now set out more clearly the criteria for not meeting specific requirements staff proposes setting out these criteria in the body of SIR 2000 and dispensing with Appendix 1.

Some members of the Sub-committee commented that the Appendix was helpful in the context of both the current and the new ISAs (UK and Ireland). If the Appendix were to be dropped, some suggested that the explanation for excluding various requirements, from the reporting accountant’s exercise, set out in the rubric to the Appendix, should be retained as guidance in the SIR.

Following discussion, by a small majority the Sub-committee recommended to the APB that Appendix 1 be deleted from SIR 2000.

4. Preliminary discussion of APB’s plans to revise the Ethical Standard for Reporting Accountants (ESRA) to reflect possible forthcoming changes to the Ethical Standards for Auditors

This matter was discussed under item 1.

5. Any other business

There were no other matters raised for discussion.