

## SUMMARY MINUTES

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

**DATE AND TIME:** Tuesday 15 September 2009, at 2.30 p.m.

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

### PRESENT:

<b>Members</b>	T. Troubridge (Chairman)	D. Cattermole
	K. Desmond	D. Hilton
	S. Hextall	P. Lee
	S. Nyman	I. Pickering
	O. Sattar	

**Observers** J. Grant (Executive Director, APB)

**Staff** S. Leonard

### APOLOGIES:

<b>Members</b>	L. Gallagher	M. Lomers
	R. Nolan	J. Ward

#### 1. Chairman's introduction

The Chairman welcomed members to the twenty first meeting of the Sub-committee. He noted that the Sub-committee had last met in November 2007 to consider comments received on the Exposure Draft of SIR 5000 "Investment Reporting Standards Applicable to Public Reporting Engagements on Financial Information Reconciliations under the Listing Rules". The proposed revisions to the Exposure Draft recommended by the Sub-committee had been accepted by APB and SIR 5000 had been issued in final form in February 2008.

Since the last meeting Messrs Hughes, Piller and Pimlott had retired from the Sub-committee. The Chairman thanked each of them for the significant contributions that they had made to the work of the Sub-committee.

The Chairman warmly welcomed Messrs Cattermole, Lee, Nolan, Pickering and Sattar as new members of the Sub-committee. Mr Cattermole, of KPMG, replaces Mr Hughes and Mr Sattar, of the FSA, replaces Mr Piller (who has been seconded to CESR). Mr Nolan is a practitioner member of the APB and is based in Dublin. Messrs Lee and Pickering are both non-practitioner members of the APB.

The Chairman commented on the following matters that had arisen since the previous meeting:

- Mr. Paul Boyle, the Chief Executive of the FRC will be stepping down in November 2009 and will be replaced by Mr. Stephen Hadrill who is currently with the ABI.
- The APB will be publishing the clarified ISAs (UK and Ireland) before the end of the year. They will be effective for years ending on or after 15 December 2010.
- In response to comments made at the Treasury Select Committee the APB intends to issue a Consultation Paper on the subject of non-audit services.

**2. Pro forma financial information: Consideration of the IAASB Agenda papers relating to its “first read” of a proposed new ISAE on pro forma financial information required in connection with a securities offering**

The Sub-committee discussed the IAASB Agenda Papers setting out a proposed new ISAE on pro forma information. A principal focus of the discussion was to contrast the proposed ISAE to the requirements and guidance set out in SIR 4000 “Investment Reporting Standards applicable to Public Reporting Engagements” on Pro Forma Financial Information” (including the requirements of SIR 1000 that are incorporated by reference in SIR 4000). Mr Grant, the Executive Director of the APB and UK representative on the IAASB was attending the meeting in order to obtain the input of Sub-committee members.

The following observations were made by Sub-committee members:

**(a) Content of SIR 4000 that is stronger than the proposed content of the proposed ISAE**

- SIR 1000 and, therefore, SIR 4000 require:
  - with respect to quality control, compliance with both ISQC (UK and Ireland) 1 and ISA ((UK and Ireland) 220;
  - documentation of planning, reasoning on all matters that require the exercise of judgment, and related conclusions;
  - involvement of a partner with relevant experience.
- The Sub-committee considered that the proposed ISAE would benefit from the inclusion of similar requirements.

**(b) Obtaining evidence regarding the unadjusted financial information**

- The proposed requirement in paragraph 20 of the proposed ISAE which would require the practitioner to obtain sufficient appropriate evidence that the source of the unadjusted financial information provides a reasonable basis for extracting such information.
  - Some members considered that having requirements in this area will “muddy the water” and that it is better to disclose that the unadjusted information is unaudited/reviewed rather than to include requirements for the practitioner to seek assurance regarding such information.
  - Requiring sufficient appropriate evidence regarding the source of the unadjusted financial information may distract the practitioner from focusing on the compilation process.
  - Although many of the individual steps set out in paragraph 20 make sense, especially if the source data has been audited by another auditor, it may be impractical for the practitioner to:
    - check the data to the underlying records;
    - review other practitioner’s working papers;

- consider the impact of uncorrected misstatements and significant deficiencies in internal control.

**(c) Business combinations and divestments**

- Some members of the Sub-committee questioned whether the conditional requirements relating to business combinations and divestments (which constitute a significant element of the proposal) were necessary. SIR 4000 does not have requirements or guidance to a similar degree of granularity.

**(d) Reporting**

- Paragraphs 36 to 46 of the proposed ISAE contemplate the practitioner issuing a modified conclusion. As modified conclusions are not permitted in Europe there needs to be a caveat along the lines of “except where prohibited by law or regulation”.
- In view of the fact that modified conclusions are not permitted in Europe is it sensible for almost 25% of the requirement paragraphs to address modified conclusions? Would these detailed requirements be better in an Appendix?
- Is the form of report envisaged by paragraph 50 of the proposed ISAE practical in the UK context? As the criteria are provided by law and regulation but only pulled together in an Appendix to SIR 4000 it may not be practical to refer to them in the report.
- Would the UK want to include a summary of the practitioner’s procedures in their report? This seems unlikely in view of the direction that the UK is taking with respect to audit reports.
- It is unclear what the final sentence of paragraph 3 means. “This ISAE covers assertion-based engagements with an assurance conclusion worded in terms of the subject matter information and the criteria”.

**(e) Definitions**

- The addition of definitions of “responsible party” and “entity” would improve the proposed ISAE. In addition there needs to be clarification as to whether the usage of terms in the proposed ISAE would work in take-over situations.

**(f) Adjustments**

- There was agreement that paragraph 31 would benefit from making clear that “appropriate presentation” does not encompass making adjustments to source data.
- There seems to be a suggestion in paragraphs 30 and 31 that adjustments can be disclosed in a note. The Sub-committee recommends that this paragraph be redrafted so that this inference cannot be made.

**(g) Inter-relationship with ISAE 3000**

- It was noted that compliance with ISAE 3000 would be necessary in order to comply with the proposed ISAE and that ISAE 3000 was not a document that had been endorsed by the APB and included within the corpus of UK and Irish Auditing and Assurance Standards. Therefore, if the APB were to maintain its position of not endorsing ISAE 3000 this may preclude adoption of the proposed ISAE in the UK and Ireland.

Mr Grant thanked members of the Sub-committee for the input that they had provided to him which would be of assistance to him during the discussion of the subject at the forthcoming IAASB meeting.

### **3. Reporting on historical financial information. Discussion of recent experiences interacting with the United Kingdom Listing Authority (UKLA)**

The Chairman reminded members of the process that the Sub-committee had gone through to develop SIR 2000 and in particular the Annexure setting out accounting conventions commonly used in the preparation of historical financial information in investment circulars. The conventions seek to assist preparers to meet the obligation that the historical financial information should give “a true and fair view for the purposes of the relevant investment circular”.

The Chairman commented that as a transitional measure (associated with the introduction of IFRSs as adopted in the EU) the UKLA had permitted accounts depicting a single year under “IFRSs as adopted in the EU” to be presented, notwithstanding that compliance with the IFRSs requires comparative figures to be presented. However, the UKLA has now made clear that the transitional period during which this practice was permitted is now over and consequently combined accounts presented under IFRSs in an investment circular are now required to have comparative figures. Members of the Sub-committee agreed with the Chairman that this change would not create significant difficulties for reporting accountants.

A member raised a related issue in expressing a concern that the UKLA takes the view that a UK firm of reporting accountants must prepare an accountant’s report on historical financial information (prepared in accordance with SIR 2000) even in circumstances where the reporting accountant is able to and wishes to issue a “true and fair” audit report in respect of such financial information. The member believes that the PD Reg permits such an audit report to be issued and that the UKLA is inappropriately basing its position on the text of the rubric to SIR 2000. The Chairman reminded members of the status of the SIRs (including their opening rubric) and commented that this is, therefore, an issue that the member, and other Sub-committee members who have similar concerns, should take up with the UKLA.

### **4. Any other business**

The Sub-committee discussed recent developments that will have an impact on the content of SIR 2000. These developments include:

- the forthcoming issuance by APB of revised ISAs (UK and Ireland) that will be effective for accounting periods ending on or after 15 December 2010;
- the recent revision to ISA (UK and Ireland) 700 which affects the wording and structure of the standard auditor’s report.

The Sub-committee asked the staff to review what effect there would be on SIR 2000 of these developments and to make a recommendation to the Sub-committee based on their conclusion. In performing this task the staff was asked to seek the advice of Mr Lomers regarding changes that may have been made to laws and regulations (including The Financial Services and Markets Act) since July 2005 when SIR 2000 was originally published.