

What will APB's first set of Ethical Standards mean for ACCA members?
David York takes a closer look.

ethical standards for auditors

■ The Auditing Practices Board (APB) is expected to issue its first Ethical Standards for Auditors during the summer.

The process of finalising the Standards, first issued as exposure drafts in November 2003, has not been easy. APB has not only had to consider the responses received to the exposure drafts but has had to do so in a rapidly changing environment.

Changing environment

The Parmalat scandal hit the headlines late in 2003, and since then there has been a succession of developments potentially impacting on ethics.

The proposed revised 8th Directive has addressed auditor rotation. The Financial Reporting Council has unified standard setting and regulation for UK auditors. Company law has changed, most notably raising the audit exemption threshold.

Internationally, IFAC has been very active. It has issued proposed and final pronouncements on auditing and ethics, a new assurance framework and general standard, and a standard on quality control. The US Public Company Accounting Oversight Board has been putting into action the registration of auditing firms and changes to standards for SEC audits – most notably in relation to assurance on internal control.

Perhaps the most important factor for APB arises through a combination of two developments: the issue by the International Auditing and Assurance Standards Board of significant new International Standards on Auditing, and the requirement in the proposed 8th Directive that ISAs be used in all EU countries.

Six new ISAs

In March, APB announced its intention to adopt six new ISAs for audits of accounting periods commencing on or after 15 December 2004. The new ISAs are:

- **ISA 315** Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
- **ISA 330** The Auditor's Procedures in Response to Assessed Risks
- **ISA 500** Audit Evidence
- **ISA 240** The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements
- **ISA 220** Quality Control for Audits of Historical Financial Information
- **ISQC 1** Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements.

The reason for this announcement was primarily to give firms and training organisations early warning of necessary updating to audit approaches. However, at that stage, APB did not feel able to decide whether all ISAs would be adopted as an alternative to making extensive conforming changes to the UK Statements of Auditing Standards.

The way forward

Details of how APB proposes to take this matter forwards are expected to become known in June, with a consultation paper and exposure drafts being issued to finalise the pronouncements by mid-December 2004. If a voluntary move to ISAs takes place, that

establishes a link between auditing standards and ethics because ISAs refer to compliance with the relevant parts of the IFAC Code of Ethics. As a result, when finalising its Ethical Standards APB may want to anticipate the impact of that link and any changes in the form and content of auditing standards that will occur.

The public consultation on the draft Ethical Standards was carried out with vigour. In addition to receiving written comments, APB carried out face to face consultation (ACCA, for example, hosted regional meetings – chaired by Jonathan Beckerlegge – at which members could debate the issues).

Significant issue for small businesses

One of the most significant issues arising was the particularly damaging impact on smaller businesses (both audit firms and clients) because the Ethical Standards had been drafted from the perspective of large firms with large clients. It is expected that APB will have carefully considered such problems and reached an appropriate solution that is in the public interest.

Once issued, compliance with the APB Ethical Standards should mean that auditors also comply with the relevant requirements of the IFAC Code of Ethics and the EC Recommendation on the Independence of Statutory Auditors.

ACCA and the other UK accountancy bodies will have to anticipate the existence of the APB Ethical Standards when finalising the wording of ACCA's 2005 *Rulebook*. ■

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