



## **AUASB International Update**

This Update summarises the activities of the IAASB and other foreign standard setting bodies for the period December 2008 – January 2009.

### **International Auditing and Assurance Standards Board (IAASB)**

#### **1. Issue of IAASB Staff Practice Alert on Audit Considerations in Respect of Going Concern in the Recent Economic Environment**

IAASB released in January 2009 Staff Practice Alert *Audit Considerations in Respect of Going Concern in the Recent Economic Environment*, and highlighted its relevance to auditors and entities in meeting the challenges of assessing an entity's ability to continue as a going concern in these times of economic uncertainty. The Staff Practice Alert emphasises sections within International Standards on Auditing (ISA) 570 *Going Concern*, as well as other ISAs which are relevant in the current economic environment. This is the second alert issued by the IAASB Staff. The first, *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*, was issued in October 2008 to assist auditors in addressing the challenges of auditing fair value accounting estimates in times of market uncertainty.

#### **2. IAASB Nears Finalisation of the Clarity Project with the Issuance of Eight Standards**

The IAASB moves closer to completing its ISA Clarity Project with the release of seven clarified International Standards on Auditing (ISAs) and one clarified International Standard on Quality Control (ISQC). The newly issued Standards are as follows:

- International Standard on Quality Control (ISQC) 1 (Redrafted), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*
- ISA 220 (Redrafted), *Quality Control for an Audit of Financial Statements*
- ISA 500 (Redrafted), *Audit Evidence*
- ISA 501 (Redrafted), *Audit Evidence-Specific Considerations for Selected Items*
- ISA 505 (Revised and Redrafted), *External Confirmations*
- ISA 520 (Redrafted), *Analytical Procedures*
- ISA 620 (Redrafted), *Using the Work of an Auditor's Expert*
- ISA 710 (Redrafted), *Comparative Information-Corresponding Figures and Comparative Financial Statements*

#### **3. Other IAASB Projects in Progress**

##### **(a) ISAE 3402 Assurance Reports on a Service Organisation's Controls**

- Scope: To define the responsibilities of a service auditor in performing an engagement to issue a report on controls at a service organisation, including the form and content of the service auditor's report.

- Status: Significant issues raised on exposure were considered by the IAASB at its December 2008 meeting. The implications for this project of the AICPA's Proposed Statement on Standards for Attestation Engagements, *Reporting on Controls at a Service Organization* were also taken into consideration. Further analysis of the responses to the Exposure Draft and a draft revised ISAE will be considered at the June 2009 IAASB meeting.
- (b) **Fair Value Auditing Guidance**
- Background: Responses to the ISA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* ED included a request for a creation of a task force to assess the need to develop further guidance on fair value auditing. The Task Force created by the IAASB for this purpose conducted a series of discussions and interviews with auditors and other parties about the issues around fair value accounting and auditing. In the September 2008 IAASB meeting, the Task Force reported to the IAASB that the issuance of an alert on fair value auditing would be an appropriate response to the recommendations of the Financial Stability Forum (held in April 2008) for enhanced guidance on audits of valuations of complex or illiquid financial products. This resulted in the issuance of the IAASB Staff Practice Alert *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment* discussed above.
  - Status: The IAASB will have further discussion of issues identified by the Task Force on its March 2009 meeting.
- (c) **Assurance Engagements on Carbon Emissions Information**
- Scope: To address professional accountants' responsibilities with respect to assurance engagements on carbon emissions information.
  - Status: The IAASB considered an Issues Paper at its December 2008 meeting and agreed that the output of this project should be an ISAE. A draft ISAE is expected to be presented at the June 2009 meeting.

### **Auditing Practices Board (United Kingdom)**

The Auditing Practices Board (APB) of the United Kingdom has issued the following documents in December 2008 and January 2009:

1. **Practice Note 27 *Audit of Credit Unions in the United Kingdom*** provides guidance to auditors (a) on the application of ISAs to the audit of the financial statements of credit unions in the UK, and (b) on the various legal and regulatory requirements relating to credit unions, both in Great Britain and in Northern Ireland. Issued in January 2009.
2. **Practice Note 11 (Revised) *The Audit of Charities in the United Kingdom*** updates the previous version of PN 11 which was issued in 2002. The revised PN 11 reflects (a) the replacement of relevant Statements of Auditing Standards by ISAs, and (b) the changes in the legal and regulatory framework affecting Charities in the UK. Issued in December 2008.
3. **Consultation Draft Practice Note 23 (Revised) *Auditing Complex Financial Instruments*** widens the scope of the previous version of PN 23 to include complex financial instruments other than derivatives, such as collateralised debt obligations, collateralised default swaps and mortgage backed securities. In consideration of the current difficult market conditions, this draft PN also draws on the guidance provided

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by the IAASB Staff Audit Practice Alert on Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment issued in October 2008. This draft PN was issued in December 2008 and the deadline for comments is 27 March 2009.

4. **Bulletin 2008/10 *Going Concern Issues During the Economic Conditions*** (issued in December 2008) offers guidance to directors (emphasis on those of listed entities) and auditors alike on the various going concern issues that they will most likely encounter in the coming financial reporting periods. This Bulletin covered the following major topics:
- Impact of the economic crisis on the directors' approach to assessing going concern
  - Planning considerations for auditors in relation to effects of current economic conditions on accounts in the financial statements
  - Auditors' evaluation of the directors' going concern assessment and adequacy of disclosures in the financial reports
  - Implications of the current economic situation on the auditors' report
  - Auditors' review of interim financial information
  - Ethical issues

#### **Public Company Accounting Oversight Board (USA)**

The Public Company Accounting Oversight Board (PCAOB) published the following documents in January 2009 and December 2008.

1. **Staff Views – *An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements: Guidance to Auditors of Smaller Public Companies*** was issued by the PCAOB Staff in January 2009 to help auditors apply the provisions of PCAOB Auditing Standard No. 5 *An Audit of Financial Control Over Financial Reporting That is Integrated with An Audit of Financial Statements* to audits of smaller, less complex public companies. Auditing Standard No. 5 provides direction on scaling the audit of internal controls based on the size and complexity of the entity. The Staff Views offer guidance to auditors on how to design and execute audit strategies to comply with the objectives of Auditing Standard No. 5 relative to audits of smaller companies.
2. **Staff Audit Practice Alert on *Audit Considerations in the Current Economic Environment*** (issued in December 2008) aims to assist auditors in identifying matters related to the current economic conditions that affect audit risk and require additional emphasis in the audits of financial statements and internal controls over financial reporting. This Alert is divided into six major sections, namely:
  - Overall audit considerations
  - Auditing fair value instruments
  - Auditing accounting estimates
  - Auditing the adequacy of disclosures
  - Auditor's consideration of a company's ability to continue as a going concern
  - Additional audit considerations for selected financial reporting areas (e.g., debt obligations, contingencies and guarantees, inventory, receivables, pension & post-retirement benefits)

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3. **Report on PCAOB's 2004, 2005, 2006 and 2007 Inspections of Domestic Annually Inspected Firms** summarises the observations and findings of the PCAOB relative to its inspections of the 8 largest US public accounting firms for the years 2004 – 2007 (inclusive). The inspection processes involved two techniques in assessing an accounting firm's audit quality:
- First, the PCAOB reviewed a firm's work on several audits, without the firm being able to influence the selection of the audits subjected to review.
  - Second, the PCAOB evaluated certain quality control policies and procedures of the firms that affect audit performance.

The inspections disclosed a number of audit deficiencies, as well as weaknesses in the firms' quality control procedures that impacted the quality of the audits performed. Remedial measures undertaken by the firms were also included in the report. The report was issued in December 2008.

### **Auditing Standards Board (ASB) of the AICPA (USA)**

1. As part of its Clarity and Convergence with International Auditing Standards Project, the ASB issued in January 2009 Exposure Drafts on the following Proposed Statements on Auditing Standards:
  - (a) **Required Supplementary Information**
  - (b) **Other Information in Relation to the Financial Statements as a Whole**
  - (c) **Other Information in Documents Containing Audited Financial Statements -**  
This was drafted using the ISA 720 (Redrafted) *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements* as the basis standard.  
  
There are no corresponding ISAs to the proposed SAS *Required Supplementary Information* and *Other Information in Relation to the Financial Statements as a Whole* [noted as (a) and (b) above].  
  
The deadline for comments on the above EDs is 15 March 2009.
2. The ASB issued in January 2009 its second clarified Statement on Auditing Standards ***Audit Documentation (Redrafted)*** which is based on ISA 230 (Redrafted) *Audit Documentation*. Its first clarified Statement on Auditing Standards was the SAS on ***The Auditor's Communication With Those Charged With Governance***. This SAS is based on ISA 260 (Revised and Redrafted) *Communication With Those Charged With Governance*.
3. The ASB approved during its December 2008 meeting the issuance of a revised Statement on Auditing Standards (SAS) No. 100 for ***Reviews of Interim Financial Information***. This Standard is applicable when the interim financial information is intended to provide a periodic update to year-end reporting and the accountant has either (a) audited the entity's latest annual financial statements, or (b) is auditing the current year financial statements and the entity's latest annual financial statements were audited by another auditor. If these conditions are not met, reviews of interim financial information should be conducted according to the relevant Statements on Standards for Accounting and Review Services.

### **Auditing and Assurance Standards Board (AASB) of Canada**

The Canadian AASB Staff issued in January 2009 a *Risk Alert on Auditing Considerations in the Current Economic Environment*. The purpose of this Alert is to assist auditors in dealing with the significant risks presented by the current economic environment, as they relate to (a) continuance of client relationship, (b) communications with those having oversight responsibility for the financial reporting process, (c) going concern considerations, (d) planning the overall audit strategy, (e) understanding the entity and its environment, and assessing responding to the risks of material misstatement, (f) auditing fair value measurements and accounting estimates, and, (g) audit considerations for other selected financial reporting areas.

### **Professional Standards Board of New Zealand**

The activities of the Professional Standards Board of New Zealand in recent months were predominantly related to the adoption of the clarified ISAs issued by the IAASB.

### **Federation of European Accountants (FEE)**

FEE is the representative organisation for the accountancy profession in Europe, with a membership of 43 institutes of professional accountants and auditors from 32 European countries. It is not a standard-setting body; however, it recently issued Policy Statements which are included in this digest because of their audit relevance.

#### **1. Policy Statements on Sustainability** (issued in January 2009)

- **Cost Internalisation** encourages accountants, particularly professional accountants in business and those charged with corporate responsibilities, to influence and contribute on the design of pricing mechanisms for negative externalities, as well as researching on the feasibility and effectiveness of various “cost internalisation methodologies”.
- **Multiple-Stakeholders: The Essence of Multidisciplinary Teams** promotes the accountants’ role and participation, particularly accountants in business and external auditors, in multidisciplinary sustainability projects.
- **Non-financial Information** encourages proactive participation of accountants within organisations and those providing assurance services in ensuring high quality and credibility of management information (financial and non-financial), to make them useful for decision-making processes that support good governance based on a sustainability framework.
- **The Contribution of the Accountancy Profession** highlights the various significant roles that accountants play in sustainability projects. These include roles in: (a) financial reporting and assurance, (b) corporate governance, (c) management reporting, and (d) development and maintenance of systems and controls.

#### **2. The Accountancy Profession’s Contribution to the Debate on the Crisis** (issued in December 2008)

- **Reflecting on the Crisis** discusses the FEE’s views and recommendations to accountants, regulators and governments on how to face the challenges of the present economic conditions. Recommendations relevant to accountants:
  - Restore market confidence in financial reporting

- Governance of the IASB as the global standard setter for financial reporting, and its independence from political pressures, must remain undisputed
- Proper coordination, consultation and a robust due process are the best safeguard for the IASB to maintain quality and independence
- Audit committees should monitor internal controls and promote good corporate governance
- **Matters of Specific Relevance for Statutory Auditors During the Financial Crisis** discusses various matters that auditors need to consider during their current audits:
  - Valuation of instruments at fair value in a distressed market requires more judgement and use of experts to assist auditors
  - Going concern assumptions and disclosure considerations
  - Fraud considerations
  - Objectivity, independence, competence and duty of due care of auditors
- **Call for Action for European SMEs** highlights the need to support SMEs during economic turmoil. The accountancy profession is encouraged to assist SMEs in maintaining reliability and transparency in financial reporting, essential elements for credit worthiness and better access to financing.