



## AUASB International Update

This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the period 22 November 2011 to 20 February 2012.

### International Federation of Accountants (IFAC)

#### 1. IFAC Comments on European Commission Proposed Legislation

IFAC has commented on the European Commission (EC)'s proposed legislation.

IFAC has supported the following measures proposed by the EC, which it believes are consistent with views widely expressed in response to the Green Paper:

- Compliance with International Standards on Audit (ISAs)

This is a significant step forward in convergence to high-quality international standards, which facilitate transparency, consistency, economic growth, and financial stability. IFAC noted that ISAs are designed for audits of entities of all sizes, and are capable of being applied in a manner proportionate with the size and complexity of an entity.

- Strengthening of audit committees

Mechanisms and processes required to provide greater roles and responsibilities for audit committees in the spirit of ensuring their independence and technical competence.

- Enhanced dialogue between auditors and regulators

Stronger two-way communication between statutory auditors and oversight bodies supervising public interest entities and regulatory institutions, particularly in the financial services sector, will help in identifying and managing key risks, including systemic risks, and address audit issues that may arise beyond the formal components of the reporting process.

- Greater transparency in auditor selection

Greater transparency in the appointment of statutory auditors and firms will enable greater insight for stakeholders into the selection processes, requirements, and expectations.

- Greater cross-border mobility for auditors

Legal mechanisms to enable auditors to practice in multiple jurisdictions, including the creation of the European passport, in line with the move toward global regulatory convergence.

- Enhanced auditor report

While the ideal future content and format is not clear, IFAC supported the need to review the auditor report. The International Auditing and Assurance Standards Board has recently issued a consultation paper seeking broad stakeholder views on enhancing the quality, relevance and communicative value of auditor reporting on an international basis.

However, there are several proposals that IFAC did not support, because there is not sufficient evidence that they will have a positive impact on auditor independence and audit quality, and that the benefits will outweigh the risks and costs. IFAC believes that further research should be conducted to support their feasibility and impact. These include:

- Mandatory firm rotation

Firm rotation puts sustainable, established relationships at risk rather than encouraging trust, longevity, and knowledge capital between client and firm. However, for public interest entities, IFAC supported mandatory partner rotation after a fixed period of time.

- Prohibition of non-audit services

Independence is critical, and IFAC supported the independence framework described in the *Code of Ethics for Professional Accountants*. IFAC's view is that, in performing both audit and non-audit services, audit firms obtain complementary knowledge and competence that ensures each of these services—such as tax services—can be provided efficiently and to the expected quality.

Further, IFAC believes that the proposed legislation, if passed by Parliament in its current form, could have a negative impact on the audit profession and professional accountancy organizations (PAOs). In particular:

- PAOs' role in audit oversight arrangements

Currently, in many countries, PAOs have been delegated an important role in regulation, continuing education, discipline, and other areas, and there is an appropriate balance between independent oversight and PAO support. Expertise and infrastructure have been established to support these areas; changes are unnecessary and will require rebuilding infrastructure.

- Extraterritorial impacts

IFAC expressed concern that the proposals will provide significant problems for global public interest entities (PIEs) that require global audit services. IFAC does not believe that requiring firms of a certain size to provide only audit services will enhance global quality and service capability of the profession. It therefore urged that the Parliament consider the implications legislative changes will have for non-European Union states and the global market for audits of multinational companies.

Finally, IFAC's view is that a number of the proposals in the proposed legislation were not widely supported by the responses to the EC Green Paper earlier this year.

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

### **1. Issue of New Assurance Standard on Pro Forma Financial Information**

The IAASB released new International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*. Pro Forma financial information included in prospectuses plays an important role in informing the public's investment decisions in today's increasingly global capital markets and enhancing public confidence in how such financial information has been produced is therefore especially important. The new Standard provides comprehensive guidance on the nature and extent of a practitioner's work when engaged to report on the compilation of pro forma financial information. ISAE 3420 is effective for assurance reports dated after March 31, 2013.

For a copy of associated documents, refer to:

[http://www.ifac.org/sites/default/files/publications/files/20110926-IAASB-ISA\\_Implementation\\_Phase\\_II%20Plan-FINAL.pdf](http://www.ifac.org/sites/default/files/publications/files/20110926-IAASB-ISA_Implementation_Phase_II%20Plan-FINAL.pdf)

## 2. **Feedback Statement on The Evolving Nature of Financial Reporting**

The IAASB released a Feedback Statement on the responses to its January 2011 Discussion Paper: *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*. The Discussion Paper solicited views and perspectives of different stakeholder groups on the challenges arising as financial reporting continues to evolve to meet the changing needs to users. The Feedback Statement provides an overview of the key messages heard and provides thoughts and recommendations on what can be done to address them. To address some of the issues identified, respondents have called for more auditing guidance in certain areas. However, the majority of the respondents were of the view that some of the more important issues could not be addressed by the IAASB on its own, but would require international collaboration and cooperation, particularly with both the accounting standard setters – including the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB).

For a soft copy of the Feedback Statement, refer to:

<http://www.ifac.org/sites/default/files/publications/files/IAASB%20Feedback%20Statement-Nature%20of%20Financial%20Reporting.pdf>

For a hard copy of the Feedback Statement, refer to Agenda Item 12(c).2

## 3. **Economic conditions continue to challenge preparers and auditors alike: focus must include going concern assumption and adequacy of disclosures**

In light of the current environment, the IAASB reminds auditors of their important responsibilities under the IASs and that the appropriateness of management's use of the going concern assumption is a matter to be considered on every audit engagement. The 2009 IAASB Staff Audit Practice Alert, "Audit Considerations in Respect of Going Concern in the Current Economic Environment," highlights matters relevant to the consideration of the going concern assumption in the preparation of financial statements. Among other matters, it addresses factors relevant to the assessment of going concern; the period of time considered in making a going concern assessment; financial statement disclosures; forming an opinion on the financial statements and the implications for the auditor's report. While this Audit Practice Alert was released in context of the 2008-2009 credit crisis, many of the matters addressed in it are equally relevant today.

For more information, refer to Agenda Item 7(d).

## **CANADA**

### **The Canadian Institute Of Chartered Accountants (CICA)**

#### **1. Withdrawal of Assurance and Related Services Guidelines**

The Auditing and Assurance Standards Board (AASB), subject to comments received following exposure, proposes to withdraw the following Assurance and Related Services Guidelines:

- AUG-19, Audit of Financial Statements Affected by Environmental Matters;
- AUG-32, Electronic Commerce – Effect on the Audit of Financial Statements; and
- AUG-39, Auditing Derivative Financial Instruments.

These guidelines are respectively based on, or cover the same matters in corresponding International Auditing Practice Statements (IAPSs). In September 2011, the IAASB decided to withdraw all existing IAPSs, after concluding that they are largely out of date and potentially misleading since they are not necessarily consistent with the ISAs. The AASB believes that the Guidelines do not provide substantive insightful guidance beyond that which is contained within the relevant Canadian Auditing Standards. In addition, the AASB believes that it would not be appropriate to retain these Guidelines when the corresponding IAPSs have been withdrawn.

AUG-19 and AUG-32 would not be replaced in the near term. The IAASB also decided to withdraw the existing category of pronouncements known as IAPSs and establish a new category of non-authoritative documents – International Auditing Practice Notes (IAPNs). IAPNs are non-authoritative guidance and do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor’s responsibility to comply with all relevant ISAs. The IAASB is expected to issue its first IAPN, IAPN 1000, “Special Considerations in Auditing Financial Instruments,” in early 2012. The AASB plans to adopt IAPN 1000 for use in Canada.

## **2. Reporting Implications of New Auditing and Accounting Standards**

The AASB has adopted International Standards on Auditing as Canadian Auditing Standards (CASs) effective for audits of financial statements and other historical financial information for periods ending on or after December 14, 2010. With the complexities relating to the changes to accounting and auditing standards, the purpose of this Guide is to promote consistency in the form and content of practitioners’ reports by providing guidance with respect to commonly occurring circumstances. The Guide does not amend or override auditing or review standards, nor does it necessarily address all audit reporting changes resulting from the new CASs.

For a copy of the Guide, refer to:

<http://www.aasbcanada.ca/reference-material-for-practitioners/item50999.pdf>

## **3. Requirements related to the dating of auditor’s reports**

A bulletin was issued in response of certain matters identified by practice inspectors and questions received by provincial practice advisors on the interrelationship of various requirements in CASs related to the dating of auditor’s reports. These requirements are, in some cases, different from previous generally accepted auditing standards. CAS 700, *Forming an Opinion and Reporting on Financial Statements*, requires that the auditor’s report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the audit opinion on the financial statements. Also, because the auditor is concerned with events occurring up to the date of the auditor’s report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor’s report on the financial statement.

Depending on the risk assessment, the audit procedures related to subsequent events may involve the review or testing of accounting records or transactions occurring between the date of the financial statements and the date of the auditor’s report. The auditor requests management to correct misstatements accumulated during the audit and since management prepares the financial statements, the adjustments would have to be made before the financial statements are approved by the Board of Directors and before the date of the auditor’s report. If an engagement quality control review is undertaken, CAS 220 *Quality Control for an Audit of Financial Statements* requires the engagement partner to not date the auditor’s report until the completion of the engagement quality control review. Finally, an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor’s report.

For a copy of the Bulletin, refer to:

<http://www.aasbcanda.ca/reference-material-for-practitioners/non-authoritative/item55760.pdf>

## **FRANCE**

### **Compagnie Nationale Des Commissaires Aux Comptes (CNCC)**

There were no significant news for the last two months.

## **GERMANY**

### **Institut der Wirtschaftsprüfer (IDW)**

#### **1. Comments**

The IDW commented on the following:

1. PCAOB's Rulemaking Docket Matter No. 37 "*Concept Release on Auditor Independence and Audit Firm Rotation*";
2. IESBA's Exposure Draft "*Proposed changes to the Code of Ethics for Professional Accountants related to provisions addressing a breach of a requirement of the Code*"; and
3. Comment Letter to the German Government regarding the European system for audits.  
For a copy of the Comment Letter, refer to:  
<http://www.idw.de/idw/portal/d589242>

## **NEW ZEALAND**

### **Matters considered at the NZAuASB meeting on 14 February 2012:**

#### **1. Convergence with international standards and Trans-Tasman Harmonisation of Standards**

To guide its thinking and direction to achieving greater convergence with international and Trans-Tasman standards, the NZAuASB has developed an overarching strategy that sets out the principles of convergence and harmonisation. Fundamentally, the NZAuASB's strategy is to adopt the equivalent international standards unless there is a compelling reason to vary from international practice. The NZAuASB will continue to work closely with the AUASB to develop a joint policy on standards.

#### **2. Internal Control Engagements**

The NZAuASB agreed to commence a joint project with the AUASB to issue a new Standard on Assurance Engagements for engagements to report on controls and approved a draft Project Plan which will also be considered at the AUASB meeting on 27 February 2012. The objective of the project is to revise an existing Australian Standard AUAS 810 *Special Purpose Reports on the Effectiveness of Control Procedures*. There is currently no equivalent standard in New Zealand.

For more information, refer to:

[http://www.xrb.govt.nz/Site/News/NZAuASB\\_Communique/NZAuASB\\_Communique\\_4\\_21\\_Feb\\_2012.aspx#project](http://www.xrb.govt.nz/Site/News/NZAuASB_Communique/NZAuASB_Communique_4_21_Feb_2012.aspx#project)

## **SOUTH AFRICA**

### **Independent Regulatory Board for Auditors (IRBA)**

#### **1. Issue of circulars, Assurance Engagements and Auditing Practice Statements**

IRBA issued the following:

1. Circular 4/2011 “*Illustrative Reportable Irregularity Letters for Independent Reviews*”, issued December 2011.  
For a copy of the circular, refer to:  
[https://www.saica.co.za/Portals/0/Technical/auditing/documents/Circular\\_4\\_2011.pdf](https://www.saica.co.za/Portals/0/Technical/auditing/documents/Circular_4_2011.pdf)
2. *Proposed South African Standard on Assurance Engagements (SASAE) 3502 Assurance Engagements on Broad-Based Black Economic Empowerment (B-BBEE) Verification Certificates (the proposed SASAE 3502)* for public comment by 24 February 2012.  
For a copy of the standard, refer to:  
<http://www.irba.co.za/index.php/b-bbee-verification-assurance>
3. *Proposed South African Auditing Practice Statement (SAAPS) 3 (Revised), Illustrative Reports* for public comment by 24 February 2012.  
For a copy of the Practice Statement, refer to:  
<http://www.irba.co.za/index.php/auditing-standards-functions-55/75?task=view>

## **UNITED KINGDOM**

### **Financial Reporting Council (FRC)**

#### **1. Audit Committee Report**

Open debate and mature questioning are fundamental to the effectiveness of audit committees, according to a new report published jointly by the FRC, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Australia. The main findings from the report are that audit committees owe their primary responsibility to the board and work best when they are an integrated part of the board process, that audit committee members need sound commercial and financial knowledge but not necessarily deep accounting knowledge and that audit committees need high-quality and reliable information to fulfil their role and have an important responsibility in the selection of those responsible for delivering that information.

For a copy of the Audit Committee Report, refer to:

[http://www.frc.org.uk/images/uploaded/documents/WALK%20THE%20LINE\\_final%20030212.pdf](http://www.frc.org.uk/images/uploaded/documents/WALK%20THE%20LINE_final%20030212.pdf)

For a hard copy of the Audit Committee Report, refer to Agenda Item 12(c).3

#### **2. Corporate Governance: Comply or explain**

The FRC has taken steps to promote a better understanding of explanations under its ‘comply or explain’ approach to corporate governance in a paper published today. The paper, which is based on discussions between senior company and investor representatives facilitated for the FRC by the London Business School, notes a very high level of compliance with the UK Corporate Governance Code. It says that a large majority of companies who do not comply with one or more provisions of the Code provide a full



explanation of their reasons. However, a minority do not and the paper is intended to help address this by setting out clearly what practitioners expect.

For a copy of the report on the discussions, refer to: <http://www.frc.org.uk/images/uploaded/documents/Explanations%20Paper%20Feb%202012.pdf>

## **Auditing Practices Board (APB)**

### **1. Ethical Standards for Auditors**

The APB published two amendments to the Ethical Standards for Auditors. These involve extending until 31 December 2014 the transitional arrangement for tax services provided on a contingency fee basis where contracts were entered into prior to 31 December 2010, and amending the appendix in Ethical Standard 1 to provide a simplified illustrative template for communicating information on audit and non-audit services to those charged with governance which reflects amended UK regulations on auditor remuneration disclosures.

A copy of the Ethical Standards can be located below:  
<http://www.frc.org.uk/apb/publications/ethical.cfm>.

## **UNITED STATES**

### **American Institute of Certified Public Accountants (AICPA)**

There were no significant news for the last two months.

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

#### **1. Assessing and responding to risk in the current economic environment**

The PCAOB has published a Staff Audit Practice Alert to assist auditors in identifying matters related to the current economic environment that might affect the risk of material misstatement in financial statements and, therefore, require additional audit attention. Staff Audit Alert No. 9: Assessing and Responding to Risk in the Current Economic Environment, updates Staff Audit Practice Alert No. 3, in light of current global economic conditions and recent enhancements to PCAOB standards. The alert is organised into four sections: 1) considering the impact of economic conditions on the audit; 2) auditing fair value measurements and estimates; 3) the auditor's consideration of a company's ability to continue as a going concern; and 4) auditing financial statement disclosures.

For a copy of the staff audit practice alert, refer to:  
[http://pcaobus.org/Standards/QandA/12-06-2011\\_SAPA\\_9.pdf](http://pcaobus.org/Standards/QandA/12-06-2011_SAPA_9.pdf)