



AUASB International Update

Subject: International Update for the period 26 November 2013 to 11 February 2014 inclusive

International Federation of Accountants (IFAC)

- 1 IFAC issued [Guide to Review Engagements](#) on 10 December 2013. The Guide, developed in conjunction with CPA Canada provide guidance to practitioners, particularly in small and medium-sized practices in conducting review engagements in accordance with ISRE 2400 *Engagements to Review Historical Financial Statements* (effective for periods ending on or after 31 December 2013). The Guide covers the fundamentals of a review engagement, and engagement acceptance, planning, performing, and reporting aspects. It also provides checklists, example engagement letters and reports.
- 2 IFAC released the key note speech by Professor Arnold Schilder, Chairman, International Auditing and Assurance Standards “[The Changing Audit Environment](#)” given to the 8th Annual Auditing Conference in New York, USA on 5 December 2013.
- 3 IFAC [welcomed](#) on 10 December 2013 the release of the *International Integrated Reporting Framework* by the International Integrated Reporting Council (IIRC). IFAC is a co-founder of the IIRC. IFAC commented “the Framework is an opportunity for organizations to improve the quality of information provided about governance, strategy, prospects, and performance that reflects the commercial, social, and environmental contexts within which they operate.”
- 4 IFAC released its [December 2013/January 2014 News publication](#) on 15 January 2014.
- 5 IFAC [announced](#) on 1 January 2014 that New Zealand Treasury has adopted IFAC Guidance *Evaluating and Improving Internal Control in Organizations* for a Government-wide Internal control assessment of the public sector organisations in New Zealand. The assessment was conducted for the year ended 30 June 2013.
- 6 IFAC [issued](#) on 31 January 2014 a joint IFAC/Institute of Chartered Accountants of Scotland (ICAS) paper titled: [Do We Need a Roadmap for Financial Reporting](#). This was in response to the recent International Accounting Standards Board (IASB) Discussion Paper: *Conceptual Framework for Financial Reporting*.

International Audit and Assurance Standards Board (IAASB)

- 1 The IAASB [issued](#) on 9 December 2013 revised Standard on Assurance Engagements [ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#). It is effective for assurance engagements when the assurance report is dated on or after 15 December 2015. Also issued was conforming amendments to *International Framework for Assurance Engagements* and related assurance standards ISAE 3402 *Assurance Reports on Controls at a Service Organization*, ISAE 3410 *Assurance Engagements on Greenhouse*

Gas Statements and ISAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus.

- 2 The IAASB [released](#) on 19 December 2013 for comment its consultation paper: [Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016](#). Comments are invited by 4 April 2014.
- 3 The IAASB issued its [December 2013 board meeting highlights and decisions](#) from its meeting held on 9-13 December 2013. Topics covered included:
 - (a) Audit Quality – *A Framework for Audit Quality: key Elements that Create an Environment for Audit Quality* was approved for issue and is expected to be issued by the end of January 2014.
 - (b) Future Strategy and Work Program – *Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016* was approved for public consultation, with comments requested by 4 April 2014.
 - (c) Auditor Responsibilities Relating to Other Information – further discussions on the proposed revised standard ISA 720 *The Auditors Responsibilities Relating to Other Information* were conducted, including the objectives of the auditor, the ISA’s scope, the auditor’s work effort and reporting. The IAASB expects to approve the revised standard at its March 2014 meeting.

Public Interest Oversight Board of IFAC (PIOB)

- 1 The 37th board meeting [summary](#) of the PIOB meeting held on 22-23 November 2013 was published late November 2013.

International Ethics Standards Board for Accountants (IESBA)

- 1 The IESBA released on 23 December 2013 its December 2013 [enews](#) publication. Topics covered included the recent release, for public consultation, the *IESBA Strategy and Work Plan 2014-2018* (comments invited by 28 February 2014); the long association of senior audit personnel with an audit client, revisions to the Ethics code including those related to preparation and reporting of information, non-assurance services, and revised proposals re the recent Exposure Draft: *Responding to a Suspected Illegal Act*.

New Zealand

New Zealand Auditing and Assurance Standards Board (NZAuASB)

[Communique](#) of 5 December 2013 Board meeting issued on 13 December 2013

Matters considered included:

- 1 Amendments to the ISAs (NZ) were approved in respect of the use of “management” and “those charged with governance” terms. This was to more closely align their use with equivalent international and Australian standards, as well as clarify expectations in respect of current statutory responsibility of “those charged with governance”.

- 2 Approved the final submission to the IAASB's exposure draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*.
- 3 Approved for issue Exposure Draft NZAuASB 2013-6 ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Communique issued on 19 December 2013

- 1 The NZAuASB announced the issue of two new review engagements standards: International Standard on Review Engagements ISRE (NZ) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* and ISRE (NZ) 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. The new standards supersede Review Standard 1 and are effective for financial statement reviews for period ending on or after 31 December 2014. Early adoption is permitted.
- 2 Amended ISA(NZ) Standards related to the alignment of the terms "management" and "those charged with governance" with equivalent international and Australian standards, as well as to clarify expectations in respect of current statutory responsibility of "those charged with governance, were issued. The amended standards are effective for audits of financial statements for periods beginning on or after 1 July 2014.

Communique issued on 8 January 2014

- 1 The NZAuASB issued Exposure Draft NZAuASB 2014-1 ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The Exposure Draft contains a number of proposed changes to the international standard based on compelling reasons. The NZAuASB is proposing to withdraw the existing ISAE (NZ) 3000 and replace with the revised ISAE (NZ) 3000 based on this exposure draft, given the number of substantive changes in content and format. Consequent conforming amendments to ISAE (NZ) 3402 *Assurance Reports on Controls at a Service Organisation*, ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements* and ISAE (NZ) 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information Included in a Prospectus or Other Document*, based on the equivalent ISAE were also issued as part of the exposure draft. Comments are requested by 7 April 2014.

United Kingdom

UK Financial Reporting Council (UK FRC)

- 1 A [clarification statement](#) was issued on 28 November 2013 in respect of the application of paragraph 19A of Auditing Standard ISA (UK and Ireland) 700 (revised June 2013) *The Auditor's Report on Financial Statements*. In particular, the clarification relates to auditor's reports of group and parent company financial statements.
- 2 The UK FRC, as a member of the European Audit Inspection Group (EAIG) [announced](#) that it, and independent auditor regulators from 26 other European countries, have launched a non-public common database to collect and exchange their findings from the inspections of 10

of the largest European networks of audit firms. In particular it will be used to “identify common issues in relation to particular networks or the application of particular standards by audit firms in practice.”

- 3 The UK FRC [published](#) on 12 December 2013 for public consultation its [Draft Plan & Budget and Levy Proposals 2014/2015](#). The consultation periods closes on 28 February 2014.
- 4 A report was published on 16 December 2013 titled: [Audit Quality Thematic Review-Materiality](#). This report was based on the 2013 findings of a review undertaken by the UK FRC Audit Quality Review (AQR) team into the auditor’s consideration and application of materiality. Principal findings of the report, which have relevance for audit firms and audit committees included improvements that could be made in the areas of:
- (a) identifying appropriate materiality benchmarks, setting overall, performance and individual account balances, classes of transactions and disclosures materiality levels
 - (b) the impact of materiality on audit work, group audits unadjusted misstatements;
 - (c) revisions to materiality
 - (d) communications with the audit committee
 - (e) “clearly trivial” misstatements
- 5 A publication was [issued](#) on 19 December 2013 titled [Developments in Corporate Governance 2014: The impact and implementation of the UK Corporate Governance and Stewardship Codes](#). Its three main purposes are to:
- (a) Report on the quality of compliance with, and reporting against, the UK Corporate Governance and Stewardship Codes and on regulatory and other developments in the UK listed sector in 2013;
 - (b) To give the UK FRC’s assessment on the quality of engagement between companies and investors; and
 - (c) To indicate to the market whether the UK FRC considers further efforts are needed to bring necessary improvements in governance and stewardship.
- The report found a high level of compliance with the new *UK Corporate Governance Code* recommendations of 2010 among the FTSE 350 companies, with some smaller and mid cap companies also provide many good examples of reporting. In respect of stewardship, the quality of reporting remains variable by its signatories (now approximately 300 – two-thirds of which are asset managers) with nearly half not yet updating their public statements. Consequently, the UK FRC is considering mechanisms for ensuring the statements are complete and up to date. Further, the UK FRC noted positive signs of growing demand from owners for their investment managers to apply a stewardship approach.
- 6 An [article](#) was published, prepared by the UK FRC’s CEO on 19 December 2013 commenting on the EU audit reform agreement in respect of the regulation of larger audit firms.
- 7 An [illustrative Irish auditor’s report](#) was published on 29 January 2014 to update existing Example 14 in *Bulletin 1(I) Compendium of Illustrative Auditor’s Reports on Irish Financial Statements*. This is due to the changes in the requirements of ISA (UK & Ireland) 700 (Revised June 2013) made in October 2012 and June 2013.

- 8 Guidance was [issued](#) on 30 January 2014 titled [Practice Note 14 – The audit of housing associations in the United Kingdom](#). The guidance contains background information about this economically important regulated sector, a description of the four devolved regulatory regimes in place, a description of generic business risks that could adversely affect a Housing Association, and a discussion of audit risks for the auditor’s consideration.
- 9 The UK Financial Reporting Lab (the Lab) published an article on 31 January 2014 setting out [Reminders for the reporting season](#). The summary brings together key findings from reports previously issued by the Lab on audit committee reporting, remuneration reporting, presentation of market risk disclosures, debt terms and maturity tables, net debt reconciliations and operating cash flows.

The UK Competition Commission (UK CC)

- 1 There have been no developments related to audit and assurance to report in the period.

Institute of Chartered Accountants in England and Wales (ICAEW)

- 1 There have been no developments related to audit and assurance to report in the period.

Institute of Chartered Accountants in Scotland (ICAS)

- 1 There have been no developments related to audit and assurance to report in the period.

International Integrated Reporting Council (IIRC)

- 1 The IIRC issued on 9 December 2013 a [News Alert](#) announcing the release of the *International Integrated Reporting Framework* (IIRF). The IIRF applies “principles and concepts are focused on bringing greater cohesion and efficiency to the reporting process and adopting integrated thinking as a way of breaking down internal silos and reducing duplication. It improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. Its focus on value creation, and the ‘capitals’ used by the business to create value over time, contributes towards a more financially stable global economy and is a force for sustainability.”
- 2 The IIRC issued on 31 January 2014 its [January e-newsletter](#).

United States

American Institute of Certified Public Accountants (AICPA)

- 1 A link was published on 9 December 2013 to a thought piece that appeared in the Journal of Accountancy titled: [Effects of non-audit services at audit firms concern PCAOB, SEC](#).
- 2 An article was published on 10 December 2013 titled: [PCAOB to consider quality-control standard](#). The PCAOB representative was quoted as saying “this would be the subject of PCAOB discussion in 2014, and that this could lead to a new auditing standard”, given that “current quality control standards are seen as not appropriately addressing several matters that

are important to audit quality”. An audit quality conceptual release that represents a holistic framework approach to audit firm quality controls is planned to be issued as part of this process, seeking public comment on ways to address audit firm quality controls.

- 3 A link was published on 11 December 2013 to a thought piece that appeared in the Journal of Accountancy titled: [CAQ suggest streamlining proposed auditor reporting duties](#). This piece comes after recent PCAOB proposals to make sweeping changes to the auditor’s reporting model. The CAQ is quoted as supporting the PCAOB proposals, and making further suggestions to improve the proposal. These included streamlining the audit process for determining critical audit matters, revising the auditors’ report to describe the audit’s responsibility for other information and recommending that the auditor’s report should not include a disclosure of the audit firm’s tenure with the client.
- 4 A link was published on 20 December 2013 to a thought piece that appeared in the Journal of Accountancy titled: [EU audit reforms “raise serious concerns” for the CAQ](#).

Public Company Accounting Oversight Board (PCAOB)

- 1 It was [announced](#) on 4 December 2013 that the PCAOB had repropoed for public comment, various PCAOB Auditing Standard amendments. These amendments are aimed at providing greater transparency into public company audits, and those of brokers and dealers by requiring disclose in the auditor’s report of the engagement partners name and the names, locations and extent of participation of other public accounting firms, and other persons not employed by the auditor, in the audit process. Further details are contained in a [fact sheet](#) produced by the PCAB. Public comments are requested by 3 February 2014.
- 2 A [report](#) on the implementation and compliance of registered audit firms with Auditing Standard No. 7 *Engagement Quality Review* was issued on 6 December 2013. The report was based on the PCAOB’s 2011 inspections conducted of 213 domestic and non-U.S registered public accounting firms and approximately 820 audit engagements. Key findings of the report included that firms’ methodologies were generally consistent with the requirements of the Standard but “they did not always result in an appropriately executed engagement quality review.” Additionally where audit deficiencies were identified, it was concluded that they should have been identified by the engagement quality reviewer.
- 3 The PCAOB [announced](#) on 4 December 2013 that amendments, as well as certain updates and clarifications, were approved by the PCAOB, “to tailor certain of its rules to the audits and auditors of brokers and dealers registered with the Securities and Exchange Commission (SEC) as authorized by the *Dodd-Frank Wall Street Reform and Consumer Protection Act*.” The changes represent another step in the PCAOB’s implementation of its responsibilities to oversee registered firms that audit brokers and dealers registered with the SEC, as set out in the Act, and, subject to SEC approval of the changes, are effective 1 June 2014. Consequential amendments to related PCAOB Forms will take effect later in 2014.

Center for Audit Quality (CAQ)

- 1 A [request for academic research proposals](#) covering key auditing policy issues was published on 6 December 2013. These policy issues include audit committee effectiveness, audit quality indicators, professional scepticism, professional judgment, and value of the audit.
- 2 A statement was published on 11 December 2013 titled: [Updates to the Auditor's Reporting Model Should Be Practical and Add Value](#). This was in response to recent PCAOB proposals to change the auditor reporting model.
- 3 A member alert titled [Select Auditing Considerations for the 2013 Audit Cycle](#) was published on 17 December 2013. The alert (which is published at least annually) "identifies and address some of the more judgmental or complex auditing areas including those that are the focus of regulators." For 2013, these include: internal control over financial reporting, professional scepticism, engagement quality review, accounting estimates (including fair value measurements); substantive analytical procedures and inaccurate or omitted disclosures.
- 4 A statement was published on 19 December 2013 titled: [CAQ Expresses Concern on EU Agreement on Audit Reforms](#). This was in response to news of a preliminary agreement reached by EU Council Presidency, European Parliament and European Commission on the framework for EU audit reforms that would require mandatory firm rotation and prohibit auditors' firms providing most non-audit services to the audited companies. The CAQ was particularly concerned with the perceived impact this could have on audit quality and on U.S companies and or EU companies with U.S subsidiaries.
- 5 The [December 2013 CAQ newsletter](#) was published on 23 December 2013.
- 6 The CAQ published on 30 January 2014 its 2013 [Year in Review](#). The publication covers the key activities and accomplishments of the CAQ during 2013.
- 7 The [January 2014 CAQ newsletter](#) was published on 31 January 2014.

Canada

Canadian Public Accountability Board (CPAB)

- 1 The CPAB [announced](#) in November 2013 that it had entered into a memorandum of understanding concerning consultation, cooperation and the exchange of information with the Ontario Securities Commission.
- 2 The CPAB, [released](#), for public consultation on 13 January 2014 a proposed *Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees*. A key recommendation of the Audit Committee working group of the Enhancing Audit Quality Initiative was that such a protocol be developed to increase the inspection information available to Audit Committees. Comments on the proposal are requested by 24 January 2014.

Auditing and Assurance Standards Oversight Council (AASOC)

- 1 On 9 December 2013, the AASOC published its [2012-2013 public report](#). This report highlights the AASOC's activities for the year ending 31 August 2013.

Canadian Auditing and Assurance Standards Board (CAASB)

- 1 A [decision summary](#) was published on 17 December 2013 of the decisions made at the 2-3 December 2013 board meeting. Matters discussed included the IAASB's project on the audit of financial statement disclosures and their revision of ISA 720 *The Auditor's Responsibilities Relating to Other Information*. Assurance and Related services standards discussed included revising and clarifying special reporting standards including: Section 5020 *Association* and Sections 5800 *Special Reports – Introduction*, 5815 *Special Reports – Audit Reports on Compliance with Agreements, Statutes and Regulations*, 8100 *General Review Standards* and 8600 *Reviews of Compliance with Agreements and Regulations*. Also discussed was the project involving the revision of an appendix in CAS 501 *Audit Evidence-Specific Considerations for Selected Items* related to communications with law firms regarding claims and possible claims in connection with the preparation and audit of financial statements.
- 2 The [Standards Digest](#) publication was issued on 1 December 2013.
- 3 A new Guide (issue No. 11) was published on 15 January 2014 titled: [Reporting Implications of New Auditing and Accounting Standards](#). This publication provides guidance to assurance practitioners on reporting issues that may arise during the current period of change to new auditing and accounting standards.
- 4 A [decision summary](#) was published on 31 January 2014 of the decisions made at the 20-21 January 2014 board meeting. Matters discussed included the project proposal to revise and clarify Section 9100 *Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements*, issues associated with the projects to revise and clarify the Special Reporting Standards (Section 7500 *Auditor's Consent to the Use of the Auditor's Report in Connection with Designated Documents* and Section 5800 *Special Reports – Introduction*, 5815 *Special Reports – Audit Reports on Compliance with Agreements, Statutes and Regulations*, and 8600 *Reviews of Compliance with Agreements and Regulations*). The CAASB also discussed comments received from stakeholders on the recent Exposure Draft of proposed Standard on Related Services CSRS 4460 *Reports on Supplementary Matters Arising from an Audit or a Review Engagement* and agreed to defer the revision Section 7200 *Auditor Assistance to Underwriters and Others*.

Federation of European Accountants (FEE)

- 1 FEE published on 30 November 2013 its [regular e-newsletter \(No.10\)](#).
- 2 A [news release](#) was published on 18 December 2013 regarding the 17 December 2013 announcement by the European Commission, European Union Council Presidency and European Parliament in respect of the European audit reform agreement. Whilst FEE is supportive of the audit reforms efforts, it noted in the release that it was disappointed with certain aspects including options on prohibited non-audit services and the duration of mandatory rotation.

- 3 FEE published on 21 December 2013 its [regular e-newsletter \(No. 11\)](#). Of particular audit significance is the commentary on the recently announced European audit reform agreement and the European audit inspection group (EAIG)'s launch of its pan-European database for compiling the inspection reports for .the 10 largest European network audit firms.
- 4 A [Factsheet](#) was issued on 17 January 2014 covering the *2013 European Union Accounting Directive* (published on 23 July 2013). This Directive is compulsory for EU member states to enact the Directives' provisions via national legislation by 20 July 2015. The Factsheet highlights any significant changes between the Directive and the original 4th and 7th Directives on which it is based, as well as to provide a summary of significant requirements contained in the Directive. Of particular audit significance is the summary of the audit requirements in respect of management reports (previously called annual reports) and the auditing requirements of public interest entities, medium-sized and large companies.
- 5 FEE published on 31 January 2014 its [regular e-newsletter \(No.12\)](#). Of particular audit significance is the reporting of the European Parliament's Legal Affairs Committee (JURI) endorsement of the proposed *Statutory Audit Directive and Regulation* agreed to by the European Commission, the European Parliament and the EU Member States in December 2013.

European Union (EU)

Council of the EU (JURI)

- 1 The Council [announced](#) on 18 December 2013 that agreement had been reached by the European Commission, the European Parliament and the EU Member States on the reform of the audit market. The reform are "aimed at increasing transparency and confidence in the audit market by enhancing the credibility of the audited financial statements of public-interest entities (PIEs), which are companies with a significant public interest because of the nature of their business, their size, their number of employees or their corporate status, including banks, insurance companies and listed companies. In addition, the new rules will facilitate a wider choice of audit providers, in a market that is nowadays highly concentrated in a few big accounting firms." The agreement contains, in particular, new requirements for the mandatory rotation of auditors (being 10 years, with extension possible up to 14 additional years in certain circumstances); the prohibition and restrictions on the provision of non-audit services to audit clients; prohibition of "Big 4 only" clauses in loan agreements; and imposes new rules on the contents of auditor's reports and on auditor's communication with audit committees. The agreement also sets out how the reforms will be monitored through enhanced co-operation measures of EU member states within the framework of the Committee of the European Auditing Oversight Bodies (CEAOB) and paves the way for the creation of a single statutory market for audit services (including harmonisation with international auditing standards).

- 2 The Council issued a press release on 21 January 2014 titled [Reforming EU audit services to restore inventors' confidence](#). This announced that the draft agreement between the European Commission, the European Parliament and the EU Member States had been majority endorsed by the Committee. The Committee noted that the reforms would require auditors in the EU to publish audit reports according to International Auditing Standards; that the EU audit market would be more open to competition and improve its transparency, and that lastly it would preclude potential conflicts of interest and threats to auditor independence through the prohibition of non-audit services to audit clients.

European Parliament (EP) of the EU

- 1 There have been no developments related to audit and assurance to report in the period.