



**International Auditing and Assurance AUASB Board update
June 2013** (covering the period 1 March 2013 to 11 June 2013)

INTERNATIONAL AUDIT AND ASSURANCE STANDARDS BOARD (IAASB)

1. The IAASB and the Chinese Auditing Standards Board announced on 18 February 2013 that China had affirmed their support of the efforts of IFAC and the IAASB in promoting international convergence of auditing standards
2. The IAASB released on 8 March 2013 a draft of its 2015-2019 [Strategic review](#) for constituent comment, insights and views to help the IAASB shape its future direction. Comments are Constituent through the completion of an [on-line survey](#). The IAASB has requested comments by 7 May 2013.
3. The IAASB issued on 19 March 2013 revised International Standards on Auditing [ISA 610 \(Revised\) Using the Work of Internal Auditors](#) and an accompanying [news release](#). The revised Standard contains new requirements and guidance addressing the auditor's responsibilities if using internal audit to "provide direct assistance under the direction, supervision and review of the external audit for purposes of the audit".
The IAASB issued at the same time its [Basis of Conclusions](#) document relating to the newly revised and re-issued Auditing Standard ISA 610 *Using the Work of Internal Audit*.
4. The International Ethics Standards Board, in conjunction with the revised ISA 610 Standard issue, also released on 19 March 2013 [amendments](#) to the IESBA's *Code of Ethics for Professional Accountants* covering the definition of the "engagement team". The amendments clarify the "relationship between internal auditors providing direct assistance and the meaning of an engagement team under the Code.
5. The IAASB released on 27 March 2013 its regular [e-news](#) bulletin summarising the activities of the IAASB.
6. Refer Agenda Item 10(c).2 for the IAASB's April 2013 meeting [highlights](#) and decisions.
7. The IAASB released on 22 April 2013 a transcript of Prof. Arnold Schilder's piece [Recent Developments in Auditing: The Importance of Audit Quality and Auditor Reporting](#), as featured on Hawkamah, the Institute for Corporate Governance website.
8. The IAASB released on 7 June 2013 its [2012 Annual Report – Responding to the Needs of an Interconnected World](#). The report covers the IAASB's 2012 activities including all new and enhanced international standards and other publications, its progress on current standard-setting projects and related initiatives, and the results of its consultations and outreach activities with stakeholders to obtain feedback on its proposals and activities.

INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)

1. IFAC issued on 18 March 2013 its [submission](#) made to UK Competition Commission in respect of the *Statutory Audit Services Market Investigation Notice of Possible Remedies*.
2. IFAC issued a [press release](#) on 16 April 2013 applauding the release of the proposed International Integrated Reporting Framework by the International Integrated Reporting Council (IIRC). IFAC is a co-founder of the IIRC and has been actively involved in the Framework's development.
3. IFAC issued a press release on 16 May 2013 on the outcome of a recent conference held in London in respect of [Adoption and Implementation of International Standards in the Former Soviet Republics in Europe and Central Asia](#).

Public Interest Oversight Board (PIOB) of IFAC

1. The PIOB issued in March 2013 its [recommendations](#) in response to consultation feedback received on its previously issued proposed *PIOB Work Program for 2012 and Beyond*. The proposed Work Program covered its oversight activities for the IAASB, International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB).
2. The PIOB issued in May 2013 its Eighth Public Report – [Evolution and Progress](#) in respect of its 2012 monitoring and oversight activities.

NEW ZEALAND (New Zealand Auditing and Assurance Standards Board (NZAuASB))

1. The NZAuASB issued on 2 April 2013 [Exposure Draft 2013-3](#) “*Use of Management and Those Charged with Governance*”. Comments are invited from interested stakeholders on the proposed changes by 1 July 2013. The proposed changes address current differences in terminology used in the suite of ISAs (NZ) as compared to that used in the ISAs and the Australian ASA and are in line with the joint policy and strategy the NZAuASB has with the AUASB on convergence of local standards with the equivalent international standards in each jurisdiction.
2. The NZAuASB issued on 8 April 2013 revised [ISA \(NZ\) 610 Using the Work of Internal Auditors](#) and revised [ISA \(NZ\) 315 Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment](#). The revisions are in line with recent changes made to ISA 610 *Using the Work of Internal Auditors* and ISA 315 *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment* (ISA 610) issued by the IAASB. These revisions related to incorporating requirements and related guidance on situations where direct assistance by an entity’s internal audit function is allowed to be provided to the external auditor. Revised ISA (NZ) 610 is effective for audits of financial statements for periods ending on or after 15 December, except for material shaded in grey pertaining to the use of internal auditors to provide direct assistance which is effective for audits of financial statements for periods ending on or after 15 December 2014. Revised ISA (NZ) 315 is effective for audits of historical financial statements for periods ending on or after 15 December 2013.
3. The NZAuASB also issued, in conjunction with the revised ISA 610 (NZ) Standard, amendments to the [Professional and Ethical Standards \(PES\) 1](#) (Revised). The amendments clarify the relationship between internal auditors providing direct assistance and the meaning of “engagement team” under PES 1.
4. The NZAuASB approved at its Board meeting on 3 April 2013, two projects:
 - (a) *Impact of the changes to the financial reporting framework on the auditing standards in New Zealand*. This project is “to identify and address issues arising from the change to the financial reporting framework and proposed legislative changes that impact on the auditing standards in New Zealand;” and
 - (b) *Explanatory Guide on Audit Implications of the Use of Service Organisations for Investment Management Services*. This project is “to develop an explanatory guide based on the Australian Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*.”
5. The NZAuASB published on 9 April 2013 a [summary](#) of the main matters considered at the 3 April board meeting.
6. The NZAuASB has issued its [reformatted ISA \(NZ\) suite of standards](#). These standards were reformatted to “clearly indicate where a NZ requirement had been added to the equivalent international standard (ISA) by marking the addition in the ISA (NZ) as an NZ paragraph; and by

adding conformity to international standards and a comparison to Australian standards to the ISA (NZ).” Marked up versions of all documents that show the difference between the ISAs’ (NZ) and the ISAs are expected to be released by the NZAuASB on the XRB website shortly to clearly show the amendments made to the ISAs for use in New Zealand.

7. The NZAuASB, on 12 April 2013, issued Exposure Draft [NZAuASB 2013-4 Amendments to the International Standards on Auditing \(New Zealand\) to Promote Improved Audit Quality](#). The proposed amendments are to the NZ Standards in limited circumstances where the NZAuASB has identified compelling reasons for them to be modified. Comments are invited from interested stakeholders on the proposed changes by 15 July 2013.
8. The NZAuASB published on 24 May 2013, a [summary](#) of the main matters considered at the 22 May board meeting. Matters considered included respondent comments received on Exposure Draft ISRE (New Zealand) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* and ISRE (New Zealand) 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* and a draft of proposed Explanatory Guide EG Au8 *Audit Implications of the Use of Service Organisations for Investment Management Services* (based on the AUASB’s GS 007 of the same title). The Board also discussed and agreed to explicitly identify in the ISAs (NZ) the accounting standards that have been used to prepare the audited financial statement. An exposure draft incorporating this change will be presented for consideration at the July meeting.

UNITED KINGDOM

Financial Reporting Council (UK FRC)

1. The UK FRC published on 19 March 2013 its [response](#) to the provisional findings of the UK Competition Commissions’ investigation into competition within the UK statutory audit services market. The [provisional findings](#) of the Commission were released on 22 February 2013.
2. The UK FRC published on 28 March 2013 for practitioners, its [compendium](#) of documents for “Audit and Assurance Standards and Guidance 2013”. The compendium, which is available from UK FRC publications, includes all International Standards on Auditing (UK & Ireland), International Standard on Review Engagements (UK & Ireland) ISRE 2410, Standards for Investment Reporting, Ethical Standards for Auditors, Ethical Standards for Reporting Accountants, as well as selected Practice Notes and Bulletins.
3. The UK FRC issued on 25 April 2013 its [Feedback Statement](#) on the joint EFRAG/ANC/FRC Discussion Paper: *Towards a Disclosure Framework for the Notes*. The Feedback Statement was produced in response to the comments received from respondents to its July 2012 Discussion Paper of the same title. The UK FRC noted a general level of support for the Discussion Paper’s contents and agreement that immediate action was required to address the quality of financial statement disclosures and that a more consistent and rational approach be developed by all stakeholders to disclosures.
4. The UK FRC issued on 1 May 2013 its [Plan and Budget for 2013 to 2016](#).
5. The UK FRC published on 29 May 2013 its [Audit Quality Inspections Annual Report for 2012/2013](#). Highlights of the report included: an improvement in the overall standard of audit work and in the use of professional scepticism. It was noted that this was not spread uniformly across all firms and entity types, and consequently further improvements were necessary to ensure more uniformity and consistency of results achieved.
6. The UK FRC published on 31 May 2013 its annual [Audit Quality Inspection Reports for Deloitte LLP, Ernst & Young LLP, KMPG LLP and PricewaterhouseCoopers LLP](#) for 2012/2013.

This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

7. The UK FRC issued on 4 June 2013 revised auditing standard [ISA 700 \(UK and Ireland\) *The Independent Auditor's Report on Financial Statements*](#). It is effective for audits of financial statements for periods commencing on or after 1 October 2012. The changes are designed to enhance the transparency of the auditor's report with the aim of providing better communication to investors by requiring auditors reporting on companies which apply the UK Corporate Governance Code to explain more about their work including: the audit scope and how it addresses risk and materiality considerations, describing risks with the greatest impact on overall audit strategy and allocation of audit resources and focus of engagement team effort, and explaining how the materiality concept was applied in planning and performing the audit.
8. The UK FRC [announced](#) on 6 June 2013 its intention to adopt certain feedback received from its recent Consultation Paper *Implementing the Recommendations of the Sharman Panel – Reviewed Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland)*. In particular, the UK FRC has agreed to issue separate, simplified guidance for SMEs, and consider changes to the UK *Corporate Governance Code* to make clearer the distinction as to the meaning of going concern in the context meant by the Sharman Panel and the link between the assessment of business viability risks and the broader risk assessment of the company's normal risk management and reporting processes. The UK FRC will further consult on these proposed changes later this year.

The U.K Competition Commission

1. The Competition Commission [published](#) in April and May 2013 the responses it received to provisional findings report in respect of the statutory audit services market investigation.
2. The Competition Commission published on 5 June 2013 a [Notice of a further possible remedy under Rule 11 of the Competition Commission's Rules of Procedure](#) in respect of its statutory audit services market investigation. The Commission is seeking feedback on the notice by 19 June 2013. The notice proposes that the FRC being given a secondary duty to promote competition between firms providing auditors to FTSE 350 companies. The FRC would be required to carry out its primary duties in a way which, so far as possible, promoted competition between firms providing audit services to FTSE 350 companies. If the notice is approved, a special resolution would be required to amend the FRC corporate objectives to add this new duty.

Institute of Chartered Accountants in Scotland (ICAS)

The ICAS issued a new Discussion Paper on 2 May 2013 [Balanced and Reasonable](#). This paper recommends the provision of positive assurance on management commentary within the annual report. It provides detailed overview of the concept, defines key terms, sets out how to perform audit required to provide positive assurance and provides example audit opinions. Comments are invited to be received by 31 October 2013.

INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)

1. The IIRC published in March 2013 a further [background document](#) of the Business Model in respect of financial reporting in the lead up to the issuance of the Consultation Draft of the International IR Framework document. The document was prepared in conjunction with the Chartered Institute of Management Accountants (CIMA), the International Federation of Accountants (IFAC) and PricewaterhouseCoopers (PWC).
2. The IIRC launched on 16 April 2013 the [Consultation Draft of the International IR Framework](#) for constituent comment. The exposure period will run for 90 days until 15 July 2013. The IIRC are calling on all interested stakeholders to comment. The Integrated Reporting (IR) Framework is principles-based and provides an overview of the framework (including key definitions and

objectives) as well as fundamental concepts and guiding principles on the preparation and presentation of an integrated report in accordance with the Framework.

THE COMMITTEE OF SPONSORING ORGANISATIONS OF THE TREADWAY COMMISSION (COSO)

COSO [announced](#) on 20 March 2013 that its Board had approved an update to *Internal Control-Integrated Framework: 2013* (Framework) and that it expects to issue the update on 14 May 2013. The issuance will also include a volume of Illustrative Tools for Assessing Effectiveness of a System of Internal Control. Coinciding with this issuance will be a new document that COSO have developed: *Internal Control over External Financial Reporting: A Compendium of Approaches and Examples*, which has been developed to assist users when applying the Framework to external financial reporting objectives.

UNITED STATES

American Institute of Certified Public Accountants (AICPA)

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

Public Company Accounting Oversight Board (PCAOB)

1. The PCAOB [announced](#) on 1 March 2013 twenty new and re-appointed members of its Investor Advisory Group (IAG). The IAG provides members' views and advice to the PCAOB on matters affecting investors and makes recommendations on how the Board address such matters.
2. The PCAOB issued on 24 April 2013 a [Policy Statement on Extraordinarily Cooperation in Connection with Board Investigations](#). This statement explains what the PCAOB considers "extraordinarily co-operation" to be as well as the benefits that may be available to registered public accounting firms and individuals who provide "extraordinarily co-operation" during PCAOB investigations.
3. The PCAOB [announced](#) on 26 March 2013 a proposed reorganisation of its Auditing Standards as well as certain related amendments to its rules and standards. It involves re-organising the Board's existing interim and PCAOB issued standards into a topical structure with a single integrated numbering system that follows the flow of the audit process. This includes grouping the standards into the following categories: general auditing standards, audit procedures, auditor reporting, matters relating to filings under federal securities laws and other matters associated with audits. Comments on the proposed re-organisation are due by 28 May 2013.
4. The PCAOB [announced](#) on 7 May 2013 that it would re-propose Auditing Standard *Related Parties* and related amendments to other Auditing Standards. Comments on the re-proposed Standards close on 8 July 2013. The amendments proposed seek to enhance the auditors work in identifying and evaluating any significant unusual transactions that may be recorded within the company's financial statements. It also seeks to increase the auditor's focus on the financial statement disclosures of the company's relationships and transactions with related parties. The re-proposed standard would supersede the Board's existing Auditing Standards Au Sec. 334 *Related Parties*. The re-proposed amendments would also amend other auditing standards including Au sec. 316, *Consideration of Fraud in a Financial Statement Audit* and Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*.
5. The PCAOB [announced](#) on 24 May 2013 that it had entered into a Memorandum of Understanding (MOU) on Enforcement Cooperation Agreement with the Chinese Securities Regulatory Commission (CSRC) and Ministry of Finance (MOF). The MOU "establishes a co-operative framework between the parties for the production and exchange of audit documents relevant to investigations in both countries' respective jurisdictions". In addition, the parties are

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in continuing discussions on permitting joint inspections of Chinese audit firms registered with the PCAOB and of Chinese companies that trade on the U.S. stock exchanges.

Financial Accounting Standards Board (FASB)/Center for Audit Quality (CAQ)

1. The CAQ issued on 8 May 2013 a new report [Global Observations on the Role of the Audit Committee](#). The report highlights observations obtained during a series of roundtable discussions held in Brussels, Hong Kong and New York City which were co-sponsored by Federation of European Accountants (FEE), the Institute of Chartered Accountants in Australia (ICAA) and the CAQ. The CAQ hope that the report further advances international discussion and considerations of the observations provided in the roundtables in respect of audit committee roles, responsibilities and practices.
2. The CAQ issued on 10 May 2013 a new report [An Analysis of Alleged Auditor Deficiencies in SEC Fraud Investigations 1998–2010](#). The CAQ had commissioned the report based on the fraud cases identified in a previously issued report *Fraudulent Financial Reporting: 1998-2007, An Analysis of U.S Public Companies* (produced by COSO and independent authors). From the research, the report identified four overarching themes in the areas of auditor deficiencies: due professional care, professional scepticism, risk assessment and adequate responses to identified risks. It also identified a number of insights to “enhance understanding of the audit process and strengthen the execution of procedures performed to lower the incidence of undetected fraudulent financial reporting”. A noteworthy report finding is that “SEC allegations of financial reporting frauds are rare, albeit serious, events and that the large majority do not involve sanctions against public company auditors”.

CANADA

Canadian Public Accountability Board (CPAB)

The Canadian Public Accountability Board (CPAB) released its 2012 public report [Effective Regulation-Sustainable Solutions](#) on 18 April 2013. The report concludes that “investors should continue to have confidence in the integrity of public company financial statement audited in Canada”. The report found that 2012 inspection results generally showed “overall improvement in audit quality, with a 30 percent decline in audit deficiencies in the audit files we inspected, compared to 2011.”

Auditing and Assurance Standards Oversight Council (AASOC)

The AASOC issued on 23 May 2013 [minutes](#) of its meeting held on 1 March 2013. The AASSOC provides oversight of the Canadian Auditing and Assurance Standards Board’s (CAASB) activities.

Canadian Auditing and Assurance Standards Board (CAASB)

1. The CAASB issued in March 2013 its [Strategic Plan 2013-2016](#). The Strategic Plan is divided into two sections: Section one – Mission, vision and long-term goals and Section two – Goals, objectives and related performance measures.
2. The CAASB published on 6 March 2013 a [decisions summary](#) of its meeting held on 26 February 2013. Matters discussed included:
 - (a) the comments received on Exposure Draft CAS 720 *The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon* as well as draft of the response letter to the IAASB’s Exposure Draft on ISA 720 of the same title; and
 - (b) approval of the changes to CAS 610 *Using the Work of Internal Auditors*. CAS 610 mirrors IAASB’s ISA 610 of the same title and excludes internal auditors who provide

direct assistance from the definition of the engagement team. CAS 610 is effective for years ending on or after 15 December 2014.

3. The CAASB released on 25 April 2013 an [executive summary](#) of the CAASB meeting held on 8-9 April 2013. Matters discussed included the status of the IAASB's projects on auditor reporting, financial reporting disclosures as well as the CAASB's own standards. The CAASB discussed changes to existing Auditing Standard Section 7500 *Auditor Review of Interim Financial Statements*, developing a new standard on other reporting when no assurance is provided, Canadian specific considerations related to proposed amendments to the IAASB's ISAE 3000 *Assurance Engagements Other Than Audits or Review of Historical Financial Information*) and gave approval to release an Exposure Draft for the re-issuance of CSRE 2400 *Engagements to Review Historical Financial Statements*.
4. CAASB released on 10 May 2013:
 - (a) an [executive summary](#) of the AASB meeting held on 3 May 2013. Matters discussed included a draft of the proposed response letter to the IAASB's Consultation Paper "Audit Quality: An International Framework" and the IAASB's future strategy survey. The CAASB also discussed issues related to the proposed new Standard on other reporting when no assurance is provided, and expects to approve the Exposure Draft at its June 2013 meeting.
 - (b) the [Basis for Conclusions – Revised CAS 610, Using the Work of Internal Auditors](#).
5. The CAASB and the Institute of Chartered Accountants in Australia (ICAA) have jointly issued on 27 May 2013, a new Guide [Practical Ways to improve the Exercise and Documentation of Professional Scepticism in an ISA Audit](#). The Guide is designed to provide members with a practical reference tool that provides examples on how engagement team members demonstrate scepticism during the different stages of the audit.

Chartered Professional Accountants of Canada (CPA Canada) (formerly Canadian Institute of Accountants – CICA)

CPA Canada published a new Guide in April 2013 titled [Reporting Implications of New Auditing and Accounting Standards](#) (issue number 9). The purpose of the Guide is to "promote consistency in the form and content of practitioners' reports by providing guidance with respect to commonly occurring circumstances". The guide is not authoritative and readers are referred to the texts of the relevant auditing or review standards which are authoritative.

FEDERATION OF EUROPEAN ACCOUNTANTS (FEE)

FEE announced on 11 March 2013 that the European Parliament's Committee on Economic and Monetary Affairs (ECON) had issued its [opinion](#) on the proposed Statutory Audit Directive and concurrently its [opinion](#) on the proposed Statutory Audit Regulation for Public Interest Entities (PIE).

EUROPEAN UNION (EU)

Council of the EU

The EU Competitiveness Council issued a [press release](#) on 30 May 2013 to provide an update on a range of matters currently being debated before the European Parliament's Committee on Legal Affairs. These matters included proposed audit policy reform related to the Statutory Audit Directive and Regulation Law. The Council will continue to consider these issues given its members having a number of divergent views on the nature, timing and extent of the reforms.

European Parliament (EP) of the EU

The European Parliament's Committee on Legal Affairs (JURI) [announced](#) on 25 April 2013 that it had majority voted to accept proposed changes to the Statutory Audit Directive and Regulation law. The draft law is in respect of opening up the European Unions' audit services market and improving audit quality and transparency. The draft law included: obliging companies (including public interest entities) to switch auditors regularly (maximum 14 years, with option to increase to 25 years if certain safeguards are met); companies must tender for new auditors; auditors be required to publish auditor reports in accordance with International Standards on Auditing (ISAs), auditors being prohibited from supplying certain non-auditing services and co-operation of national audit oversight bodies on auditor supervision.