



AUASB International Update

This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the period 6 September to 21 November 2011.

International Auditing and Assurance Standards Board (IAASB)

1. Plan for a Post-Implementation Review of the Clarified International Standards on Auditing

This plan is the second phase of the IAASB's efforts to monitor the implementation of clarified ISAs. The review is focused on whether these standards are being consistently understood and implemented in a way that achieves the IAASB's goals in revising and redrafting them. Recognising the broad range of stakeholders that may be interested in providing feedback to the IAASB about the clarified ISAs and their implementation, the IAASB encourages and welcomes input from all interested parties for the purpose of the review.

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

2. Feedback Statement on The Evolving Nature of Financial Reporting

The issue of the impact of evolving financial reporting disclosures on auditors' responsibilities and practices was discussed by the IAASB in 2009 and 2010. In March 2010, the Working Group was established to explore and catalogue the issues and challenges around these disclosures, including related audit implications. In January 2011, the Working Group issued a Discussion Paper which discussed recent trends in financial reporting and their impact on financial report, discussed how the ISAs currently deal with disclosures and focused on audit issues in relation to evidence, materiality, misstatements and auditability that the IAASB had identified regarding disclosures. The Working Group has proposed the publication of a "Feedback Statement" and a brief update on the responses was provided at the September 2011 meeting. Tentative support was given for the idea of developing the "Feedback Statement". A draft "Feedback Statement" will be presented at the December 2011 meeting.

For a copy of associated documents, refer to:

http://www.ifac.org/sites/default/files/publications/exposure-drafts/IAASB-Disclosures_Discussion_Paper.pdf

http://www.ifac.org/sites/default/files/meetings/files/20111205-IAASB-Agenda_Item_10-B_Draft_Disclosures_Feedback_Statement-V1.pdf

CANADA

The Canadian Institute Of Chartered Accountants (CICA)

There were no significant news for the last two months.

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. IAASB's Consultation Paper "*Enhancing the Value of Auditor Reporting: Exploring Options for Change*";
2. IASB's Exposure Draft 2011/3 "*Mandatory Effective Date of IFRS 9*";
3. PCAOB's Consultation Paper on *Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements*;
4. European Commission's Green Paper "*Modernising the Professional Qualifications Directive*"; and
5. IAESB's Exposure Draft Proposed Revised *IES 5, Practical Experience Requirements for Aspiring Professional Accountants*.

SOUTH AFRICA

Independent Regulatory Board for Auditors (IRBA)

1. Audit of Predetermined Objectives

The Committee for Auditing Standards ('CFAS'), a statutory committee of the Independent Regulatory Board for Auditors ('IRBA') has approved the release of this Proposed Guide for Registered Auditors - Audit of Predetermined Objectives (the "Proposed Guide"), for public comment. When performing audit engagements in the public sector, there are additional legal, regulatory and reporting requirements with which a private sector auditor has to comply. In terms of the Public Audit Act, (PAA) the Auditor-General of South Africa (AGSA) and auditors in private practice must provide an audit opinion or conclusion on the reported information relating to the performance of the auditee against predetermined objectives. The Proposed Guide assists private sector auditors with understanding those requirements when performing an audit of predetermined objectives as disclosed in the annual report of entities in the public sector. Performance information is essential to focus the attention of the public and oversight bodies on whether public institutions are delivering public services, by comparing their performance against their budgets and strategic plans. The objective of an audit of predetermined objectives is to enable the auditor to conclude whether the reported performance against predetermined objectives is useful and reliable, in all material respects, based on predetermined audit criteria.

A copy of the document can be located below:

http://irba.co.za/index.php/component/docman/doc_download/1112

UNITED KINGDOM
Financial Reporting Council (FRC)

1. The Sharman Inquiry -Going Concern and Liquidity Risks: Lessons for companies and auditors

The primary purpose of the inquiry was to understand, particularly in the light of the financial crisis, whether going concern and liquidity issues are being appropriately managed and reported and whether, in the context of the FRC's proposals, there is a need for a change in the way these matters are addressed by companies and auditors. The report emanates from the financial crisis and the recommendations aim to capture key lessons from the recent past. The main recommendations coming out of the report are summarised below:

1. The FRC should seek to establish protocols with the Department for Business, Innovation and Skills (BIS) and with other regulatory authorities that will enable the FRC to take a more systematic approach to learning lessons relevant to the scope of its functions when significant companies fail, through assessing the underlying circumstances;
2. The FRC should seek to harmonise and clarify the common purpose of the going concern assessment and disclosure process in the Code and related guidance for directors and auditors;
3. The FRC should review the Guidance for Directors to ensure that the going concern assessment reflects the right focus on solvency risks, not only on liquidity risks, whatever the business, is more qualitative and longer term, and includes stress tests both in relation to solvency and liquidity risks that are undertaken with an appropriately prudent mindset;
4. The FRC should move away from a model where disclosures about going concern risks are only highlighted when there are significant doubts about the entity's survival, to one which integrates going concern reporting; and
5. The APB should consider moving UK auditing standards away from the three category model for auditor reporting to a statement in the auditor's report as to whether the auditor is satisfied that, having considered the directors' going concern assessment process, they have nothing to add to the disclosures made by the directors about the robustness of the process and its outcome.

For a copy of the Sharman Report, refer to:

<http://www.frc.org.uk/images/uploaded/documents/The%20Sharman%20Report%20-%20final%200311111.pdf>

2. Transparency in corporate reporting

According to two new reports published by the FRC, companies should improve the way they report to investors on the key strategic risks facing their businesses. As a result of detailed consultations with companies, investors, auditors and other interested parties, the FRC proposes to ensure that company narrative reports focus primarily on strategic and major operational risks, rather than indiscriminate lists of risks that all companies face. The FRC's proposals on risk are part of a wide-ranging set of measures aimed at improving the quality of company reporting, and increasing the information provided by audit committees and auditors about the work that they have done and the judgements or decisions they have made. The proposals form part of the FRC's response to the financial crisis of 2007 and 2008 and are the result of an extensive process of consultation with market participant.

They include:

- A proposal that the audit committee's remit should be extended to include consideration of the whole annual report and to ensure the report, viewed as a whole, is fair and balanced;
- Amending auditing standards to ensure that auditors always report the outcome of their review of the whole annual report, rather than, as at present, only when they encounter information that is inconsistent with the information contained in the financial statements;
- Establishing a new Financial Reporting Laboratory to remove roadblocks to effective reporting and promote innovation; and
- A proposal to require companies to put their audits out to tender at least once in every ten years, or explain why they have not done so.

For a copy of the two reports, refer to:

<http://www.frc.org.uk/images/uploaded/documents/Boards%20and%20Risk%20final.pdf>

<http://www.frc.org.uk/images/uploaded/documents/ECS%20Feedback%20Paper%20Final1.pdf>

Auditing Practices Board (APB)

1. Bulletin for auditors providing assurance to the Financial Services Authority (FSA) in relation to client assets held by regulated firms

As a result of the financial crisis, the FSA identified a number of failings of regulated firms that held client assets and also raised questions about the quality of Client Asset reports submitted to them by auditors. This led to the FSA increasing its resource devoted to the area by creating a specialist unit focused on firms' compliance with the FSA's CASS Rules. Those rules require regulated firms to hold client money and custody assets separately from their own in order to minimise the risk of loss to clients in the event of the firm's insolvency. The Bulletin provides guidance on the responsibilities of auditors under the revised rules. An auditor is required to provide a report (Client Asset Report) to the FSA on whether the regulated firm has maintained systems adequate to comply with the FSA's client money and custody rules and has, as a matter of fact, complied with those rules.

A copy of the bulletin can be located below:

<http://www.frc.org.uk/apb/publications/pub2644.html>

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. Audit risks in certain emerging markets

The PCAOB has published a Staff Audit Practice Alert to increase auditors' awareness of risks when performing audits of companies with operations in emerging markets. The alert focuses on the risks of misstatement due to fraud that auditors might encounter in audits of companies with operations in emerging markets, auditors' responsibilities for addressing those risks, and certain other auditor

responsibilities under PCAOB auditing standards. The PCAOB has observed from its oversight activities, and companies have reporting in filings with the Securities and Exchange Commission, some conditions and situations in certain companies in emerging markets that indicate to auditors a heightened fraud risk. They include, for example, discrepancies between a company's financial records and audit evidence obtained from third parties, auditor difficulties in confirming cash and receivable balances and the recognition of revenue from contracts or customers whose existence cannot be corroborated.

For a copy of the staff audit practice alert, refer to:

http://pcaobus.org/Standards/QandA/2011-10-03_APA_8.pdf

2. Improved Transparency through disclosure of engagement partner and certain other participants in audits

The PCAOB voted to issue for public comment proposed amendments to its standards that would bring greater transparency to public company audits. The proposal would require registered accounting firms to disclose the name of the engagement partner in the audit report and on the PCAOB Annual Report Form. It would also require disclosure in the audit report of other accounting firms and other persons not employed by the auditor that took part in the audit. The proposal to require disclosure of the name of the engagement partner follows and builds upon a related Concept Release issued by the PCAOB in 2009. After careful consideration, the Board did not include in this proposal a requirement to sign the engagement partner's name on the audit report. Instead, the proposal would require that the engagement partner's name be disclosed in the audit report, which would make the engagement partner's name readily available to the users of the audit report while mitigating concerns about minimising the firm's role in the audit. In addition, the proposal would require the auditor to disclose in the audit report other accounting firms and other persons not employed by the auditor that took part in the audit. The proposed disclosure would enable investors to evaluate the other participants in the audit in the same manner that they evaluate the auditor.

For a copy of associated documents, refer to:

http://pcaobus.org/News/Events/Pages/10112011_OpenBoardMeeting.aspx

3. Auditor Independence and Audit Firm Rotation

The PCAOB has issued a concept release to solicit public comment on ways that auditor independence, objectivity and professional scepticism can be enhanced, including through mandatory rotation of audit firms. Mandatory audit firm rotation would limit the number of consecutive audit years for which a registered public accounting firm could serve as the auditor of a public company. Audit firm rotation has been discussed at various times since the 1970s. The concept release notes that proponents of rotation believe that setting a term limit on the audit relationship could free the auditor, to a significant degree, from the effects of client pressure and offer an opportunity for a fresh look at the company's financial reporting. The concept release also notes that opponents have expressed concerns about the costs of changing auditors and believe that audit quality may suffer in the early years of an engagement and that rotation could exacerbate this phenomenon. The concept release invites stakeholders to respond to specific questions, including, for example, whether the Board should consider a rotation requirement only for audit tenures of more than 10 years or only for the largest issuer audits. The concept release also seeks comment on whether there are other measures that could meaningfully enhance auditor independence, objectivity and professional scepticism. Comments are due on 14 December 2011.