



AUASB International Update

This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the period 17 July 2012 to 3 September 2012.

International Auditing and Assurance Standards Board (IAASB)

There have been no new recent developments.

CANADA

The Canadian Institute Of Chartered Accountants (CICA)

1. Improving the Auditor's Report

The CAASB issued this Invitation to Comment to encourage Canadian stakeholders to provide input on the Invitation to Comment, "Improving the Auditor's Report", issued by the IAASB. The IAASB will use input received as a basis for developing revisions to International Standard on Auditing (ISA) 700, *Forming an Opinion and Reporting on Financial Statements*. The AASB adopts all ISAs issued by the IAASB with limited, if any amendments. For this reason, it is important that Canadian stakeholders provide input on the IAASB's proposals, which may ultimately lead to changes to Canadian standards that affect auditor's reports on the financial statements of entities of all sizes and in both the public and private sectors.

The IAASB's Invitation to Comment sets out the IAASB's proposed direction for the future auditor's report. It reflects the IAASB's deliberations to date on what it has learned from its own research and consultations, and from that of others. The IAASB is consulting at this stage to better understand whether users of the auditor's report – especially investors, but also regulators, preparers and others – would value its proposed changes to auditor reporting. Hearing from all stakeholders at this stage will inform the IAASB's standard-setting proposals in a way that will best serve the public interest.

For a copy of the report, refer to:

<http://www.frascanada.ca/canadian-auditing-standards/documents-for-comment/item66730.pdf>

2. CICA Standards & Guidance Update

The CICA Standards and Guidance Collection on the Internet has been updated to cover the issuance of:

- CAS 315, "*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*", and
- CAS 610, "*Using the Work of Internal Auditors.*"

It also covers the withdrawal of:

- 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*.

FRANCE

Compagnie Nationale Des Commissaires Aux Comptes (CNCC)

There have been no new recent developments.

GERMANY

Institut der Wirtschaftsprüfer (IDW)

The IDW commented on the following:

1. IESBA’s Exposure Draft: Proposed Change to the Definition of “Engagement Team”;
2. IPSASB’s Exposure Draft 47 “Financial Statement Discussion and Analysis”; and
3. IDW Submission to political opinion-makers regarding the topic “Audit requirement for medium-sized companies with limited liability”.

NEW ZEALAND

1. Convergence and Trans-Tasman Harmonisation of Standards

The AUASB and NZAuASB have now finalised their work to develop a consistent policy and strategy on convergence with international standards and the harmonisation of standards across both the Australian and New Zealand jurisdictions. Final adoption of the strategy by both Boards will ensure that there is a clear and consistent message within the Trans-Tasman audit market on the standards and expectations of assurance providers in the performance of assurance engagements.

At its previous meeting the NZAuASB identified a number of instances where it was considered that there may be compelling reasons for the current New Zealand standards to be modified and more closely aligned to the equivalent Australian requirements. The NZAuASB further considered these potential amendments at its August meeting with a view to issuing an exposure draft on the proposed changes in due course.

2. Convergence with international standards

The NZAuASB has now considered a baseline assessment of the current differences between a sample of the equivalent New Zealand and the International auditing and assurance standards. Consideration of differences between the remaining standards is expected to be scheduled for the October NZAuASB meeting. The NZAuASB will also further consider whether formatting changes should be made to the New Zealand standards to clearly indicate how they differ from the international standards and from the Australian standards.

3. Project to adopt ISRE 2400 (Revised): Engagements to Review Historical Financial Statements

The IAASB approved for issue ISRE 2400 (revised) Engagements to Review Historical Financial Statements in June 2012. The NZAuASB approved a project plan at its August meeting to consider the adoption of the international standard in New Zealand. ISRE 2400 has not been adopted in New Zealand and the current review standard (RS-1) is in need of revision. The Board delayed the revision of RS-1 until the release of ISRE 2400 (Revised). The NZAuASB expects to release an ED for comment early in 2013, and to facilitate roundtable discussions to obtain comments from constituents at that time.

4. Project on Auditor Reporting

The NZAuASB considered the IAASB's invitation to comment document on "Improving the Auditor's Report", as well as a draft response to the IAASB proposals. The NZAuASB considered the results of its earlier consultations on the subject with New Zealand constituents during March and April 2012. The NZAuASB intends to further consult with targeted stakeholders between now and the end of September before completing its submission to the IAASB which is due on the 8th of October.

5. Responding to Suspected Illegal Acts

The International Ethics Standards Board for Accountants (IESBA) recently issued an exposure draft on responding to suspected illegal acts. The NZAuASB approved the release of the international exposure draft together with a New Zealand exposure draft and invitation to comment, which proposes adopting, and where appropriate amending, the requirements for application in New Zealand.

6. Proposed Change to the definition of 'those charged with governance'

The International Ethics Standards Board for Accountants (IESBA) recently issued an exposure draft proposing to more closely align the definition of "those charged with governance" in the Code of Ethics with that in the International Standards on Auditing (ISAs), and to eliminate any confusion as to how it is currently defined. The NZAuASB approved the release of the international exposure draft in New Zealand.

SOUTH AFRICA

Independent Regulatory Board for Auditors (IRBA)

There have been no new recent developments.

UNITED KINGDOM

Financial Reporting Council (FRC)

There have been no new recent developments.

UNITED STATES

American Institute of Certified Public Accountants (AICPA)

There have been no new recent developments.

Public Company Accounting Oversight Board (PCAOB)

1. Statement from the Board of the PCAOB on the 10-year anniversary of the Sarbanes-Oxley Act

Since the PCAOB was created 10 years ago by the Sarbanes-Oxley Act, the U.S system of auditor oversight has been fundamentally reformed to better protect investors. The model has spread around the world. The U.S. has the most robust, liquid capital markets in the world and they have propelled the nation to a level of economic development and stature unequalled in human history. These markets work because investors have trust in the financial system and the information it delivers to them.

In 2002, that trust was crumbling due to high-profile corporate scandal and fraudulent financial reporting. Billions in earnings and assets were restated due to intentional accounting errors and manipulation by company management. These failures led to a staggering loss of savings for investors and lost pensions and jobs for many American families. It was time to renew the commitment to integrity in financial reporting and refine the regulatory tools to further the public interest.

In response, Congress passed the Sarbanes-Oxley Act 10 years ago today. Title 1 of that Act created the PCAOB, ending more than 100 years of auditor self-regulation. The Act, and the PCAOB, remind auditors that their duty under the law is to serve, first and foremost, the interests of investors. The achievement of the goals of the Act are essential to the health of the financial system. The PCAOB will continue to serve these objectives by protecting the interests of investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.

2. PCAOB issues release concerning its inspection process

The PCAOB issued a release to provide information to audit committees about its inspection process and the meaning of reported inspection results. The goal is to better equip audit committees of public company boards of directors to engage in meaningful discussion with PCAOB-registered audit firms about the results of inspections. The release provides information about the meaning and significance of PCAOB inspection findings in the context of both engagement reviews and quality control reviews. The release also suggests some specific approaches that an audit committee might consider for initiating or enhancing inspection-related discussions with an audit firm.

The release highlights certain areas of inquiry that audit committees may wish to address with their auditors. These include, for example:

- whether the audit overseen by the audit committee was selected by the PCAOB for an inspection and whether any findings were made;
- potentially relevant inspection findings on other audits performed by the firm;

- the firm’s response to PCAOB findings; and
- the firm’s remedial efforts in light of any quality control deficiencies that may have been identified by the PCAOB.

3. PCAOB adopts Auditing Standard No. 16, Communications with audit committees, and amendments to other PCAOB standards

The PCAOB adopted Auditing Standard No. 16, *Communications with Audit Committees*, and amendments to other PCAOB standards. The standard establishes requirements that enhance the relevance and timeliness of the communications between the auditor and the audit committee, and is intended to foster constructive dialogue between the two on significant audit and financial statement matters.

The standard on communications with audit committees will improve audit quality. It emphasises effective two-way communication on matters of great importance to the audit and the financial statements, such as significant risks, critical accounting estimates, difficult or contentious matters, significant unusual transactions, and going concern. The standard supersedes the Board’s interim auditing standards AU sec. 310, *Appointment of the Independent Auditor*, and AU sec. 380, *Communication with Audit Committees*, and amends other PCAOB standards.

The new standard and related amendments, if approved by the SEC, will be effective for public company audits of fiscal periods beginning after Dec. 15 2012.

4. PCAOB issues report on the interim inspection program for broker and dealer auditors

The PCAOB released its first report on the progress of the interim inspection program for auditors of brokers and dealers, providing an overview of the new program and the audit deficiencies identified in the initial group of inspected audits of brokers and dealers.

In this first look, carried out over a five-month period from October 2011 to February 2012, PCAOB inspectors reviewed 10 audit firms covering portions of 23 audits of brokers and dealers registered with the Securities and Exchange Commission, and identified deficiencies in all of the audits inspected.

The audits inspected were required to be conducted under generally accepted auditing standards issued by the American Institute of Certified Public Accountants, and not under PCAOB standards.

The report, entitled, “Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers,” describes deficiencies observed in the following areas:

- Audit procedures related to the computations of customer reserve and net capital requirements;
- Audits of financial statements; and
- Auditor independence.

Three of the 10 firms were already subject to PCAOB inspection because they audited public companies; seven were newly subject to inspection under the interim inspection program. The audits and firms selected are not representative of all broker and dealer audits, or all auditors for SEC-registered brokers and dealers.

During the interim inspection program, the Board expects to review approximately 100 audit firms covering portions of more than 170 audits of brokers and dealers through 2013. The program is currently designed to cover a cross-section of audits of SEC-registered brokers and dealers. The Board will continue the interim inspection program until new rules for a permanent program are adopted and become effective.

The interim inspection program was implemented one year ago in response to new oversight authority given to the Board over auditors of brokers and dealers registered with the SEC by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The program has two purposes. First, it enables the Board to assess the compliance of registered firms and their associated persons conducting audits of brokers and dealers with the Sarbanes-Oxley Act, Board and SEC rules, and professional standards. Second, it informs the Board's eventual determinations about the scope and elements of a permanent inspection program.