



AUASB International Update

This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the period 1 January to 17 April 2011.

International Auditing and Assurance Standards Board (IAASB)

1. Discussion Paper on *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*

The IAASB has issued *The Evolving Nature of Financial Reporting*, a discussion paper highlighting recent trends in the range, volume, and complexity of financial statement disclosures. It explores issues and practical challenges in preparing, auditing, and using them. The discussion paper is designed to help the IAASB gain a robust understanding of views and perspectives on issues relevant to auditing disclosures in a financial statement audit. It explores a number of issues regarding financial statement disclosures and includes a series of consultation questions. The IAASB is aware that challenges in approaching disclosures do not only affect auditors. Preparers, investors, lenders, creditors, regulators and other users also need to consider their approaches to disclosures. Therefore, although this discussion paper is focused on the implications for auditors, many of the issues are equally relevant for these stakeholders.

A copy of the discussion paper can be located on the AUASB website (http://www.auasb.gov.au/admin/file/content102/c3/Mar11_Invitation_to_comment_on_IAASB_Discussion_Paper.pdf).

To obtain constituents' input, the AUASB organised a 'roundtable' discussion on Tuesday 29 March 2011. In addition to issues raised on the day, attendees were asked to forward their comments to the AUASB by Wednesday 2 May 2011. This request for written comments was also published on the AUASB website to reach the wider community of interested parties. Refer to Agenda Item 14(b).

2. Exposure Drafts on *Assurance Engagements on Greenhouse Gas Statements* and *Standard on Engagements to Review Historical Financial Statements*

The IAASB has issued the exposure drafts of the following pronouncements:

- (a) International Standard on Assurance Engagements (ISAE) 3410 *Assurance Engagements on Greenhouse Gas Statements*

The proposed standard deals with both limited assurance engagements and reasonable assurance engagements to report on an entity's GHG statement. Comments are due by 10 June 2011. The Board was made aware of the issue of ISAE 3410 at its 29 November 2010 meeting.

A copy of ISAE 3410 can be located on the AUASB website (http://www.auasb.gov.au/admin/file/content102/c3/Mar11_Invitation_to_comment_on_ED_of_ISAE_3410.pdf).

To obtain constituents' input, the AUASB organised a 'roundtable' discussion on Tuesday 29 March 2011. In addition to issues raised on the day, attendees were asked to forward their comments to the AUASB by Wednesday 6 May 2011. This request for written comments was also published on the AUASB website to reach the wider community of interested parties. Refer to Agenda Item 14(b).

- (b) International Standard on Review Engagements (ISRE) 2400 *Engagements to Review Historical Financial Statements*

The proposed revised standard deals with the practitioner's responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements, and the form and content of the practitioner's report on the financial statements. Comments are due by 20 May 2011. The exposure draft and some initial thoughts from the AUASB Technical Group were presented to the AUASB at its 28 February 2011 meeting.

A copy of ISRE 2400 can be located on the AUASB website (http://www.auasb.gov.au/admin/file/content102/c3/Mar11_Invitation_to_comment_on_ED_of_ISRE_2400.pdf).

The AUASB will respond to the ISRE 2400 Exposure Draft and its submission will comprise issues identified by the AUASB, the AUASB Technical Group and constituents. The draft submission will be presented to the AUASB for out-of-session approval prior to the due date. To obtain constituents' input, the AUASB organised a 'roundtable' discussion on Tuesday 29 March 2011. In addition to issues raised on the day, attendees were asked to forward their comments to the AUASB by Wednesday 20 April 2011. This request for written comments was also published on the AUASB website to reach the wider community of interested parties. Refer to Agenda Item 14(c).

CANADA

Canadian Institute of Chartered Accountants (CICA)

1. ***Guide to Audits of Financial Statements that contain amounts that have been determined using actuarial calculations***

CICA has received a number of requests for information on when the *Guide to Audits of Financial Statements that Contain Amounts that Have Been Determined Using Actuarial Calculations* will be available. The Guide is intended to provide information that may help auditors apply the requirements of the CASs in conducting audits of financial statements that contain amounts determined using actuarial calculations whether or not determined by, or with the assistance of, an actuary.

2. ***IAASB Consultation Paper: Strategy and Work Program for 2012-2014***

The AASB is issuing this invitation to comment to encourage Canadian stakeholders to provide input on the Consultation Paper regarding its *Proposed Strategy and Work Program for 2012-2014* issued by the International Auditing and Assurance Standards Board (IAASB).

EUROPEAN UNION

European Commission

1. ***Green Paper on Auditor Regulation***

The EC has issued a Green Paper on auditor regulation on which it has sought comment and conducted a symposium in February this year in Brussels. The objective of this green paper was to initiate a debate on the role and the governance of auditors, as well as the possible changes which could be foreseen in this domain. The Green Paper also covers issues such as the concentration in the audit market and its implications on financial stability, the emergence of small and medium sized practitioners, the audit of SMEs and international standards on auditing. The Green Paper follows on from various external studies and preliminary public consultations undertaken by the Commission services on these issues.

For a copy of the Green Paper and responses thereto, refer to
http://ec.europa.eu/internal_market/consultations/docs/2010/audit/summary_responses_en.pdf

FRANCE

Compagnie Nationale Des Commissaires Aux Comptes (CNCC)

1. Comment letter on *Green Paper*

The CNCC appreciates the fact that the debate launched by the Green paper offers an opportunity to make the role of the auditor become more proactive and closer to the ‘economic reality’, thus contributing to reinforcing confidence in financial markets. The letter addresses the 38 questions raised and suggests the following 4 topics, which the CNCC is of the view, deserve to be thoroughly analysed by the services of the Commission:

- (a) On the aim of the audit: The CNCC believes that a better understanding of assurance resulting from statutory audit, together with a better communication with the governance structures, would considerably reduce the gap between the public perception of what an audit is and the reality;
- (b) Regarding the implementation of professional standards: The CNCC would like the international standards of audit (ISAs) to be rapidly adopted at EU level;
- (c) On the concentration and structure of the audit market: The CNCC is in favour of maintaining competition within an audit market open to all those involved, no matter their size. The CNCC believes that the French joint audit system could help achieve this goal;
- (d) On audit in SMEs: The CNCC does not recommend the adoption of a limited audit. Indeed, such a practice could lead to a two-tier level of audit. The CNCC stresses the need for keeping the unity of the audit, which is a fundamental principle. However, it recommends that it should be implemented in an adequate way, according to the size of the audited entity. Such an approach has been implemented in France, through a specific standard ‘small company’. This standard, currently enforced, has entailed a reduction of audit costs for very small companies without questioning the quality and the goals pursued by statutory audit.

For a copy of the letter, refer to
http://www.cncc.fr/download/Green_paper_audit_policy_CNCC_response.pdf

GERMANY

Institut der Wirtschaftsprüfer (IDW)

1. Comments on four IAASB’s Exposure Drafts

In a letter dated 11 February 2011 to the IAASB, the IDW commented on the following Exposure Drafts:

1. Withdrawal of Existing IAPSs
2. Clarification of the Status and Authority of New IAPSs
3. Proposed Amendments to the Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements
4. IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments*.

NEW ZEALAND

Professional Standards Board (PSB)

1. PSB Developments

At its February 2011 meeting, the PSB considered the following:

(a) **Insolvency Engagement Standard**

The PSB considered the submissions received in response to the limited re-exposure and approved Insolvency Engagement Standard (IES) for submission to the Board for approval and release. The PSB is recommending that this standard be applicable to insolvency engagements where a member is appointed on or after 1 October 2011 and to a member's conduct after that date on any existing insolvency engagement.

(b) **Code of Ethics: Independence in Assurance Engagements**

The PSB further deliberated on the approach to convergence with the International Code of Ethics, in particular on whether to retain one section applicable to all assurance engagements as proposed in the exposure draft or whether to split the independence requirements between audit/reviews of financial statements and other assurance engagements as done in the international code. These and other issues will be further discussed at a teleconference before the April meeting.

(c) **Review Engagements**

The PSB had a first look at the IAASB exposure draft International Standard on Review Engagements (ISRE) 2400. The PSB agreed because of the importance of the proposed standard for New Zealand, to issue an invitation to comment on the proposals in New Zealand. A final PSB submission to the IAASB will be considered at the April meeting

(d) **Compilation Engagements**

The PSB finalised their submission to the IAASB on the exposure draft International Standard on Related Services (ISRS) 4410 relating to Compilation Engagements. The PSB is particularly concerned about the proposed scope of the standard in that, as presently written, it will only apply when a practitioner or member is engaged to compile financial information and provide a compilation report.

(e) **IAASB Strategy and Work Program**

The PSB finalised their submission to the IAASB on the consultation paper, Proposed IAASB Strategy and Work Program for 2012 – 2014.

SOUTH AFRICA

The South African Institute of Chartered Accountants (SAICA)

1. Comments on engagements, work programs, regulations and special considerations

SAICA commented on the following:

- ISRS 4410 – *Compilation Engagements*
- *IAASB Strategy and Work Program for 2012 – 2014*
- Notice 1140 - *Proposed Amendments to regulations for Accrediting Broad-Based black Economic Empowerment (BBBEE) verification agencies*
- IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments*

2. IASB Editorial corrections and changes:

For a list of the editorial corrections and changes made to IFRS in March 2011, refer to:

<https://www.saica.co.za/Portals/0/Technical/accounting/Amendments%20to%20IFRS%209%20and%20Bound%20Volume%202011.pdf>

Independent Regulatory Board For Auditors (IRBA)

1. Anti Money Laundering

The IRBA will play an increasingly significant role in overseeing compliance which includes the authority to enforce administrative penalties for non-compliance. In addition, the FIC has been appointed as supervisory body together with the IRBA, to oversee compliance within the auditing profession. It is also important to note that auditors who are accountable institutions in terms of Schedule 1 of FICA, must register with the FIC before 1 March 2011. This is an electronic registration process. The current guide, *Money Laundering Control: A Guide for Registered Accountants and Auditors*, issued June 2003, has been repealed. An updated, revised guide: *Combating Money Laundering and Financing of Terrorism: a Guide for Registered Auditors* has been issued and is available on the IRBA website. Guidance is provided to registered auditors who are accountable institutions, as well as those who are not accountable institutions. Registered auditors need to understand the distinction in order to ensure that the guide is implemented as required.

UNITED KINGDOM

Auditing Practices Board (APB)

1. Revised ISA on *The Auditor's Report on Financial Statements*

The UK APB has issued ISA 700 *The Auditor's Report on Financial Statements*, which explains the proposed addition to the short-form description of an audit, of the auditor's responsibility to read narrative information in annual reports to identify material inconsistencies with audited financial statements. The effective date should be for periods ending on or after 23rd March 2011. The situation in Ireland (that the version of ISA (UK and Ireland) 700 that was effective for periods commencing on or after 15 December 2004 should be used in place of the clarified ISAs 700, 705 and 706) should remain unchanged.

2. Revised SIR on *Investment Reporting Standards Applicable to Public Reporting Engagements on Historical Financial Information*

The UK APB has issued a revision of Standards for Investment Reporting (SIR) 2000 *Investment Reporting Standards Applicable to Public Reporting Engagements on Historical Financial Information*. Where a reporting accountant intends to use the work of an auditor, SIR 2000 requires that the procedures of the auditor and the reporting accountant, taken together, should comply with the requirements of International Standards on Auditing (ISAs) (UK and Ireland). The revision of the SIR updates it to reflect the requirements of the clarified ISAs (UK and Ireland) that came into force for periods ending on or after 15 December 2010. In addition to revising the SIR to reflect the requirements of the clarified ISAs, the APB has taken this opportunity to clarify the illustrative wording for the opinion in the accountant's report.

3. Exposure Drafts of Revised Pronouncements

The UK APB has approved the following exposure drafts / practice notes:

- (a) Practice Note 15 *The Audit of Occupational Pension Schemes in the United Kingdom*, revised primarily to reflect the issuance of the new International Standards on Auditing (ISAs) (UK and Ireland) (which apply to audits of financial statements of occupational pension schemes for periods ending on or after 15 December 2010 and changes in the legislative and regulatory framework. New guidance has been included on Communicating deficiencies in internal control to those responsible for governance and management, Audit considerations relating to an entity using a service organisation, Auditing accounting estimates, including fair value accounting estimates and related disclosures and Going concern.
- (b) Practice Note 16 *Bank Reports*, revised primarily to reflect the issuance of the new International Standards on Auditing (ISAs) (UK and Ireland) (which apply to audits of financial statements for periods ending on or after 15 December 2010). As per the Chairman: “Although this Practice Note has been updated to reflect the issuance of the new ISAs (UK and Ireland), no changes have been made to the process that was agreed in 2007 between the UK auditing profession and the British Bankers Association (BBA) regarding the procedures auditors use when requesting confirmation of balances, transactions or arrangements from the bankers of an entity being audited.”
- (c) Practice Note 25 *Attendance at Stocktaking*, revised primarily to reflect the issuance of the new International Standards on Auditing (ISAs) (UK and Ireland) (which apply to audits of financial statements for periods ending on or after 15 December 2010). As per the Chairman: “In addition to updating the references to the new ISAs (UK and Ireland) this Practice Note maintains the guidance that the APB had included within the previous ISAs (UK and Ireland).”
- (d) Practice Note 19 *The Audit of banks and building societies in the United Kingdom*. An exposure draft of the revised Practice Note was issued in July 2010 for public comment. It was revised primarily to reflect the issuance of the new ISAs (UK and Ireland) which apply to audits of financial statements for periods ending on or after 15 December 2010 and for changes in legislation. In addition, the APB has also revised and enhanced the guidance in a number of areas, including in relation to the audit of accounting estimates and impairment provisions and related disclosures. The APB has also added guidance on bilateral and other periodic meetings between auditors and the FSA.
- (e) Practice Note 11 *The Audit of Charities in the UK*, revised primarily to reflect the new International Standards on Auditing (ISAs) (UK and Ireland) which apply to audits of financial statements of charities for periods ending on or after 15 December 2010, and changes in the legislative and regulatory framework, in particular to recognise a new regulator in Northern Ireland and changes to reporting thresholds.
- (f) Practice Note 20 *The Audit of Insurers in the United Kingdom*, revised to reflect the provisions of the clarified ISAs (UK and Ireland) (which apply to the audits of financial statements of Insurers for periods ending on or after 15 December 2010) and changes in the legislative and regulatory framework

4. Other

(a) Compendium Of Standards and Guidance 2011

The APB has published its compendium of *Standards and Guidance 2011*. The compendium includes the revised Ethical Standards for Auditors that was issued in December 2010 and the revised Bulletin 2010/2 that provides illustrative audit reports on United Kingdom private sector financial statements for periods ended on or after 15 December 2010.

(b) Feedback Paper on *Auditor Scepticism*

The APB has issued a Feedback Paper that summarised the comments received in response to its Discussion Paper *Auditor Scepticism: Raising the Bar* and outlines the action that the APB, and other parts of the FRC, intend to take. The APB has decided to undertake work to ensure that there is a consistent understanding of the nature of professional scepticism and its role in the conduct of an audit, reviewing ISAS (UK & Ireland) for possible ambiguities in relation to the nature and importance of professional scepticism, reviewing ISQC (UK & Ireland) to ensure it has sufficient requirements and guidance, considering how the application of scepticism can be made more transparent and considering whether there is a need for guidance on the approach to be taken by auditors when considering the presentation in the financial statements of matters that have been the subject of significant challenge by the auditors.

(c) Revised guidance on *The Audit of Friendly Societies*

The APB published a consultation draft of a revision of Practice Note 24: *The Audit of Friendly Societies in the United Kingdom (Revised)*. The consultation period ended on 15 April 2011. The consultation draft updates the current guidance issued in January 2007 to reflect the provisions of the clarified ISAs (UK & Ireland) (which apply to audits of financial statements of Friendly Societies for periods ending on or after 15 December 2010 and changes in the legislative and regulatory framework.

Financial Reporting Council (FRC)

1. Going Concern Assessments

In March 2011, the FRC announced the launch of an Inquiry to identify lessons for companies and auditors addressing going concern and liquidity risks. The Inquiry will draw on the experience of companies and auditors who have had to address these issues in times of difficulty, including the credit crisis. The Panel of Inquiry will recommend measures, if any, which are necessary to improve the existing reporting regime and related guidance for companies and auditors in relation to these matters. The Panel of Inquiry is expected to provide its preliminary conclusions in the summer and final recommendations by the end of the year. The FRS will consider the recommendations of the Panel of Inquiry in conjunction with its consideration of responses to its paper *Effective Corporate Stewardship*.

2. Update of COSO *Internal Control – Integrated Framework*

As a result of IFAC's collaboration with the Committee of Sponsoring Organisations of the Treadway Commission (COSO), IFAC is participating in the COSO *Internal Control – Integrated Framework* update initiative which will take place during 2011. This project is intended to help organisations around the world better assess, design and manage internal control in a business environment. As part of the project, COSO is requesting feedback from those familiar with the original internal control Framework.

UNITED STATES

American Institute of Certified Public Accountants (AICPA)

1. Summaries of Recently Issued AICPA Standards

- (a) *SAS No. 121 Revised Applicability of Statement on Auditing Standards No. 100, Interim Financial Information*
It was revised to amend Paragraph .05 of AU section 722 such that AU section 722 would be applicable when the accountant audited the entity's latest annual financial statements, and the appointment of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review. It was issued in February 2011.
- (b) *SSARS No. 20 Revised Applicability of Statements on Standards for Accounting and Review Services*
It was revised so that SSARSs do not apply when the provisions of SAS No. 1 *Interim Financial Information*, as amended by SASs No. 116, *Interim Financial Information* and No. 121 *Revised Applicability of Statement on Auditing Standards, No. 100 Interim Financial Information*, apply. It was issued in February 2011.
- (c) *SSAE No. 17 Reporting on Compiled Prospective Financial Statements when the Practitioner's independence is impaired*
It was revised to permit, but not require, the accountant to disclose the reason(s) for an independence impairment in a report on a compiled prospective financial information. It was issued in December 2010.
- (d) *SQCS No. 8 A Firm's System of Quality Control (Redrafted)*
SQCS No. 8 supersedes SQCS No.8 and has been drafted in accordance with the ASB's clarity drafting conventions. To reflect a more principles-based approach to standard setting, certain requirements that are duplicative of broader requirements in SQCS No.7 have been moved to application and other explanatory material. It was issued in November 2010.

Public Company Accounting Oversight Board (PCAOB)

1. Changes to the Auditor's Reporting Model in preparation for concept release

The PCAOB has recently heard from investors that they want more information in the auditor's report. Investor dissatisfaction with the current auditor's reporting model might concern other constituents as well, including preparers, auditors and regulators. Over the past several months, Office of the Chief Auditor (OCA) staff reached out to investors, auditors, preparers of financial statements, audit committee members and other interested parties to seek their views on potential changes to the auditor's report. The auditor's report is the primary means by which the auditor communicates to investors and other users of audited financial statements regarding its opinion on those statements and the aim is to provide additional transparency. The Standard Advisory Group will discuss the auditor's report in April 2011.