



## AUASB International Update

June 2013 (covering the period 12 June 2013 to 19 July 2013)

### **INTERNATIONAL AUDIT AND ASSURANCE STANDARDS BOARD (IAASB)**

1. Refer Agenda Item 8(c).2 for the IAASB's June 2013 meeting [highlights](#) and decisions.
2. The IAASB released its second phase post implementation review report on the clarified ISAs on 19 July 2013. The report, titled [Clarified International Standards on Auditing-Findings from the Post-Implementation Review](#) "highlights the results of the IAASB's efforts to learn whether the clarified International Standards on Auditing (ISAs) are being consistently understood and implemented in a way that achieves the IAASB's goals in clarifying and revising them." The report summarises feedback obtained from stakeholders in jurisdictions that have implemented the clarified ISAs and who are involved directly in the audit process, and enables the IAASB to use such feedback to plan its short and longer term strategy deliberations.

### **INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)**

IFAC [announced](#) on 17 July 2013 that it had signed a Memorandum of Understanding (MoU) with the Institute of Internal Auditors (IIA). The MoU creates a formal basis on which both bodies are able to enhance their co-ordination, collaboration and resource sharing and draw on their respective strengths and expertise for the "advancement of risk management and internal controls towards a common goal of enhanced governance."

### **Public Interest Oversight Board (PIOB) of IFAC**

The PIOB published its [July 2013 newsletter](#) the outcomes of its 35<sup>th</sup> Technical Committee meeting in Madrid (held 30 June and 1 July 2013) and the status of current activities. The PIOB noted that the IAASB Chair, Mr Arnold Schilder, was re-appointed for a further 3 year period (2015-2017).

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

1. The XRB [announced](#) on 28 June 2013 the appointment of John Kensington as the new Deputy Chair of the New Zealand Auditing and Assurance Standards Board (NZAuASB), replacing outgoing Deputy Graeme Mitchell. The appointment is effective from 1 July 2013.
2. The NZAuASB published on 17 July 2013 a [summary](#) of the main matters considered at the 12 July 2013 board meeting. Matters considered included:
  - a. Reviewing stakeholder submission received on Exposure Draft (ED) ISRE 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* and ED ISRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. The NZAuASB noted submissions were overall supportive of the Exposure Drafts and consequently plans to approve the final versions of the Standards at the August 2013 meeting. The effective dates for both Standards will be for reviews of financial statements for the periods beginning on or after 1 January 2014.
  - b. Reviewing stakeholder submission received on Exposure Draft NZAuASB 2013-3 *Use of "Management" and "Those Charged with Governance"*. The NZAuASB noted overall support for principle of clarifying the statutory responsibilities of those charged with governance for the financial statements however "questioned whether there are compelling reasons for some of the proposed additional requirements for auditors in New Zealand." The NZAuASB intends to further consider this issue.

- c. The approval for issuance of Explanatory Guide EG Au8 *Audit Implications of the Use of Service Organisations for Investment Management Services* (based on AUASB’s Guidance Statement GS 007 of the same title). This EG provides guidance to auditors of either entity’s which use service organisations or of the service organisations themselves.
- d. The commencement of a process to “re-consider the way in which the NZAuASB prepares and reviews the International Standards for adoption in New Zealand, with a view to more closely align with the due process timelines of the AUASB”. The NZAuASB considered a proposed solution which is to be shared with the AUASB for consideration and discussion. A draft policy will be developed by the two boards after consideration.

## **UNITED KINGDOM**

### **Financial Reporting Council (UK FRC)**

1. The FRC issued on 12 June 2013 its Consultation Paper on draft [Auditor Regulatory Sanction Procedure: Sanctions Guidance for auditors](#). The proposals contained in the consultation paper are principles-based rather than a “tariff based” approach for Committees and Tribunals to follow when determining the appropriate sanctions to be taken against a member of the recognised supervisory bodies of statutory audit functions when they have failed to comply with the Regulatory Framework for Auditing. Responses to the consultation paper are requested to be received by 10 July 2013.
2. The FRC [announced](#) on 19 June 2013 that it would prohibit the use of internal audit staff on the external audit team within ISA (UK and Ireland) 610 *Using the Work of Internal Auditors* and related standard ISA (UK and Ireland) 315 *Identifying and Assessing Risks of Material Misstatement through Understanding the Entity and Its Environment*. This is in response to the recently issued IAASB Auditing Standard ISA 610 *Using the Work of Internal Auditors*, which was revised in June 2013. ISA 610 allowed for individual jurisdictions’ to either allow or prohibit the use of internal audit staff on the external audit team. The FRC’s decision seeks to “ensure the independence of the external auditor and promote greater confidence in the integrity of the audit for investors”. The prohibition is prospective and is effective for audits of financial statements for periods ending on or after 15 June 2014.
3. The FRC [issued](#) on 26 June 2013 a summary of feedback received on its recent Discussion Paper – “*Thinking about disclosures in a broader context – a roadmap for a disclosure framework*” (issued October 2012). The [Feedback Statement: Thinking about disclosures in a broader context](#) summarises feedback received on the [Discussion Paper](#) during the comment period (closed 31 January 2013) from 28 respondents in 28 countries. The FRC noted “broad support for a disclosure framework and for the content of the Paper”. Main messages received by respondents covered topics including: scope (of the disclosures framework); financial statement “clutter” issue; a call for a co-ordinated regulatory approach to disclosures requirements; agreement required on the purpose of the annual financial reports; identification of user needs; criteria for the placement of financial statement note disclosure; support for principles-based approach to a disclosures framework; materiality considerations; quality and accessibility of disclosures; and the role of technology.
4. The FRC published on 9 July 2013 [Practice Note \(PN\) 067: Audit Tenders – Notes on best practice](#). It outlines the practical steps companies can follow to help conduct an effective tender process for audit contracts using “best practice”.
5. The FRC published on 12 July 2013 the Financial Conduct Authority’s (FCA) finalised guidance on the [Code of Practice for the relationship between the external auditor and the supervisor](#). The FCA is the financial services regulatory authority (under the *Financial Services and Markets Act 2000*) which includes the oversight of the audit process of all regulated firms who are supervised by the FCA under the Act.

### **The U.K Competition Commission**

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

### **Institute of Chartered Accountants in Scotland (ICAS)**

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

### **INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)**

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

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

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

### **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)**

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

#### **Financial Accounting Standards Board (FASB)**

FASB [announced](#) on 26 June 2013 proposed improvements to the financial reporting disclosures of going concern uncertainties. The improvements are aimed at “clarifying management’s responsibilities about evaluating and disclosing going concern uncertainties, while improving the timeliness and quality of footnote disclosures about them” and are applicable to all reporting organisations, including public companies, private companies and non-public not-for-profit organizations. Stakeholder comments have been invited on proposed Accounting Standard update [Presentation of Financial Statements \(Topic 205\): Disclosures of Uncertainties about an Entity’s Going Concern Presumption](#) by 24 September 2013.

#### **Center for Audit Quality (CAQ)**

The CAQ reported in their [June 2013 monthly newsletter](#) (Volume 7, Issue 6) that the United States House Financial Services Committee had approved *H.R 1564, the Audit Integrity and Job Protection Act*. The Bill would “amend the Sarbanes-Oxley Act to bar the Public Company Accounting Oversight Board (PCAOB) from requiring that public company audits be conducted by specific auditors or that audits be conducted by different auditors on a rotating basis.” The Bill now moves to the full House of Representatives for consideration.

### **CANADA**

#### **Canadian Public Accountability Board (CPAB)**

The CPAB has entered into an [Memorandum of Understanding](#) (MOU) with the Haut Conseil du commissariat aux comptes (H3C), the French audit regulator on 6 June 2013. The MOU will “facilitate cooperation between the regulators in the area of public oversight, inspections and investigations of auditors subject to the regulatory jurisdictions of both CPAB and H3C. The MOU will also facilitate

the exchange of information and documents between the two regulators, such as audit working papers and inspection and investigation reports.”

### **Auditing and Assurance Standards Oversight Council (AASOC)**

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

### **Canadian Auditing and Assurance Standards Board (CAASB)**

1. The CAASB issued an Auditing and Assurance staff Bulletin [Understanding Internal Control Relevant to the Audit – The Function of a Walk-through](#) on 11 June 2013. The Bulletin provides guidance for public accountants performing audit and review engagements on the issue of how to obtain an understanding of internal control relevant to the audit and the function of the walk-through process.
2. The CAASB issued on 27 June 2013 an [Exposure Draft CSRE \(Canadian Standard on Review Engagements\) 2400 Engagements to Review Historical Financial Statements](#). Comments are invited to be received by 11 October 2013. The proposed Standard is intended to replace a number of existing pronouncements: Section 8200 *Public Accountant’s Review of Financial Statements*; Section 8500 *Reviews of Financial Information Other than Financial Statements*; Assurance and Related Services Guideline AuG-20 *Performance of a Review of Financial Statements in Accordance with Sections 8100 and 8200*; and Assurance and Related Services Guideline AuG-47 *Dating the Review Engagement Report on Financial Statements*. Proposed CSRE 2400 is based on existing IAASB ISRE 2400 (of the same title) with changes made to reflect the Canadian regulatory environment and existing practices, as well as to make the CSRE “self-standing” (i.e. practitioners need only refer to the Canadian Auditing Standards in “rare circumstances”).
3. The CAASB published on 2 July 2013 its [decision summary](#) of the 17-18 June 2013 board meeting. Key matters discussed included:
  - a. Issues related to the IAASB’s current auditor reporting project;
  - b. Issues related to the IAASB’s current project to revise ISA 720 *The Auditor’s Responsibilities Relating to Other Information In Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon*;
  - c. Issues related to revising and clarifying Section 5020 *Association*;
  - d. In relation to compilation engagements, the results of the survey “*Lenders’ Perceptions of Compiled Financial Statements*”. Further consultations on the use of compiled financial statements to obtain more in-depth feedback on survey issues will be considered;
  - e. Approval of the Exposure Draft of proposed Canadian Standard on Related Services (CSRS) 4460 *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*, for expected issue in August 2013. Proposed CSRS 4460 provides “guidance to public accountants when engaged to report to a third party on various types of information arising from an audit or a review engagement” where the reporting provides no assurance;
  - f. Issues related to revising and clarifying sections 5800 *Special Reports – Introduction*, Section 5815 *Special Reports – Auditor’s Reports on Compliance with Agreements, Statutes and Regulations* and Section 8600 *Reviews of Compliance with Agreements and Regulations*; and
  - g. Issues related to developing a draft Canadian Standard on Assurance Engagements CSAE 3001 *Direct Engagements*. This proposed Standard would be “self-standing” and consistent with draft ISAE 3000 *Assurance Engagements Other Than Auditors or Reviews of Historical Financial Information*.

4. CAASB issued on 3 July 2013 a new guide [Reporting Implications of New Auditing and Accounting Standards \(10<sup>th</sup> edition\)](#). This publication provides guidance on “reporting issues that may arise during the current period of change to new auditing and accounting standards.”

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

1. CICA issued on 21 June 2013 a CICA and Institute of Chartered Accountants in Australia (CAA) joint paper [Practical Ways to Improve the Exercise and Documentation of Professional Scepticism in an ISA Audit](#).
2. CICA [issued](#) the final report on 18 July 2013 on enhancing audit quality (EAQ), prepared jointed with CPAB, titled [Enhancing Audit Quality: Canadian Perspectives, Conclusions and Recommendations](#).

#### **FEDERATION OF EUROPEAN ACCOUNTANTS (FEE)**

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

#### **EUROPEAN UNION (EU)**

##### **Council of the EU**

The Competitiveness (Internal Market, Industry Research & Space) Commission of the EU issued a [press release](#) in June 2013 on the outcomes of the 3242<sup>nd</sup> Council Meeting held in Brussels on 29-30 May 2013. On the issue of audit reform (Statutory Audit Directive and Regulation law) the Commission continued discussions on three main issues: mandatory rotation of auditors and audit firms of public interest entities; restriction on the provision of related financial audit services and prohibition of non-audit services and co-operation of national audit oversight bodies. In respect of mandatory rotation, the majority of Ministers supported the general principle of mandatory rotation (suggested at a maximum period of 7 years; 8 for joint audits with extension requests possible via a competent authority) subject to certain conditions. In respect of the restriction on the provision of related financial audit services and prohibition of non-audit services, the Commission agreed to continue discussions on how to achieve this, given there remain divergent views amongst Commission members. In respect of the co-operation of national audit oversight bodies, the Commission continues to discuss the best structure for how this could take place, either through using an existing authority, the European Securities and markets Authority (ESMA) or establishment of a new authority.

##### **European Parliament (EP) of the EU**

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