



## International Update

**Subject:** International Update for the period 20 July 2013 to 2 September 2013 inclusive.

### International Federation of Accountants (IFAC)

1. IFAC released on 16 August 2013 a [transcript](#) of the IAASB Chairman's speech *The Evolving Role of Auditors and Auditor Reporting* delivered at the August 2013 CRECER Conference in Cartagena, Colombia.
2. IFAC released its [IFAC News](#) August 2013 newsletter on 19 August 2013.

### International Audit and Assurance Standards Board (IAASB)

1. The IAASB issued on 25 July 2013 a [proposal](#) to fundamentally change the form and content of the auditor's report, through the Exposure Draft [Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing \(ISAs\)](#). This Exposure Draft Related to this, the IAASB issued [guidance](#) to assist in the [field testing](#) of Proposed ISA 701 *Communication Key Audit Matters in the Independent Auditor's Report*. The IAASB also issued an "[at a glance](#)" summary of the proposal.
2. The IAASB issued [its eNews Newsletter](#) on 20 August 2013. The newsletter summarises the recent activities of the IAASB and includes:
  - A link to the June 24-28 meeting highlights and podcast
  - A summary of the Auditing Reporting Exposure Draft issued for comment. Comments are due 22 November 2013. Also provided is web links to related news articles.
  - Other IAASB activities.

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

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

## Canada

### Canadian Public Accountability Board (CPAB)

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

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

AASOC published on 7 August 2013 [minutes](#) of its 26 April 2013 meeting. Matters discussed included the Enhancing Audit Quality Initiative, (a joint CICA/CPAB initiative), as well as an update on the AASB activities including its work on review engagements, reporting on supplementary matters, auditor reviews of interim financial statements, auditor reporting, assurance engagement standards and other IAASB projects in progress. Also discussed were the recent activities of the Canadian Securities Administrators, CPAB, IAASB and other AASB matters.

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

1. The CAASB published on 30 July 2013 its [decision summary](#) of the 30 July 2013 board meeting. The key issue discussed was the IAASB's July published Auditor Reporting Exposure Draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*. The CAASB unanimously approved an Exposure Draft that proposes no Canadian amendments to the IAASB Exposure Draft.

2. The CAASB issued a [link](#) to the IAASB Exposure Draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*. The CAASB encourages Canadian stakeholders to provide their comments to the IAASB by 22 November 2013.
3. The CAASB issued on 7 August 2013 an Exposure Draft of proposed new Canadian Standard CSRS 4460 [Reports on Supplementary Matters Arising from an Audit or a Review Engagement](#). The ED addresses reporting on supplementary matters to a third party. As part of this ED, the CAASB is proposing to withdraw existing Assurance and Related Services Guidelines: AuG-4 *Services on Matters Relating to Solvency* and AuG-13 *Special Reports on Regulated Financial Institutions* which previously dealt with such reports. Comments on the ED are requested to be received by 29 November 2012.
4. The CAASB issued on 9 August 2013 the [proposed agenda](#) for the upcoming 9-10 September 2013 board meeting.
5. The CAASB on 22 August 2013 [announced](#) roundtable discussions to be held in September and October 2013 on the following three Exposure Drafts:
  - [Engagements to Review Historical Financial Statements](#)
  - [Reporting on Audited Financial Statements](#)
  - [Reports on Supplementary Matters Arising from an Audit or a Review Engagement](#)
 Interested stakeholders are encouraged to attend.
6. The CAASB issued its regular e-newsletter [The Buzz](#) on 26 August 2013. It covers recent activities of the Auditing and Assurance Standards Board.

#### **Chartered Professional Accountants of Canada (CPA Canada)**

1. CPA Canada published a copy of its [submission](#) to the UK Competition Commission re its statutory audit services market investigation summary of provisional decision on remedies (dated 22 July 2013).
2. CPA Canada published a [thought piece](#) article on 15 August 2013 commenting on the IAASB's proposal for radical changes to the auditor's report.

#### **European Union (EU)**

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

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

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

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

#### **Federation of European Accountants (FEE)**

FEE published its [regular e-newsletter \(No. 7\)](#) on 31 July 2013. Included in the e-newsletter is:

- a link to a FEE article titled "[Will the European debate on audit policy find a better way forward under the Lithuanian Presidency?](#)" The Lithuanian presidency has taken over from the Irish Presidency of the European Parliament effective 1 July 2013.
- A link to the UK Competition Commission's published [provisional decisions](#) report regarding potential remedies to deficiencies identified during the statutory audit services market investigation.

## International Integrated Reporting Council (IIRC)

The IIRC issued its [August 2013 newsletter](#) on 13 August 2013.

## New Zealand

### New Zealand Auditing and Assurance Standards Board (NZAuASB)

1. The NZAuASB released on 29 July 2013 [details](#) of its plans to make a submission to the IAASB on its auditor's report proposals contained in the IAASB Exposure Draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*. It also invited constituent feedback to be received no later than 7 October 2013.
2. The NZAuASB [announced](#) that it had held its 21 August 2013 meeting and considered the following matters:
  - Two submissions received on Exposure Draft (ED) NZAuASB 2013-4 *Amendments to the International Standards on Auditing (New Zealand) to promote improved Audit Quality*. Both were noted as supportive and the NZAuASB approved the revisions as recommended in the ED, "subject to the proposed amendments discussed at the meeting.
  - A submission received on Exposure Draft NZAuASB 2013-3 *Use of "Management" and "Those Charged with Governance"*. The ED proposed to amend existing standards to closely align with the ISAs, as well as clearly defining the statutory responsibilities of those charged with governance for the financial statements. The NZAuASB agreed that the principles contained in the ED should apply to existing standards ISA (NZ) 210 *Agreeing the Terms of the Audit Engagement* and ISA (NZ) 580 *Written Representations*. Further the NZAuASB agreed to consider its potential impact on other standards at the October 2013 meeting (where it is proposed to approve all relevant ISAs (NZ).
  - Agreed for the NZAuASB to jointly consider, with the AUASB, draft proposals for enhanced communication protocols at the September 2013 joint meeting. This is part of the Trans-Tasman harmonisation policy previously announced in 2009 by the Australian and New Zealand Governments.
  - The IAASB's recent auditor reporting Exposure Draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing* (auditor reporting project). In response the NZAuASB considered and approved a consultation plan for dealing with the NZAuASB's response to the ED. Also approved for issue was a New Zealand Invitation to Comment (ITC) to run in parallel with the IAASB's ED. The ITC will outline the proposed changes to be made to the ISAs (NZ) as a result of the IAASB's ED, together with the NZAuASB's own proposed changes (following the "compelling reasons" test). The ITC, which should be considered in conjunction with the IAASB's ED, will be issued in due course with a 90 day exposure period. Additionally the NZAuASB announced that it intends to consult with constituents during September and October 2013 to obtain feedback for considered in the NZAuASB's drafting of their submission to the IAASB. Finally, the NZAuASB invited big and medium sized audit firms to considered field testing the requirements in proposed new ISA 710 *Communication Key Audit Matters in the Independent Auditor's Report* (within the ED) in order to obtain feedback for consideration by the NZAuASB in formulating its own submission to the IAASB.

### External Reporting Board (XRB)

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

## South Africa

### Independent Regulatory Board for Auditors (IRBA)

1. The IRBA's Committee for Auditing Standards (CFAS) [announced](#) on 15 July 2013 that it had approved the release of a proposed new South African Standard on Assurance Engagements SASAE 3501 *Assurance Engagements on eXtensible Business Reporting Language ('XBRL')* in June 2013. Comments are requested on the proposed Standard by 15 October 2013. The proposed ASAE is a subject-matter specific standard in accordance with the IAASB's ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. It provides guidance for auditors "in accepting and performing limited assurance engagements on XBRL tagging of information (the tagging process and/or instance documents)."
2. The IRBA [announced](#) on 8 August 2013 that it had approved South African Auditing Practice Statement SAAPS 6 *External Confirmations from Financial Institutions*. The Practice Statement, which is effective 1 October 2013, provides implementation guidance to registered auditors when requesting external confirmations, either manually or electronically, from financial institutions, when seeking to obtain audit evidence as part of the requirements of the IAASB's ISA 505 *External Confirmations*. SAAPS 6 replaces existing Practice Statement SAAPS 1100 *Bank Confirmations* (to be withdrawn on 1 October 2013.)

### 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 Kingdom

### UK Financial Reporting Council (UK FRC)

1. The UK FRC issued a proposed revision to its practice note [The Audit of Housing Associations in the United Kingdom](#) on 24 July 2013. The proposals incorporate changes to the environment in which Housing Associates operate, as well as regulatory developments. Comments are requested to be received by 25 October 2013.
2. The UK FRC [issued](#) its guidance on the audit of financial instruments on 25 July 2013, which is applicable for audits of all sized entities. This is contained in [Practice Note 23 Special Considerations in Auditing Financial Instruments](#) and reflects the clarified ISAs (UK & Ireland) and is based on guidance issued by the IAASB in its International Auditing Practice Note IAPN 1000 of the same title.
3. The UK FRC issued a [press release](#) on 2 August 2013 welcoming the IAASB's proposals transform auditors' reports. The UK FRC also announced a [formal stakeholder consultation process](#) on the proposals to assist the UK FRC in drafting its response to the IAASB. As part of this, the UK FRC has also issued an [FRC Invitation to Comment on IAASB Exposure Draft \(July 2013\): Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing \(ISAs\)](#). Comments on the ITC are encouraged from all interested stakeholders and are requested to be received by 1 November 2013, to assist the UK FRC in developing its response to the IAASB proposals. The ITC includes an explanation by the UK FRC "to assist those seeking to understand the interrelationship of the proposals in the IAASB's July 2013 ED on reporting on audited financial statements and the changes already made by the UK FRC to the ISAs (UK & Ireland) in October 2012 and June 2013." Changes were also made to the *UK Corporate Governance Code* in October 2012. The UK FRC believes that these changes should achieve similar benefits to that included in the IAASB's proposals.

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*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.*

4. The UK FRC issued its [response](#) on 12 August 2013 to the UK Competition Commissions' issuance of its proposed remedies to identified deficiencies report as part of its statutory audit market investigation. Although supportive of the proposed removal of the requirement for mandatory audit rotation and improvements to enhanced shareholder engagement with companies on audit issues, the UK FRC has concerns over a number of other proposed measures and related costs. These include, in particular, the proposed reduced timeframe (every 5 years) of the audit tendering cycle; the extension of the existing audit quality review process to cover all audits of FTSE 350 companies and be conducted every five years and include firms auditing ten or more public interest entities.
5. The UK FRC issued its [Exposure Draft: Guidance on the Strategic Report](#) on 15 August 2013. Comments are required by 15 November 2013. This ED comes as a result of recent changes to *The Companies Act 2006* which required certain companies, for periods ending on or after 30 September 2013, to prepare a strategic report as part of the annual report. The proposed guidance is intended to be a best practice statement "intended to encourage preparers to consider how the strategic report fits within the annual report as a whole and help enhance the quality of narrative reporting more generally." The proposed guidance is aimed to be:
  - "principles-based;
  - be shorter and more streamlined than the *Reporting Statement: Operating and Financial Review (RS)*;
  - mindful of recent developments in narrative reporting best practice; and
  - aligned with the requirements in the *UK Corporate Governance Code*."
6. The UK FRC [announced](#) on 22 August 2013 in conjunction with the Public Company Accounting Oversight Board of the United States (PCAOB) that they had agreed to continue their co-operation agreement on the cross board supervision of audit firms. This follows on from recent European Commission decisions which allowed such agreements until 31 July 2016. The agreement "facilitates effective co-operation between the two organisations and allows for joint work on inspections and exchanges of otherwise confidential information against the background of an audit market that is increasingly global in nature." The agreement is contained within the documents: [Statement of Protocol](#) and [Data Protection Agreement](#).

### **The UK Competition Commission (UK CC)**

The UK CC [issued](#) on 22 July 2013 its [Summary of provisional decisions on remedies](#) regarding its statutory audit services market investigation. The provisional decisions respond to the findings contained in the [Provisional findings report](#) published on 22 February 2013.

The provisional decisions include "measures to improve the bargaining power of companies and encourage rivalry between audit firms; measures to enhance the influence of the Audit Committee; and measures to promote shareholder engagement in the audit process." Such measures include:

- requiring FTSE 350 companies to put their statutory audit engagement to tender every 5 years;
- the UK FRC's Audit Quality Review team to review every audit engagement of FTSE 350 companies every 5 years;
- a prohibition on "Big 4 only" clauses in loan documentation;
- measures to strengthen the accountability of the external auditor to the Audit Committee and
- a shareholders' vote on whether Audit Committee Reports in company annual reports contain sufficient information.

Public comment was invited by 13 August 2013. The UK CC will issue its final report by 20 October 2013.

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

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

## **United States**

### **American Institute of Certified Public Accountants (AICPA)**

The AICPA released its agenda and materials for its [30 July-1 August 2013 meeting](#) in July 2013. Topics included: standards covering financial forecasts and projections; reporting on pro forma financial information; entity's internal control over financial reporting that is integrated with financial statement audits; compliance attestation; reporting on controls at service organisations; and the auditor reporting proposals.

### **Public Company Accounting Oversight Board (PCAOB)**

1. The PCAOB [announced](#) on 13 August 2013 the release of a proposed new auditing reporting standard *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* to enhance the auditor's reporting mode, as well as amendments to other standards. The proposed new auditing standard would supersede portions of existing Standard AU sec. 508, *Reports on Audited Financial Statements*. The proposed standard "would require:

- The communication of critical audit matters as determined by the auditor;
- The addition of new elements to the auditor's report related to audit independence auditor tenure, and the auditor's responsibilities for, and the results of, the audit's evaluation of other information outside the financial statements; and
- Enhancements to existing language in the auditor's report related to the auditor's responsibilities for fraud and notes to the financial statements."

The proposed standard sets out what factors auditors should take into account in determining what "critical audit matters" are and how to describe them in the auditor's report. The PCAOB also produced a [fact sheet](#) covering the proposals.

In addition to the reporting standard (above), the PCAOB issued a proposed revised auditing standard *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*, which would supersede existing Standard AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*. The proposed standard covers the scope of the other information, procedures to be performed on the other information, including when the auditor identifies a material inconsistency or material misstatement of fact or both.

Comments on both proposed standards are requested by 11 December 2013.

2. The PCAOB issued on 19 August 2013 the [second progress report](#) on the interim inspection program for broker and dealer auditors. The report covers audit deficiencies and independence findings identified in inspections of 43 audit firms performed during the period March to December 2012. The audits inspected were those conducted in accordance with American Institute of Certified Public Accountants generally accepted auditing standards. In summary "deficiencies were noted in the audits of all of the firms inspected and in 95% of the individual audits selected for inspection."

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

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

## Center for Audit Quality (CAQ)

1. The CAQ issued their [July 2013 monthly newsletter](#) (Volume 7, Issue 7).
2. The CAQ [issued](#) its Profession Resource on [Audit Quality Reporting](#) on 13 August 2013. This document highlights “some important elements of audit quality that U.S audit forms could consider in refinishing or developing their own reporting regarding their public company audit practice.” The guide is therefore aimed as audits conducted in accordance with the auditing standards issued by the Public Company Accounting Oversight Board (PCAOB) and provides examples (which can be tailored) of possible firm-specific information that could be reporting under the six audit quality themes of:
  - firm leadership and tone at the top
  - independence, objectivity and scepticism
  - audit process, methodology and performance
  - professional development and competency
  - monitoring
  - firm organization and structure
3. The CAQ issued on 13 August 2013 its [response](#) to the PCAOB Standard issuance of the new proposed Auditing Standard on The Auditor’s Report commending the PCAOB for its efforts on “this important issue”.