

Implications of International Auditing Standards

**AGA Northern VA Chapter
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Major Auditing Standard Setting Bodies

- International Auditing and Assurance Standards Board (IAASB)
 - Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA)
 - US Government Accountability Office (GAO)
 - Public Company Accounting Oversight Board (PCAOB)
 - Institute of Internal Auditors (IIA)
 - International Organization of Supreme Audit Institutions (IINTOSAI)
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Auditing Standards Convergence

GAO's Position on Convergence

- Standard setters should work together to achieve core auditing standards that are universally accepted.
 - Where there is a clear and compelling reason, the individual standard-setting bodies should develop additional standards necessary to meet the needs of their respective constituencies. The nature of any differences from core auditing standards and the basis for the differences also should be communicated.
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Auditing Standards Convergence

ASB's Official Position on Convergence

- The ASB will develop its standards (SAS) using the International Standards of Auditing (ISA) as the base standard (ISAs are developed by the IAASB), and
- modify the base standard only where modifications are deemed necessary to better serve the needs of U.S. users of audited financial statements of nonissuers or where modifications are appropriate for U.S. legal and regulatory reasons.

Auditing Standards Convergence

Activities

- Almost all ASB standards will be converged with those of the IAAASB and redrafted using the clarity conventions. The project is underway and scheduled for completion by 2010.
- ASB is providing support and resources, both voluntary members and staff to the development of new and revised ISAs.

AICPA's Auditing Standards Board (ASB) Agenda

ASB Standards Issued for Comment:

- Proposed Preface to Codification: Principles Governing an Audit Conducted in Accordance With Generally Accepted Auditing Standards
- Proposed SAS: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards
- Comments are due December 30, 2008.

AICPA's Auditing Standards Board (ASB) Agenda

Eight SASs were approved for exposure at ASB's October 2008 meeting and will be posted soon on the ASB website. Comments are due in May 2009.

- AU 311 - Planning an Audit
 - AU 312 - Materiality in Planning and Performing an Audit
 - AU 314 - Understanding the Entity and Its Environment
 - AU 317 - Compliance with laws and regulations (to replace illegal acts)
 - AU 318 - Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence
 - AU 326 - Audit Evidence
 - AU 801 - Compliance Auditing
 - Proposed new SAS - Evaluating Misstatements
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AICPA's Auditing Standards Board (ASB) Agenda

Redrafted SASs scheduled for discussion and approval for exposure at December 11-12, 2008 ASB meeting in Washington, DC:

- SAS 99 - Fraud
- Initial engagements
- Required supplementary information (RSI)
- Other supplementary information (OSI)
- Opining on to whether supplementary information is fairly stated in relation to the financial statements (ISI)

GAO's Standards Activities

Coordination and Convergence

- Conduct outreach to auditors at the Federal, State, and Local levels.
- Serve on ASB task forces developing revised standards (11 task forces in FY 2008).
- Participate in ASB meetings (observer status).
- Member of the PCAOB Standing Advisory Group (observer status).
- Principal in the U.S. Auditing Standards Coordinating Forum (ASB, PCAOB, GAO).
- Issue comment letters to other standard-setters and regulators (ASB, IAASB, IIA, PCAOB, COSO, and SEC) presenting GAO's positions on proposed standards (19 letters in FY 2008).

GAO's Standards Activities

Coordination and Convergence (cont)

- Participate on INTOSAI Committees and Sub-committees to advance government auditing in the international arena.
- Serve on IAASB task forces, through INTOSAI, for developing the international auditing standards.
- Through INTOSAI, develop companion guidance to the ISAs for government auditors in the international arena.
- Monitor emerging issues impacting the government audit community.
- Maintain and update Government Auditing Standards (Yellow book)

Government Auditing Standards Relationship with ASB Standards

ASB field work and reporting standards for financial audit and attestation engagements are incorporated by reference into the Yellow Book unless specifically excluded.

We collaborate regularly with the ASB to encourage adoption of robust auditing standards that will be suitable for audits of government entities and entities that receive government funding.

Public Company Accounting Standards Board Agenda

The PCAOB also issued for comment 7 proposed new audit risk standards. Comments are due February 18, 2009.

- Audit Risk in an Audit of Financial Statements
- Audit Planning and Supervision
- Identifying and Assessing Risks of Material Misstatement
- The Auditor's Responses to Risks of Material Misstatement
- Evaluating Audit Results
- Considering Materiality in Planning and Performing an Audit
- Audit Evidence.

Government Auditing Standards Relationship with PCAOB Standards

Guidance has been posted on GAO's website for those companies, such as lending institutions that participate in federally-sponsored loan programs such as housing and education, that are required to have audits performed in accordance with both GAGAS and PCAOB standards.

We also comment on proposed PCAOB standards and collaborate regularly with the PCAOB staff on accountability profession standards and issues.

Institute of Internal Auditors Agenda

IIA has issued a revision of the *International Standards for the Professional Practice of Internal Auditing (Standards)*. It becomes effective January 1, 2009

IIA's Board of Directors has approved the International Professional Practices Framework (IPPF) to be released in January 2009. This replaces the current Professional Practices Framework (PPF)

IIA is working on a collaborative project with GAO to develop a comparison of the requirements in the Yellow Book and the IIA Standards.

Government Auditing Standards Relationship with IIA Standards

Government Auditing Standards, par 3.16, encourages government auditors who work for management of audited entities to use IIA's *International Standards for the Professional Practice of Internal Auditing* in conjunction with GAGAS.

We also comment on proposed IIA standards and collaborate regularly with the IIA staff on accountability profession standards and issues.

International Auditing and Assurance Standards Board Agenda

In December 2008, the IAASB expects to complete its 18-month program to review all ISAs and International Standards on Quality Control (ISQCs).

- Three final ISAs are scheduled for approval in December:
 - ISA 210 - Agreeing the Terms of Audit Engagements
 - ISA 265 - Communicating Internal Control Deficiencies
 - ISA 402 - Audit Considerations Relating to an Entity Using a Third-Party Service Organization
 - 36 new, clarified ISAs will become effective for audits of financial statements for periods beginning on or after December 15, 2009.
 - Many of the clarified ISAs include substantive new requirements designed to improve practice.
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International Auditing and Assurance Standards Board Agenda (cont)

In the next few years, the IAASB intends to focus on areas and issues, such as:

- ISA 610 - Using the Work of Internal Auditors
- ISA 700 - Auditor's Report
- ISA 720 - The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
- ISAE 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information
- ISAE 3400 - The Examination of Prospective Financial Information

Internationals Auditing and Assurance Standards Board Agenda (cont)

The IAASB also plans to

- Discuss with national standard setters (including PCAOB), public authorities, oversight bodies that monitor audit quality, and international regulators to identify and address barriers to the further adoption and implementation of ISAs.
- Cooperate with the International Organization of Supreme Audit Institutions (INTOSAI), promoting the use of ISAs as the basis for audits in the public sector.
- Review the need to issue implementation guidance on relevant topics such as auditing fair value accounting information.

Government Auditing Standards Relationship with IAASB Standards

Adoption of robust IAASB standards that will be suitable for audits of government agencies and entities that receive government funding is especially important since

- the ASB is converging its standards with those of the IASB, and
- INTOSAI incorporates IASB auditing and attestation standards into its financial auditing guidance.

We comment on IAASB proposed standards and communicate regularly with IASB staff on technical auditing issues.

International Organization of Supreme Audit Institutions' (INTOSAI) Agenda

INTOSAI's Financial Audit Subcommittee (FAS) incorporates public sector consideration into the ISAs by participating on IAASB task forces and by commenting on proposed ISAs.

FAS also drafts practice notes (PN) for all ISAs to provide special considerations and additional guidance for public sector auditors.

ISAs and PNs together form the INTOSAI Financial Audit Guidelines. Completed financial audit guidelines are posted at <http://www.issai.org/composite-344.htm>

Nine draft financial audit guidelines open for comments are posted at <http://psc.rigsrevisionen.dk/composite-146.htm>

GAO's Work Through INTOSAI

Establishing International Standards

- GAO is a member of INTOSAI's Professional Standards Committee, which strives to establish an effective framework for professional standards that correspond to the needs of member SAIs, using the following strategies:
 - Develop standards that are based on widely recognized standards to the maximum extent possible (e.g. ISAs) through partnerships with other international standards setters (e.g. IAASB)
 - Incorporate public sector considerations into the ISAS by working as members of IAABS task forces
 - Provide guidance to member SAIs as needed to supplement what is provided in the ISAs.

Government Auditing Standards Relationship with INTOSAI Standards

In addition to INTOSAI's Professional Standards Committee, we also serve on the Financial Auditing, Internal Control, and Accounting Standards and Reporting Subcommittees and on task forces that developed Practice Notes that provide guidance to government auditors for implementing:

- ISAs 300, 315, 330, 320, and 450 – Risk Assessment and Response to Assessed Risk
- ISAs 501, 510, 520, 530, 540 – Audit Evidence
- ISA 600, 610 – Using the Work of Others
- ISAs 700, 705, 706, 710, and 720 – Auditors Reports

International Standards on Performance Auditing

- Only GAO, the IIA, and INTOSAI currently issue standards on performance and compliance audits. GAGAS incorporate compliance auditing in its performance auditing standards; INTOSAI plans to issue a separate set of compliance audit standard.
- IIA auditing standards are posted at <http://www.theiia.org/guidance/standards-and-guidance/>
- INTOSAI's performance auditing guidelines and proposed compliance auditing guidelines are posted at <http://www.issai.org/composite-344.htm>

Where to Find the Yellow Book

- The Yellow Book is available on GAO's website at:

www.gao.gov/govaud/ybk01.htm

- For technical assistance, contact us at

yellowbook@gao.gov