

Public Accountants Conference 2010

Clarified SSAs – What They Mean For Your Audit

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Outline

- ❖ The IAASB Clarity Project
- ❖ Key changes to SSAs
 - Group audits – SSA 600
 - Auditing accounting estimates – SSA 540
 - Related parties – SSA 550
 - Communication with those charged with governance – SSA 260 and SSA 265
- ❖ What this means for your audit

The IAASB Clarity Project

- ❖ Objective is to enhance the clarity and improve the quality and relevance of the ISAs
- ❖ IAASB redrafted existing standards as well as developed new and revised standards using the new drafting conventions
- ❖ Key elements of the new drafting conventions include:
 - setting an objective in each standard and establishing the auditor's obligation in relation to those objectives;
 - separating the requirements that the auditor is required to follow from guidance on their application;
 - eliminating the present tense to describe actions by the auditor, which raised ambiguity about whether such actions were required; and other structural and drafting improvements to enhance the overall readability and understandability of the standards.

The IAASB Clarity Project

- ❖ All ISAs are clarified:-
 - 16 ISAs have been revised;
 - 20 ISAs have been redrafted; and
 - 1 new ISA created: ISA 265 – Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

- ❖ ICPAS has adopted and modeled these revised and redrafted ISAs as clarified SSAs
 - effective for audits of financial statements for periods beginning on or after 15 December 2009
 - for calendar year companies this means for the audit of the year ending 31 December 2010

Group Audits- SSA 600

SSA 600: Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

Impact

Expected to be greatest on audits where significant group components are audited by different firms, particularly for large trans- national group audits.

Group Audits- SSA 600

Requirements:

- ❖ Greater emphasis on the communication between group engagement team and component auditors
- ❖ Group auditor must communicate with component auditors about the scope and timing of their work relating to the components
- ❖ Greater involvement in the work and risk assessment of component auditors
- ❖ Component auditors must communicate specific matters to group auditor, including:
 - Compliance with ethical, independence and professional competence requirements and other requirements
 - Material weaknesses in financial reporting internal control at component level
 - Indicators of possible management bias

Auditing Accounting Estimates- SSA 540

SSA 540: Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures

Impact

- ❖ The SSA introduces more rigor and skepticism in the audit of estimates and responds to research on opportunities for bias by management to manipulate earnings in this area
- ❖ It also merges two previous SSAs into one – SSA 540 *Audit of Accounting Estimates* and SSA 545 *Auditing Fair Value Measurements and Disclosures*. This was in recognition of the fact that the complexities in these two areas are increasingly similar

Auditing Accounting Estimates- SSA 540

Requirements:

- ❖ An increased focus on management's control processes with increased rigor and skepticism applied when auditing accounting estimates
- ❖ Identify and obtain an understanding of management's process and the controls within the process in developing estimates
- ❖ Obtain written representation from management on whether they believe that significant assumptions used in making the accounting estimates are reasonable
- ❖ More substantive procedures for significant or complex estimates

Related Parties- SSA 550

SSA 550: Related Parties

- ❖ deals with the auditor's responsibilities regarding related party relationships and transactions

Background

- ❖ Given the prominent role played by related parties in a number of recent major corporate scandals, the standard- setters believed there was a need to reconsider the robustness and appropriateness of SSA 550
- ❖ There was also public demand for stronger financial reporting standards that address the clarity and adequacy of related party disclosures and the auditing thereof

Related Parties- SSA 550

Requirements:

- ❖ More enquiry of management of:
 - management's processes and controls over related party transactions
 - obtaining a list of the entity's related parties, changes from prior year, the nature of the related party relationships and the type and purpose of the related party transactions
- ❖ More rigor throughout the audit process | particularly regarding the business purpose of unusual transactions and around the audit of management's disclosures on related parties

Communication with those charged with governance

SSA 260 and 265: Communication with Those Charged with Governance; and Communicating Deficiencies in Internal Control to those Charged with Governance and Management

Background

- ❖ Changes were made due to the public's changing expectations of those charged with governance and a renewed emphasis on corporate governance
- ❖ For ISA 265 (SSA 265), the IAASB believes there is benefit in a separate standard in this area to address thresholds of deficiencies to communicate

Communication with those charged with governance

Requirements:

- ❖ More emphasis on two-way communication between the auditors and the governance bodies of the company
- ❖ Discuss and evaluate the adequacy of communication between those charged with governance and the auditor
- ❖ Have more written communication of specific items on all engagements and specifically communicate, in writing, significant deficiencies in internal control to those charged with governance

Note

The auditor is not required to perform specific procedures to identify significant deficiencies. Instead, the auditor considers, as he performs the audit procedures, whether control failures constitute a significant deficiency and require communication to those charged with governance

What this means for your audit

More communication between the company and auditors

- More discussions before, during and after the audit
- More written communication

For the auditor:

- Additional audit procedures to be performed
- More audit documentation
- Increased time and costs
- More communication between group and component auditors
- Training of new requirements to staff

For the company:

- More rigor around documentation of company processes and controls therein (eg in RPT, accounting estimates)
- Significant involvement in audits
- Increased time and costs



Thank You