Welcome to the first edition of the Kudos International Network Technical e bulletin.

This bulletin covers the period from commencement of the network on 1 November 2012 to 30 April 2013. It is our intention to produce these on a six monthly basis with the main focus being on relevant auditing matters internationally and any significant changes in accounting internationally. If you have any comments or suggestions on the bulletin please let us know. The bulletin is for circulation to all partners and staff involved in audit work in your firm. The focus will be on topics which have been finalised rather than those still at the discussion stage.

Audit Matters - Global

IAASB Staff Q & A Publication Addresses Proportionate Application of ISQC 1

IAASB staff released in November 2012 a publication entitled “Applying ISQC 1 Proportionately with the Nature and Size of a Firm”. The publication highlights how the design of ISQC 1 enables it to be applied in a proportionate manner.

ISQC 1 applies to firms of all sizes that provide services covered by the IAASB’s international standards, including International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance engagements (ISAEs) and International Standards on Related Services (ISRSs).

While ISQC 1 applies to all firms, the Q&As focus on matters that are likely to be of particular relevance to the application of ISQC 1 in the context of smaller firms.

The document can be found at http://www.ifac.org/publications-resources/staff-questions-answers-applying-isqc-1-proportionately-nature-and-size-firm

ISA 610 (revised)

In a follow-up to its 2012 release of stronger standards dealing with the external auditor’s use of an internal audit function’s work, the IAASB issued new requirements and guidance that address the auditor’s responsibilities if using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor for purposes of the audit (“direct assistance”). International Standard on Auditing (ISA) 610 (Revised 2013), Using the Work of Internal Auditors, now includes guidance to external auditors when determining whether they can use direct assistance from internal auditors, and if so, in which areas and to what extent. The material addressing direct assistance does not apply if the external auditor is prohibited by law or regulation from obtaining direct assistance.

To download ISA 610 Revised, visit https://www.ifac.org/publications-resources/isa-610-revised-2013-using-work-internal-auditors
Engagement Quality Control Reviews: Practical Considerations

An Engagement Quality Control Review (EQCR) is an important component of an audit firm’s overall audit quality process. Compiled by staff of the Transnational Auditors Committee (the executive arm of the Forum of Firms), this paper highlights the more judgmental elements relating to an EQCR to help practitioners evaluate and enhance their own processes for conducting such reviews. The document can be found on the link below: http://www.ifac.org/sites/default/files/publications/files/TAC-FoF-Engagement-Quality-Control-Reviews-Information-Paper.pdf

Financial Reporting Matters – United Kingdom & Ireland

FRS 100 and FRS 101

In November 2012 the Financial Reporting Council (FRC) issued Financial Reporting Standard FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework. These new standards are issued as part of the FRC’s fundamental reform of existing accounting standards. FRS 100 sets out the overall financial reporting requirements, giving many entities a choice of detailed accounting requirements depending on factors such as size, and whether or not they are part of a listed group. Importantly FRS 100 does not require any entities to apply international accounting standards that are not already required to do so, responding to a key piece of feedback from smaller financial institutions and registered providers of social housing. FRS 101 applies to the individual financial statements of subsidiaries and ultimate parents, allowing them to apply the same accounting as in their listed group accounts, but with fewer disclosures. This is intended to reduce the reporting burden on listed groups. The standards will be applicable to all companies and entities in the UK and Republic of Ireland, other than listed groups. They will be effective from 1 January 2015, but may be adopted early.

FRS 102

The UK FRC has also issued FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; which provides succinct accounting and reporting requirements for unlisted entities. The standard completes a fundamental modernization of UK and Irish accounting standards and was formally approved at a meeting of the FRC Board on 5 March 2013. Following the publication of FRS 100 and FRS 101, FRS 102 completes a suite of accounting standards. Advised by its Accounting Council, the FRC has considered responses to various discussion papers and exposure drafts to develop a proportionate, fit-for-purpose framework. The FRSs will be effective from 1 January 2015, but may be adopted early for accounting periods ending on or after 31 December 2012. FRS 102 can be downloaded at http://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRS-102-The-Financial-Reporting-Standard-applicable.aspx
Financial Reporting Matters – Global

Future of IFRS

In December 2012, the Institute of Chartered Accountants in England and Wales' Financial Reporting Faculty issued a report on *The Future of IFRS*. The report outlines the progress made toward a global financial language, the barriers that remain, and recommendations for the future. Among its recommendations, the report calls for ending the era of convergence between IFRS and U.S. GAAP "in a matter of months, not years." The paper is designed to raise awareness of the key issues among those concerned with preparing or using financial statements and to stimulate discussion among standard-setters, regulators and other interested parties across the globe. It is available at: http://www.icaew.com/~/media/Files/Technical/Financial-reporting/Information%20for%20better%20markets/future-of-ifrs.pdf

Red Book

The IFRS Foundation’s 2013 *International Financial Reporting Standards* (Red Book) is now available. This edition, presented in two volumes, includes the official consolidated text of the IASB’s pronouncements as issued at 1 January 2013. It includes Standards with an effective date after 1 January 2013 but not the Standards that they will replace.

For more information visit http://www.ifrs.org/Alerts/Publication/Pages/2013-IFRS-Red-Book-now-available.aspx

Education – Global

IES 5

In March 2013 the International Accounting Education Standards Board (IAESB) issued the revised International Education Standard (IES) 5, *Initial Professional Development—Practical Experience*. IES 5 aims to assist educational organizations, employers, regulators, government authorities, and any other stakeholders who support the practical experience of professional accountants. The revised IES 5, which is effective from July 1, 2015, recognizes that practical experience is relevant in developing the competence of an aspiring professional accountant while also: Promoting greater flexibility in measuring practical experience; Permitting practical experience supervisors to direct, advise, and assist an aspiring professional accountant’s experience; and Requiring practical experience to be recorded in a verifiable and consistent form. The release of the revised IES 5 represents the fourth IES released by the IAESB in a project to revise its suite of eight IESs.

IES 5 Revised can be downloaded at https://www.ifac.org/publications-resources/ies-5-initial-professional-development-practical-experience-revised
In March 2013 the International Ethics Standards Board for Accountants (IESBA) released strengthened provisions in its Code of Ethics for Professional Accountants (the Code) to address conflicts of interest and a breach of a requirement of the Code. It also released amendments to the definition of the term “engagement team” in the Code. Recognizing the ethical questions and challenges that can arise from conflicts of interest, the IESBA has revised the Code to establish more specific requirements and provide more comprehensive guidance to support professional accountants in identifying, evaluating, and managing such conflicts. Reflecting its view that any breach of a provision of the Code is a matter that must be treated very seriously, the IESBA has strengthened the Code with respect to a professional accountant’s actions when encountering such a breach. In conjunction with the International Auditing and Assurance Standards Board (IAASB)’s release of its International Standard on Auditing (ISA) 610 (Revised 2013), Using the Work of Internal Auditors, the IESBA is also releasing amendments to the definition of “engagement team” in the Code.

To learn more visit www.ethicsboard.org

IFAC Staff Publication

In November 2012 the staff of the International Ethics Standards Board for Accountants (IESBA) released additional questions and answers (Q&As) to support the adoption and implementation of the IESBA’s Code of Ethics for Professional Accountants (the Code). The new Q&As cover issues related to materiality, partner rotation, public interest entities, and network firms, among several other topic areas.

To aid consistent application of the Code, the IESBA monitors the adoption and implementation of the Code to identify areas where support is needed. These Q&As respond to the needs identified. The new publication builds on a previous set of Q&As released in 2010 that includes support on the application of the conceptual framework approach, taxation services, related entities, and the definition of key audit partner, among a number of other topics.

The publication can be found at https://www.ifac.org/publications-resources/iesba-staff-questions-and-answers-implementing-code-ethics-part-ii
In December 2012 the PCAOB in the United States published a Staff Audit Practice Alert to remind auditors of their requirement to exercise professional scepticism throughout their audits. *Staff Audit Practice Alert No. 10: Maintaining and Applying Professional Scepticism in Audits* focuses on the importance of professional scepticism, the appropriate application of professional scepticism in audits, and certain important considerations for audit firms' quality control systems. PCAOB standards define professional scepticism as an attitude that includes a questioning mind and a critical assessment of audit evidence, and it is essential to the performance of effective audits under Board standards. The timing of the release of *Staff Audit Practice Alert No. 10* is intended to assist audit firms' emphasis in upcoming calendar year-end audits on the importance of the appropriate use of professional scepticism. Due to the fundamental importance of the appropriate application of professional scepticism in performing an audit in accordance with PCAOB standards, the Board is also continuing to explore whether additional actions might meaningfully enhance auditors' professional scepticism.


In February 2013 the American Institute of Certified Public Accountants (AICPA) issued *Managing the Business Risk of Fraud: A Practical Guide*. This guide recommends ways in which boards, senior management, and internal auditors can fight fraud in their organizations. It also provides guidance from leading professional organizations that defines principles and theories for fraud risk management and describes how organizations of various sizes and types can establish their own fraud risk management program. The guide includes examples of key program components and resources that organizations can use as a starting place to develop a fraud risk management program effectively and efficiently. The Guide can be downloaded at [http://www.aicpa.org/press/pressreleases/2008/downloadedocuments/managing_the_business_risk_of_fraud.pdf](http://www.aicpa.org/press/pressreleases/2008/downloadedocuments/managing_the_business_risk_of_fraud.pdf)

In April 2013 the Center for Audit Quality (CAQ) released a video titled, *Fighting Fraud*. The video explains the responsibilities of audit committee members, financial executives, internal auditors and external auditors in lowering the risks of financial reporting fraud. The video is the fourth episode in the CAQ’s series of videos designed to inform investors and the general public about the people, laws and requirements that make sure the financial reporting process protects investors’ interests. The video can be accessed on [www.AntiFraudCollaboration.com](http://www.AntiFraudCollaboration.com), the website for the CAQ’s collaboration with the National Association of Corporate Directors, The Institute of Internal Auditors and Financial Executives International.
Regulatory Issues – United Kingdom/ Middle East

In March 2013 the Institute of Chartered Accountants of England and Wales (ICAEW) and the Gulf Co-operation Council Accounting and Auditing Organization (GCCAAO) signed a landmark agreement to develop an Audit Quality Monitoring Program for the GCC countries. The first pan-national project of its kind, this agreement was signed at a ceremony commencing the seventh GCCAAO Annual Forum. Under the agreement, ICAEW will assist the GCCAAO in developing a world-class Audit Quality Monitoring Program, and offer advice and support on the creation of a Gulf Monitoring Unit (GMU), to monitor the application of international standards on auditing (ISAs) in each GCC country. GCCAAO has asked ICAEW to draw on its internationally-recognized expertise and experience to advise on best practice concerning recruitment, regulation and creation of a monitoring framework. Work between GCCAAO and ICAEW will occur in three phases, designing an effective framework and GMU, development and implementation, and on-going support.

Practice Management – Global

IFAC Guide to Practice Management for Small and Medium Sized Practices

In December 2012 the Small and Medium Practices (SMP) Committee of IFAC released the third edition of its Guide to Practice Management for Small and Medium Sized Practices (PM Guide). The comprehensive guide is comprised of eight standalone modules on a broad range of topics to help practitioners effectively market, manage, and grow their accounting practices. The new edition of the guide features improvements in content and functionality, including new and updated material on value pricing, knowledge networks, social media marketing, building a business advisory practice, and cloud computing. The eight tables of contents are now cross-linked to improve navigation, and the lists of further readings at the end of each module have been updated. The guide is designed to be culture-neutral with easily translatable language for distribution by IFAC members to practitioners worldwide. The guide can be downloaded at https://www.ifac.org/publications-resources/guide-practice-management-small-and-medium-sized-practices