

Exposure Draft for Establishing Quality Control Standards and Revision of Auditing Standards and Semi-annual Auditing Standards

I. Introducing Quality Control Standards

Overview of the standards

On July 20, 2005, in view of the recent inappropriate cases in auditing areas and developments of international standards for quality control issues, the Business Accounting Council (BAC) issued an exposure draft to newly establish Quality Control Standards together with an exposure draft for revision of current auditing standards; comments on the drafts were solicited by August 22.

Basic contents

These draft standards require audit firms to design quality control systems for both audit firm level and each engagement level at each phase of the audits (i.e. accepting, planning, implementing, and finalizing audit engagements) and monitor the implementation of such systems to ascertain whether appropriate quality control is in place. These standards also require auditors to perform relevant procedures in accordance with the quality control system. In addition, these standards require auditors to consider the level of reliability of other auditors including the status of other auditors' quality control, when using the results of other auditors' procedures, to succeed relevant information from their predecessors at changes of audit firms, and so on.

II. Revision of Auditing Standards and Semi-annual Auditing Standards

Overview of the revision

It has been pointed out that auditors often focus their attentions on the financial statements level, and overlook risks of material misstatements arising from the nature of entities' operations, organizations, and external environments under the practice of the current risk-based approach. In addition, The international auditing standards were recently revised in the area of a risk-based approach. Based on such situations, the exposure draft, which proposes to introduce "a risk-based approach emphasizing business risks" into the auditing standards, was released to overcome the deficiencies of the current risk-based approach and enhance the effectiveness of audits.

Features of "risk-based approach emphasizing business risks"

- Auditors should obtain sufficient understanding of entities and their environments including internal controls, and focus more on considering associated business risks, because material misstatements of financial statements may be caused by management's involvement.
- Since top-down perspective is emphasized, auditors should evaluate the risks of material misstatements of financial statements at two levels: "financial statement level" and "assertion level." If auditors identify any risks of material misstatements at the financial statement level, they should determine the overall responses to address these risks and perform audit procedures that are responsive to them.
- If auditors identify any significant risks that require special audit consideration at assertion level (such as judgments of significant accounting issues and transactions that embody a risk of fraud), they should design and perform further audit procedures that are specifically responsive to these risks, to ascertain whether any material misstatements have been derived from them.