

## Standards on Auditing—Importance and Overview in Global Perspective



*Auditors and auditing profession have assumed an important position in the eyes of the society. Auditors play the role of watchdog to the financial wellbeing of society. They have the responsibility to see that assets are safeguarded from misappropriation or wastage. The ICAI motto very aptly and appropriately manifests this as ‘Ya Eshu Supteshu Jagarti’ which means ‘One who is awake in those who are asleep’. The onerous position of auditors brings immense responsibility and accountability to them as the trustees. It is a position of trust, confidence and integrity. While it is extremely difficult for a person to acquire this qualification and reach the coveted position of auditors, the society rewards him adequately by imposing faith and handing over the precious right of putting their seal and signature on a piece of paper which is considered by the entire world as sacrosanct...too holy to be touched! This article highlights and Importance and overview of Standards on Auditing in global perspective. Read on to know more...*



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### Overview

Knowledge mixed with experience brings wisdom. A person with adequate qualification becomes a professional when he mixes his knowledge with experience and he demonstrates ethical values. Like every other profession, the auditing profession also has a framework of auditing procedures and a code of professional conduct and ethics. The

International Auditing and Assurance Standards Board (IAASB or Board) promoted by the International Federation of Accountants (IFAC) is entrusted with the responsibility to write and promote Standards on Auditing internationally and ensure implementation of those standards. Needless to mention, auditors' principal duty is to protect and safeguard interest of the society at large and hence the Standards on Auditing are always written keeping in mind the public interest at first. The Public Interest Oversight Board (PIOB), created by the international regulators and stakeholders, keeps an eye on the functioning of the Board continuously and monitors its efficacy. The Institute of Chartered Accountants of India (ICAI) is the premiere body in India which is entrusted with authority and responsibility of monitoring the profession of accountancy and auditing. ICAI being a member of the IFAC has the obligation of converging its Standards on Accounting and Auditing with the international financial reporting standards (IFRS), pronounced by the International Accounting Standards Board (IASB) and the international standards on auditing (ISA) issued by the IAASB. Such standards are issued along with application material for further guidance.

## Importance of Standards on Auditing

The Standards on Auditing are written for all audits across the world and hence these apply to audit of large and complex entities where challenges to auditors are more and at the same time to audits of small and less complex entities. The standards have stringent norms for performing audits as well as for ensuring quality control. The requirements are often of very high standards and hence the application materials try to guide the practitioners with illustrations and explanations. Considering the wide application of standards as mentioned above, the Board gives lot of thought on appropriate scalability of the requirements of such standards. It also considers issues relating to implementation of such standards in audit of public sector entities as those entities have direct exposure to public fund and are often guided by the local government policies. There is due process of preparing and issuing a standard which prescribes procedure for public exposure and outreach events to gain knowledge, experience and feedback from various strata of the society like regulators, academia,

practitioners, industries etc.

The IAASB has been working round the clock to monitor implementation of ISAs and to ensure audit quality of the highest order. The projects that it has recently taken up are targeted at enhancement of the requirement of audit with application of enhanced professional skepticism. The effort is to make high standards and at the same time it should be 'one size fits all' standard through scalability. Often the quantity and quality of such standards are challenged by many stakeholders' groups. Every case of failure in compliance by a section of practitioners or any reporting entity will open up a platform of criticism against the auditing standard setters. We have seen in the recent past, how failure in accounting and/or auditing practice globally have invited the regulators to make more stringent rules and the standard setters to issue revised and enhanced standards. Some examples are Corporate Governance reporting, Internal Control on Financial Reporting etc.

## Global Perspective

**Role of IAASB -Strategy and Objectives:** The IAASB's current strategy runs from 2015–2019 and was developed in the context of various influences on the Board's activities. The strategy sets out the Board's medium-term vision for its activities during this period by describing three identified strategic objectives. These three strategic objectives provide further context for the IAASB's mandate and outputs, and illustrate how the IAASB continues to focus its activities. The strategic objectives are:

- (i) Ensure that ISAs continue to form the basis for High Quality, valuable and relevant audits conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments
- (ii) Ensure the IAASB's standards evolve as necessary to adequately address the emerging needs of stakeholders for services other than audits of financial statements.
- (iii) Strengthen outreach and collaboration with key stakeholders in the reporting supply chain on public interest issues relevant to audit, assurance and related services.

## Projects completed in the recent past:

The reporting standards **ISA 700**, **ISA 705** and **ISA 706** have been revised in a way that an auditor should start his report with his opinion and the basis for his opinion first, followed by the key audit matters and thereafter the other sections. This was done for better transparency and focused communication in the auditors' report.

A new standard is introduced on reporting on **Key Audit Matters (ISA 701)** by auditors to make auditors' communication more effective and for ensuring higher level of transparency. Key audit matters are defined as those matters that, in the auditor's professional judgment, were of most significance in the audit of the current period. Key audit matters are selected from matters communicated with those charged with governance.

A large feather in the Board's cap is definitely its revisions to **ISA 540 (Auditing accounting estimates and related disclosures)** to respond to the rapidly evolving business environment. It ensures that the standard continues to keep pace with changing market and fosters a more independent and challenging skeptical mindset in auditors. Significant new changes to the International Financial Reporting Standards and consequential calls from banking and insurance regulators, propelled a project to consider changes to **ISA 540** related to auditing fair values and accounting estimates. I will be failing in my duty if I do not write a bit more about this standard since, firstly it is a completely new text of standard and secondly because it is quite a complex standard to understand and implement. The key concept of this ISA is that it requires a separate assessment of inherent risk for purposes of assessing the risks of material misstatement at the assertion level for accounting estimates. Depending on the nature of a particular accounting estimate, the susceptibility of an assertion to a misstatement that could be material may be subject to or affected by estimation uncertainty, complexity, subjectivity or other inherent risk factors, and the interrelationship among them. As explained in **ISA 200**, inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. Accordingly, the assessment of inherent risk depends on the degree to which the inherent risk factors affect

the likelihood or magnitude of misstatement, and varies on a scale that is referred to in this ISA as the spectrum of inherent risk. This standard is aimed at ensuring enhanced level of use of skepticism by the auditors keeping in mind that the estimates are largely used by the financial services sector where public interest is deeply involved.

The IAASB has been very active in the recent past and has delivered on a number of projects. It has completed revised **ISA 720 (The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements)**, make revisions to the ISAs addressing the auditing of financial statement disclosures, and amend the **ISA 800 series (includes ISA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, ISA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement and ISA 810, Engagements to Report on Summary Financial Statement)**.

The IAASB also commenced more formalized coordination efforts with the IESBA, in particular to take account of changes the IESBA was making related to non-compliance with laws and regulations (NOCLAR) and accordingly has revised **ISA 250 (Consideration of Laws and Regulations in an Audit of Financial Statements)**.

## Projects ongoing - an Update:

The IAASB also commenced work on a number of significant new projects, largely driven by the findings from the IAASB's **ISA Implementation Monitoring Project** and ongoing outreach and engagement with stakeholders, including regulators. In light of the findings from the IAASB's post-implementation review of the clarified ISAs and from global outreach to further understand the challenges and issues with implementing the clarified ISAs, the IAASB undertook a global consultation on a number of interrelated topics, to obtain further insight to the challenges and issues that had been identified. The IAASB's Invitation to Comment on *Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits*, set out issues related to quality control (at the firm and engagement level), professional skepticism and group audits, as well as possible actions to address the identified issues. The input from this

consultation has helped inform the standard-setting activities of the projects to revise ISQC 1 (*Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*), ISA 220 (*Quality Control for an Audit of Financial Statements*) and ISA 600 (*Special Considerations—Audits of Group Financial Statements Including the Work of Component Auditors*)

The significant new projects that commenced in the recent past and are following the due process at present include:

- Revisions to **ISQC 1** to strengthen and improve a firm's management of quality for all engagements performed under the IAASB's International Standards by more explicitly incorporating a quality management approach. The Firm has to set the tone at the top for its practitioners for a better quality of audit. It is suggested that the name should change from ISQC to ISQM (*International Standard on Quality Management*) which will continue to act as the umbrella standard.
- Introduction of a new standard **ISQC 2** separates the requirements relating to engagement quality control review process from ISQC 1 and making it a separate standard. This ISQC deals with the eligibility criteria for the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review. This ISQC applies to all engagements for which the firm determines that an engagement quality review is to be performed as planned under ISQC 1.
- Revisions to **ISA 220** to strengthen aspects of quality management for individual audit engagements.
- Revisions to **ISA 315** (*Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*) to establish more robust requirements and appropriately detailed guidance to drive auditors to perform appropriate risk assessment procedures in a manner commensurate with the size and nature of the entity.
- Revisions to **ISA 600** to strengthen the auditor's approach to planning and performance of a group audit, and clarify the interaction of ISA 600 with other ISAs.
- Exploring recommendations on how to more effectively respond to issues related to **Professional Skepticism** throughout the IAASB's standards. A regular 'communiqué' from the Board on issues of skepticism will be released in regular interval.
- **Emerging forms of external reporting (EER)**: The development of non-authoritative guidance to enable more consistent and appropriate application of ISAE 3000 (*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*) to emerging forms of external reporting. The challenge that is perceived is an EER report (the subject matter information) describes (represents in words or numbers) certain qualities of elements of the underlying subject matter based on applying the criteria to evaluate or measure these qualities. ISAE 3000 (Revised) does not explicitly address elements of the subject matter or their qualities and does not use these terms.
- **Data Analytics**: Emerging developments in the effective and appropriate use of technology, including data analytics, and how changes relating to data analytics could be made in the ISAs currently being revised.
- **Agreed Upon Procedures** engagements to revise **ISRS 4400** (*Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*). The exposure draft has been approved by the Board and it is in process of issuance to public for comments.
- **Scalability: Audit of smaller or less complex entities** has always been a large issue for discussion. There are many jurisdictions like India where we find a very large number of small and medium sized entities and an annual audit is compulsory for every registered entity. In public interest, the auditing

standards are written with a high level of requirements compliance of which often becomes difficult for the auditors of small and medium sized entities. The debate is on for quite a long time and the IAASB is conscious about it. Hence, while writing every ISA, special consideration is given to the issues relating to scalability and stringent requirements are often scaled down as applicable to the audit of small and less complex entities. Concept of proportionality is also thought of. The IAASB is considering issuing a project paper for consultation which explores ideas like a) alternate ways of providing reasonable assurance which is not an audit; b) ISAs to include more explanatory materials; c) exploring a separate set of standards for such audits; d) providing implementation guidance to apply ISAs effectively. Considering the gravity of this issue, the Board needs to expedite its actions on this.

- Furthermore, the IAASB's Work Plan for 2017–2018 has indicated further consideration of issuing **International Auditing Practice Notes**.

## Public Interest

It goes without saying that public interest is a matter which gets yeomen's importance in every activity of the IAASB. Considering the expectation gap from the audit profession, the Board has decided to enhance the bar while setting up the requirements for an audit procedure with a raised level of skepticism. The PIOB observer attends every full Board meeting and at the end of every agenda offers his comments; and at the end of the Board meeting, makes his final comments validating the procedure followed by the Board. In today's world, almost every large entity has exposure to public fund as they raise money by way of issuing equity shares or bonds or debentures or through bank loans. The audit process of such entities need to be robust and objective.

## Coordination with IESBA

The IAASB has increased and formalized its coordination efforts with the International Ethics Standards Board for Accountants (IESBA) through establishing a coordination framework that sets

out operating principles, criteria and other key considerations for coordination, conducting annual joint meetings of the Boards, as well as working closely on matters of mutual interest.

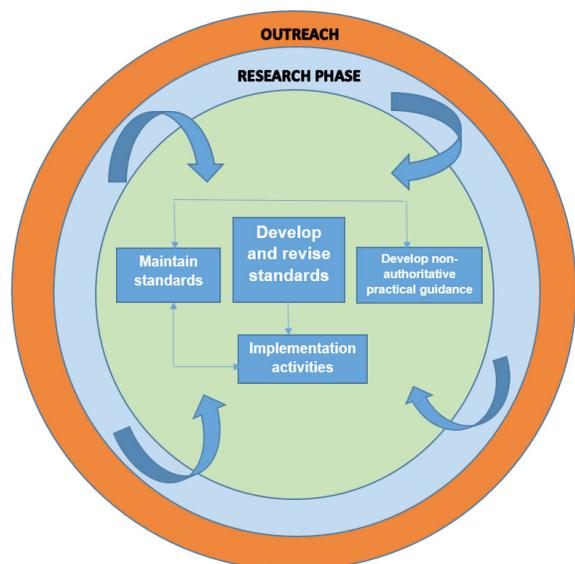
## Strategy 2020-2023

The IAASB's future strategy consultation process commenced with the release of the Strategy Survey on 1 May 2018. The input from this survey is used to help the Board in developing the IAASB's future strategy.

Based on the responses, it is recommended that further consideration be given to formalizing the Board's policies and procedures in structured activity streams (and enhancing these where necessary) as follows:

- Research phase;
- Developing and revising standards;
- Developing non-authoritative practical guidance;
- Maintenance of standards;
- Implementation activities; and
- Outreach.

The relationships and interactions between the different activity streams is shown in the chart below.



**Strategic approach:** Having different activity streams would provide an opportunity to de-emphasize the focus on particular categories, such as audit versus assurance versus related services, and then determine the specific projects within the categories. It would rather result in a



strategic process that would drive IAASB activities that are responsive to stakeholder needs using a more evidence-based approach. Decisions would still need to be made regarding appropriate and adequate resourcing, but the forward work plan would be supported by a formal process providing evidence as to what is most important at that time. This may better serve the public interest by remaining nimble and flexible, which may be better than trying to forecast needs in advance of a strategy period, with the need for mid-period reviews.

The Board would soon release a Consultation Paper on its future plan and strategy for public comments.

## Conclusion

The standards on audit have served the audit profession over the last few decades both globally and within different jurisdictions. These have clearly laid down a framework of audit procedure globally. Different jurisdictions have the rights to follow those standards *in toto* or with some amendments as necessary to comply with the local laws or to include further stringent requirements. These standards have been time tested. Over the years, at times, these standards were often challenged that these are not enough to cover the responsibility of an auditor to protect public interest. Many stakeholders feel today that the extant standards on audit are age old and need to be revisited, particularly making the requirements part more focused on the responsibility and accountability of the auditors. Some of the Practitioners particularly the Small and Medium Practitioners feel that these standards should be made easy to understand and implement. IAASB does large number of outreach events to know the thoughts of and gather views from various strata of stakeholders. I am confident that the Board is conscious about such feelings and is working relentlessly to resolve such issues. It's a mammoth task and time will say how successfully the Board has been working towards quality control of audit. ■

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— Editor