

## Convergence of Auditing Standards

*“High standards of auditing are an essential component of an investment climate of trust.” These words of wisdom were spoken by the International Federation of Accountants (IFAC) Past President Graham Ward at an International Conference hosted by the Institute of Chartered Accountants of India (ICAI) in Jaipur, India, on November 21, 2008. His speech was titled ‘Convergence with International Standards on Auditing’, and this illustrates well the strong interest that ICAI has always shown in convergence. ICAI has been a contributor to this convergence process from the beginning in 1978, says Prof. Arnold Schilder, Chairman IAASB, as he gives an over IAASB and its standard setting processes. Read on..*



**Prof. Arnold Schilder**

The author is Chairman International Auditing and Assurance Standards Board (IAASB). He can be reached at [WillieBotha@iaasb.org](mailto:WillieBotha@iaasb.org) and [eboard@icai.in](mailto:eboard@icai.in)



In 1978, year the predecessor of the International Auditing and Assurance Standards Board (IAASB), the International Auditing Practices Committee (IAPC), was created by a number of leading professional accountancy organisations under the auspices of IFAC, which had been formed in the year before. The main reason for the creation of IFAC was the need felt globally for internationally harmonised auditing and ethical guidelines. The photograph below shows



the founding members of the IAPC; standing in the middle we see CA. Yezdi Hirji Malegam, who became ICAI President a year later.

During my decade as IAASB Chairman I have had many encounters with ICAI representatives. The support for the IAASB's standards has never diminished. And that is how convergence becomes reality: by international dialogue, debate, consultation, due process and finally adoption of these standards. The various contributions by ICAI's Auditing and Assurance Standards Board (AASB) have been much appreciated, for example in our annual meetings with leading National Standard Setters. We have also enjoyed

the IAASB membership of former AASB Chairman CA. Abhijit Bandyopadhyay from 2016-2018, and others in the past.

The various contributions by ICAI's Auditing and Assurance Standards Board (AASB) have been much appreciated, for example in IAASB annual meetings with leading National Standard Setters.

The quote from Graham Ward (above) is elaborated in an IFAC Policy Position of September 2012, titled "*Global Regulatory Convergence and the Accountancy Profession*". It says: "*Global regulatory convergence is an essential element of the globalisation of capital and debt markets, and is important in promoting the comparability of financial information, minimizing the effects of systemic risks, and helping to create a level playing field for international competition... For the accountancy profession, IFAC considers the public interest is best served where there is consistent adoption and implementation of high-quality, internationally accepted financial reporting, auditing, assurance, public sector accounting, accounting education, and ethics standards ... IFAC's member bodies and associates have important roles to play in advancing global regulatory convergence in the accountancy profession – including, in some cases, when performing the role of national standard setter or regulator.*"

International Standards on Auditing, Review, Assurance and Related Services are set by the IAASB, a global independent body that serves the public interest by setting high-quality international standards and by facilitating the convergence of international and national standards thereby enhancing the quality and consistency of practice throughout the world. The IAASB follows a rigorous process in developing its standards, involving multi-stakeholder input, including from the IAASB's Consultative Advisory group, regulatory and oversight bodies, national standard setters, relevant IFAC committees and professional accountancy organisations, firms, governmental agencies, investors, preparers and the general public.

Its activities are overseen by the Public Interest Oversight Board (PIOB): an independent body appointed by the Monitoring Group, members of which are: the Basel Committee on Banking Supervision, the European Commission, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, the World Bank, the Financial Stability Board and the International Forum of Independent Audit Regulators. The PIOB has oversight of critical elements of the IAASB's processes, including the nomination of the members of the IAASB, the terms of reference of the IAASB and the due process of the IAASB. The IAASB has a formal due

process covering inter alia, project proposals, issues papers, consultation papers (where appropriate), exposure drafts (with sufficient comment period), comment letters posted to the website, final standards being approved by a qualified majority (but in practice often close to full consensus), and a separate document for each standard that explains the IAASB's basis for conclusions with respect to comments received on an exposure draft.

Before any standard is issued, the PIOB must approve that due process has been followed, based on a declaration by the IAASB senior staff member and from its independent observations, dialogues, internal reviews, and deliberations. The PIOB observes every meeting of the IAASB, whose standard-setting process is highly transparent. Meetings are open to the public, a full package of agenda materials is available to the public before the meetings, and minutes and a podcast are available after the meetings. The meetings of the IAASB are recorded and the audio recording is published on its website.

I was a member of the PIOB from its inception in 2005 until mid-2008 when I was appointed as IAASB Chairman from 2009. And I recall from my observations of the IAASB as PIOB member, that I wondered whether it was necessary to observe all of its lengthy meetings (typically four or five times a year, most for five days). As Chairman however, I have learned to much appreciate the PIOB observers' attendance.

# Vision – Global Leaders

Their contributions during the discussions are often helpful and stimulating. They also help the convergence process by bringing in global public interest issues. These can be tough at times but addressing them is a crucial element of our mandate.

The composition of the IAASB is 18 members, including a full-time chair. Half of the members of the IAASB are non-practitioners, whose independence from auditing firms satisfies a strict test. They bring an explicit multi-stakeholder background to the table, including regulatory, academic, audit committees and public sector. There is a clear expectation that they will have the knowledge and experience to participate fully in the standard-setting process. This composition achieves an appropriate combination of independence and technical competence, which helps the IAASB to set standards that are in the public interest.

Another key element of the public interest aspect of the standard-setting arrangements is the IAASB Consultative Advisory Group (CAG). Consultation with some thirty external public and private sector institutions which are represented on the CAG enables the IAASB to obtain advice on its work plan and project priorities, technical advice on projects and other input of relevance to its activities. The CAG elects its own chair, who is an official non-voting observer to all IAASB meetings, with the right of the floor. In addition to the CAG, there are two further official non-voting

observers, namely the European Commission and the Japanese Financial Services Agency.

I believe that the transparency and accountability of these arrangements is second to none amongst standard setters.

This strong governance has led to a high degree of acceptance of the International Standards on Auditing (ISAs). We now count 130 countries that use or are committed to using the ISAs. This is up from some 90 countries in the mid-2000's. It includes all G-20 countries, with the exception of Saudi Arabia.

**Strong governance has led to a high degree of acceptance of the International Standards on Auditing (ISAs). We now count 130 countries that use or are committed to using the ISAs. This is up from some 90 countries in the mid-2000's. It includes all G-20 countries, with the exception of Saudi Arabia.**

Many of the world's major capital markets accept the use of ISAs for the audit of financial statements of foreign issuers.

The World Federation of Exchanges (WFE) has formally endorsed in 2006 the IAASB's processes for standard setting and recognises the importance of ISAs. In its Press Release the WFE stated: "*The WFE represents 57 securities and derivative markets that account for more than 97% of world*

*stock market capitalisation. Its endorsement provides important impetus for convergence to international standards, which is among IFAC's and the IAASB's most critical goals.*"

In 2009, the International Organization of Securities Commissions (IOSCO) issued an endorsing Statement about the IAASB's auditing standards. It said: "*International auditing standards – either of themselves or as a touchstone for the determination of national auditing standards – provide a basis for a common auditing language that investors, auditors, audit oversight bodies and securities regulators can use as they carry out their respective roles in the global capital markets... IOSCO endorses the replacement of the previous ISAs with the new standards, noting the improvements that have resulted from clarifying the ISA requirements.*"

The Financial Stability Board's (FSB) Compendium of Standards lists the various economic and financial standards that are internationally accepted as important for sound, stable and well functioning financial systems. The FSB has identified ISAs as one of the 12 key standards for sound financial systems and deserving of priority implementation depending on countries' circumstances.

The World Bank, which jointly with the International Monetary Fund, has instituted a programme of Reports on the Observance of Standards and Codes by countries, uses ISAs as the benchmark for assessing

the quality of national auditing standards. In the public sector, the International Organization of Supreme Audit Institutions (the global organisation for national-level government auditors) uses ISAs as the basis of its financial audit guidance.

The members of the Forum of Firms (currently 31 international accountancy networks) have committed to have policies and methodologies for the conduct of transnational audits that are based, to the extent practicable, on ISAs.

All this support and increasing global use of the IAASB's auditing standards is most encouraging. However, issuing the ISAs and having them adopted by national standard setters is only part of the convergence story. The job is not complete without successful implementation. The importance of this cannot be overstated and the level of effort for successful implementation should not be underestimated. Whilst specific implementation considerations will vary by jurisdiction and depend on which ISAs are currently in force, there are some general considerations that may be relevant to all those responsible for successful implementation of the ISAs. These include actions by a number of bodies.

*For national standard setters, legislators and others involved in setting standards:*

- Establishment of adoption and convergence plans, including process and timetable considerations, such that the implementation period for auditors is maximised

- Optimisation of translation activities and related timetables
- Development of implementation guidance relevant to the particular jurisdiction
- Communication of national processes and timetables so that auditors may plan implementation with certainty

*For regulators and oversight bodies:*

- Issuance of applicable regulatory statements or pronouncements
- Development, or updating, of inspection and oversight policies and related internal training programs

*For IFAC member bodies, such as the ICAI, and committees:*

- Development, or updating, of continuing professional development programs (courses and other relevant training materials)
- Updating of relevant pre-qualification programs

*For accountancy firms and audit practitioners:*

- Review of firms' systems of quality control, audit methodologies and technology and other enablement
- Development, or updating, of training programs

Increasingly the IAASB provides support material to new or revised ISAs in order to assist all the parties mentioned above with understanding and implementing these standards. This may include non-authoritative guidance such as

flowcharts, diagrams, webcasts, illustrations and examples, frequently asked questions etc.

Post-implementation reviews (PIRs) are another important feature of standard setting and convergence. By carrying out such PIRs, we learn about the implementation in practice across the globe, including differences and challenges. These lessons are important input for future standard setting or revision, and/or further practical guidance. We will soon start a PIR about the enhanced auditor reporting standards, including key audit matters, which were issued in January 2015.

Closely related to the setting of standards and their adoption and implementation is an intense outreach programme. This relates to all the stakeholder groups mentioned above, as well as many others. It is important during the development process of standards, as well as after their finalisation, to maintain an active dialogue with all parties that have an interest in using them. This is one of the reasons why the IAASB has also indicated in its most recent Strategy and Work Plan consultation that it wishes to deepen its connectivity and collaboration opportunities with stakeholders.

*But – is it enough? What are some challenges to a successful process of adoption and implementation, and resulting convergence?*

In 2004 an important study report about convergence was issued by Peter Wong, a former IFAC Board member and past president of the Hong

# Vision – Global Leaders

Kong Institute of CPAs, titled: *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs*. The author summarises well what I have described before: “Achieving international convergence, however, requires more than theoretical support. It requires reaching consensus as to the international standards that will serve as the foundation for financial reporting and auditing globally, determining how to facilitate the adoption of those standards, and ultimately, taking the actions necessary to encourage implementation.” The study dealt with seven potential challenges or ‘Issues’: incentives, regulation, culture, scale, understandability, translation and education. It describes a range of ‘success factors’ and proposed actions for various stakeholders, such as the international and national standard setters, professional accountancy bodies, educational institutions and others.

The Wong Report concludes: “As progress on international convergence continues, it is vital that there be frequent open and ongoing dialogue between regulators, international standard setters, and national standard setters and that these groups continue to listen to the concerns and needs of those who will have to implement the standards. Significant consideration should be given to the effect of international convergence on small- and medium-sized entities and accounting firms.”

I have quoted this concern regarding smaller entities

and practices explicitly, as this – despite many efforts regarding incorporating in the ISAs scalability and proportionality, and special considerations for these practices – remains a serious issue. As part of responding to ongoing calls in this regard, the IAASB has recently issued a Discussion Paper for comment, titled “Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs.” The press release notes: “The IAASB recognises the global call for action to address issues of complexity, length, understandability, scalability, and proportionality related to using the ISAs. Continuing the debate on these strategic issues, the Discussion Paper explores how the IAASB, and others, could further support auditors working in increasingly evolving environments.”

The IAASB recognises the global call for action to address issues of complexity, length, understandability, scalability, and proportionality related to using the ISAs. Continuing the debate on these strategic issues, the Discussion Paper explores how the IAASB, and others, could further support auditors working in increasingly evolving environments.

This is certainly an important challenge. There are more challenges of course, but many have also been addressed over the years, including translations, implementation guidance, outreach and adoption. The important contributions worldwide by IFAC and its member bodies and committees, as well as national standard setters, deserve mention here.

An important uncertainty is the outcome of the work of the Monitoring Group about the governance and oversight of international standard setting. A first consultation paper triggered mixed reactions, and a second paper is long overdue. It will be important that there are convincing analyses and evidence for any recommendations to change the current model, which is robust and conducive to international convergence as has been highlighted in this article.

All in all, let me conclude with a final and very true quote from the Wong Report: “International convergence is vital to economic growth. Thus, while the challenges are great, the rewards are potentially even greater.”

International convergence is vital to economic growth. Thus, while the challenges are great, the rewards are potentially even greater.

It has been my very pleasure to serve this public interest goal for so many years. ■