



# **Impact of Clarified International Standards on Auditing (ISAs) on Audit**

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# Clarity Project – Improvements

Improvements arising from the Clarity Project broadly comprise:

- ◆ Identifying the auditor's overall objectives when conducting an audit in accordance with ISAs;
- ◆ Setting one or more objectives in each ISA and establishing the auditor's obligation in relation to those objectives;
- ◆ Clarifying the obligations imposed on auditors by the requirements of the ISAs and the language used to communicate such requirements;
- ◆ Reducing ambiguity about the requirements an auditor needs to fulfil;
- ◆ ISA 200 contains guidance as to general circumstances and conditions that may give rise to failure to achieve an objective.
- ◆ Improving the overall readability and understandability of the ISAs through structural and drafting improvements; and
- ◆ Including considerations specific to public sector and smaller entities in the application and other explanatory material.
- ◆ Focus on professional judgment – new guidance when professional judgment may be regarded as reasonable and how it may be evaluated.

# How will adoption of clarified ISAs affect audits

- ◆ **The principal areas where the changes are likely to impact current practice are:**
  - **Documentation**
  - **Auditing of accounting estimates and fair value estimates**
  - **Evaluation of misstatements**
  - **Using the work of experts**
  - **Audit of related parties**
  - **Communications with those charged with governance**
  - **Group audits**
- ◆ **Applicable date of financial statements audits periods beginning on or after December 15, 2009 – present some difficulties.**

# Adoption of Clarified ISAs as National Auditing Standards – View of Six Large Global Network of Accounting Firms

## Principle 1 : Basis of Auditing Standards

### ISAs should be adopted as National Standards for Audits of financial statements.

- The trend towards globalisation of capital markets reinforces the need for global Auditing Standards.
- ISAs are credible because the IAASB's standards setting process brings together views and experiences from the full range of stakeholders and geographies.
- The IAASB's Clarity Projects has resulted in auditing standards that are understandable, clear and capable of consistent application.
- Adopting the clarified ISAs will improve audit quality and reduce overall costs, including the cost of capital.

# Adoption of Clarified ISAs as National Auditing Standards – View of Six Large Global Network of Accounting Firms

## Principle 2 : National Standards

### National standards for financial statement audits should be identical for ISAs.

- The full benefits of a single set of high quality auditing standards can only be realised if those standards apply to all audits around the world.
- Modifications to ISAs as issued by the IAASB, whether adding to or subtracting from the requirements of the ISAs should be avoided except where they meet local regulatory requirements.

# Adoption of Clarified ISAs as National Auditing Standards – View of Six Large Global Network of Accounting Firms

## Principle 3 : Variation of Entity Size and Types

### ISAs should be used for Audits of entities of all sizes and types

- Users of audit reports will have increased confidence if all audits are conducted based on a common set of standards.
- The clarified ISAs are specifically designed to be scalable. The Standards include guidance designed to demonstrate how to apply them in audit of small and medium sized entities.

# Value of Audit Report – Recent Survey

- ◆ **Recent survey conducted by Maastricht Accounting, Auditing and Information Management Centre (MARC) of Maastricht University.**
- ◆ **Survey commissioned by Global Public Policy Committee (GPPC) (a Global Forum of representatives from the six largest international accounting firms).**
- ◆ **Survey targets CFOs, Audit Committee Members and Financial Analysts in certain European Countries to obtain their perspectives on the value of audit.**

# Value of Audit Report – Recent Survey

## ◆ Survey Findings

The MARC report's main conclusion found that:

- The auditor's work increases financial analysts' confidence in and reliance on financial statements.
- The audit of financial statements meets CFO and audit committee members' key expectations and is considered to be a valuable source of assurance.
- CFOs and audit committee members value communication with the auditors as part of the audit process, and find it useful to work with the auditor on financial reporting issues.
- Respondents highlighted a need to reconsider what an audit might offer in the future in terms of insights from auditors, given an appropriate regulatory environment. Some suggested areas include providing a holistic view of the business, risk management insights and commentary on internal control.

# Thank You



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