

**“International Auditing and Assurance Standards:
Implementation Challenges and Success Factors”**

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It is my pleasure to be here with you today in the capital of Argentina at CReCER 2011. Before I begin, I'd first like to congratulate the organizers on their bringing together business, professional, and policy leaders from around the world to stimulate debate on strengthening financial systems in new economies. I'd also like to acknowledge Mr. Fermin del Valle, past president of the International Federation of Accountants (IFAC) from Argentina, who is in the audience today. He was IFAC's president at the time of my appointment as IAASB chairman and hence one of the reasons Argentina holds special meaning for me.

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that serves the public interest by setting high-quality standards for auditing, review, other assurance, quality control, and related services. Through its standards, the IAASB seeks to enhance the quality and consistency of practice throughout the world and strengthen public confidence in the auditing and assurance professional at the global and local levels.

I was appointed IAASB Chairman in 2009, when the work of my predecessor John Kellas and his team to establish the Clarity International Standards on Auditing (Clarity ISAs) was just completed—so I cannot take credit for that tremendous accomplishment. But I began my role at a very exciting time: taking the new Clarity ISAs and seeing that they are adopted and implemented globally, while also leading the IAASB to explore major new audit and assurance developments.

The Clarity ISAs: A Global Perspective

Now, let me focus on the Clarity ISAs and their global adoption and implementation. Where are we now? Overall, there is a tremendous amount of support globally for their use. For example, you can quote statements of support from international bodies such as IOSCO, the Basel Committee on Banking Supervision, the Financial Stability Board, the UN Conference on Trade and Development (UNCTAD), the World Bank, and the World Federation of Exchanges. In the private sector, the audit methodologies of the top 22 global auditing networks, not just the big four, are based on the Clarity ISAs. In the public sector, the International Standards of Supreme Audit Institutions (ISSAIs) include the Clarity ISAs along with supplemental guidance for public sector auditors; this illustrates, for example, how the ISAs can be applied across a wide range of entities. So it is fair to say that there is one global auditing language now, both for the private and the public sector!

OK, that's nice, but where are the countries? As you can see [slide reproduced below], there are many countries in all corners of the globe—from the Americas, to Europe and the Asia-Pacific, to Africa and the Middle East—that already are using the Clarity ISAs or have committed to using them in the near future. When I started counting a year ago, there were approximately 30 countries; today, there are more than 70. And in many more, like Argentina, as we just have heard, there are likewise positive developments towards Clarity ISA adoption.

Adoption of ISAs: Globally Supported

Where Are We Now?

Countries Using Clarified ISAs already, or Committed to Using them in the near future:

Americas: Brazil, Bahamas, Barbados, Canada, Cayman Islands, Costa Rica, Guyana, Jamaica, Mexico, Nicaragua, Panama, Trinidad and Tobago, Uruguay, USA (private companies), Puerto Rico (private companies)

Europe: Albania, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Georgia, Greece, Hungary, Iceland, Ireland, Kosovo, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Serbia, Slovakia, Slovenia, Sweden, Switzerland, Turkey, United Kingdom

Asia/ Pacific: Australia, Bangladesh, China, Hong Kong, India, Japan, Kazakhstan, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Singapore, South Korea, Sri Lanka

Africa/ Middle East: Botswana, Kenya, Lebanon, Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Tunisia, Uganda, United Arab Emirates (Abu Dhabi and Dubai), Zambia, Zimbabwe

An important goal of the Clarity Project was to promote greater understandability and consistency of application of the ISAs by establishing a new structure, conventions, and obligations. By eliminating ambiguity about the requirements auditors need to fulfill, the IAASB aimed to enhance the quality of audits conducted worldwide. We learn from feedback that this has been much appreciated: the ISAs are now said to be much easier to read and comprehend.

It should not be overlooked, however, that there is also much new in the Clarity ISAs. Another goal of the Clarity Project was to enhance the quality of audits in areas that needed priority attention. So, in addition to clarifying them, nearly half of the ISAs have been substantively revised. The revisions address many contemporary issues, with new and expanded requirements in relation to gathering and evaluating audit evidence; key audit areas, such as fair value accounting estimates and related parties; materiality; using the work of others, such as experts; and auditor reporting and communications, including with those charged with governance.

Equally importantly is that the ISAs are principles-based and emphasize the use of professional judgment and the need for the auditor to plan and perform an audit with professional skepticism, in particular when critically assessing audit evidence. The Clarity ISAs are intended to stimulate a 'thinking audit' and thereby enable auditors, and the standards themselves, to be capable of effectively adapting to future auditing challenges.

In a sense, the Clarity ISAs deliver a proactive response to regulatory concerns being noted now on some audits. When we engage in dialogue with audit regulators and inspectors, we learn that a number of these concerns are observed in the context of the application of existing national standards or the pre-Clarity ISAs. We believe that the adoption and effective implementation of the Clarity ISAs, including adequate training on them, will lead to added rigor in audits, thereby responding to issues raised by the global financial crisis. Of course it is not possible to say that the Clarity ISAs will address all issues, but we believe they go a long way to enhancing audit quality—a broad and important matter not only for us, but one that is on the minds of the European Commission (EC), national oversight bodies, the global firms, and others.

Achieving the Full Benefits of the Clarity ISAs: A Focus on Implementation

But the standards themselves are only one part of the equation: there is also the essential matter of implementation. Plans need to be made for adoption, yes, but planning must also consider training and support. We should not, and do not, underestimate the practical challenges of implementation, and how critical support is—especially for small- and medium-sized practices (SMPs) and others that audit small- and medium-sized entities (SMEs). SMPs need practical support, through guidance and tools, to help overcome perceived barriers to effective and efficient implementation. This is an area where the IAASB and IFAC have been very active, but there remains a critical role for national standard setters and other bodies to support successful implementation. I must say how very pleased I am to hear at nearly all the sessions of this conference the emphasis and attention being given to the importance of training and implementation in the context of SMPs.

In this regard, a key message that a member of the IAASB—who also leads a small practice—stresses in his outreach (and also stressed in Clarity ISAs themselves) is the need to take the time to read and understand the ISAs, to study what they say. Then: to think about how to apply the ISAs in a manner that is tailored to the firm’s client base; that is, to think about which ISAs are relevant and which ones are not. For example, why develop checklists and work programs on an ISA dealing with internal audit if none of the SMP’s clients have an internal audit function? From there: invest in tools and innovate in training, for example through a series of short lunch-and-learn sessions with firm staff.

Another important element in implementation of the Clarity ISAs is *proportionality*; that is, applying the ISAs proportionately with the size and complexity of an entity. Indeed, this is a critical success factor in the use of ISAs in the SME context and a matter in which many bodies around the globe are keenly interested.

When you read the Clarity ISAs you will see much material explaining how the requirements can be applied in the context of an SME audit. This guidance is included in sections of the application material in the ISAs under the subheadings, “Considerations Specific to Smaller Entities.” The IAASB paid particular and deliberate attention to ensuring that the ISAs could be applied to audits of all entities—whether small or large, whether simple or complex. It was also alert to the needs of those that audit SMEs—an important sector of national economies and one that is particularly sensitive to “standards overload.” The appropriate exercise of professional judgment, of course, is essential to the proper conduct of an audit and judgment is necessary regarding decisions about the nature, timing, and extent of audit procedures used to meet the requirements of the ISAs and gather audit evidence. I encourage you to download our 2009 staff publication on proportionate application of the ISAs to gain a deeper understanding of their design and intent and how auditors of SMEs can apply them in a relevant and cost-effective way.¹

In supporting effective implementation, the IAASB has issued a number of other staff publications and tools, available for free on the IAASB Clarity Center website.² For example, there are non-authoritative

¹ IAASB Staff Questions and Answers, *Applying ISAs Proportionately with the Size and Complexity of an Entity* is available at <http://web.ifac.org/publications/international-auditing-and-assurance-standards-board/practice-alerts-and-q-as>

² IAASB Clarity Center: <http://web.ifac.org/clarity-center/index>

ISA Modules, which consist of short video presentations and slides that explain the key principles of, and major changes in, individual ISAs. These Modules have been very well-received by auditors in the field, trainers, and those responsible for promoting awareness and acceptance of the Clarity ISAs and supporting implementation. IFAC's SMP Committee has also released a guide to using ISAs in the audits of SMEs and a guide to quality control for SMPs.³

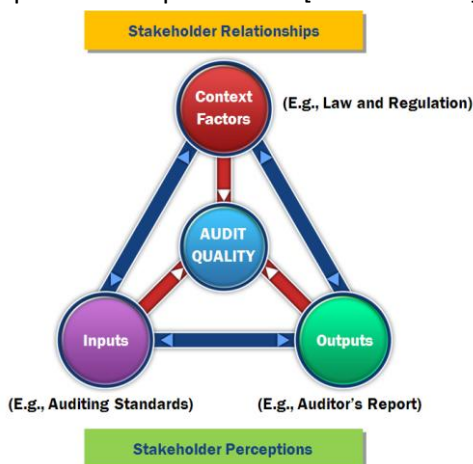
Let me also take a minute to comment on translations. We are in a part of the world where translation is very important. IFAC has dedicated resources to facilitating high-quality translations. And, I must acknowledge the success achieved through the unprecedented cooperation between the Spanish profession, its regulator, the Latin American profession, and IFAC in translating the ISAs into Spanish. And Brazil was fast with its translation into Portuguese. In addition, the SMP Guides I mentioned have already been translated into Portuguese and are currently being translated into Spanish. I believe these are pivotal and timely developments that bode well for further adoption of the ISAs.

Enhancing Relevance

I now turn to an equally important matter: enhancing relevance. Many reports—for example from the UK Treasury Select Committee and the House of Lords Inquiry, but also a recent speech from PCAOB Chairman Doty—signal that the global financial crisis was not because of audit failures. Audit also didn't prevent the crisis. But this gives rise to an important question: how relevant are audits then after all?

Let me be perfectly clear: audit is relevant. This is why the World Bank and others continue to invest in the development of the audit profession in new economies and globally. But we have to look forward and continue to challenge the status quo if audit and the profession are to continue to be relevant.

In this regard, the IAASB has several important projects currently underway. Setting the scene for these is our work on audit quality. In January, the IAASB released the publication *Audit Quality: An IAASB Perspective*.⁴ The diagram developed for that publication [shown below] says a lot.



³ The IFAC Small and Medium Practices Committee's *Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities, Second Edition* and *Guide to Quality Control for Small- and Medium-Sized Practices, Second Edition*, are available at <http://web.ifac.org/publications/small-and-medium-practices-committee/implementation-guides>

⁴ *Audit Quality: An IAASB Perspective* is available at <http://web.ifac.org/publications/international-auditing-and-assurance-standards-board>

Inputs like auditing standards, audit methodology, and attributes of audit staff are highly important, yes—as are contextual factors, such as sound corporate governance regimes, laws and regulations, and oversight. But what about the users who receive reports from the auditor? They do not necessarily see the input to the audit, but rather the outputs of the audit—the audit report and other communications. These outputs substantially influence perceptions of audit quality.

Thinking about these perceptions has led to the IAASB's project on auditor reporting. What is the issue? Users and regulators alike are demanding to know more about individual audits and to gain further insights into the audited entity. While the audit is valued, many perceive that the auditor's report lacks communicative value. So, can auditors do more? That is the question, but the answer is not straightforward. There are many complex issues. For example: Who should report additional information—the entity, in the first instance, or the auditor? Should the auditor's opinion be given greater emphasis in the audit report and less be said about the respective responsibilities of management and the auditor (much of which is seen as boilerplate)? Can auditors comment more about key aspects of their audit and draw users' attention to areas of the financial statements where attention should be placed? These are threshold issues and I encourage all to comment on our recent consultation paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*.⁵ The IAASB is an international body and we need to receive and take into account views from around the world.

More broadly, the IAASB also has on its work program a range of other topics, such as review and compilation engagements, which have particular SME relevance. Like the auditor reporting project, there are important considerations relating to perceptions, including ensuring that the standards for these services clearly distinguish them from audits and have effective communication and reporting requirements.

In closing, I have one final point: there is an exciting future for the profession. From my perspective, delivery of key IAASB projects will enhance the relevance of auditing and assurance, particularly to SMEs, and assist in the effective implementation of ISAs around the world—leading to greater confidence in the profession. I strongly believe this. I hope you believe it. And, together, I am confident we can make the future a success. Thank you.

⁵ The IAASB Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, is available at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0163>