



KIBR Seminar

7 October 2013, Warsaw
Centrum Nauki Kopernik

'ISAs and ISCQ 1 Scalability as a Key to Effective Audit'

Katharine Bagshaw, ICAEW:

The Role of a Professional Body in Ensuring that ISAs are Developed, Implemented and Regulated Proportionality



AUDIT & BEYOND

"EXTENDING ASSURANCE TO THE FULL ANNUAL REPORT COULD BE VITAL TO TRUST" PAGE 4

Audit on the record

Mastering your
documentation in
theory and practice

In proportion
Ensuring efficiency
in audits of all sizes

Simple plan
Six steps to
better audit files

Changes afoot
Implications of new
UK GAAP and FRS 102



Big questions, small audits

Proportionality in ISA audits
raises many questions for those
in and around the profession.
Katharine Bagshaw provides
some answers

The word 'proportionality' comes up a lot in discussions about auditing standards and audit regulation. It is important because of the ongoing need to ensure that efficient and effective audits can be performed on entities of all sizes, but particularly on smaller audits. These Q&As discuss some of the issues associated with the idea of proportionality as it is applied to audits that are conducted using International Standards on Auditing (ISA).

Q Why are people talking about proportionality?

A This is because the term 'proportionality' is used in proposed European Union (EU) legislation that would require ISAs to be adopted and to be applied 'proportionately' to smaller audits in the EU.

Generally, the term is used by governments, standard setters and regulators including the European Commission, the International Auditing and Assurance Standards Board (IAASB) and the UK Financial Reporting Council (FRC) among others, in an attempt to ensure that when they develop new standards and regulations, they are not excessively burdensome, particularly for audits of smaller entities.

Q Is there an issue with the auditing standards and regulations themselves, or is it something to do with the way they are applied, or the way they are enforced?

A Everyone has a part to play in making sure that audits are conducted proportionately.

Auditing standards, like other regulations, have developed because they are needed to make the market for audit function properly. Mandatory audits in the UK are principally for the benefit of shareholders, but it is not immediately obvious to shareholders whether a high-quality audit has been conducted.

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PROPORTIONALITY IN AN ISA AUDIT: QUESTIONS AND ANSWERS

*The word ‘**proportionality**’ comes up a lot in discussions about auditing standards. It is important because of the on-going need to ensure that **efficient, effective and profitable audits** can be performed, particularly on **smaller audits**.*

RECENT ICAEW ARTICLE: NOVEMBER 2013, *AUDIT & BEYOND* NEWSLETTER

Q: Why are people talking about 'proportionality'?

*A: Because the term 'proportionality' is used in proposed **EU legislation** that would require ISAs to be adopted and to be applied 'proportionately' to smaller audits in the EU*

RECENT ICAEW ARTICLE: NOVEMBER 2013 *AUDIT & BEYOND* NEWSLETTER

Q: Is there an issue with the auditing standards and regulation themselves, or is it something to do with the way they are applied and enforced?

A: Both. Everyone has a part to play in making sure that audits are conducted proportionately.

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A: **Everyone:**

Q: So who is responsible for making sure that auditing standards and regulation are developed, applied and enforced proportionately?

Standard-setters need to set standards proportionately so that they can be *applied to the audit of small and large entities*;

Auditors need to apply auditing standards proportionately, in the spirit in which they were intended, using their professional judgement;

Audit inspectors need to perform their inspections proportionately, to focus on the *overall quality of the audit* and the judgements made, and to assess whether the work reflects the spirit of the standards, as well as *compliance with the detail*.

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**Q: How can
auditors apply
ISAs
proportionately?**

A: By being ***efficient and avoiding excessive documentation and over-auditing in low-risk areas***. The quality of audit systems and methodologies makes a big difference, but even the best systems rely on auditors thinking before they start documenting audit procedures.

Think, then tick the box, not the other way round.

‘More haste, less speed...?’

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Proportionality does ***not*** mean that auditors can:

- ***ignore relevant ISAs or ISA requirements;***
- ***make arbitrary decisions about their application.***

For example, taking the view that materiality in a smaller audit is *always* a fixed amount, or that certain items are *always* immaterial, or that internal controls in smaller audits can *never* be relied on, are all examples of arbitrary judgements.

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Q: Has anything been done to help auditors apply ISAs proportionately?

A: The idea of an audit conducted proportionately is not new. It is ***a common-sense notion and a pre-requisite for audit quality, audit efficiency and audit practice profitability.***

ISAs recognise that:

- not all ISAs are relevant to all audits
- not all requirements are relevant to all audits.

ISA 230 on audit documentation sets out numerous instances where documentation is not required.

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IAASB Staff Q&A [Applying ISQC 1 Proportionately with the Nature and Size of a Firm and Applying ISAs Proportionately with the Size and Complexity of an Entity](#)

ICAEW's *Right First Time* page on clarified ISAs
icaew.com/en/technical/audit-and-assurance/clarified-international-standards-on-auditing

The Role of A Professional Body in Ensuring that ISAs are Developed, Implemented and Regulated Proportionately

1. Facilitating *dialogue* between standard-setters, regulators and practitioners:

- regular meetings 'ISA Implementation Group'
- round-tables and roadshows

2. Responding to exposure drafts and consultations issued by standard-setters and government

3. Providing guidance to members

The Role of A Professional Body in Ensuring that ISAs are Developed, Implemented and Regulated Proportionately

All of this **before** changes are made, **while** they are being made and **after** they have been made.

ICAEW's ISA Implementation Group

- established **2003**
- UK standards to ISAs (UK and Ireland) **2005**
- from ISAs to clarified ISAs in **2010**
- we are still **very** busy!

The Role of A Professional Body in Ensuring that ISAs are Developed, Implemented and Regulated Proportionately

Roadshows on ISAs run at least once a year since 2003

Websites...

Some examples of ICAEW guidance...



**AUDIT &
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QUALITY CONTROL IN THE AUDIT ENVIRONMENT

A PRACTICAL GUIDE FOR FIRMS ON THE CLARIFIED ISQC 1

INTERNATIONAL EDITION

Published September 2010



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THE AUDIT OF RELATED PARTIES IN PRACTICE



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WITH THE CLARIFIED ISAs

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Published May 2011

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AUDIT &
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AUDITING IN A GROUP CONTEXT: PRACTICAL CONSIDERATIONS FOR AUDITORS

November 2008



Published
November 2008



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AUDITING IN A GROUP CONTEXT UPDATE



To be published December
2013



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Right First Time with the Clarified ISAs

▼ Audit and assurance

- ▶ Audit and Assurance Faculty
- ▶ AuditFutures
- ▶ The future of audit
- ▶ Gain audit rights in UK
- ▶ Working in the regulated area of audit

▼ Clarified ISAs - Right First Time

- ▶ Clarified ISAs - technical support
- ▶ Clarified ISAs - Background

- ▶ Audit Quality Forum
- ▶ re:Assurance

Clarified ISAs provide many opportunities for practitioners in terms of potential efficiencies, better documentation, better reporting to clients, and enhanced audit quality overall.

This modular guide has been developed by ICAEW's ISA implementation sub-group to help medium-sized and smaller firms implement the clarified ISAs and take advantage of these opportunities.

This modular guide is designed to give users the choice of either downloading the publications in its entirety, or downloading specific modules on which they want to focus.

This publication is available free of charge to Audit and Assurance Faculty members by clicking on the links below. Non Audit and Assurance Faculty members can purchase the complete publication via the [shopping basket](#). As an example of the content, Module 4 below is available for everyone to view.

Full version

- ▶ [Right First Time with the Clarified ISAs – complete publication \(PDF 769KB/50 pages\)](#)

ICAEW recommends

- ▶ Clarified ISA coaching
- ▶ PII – exclusive for members
- ▶ Helpsheets
- ▶ Technical releases
- ▶ 11 free videos on professional scepticism and other audit issues

Audit and Assurance Faculty benefits



Right First Time with the Clarified ISAs

▼ Audit and assurance

- ▶ Audit and Assurance Faculty
- ▶ AuditFutures
- ▶ The future of audit
- ▶ Gain audit rights in UK
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▼ Clarified ISAs - Right First Time

- ▶ Clarified ISAs - technical support

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- <http://www.icaew.com/en/join-us/join-a-faculty/faculty>

SMALLER ENTITY AUDITS

- Smaller entity audits are ***not going away*** - even if the vast majority of companies in Europe are audit exempt...
- The ***same auditing standards*** apply to all audits...
- There are many small firms of UK auditors who make a good living from smaller audits...
- Conducting one of two audits is difficult, but there are alternatives to audit such as review engagements...

ICAEW's assurance review over unaudited financial statements

www.icaew.com/en/technical/audit-and-assurance/assurance/assurance-service

IFAC's Review Engagements guide - soon to be finalised



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