

The IAASB - the International Auditing and Assurance Standards Board - the Influence of Institutional Aspects on International Harmonization Concept of Auditing Services

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Summary

The article dealt with institutional aspects of auditing profession, mostly their impact on international harmonization concept of auditing services. The authors of the article mention on importance and tasks of the institution – the IAASB – The International Auditing and Assurance Standards Board, by compiling of strategy of auditing services behavior and development, mostly in context of providing the auditing services. The authors mention on the IAASB priorities in this area set for period 2009 – 2011.

Key words

IFAC, IAASB, IAASB standards, IAASB concept and strategy

IFAC - The International Federation of Accountants - is the worldwide organization for the accountancy profession. Its mission is “to serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession.

IFAC provides leadership to the worldwide accountancy profession in serving the public interest by:

- Developing, promoting and maintaining global professional standards
- Developing, promoting and maintaining a *Code of Ethics for Professional Accountants*
- Convergence of professional standards, particularly, auditing, assurance, ethics, education, and public and private sector financial reporting standards;
- Continuous improvements in the quality of auditing

IFAC has long recognized the need for a globally harmonized framework to meet the increasingly international demands that are placed on the accountancy profession. Major components of this framework are the *Code of Ethics for Professional Accountants*, International Standards on Auditing (ISAs), International Education Standards, and International Public Sector Accounting Standards (IPSASs). IFAC actively supports convergence to ISAs and other standards

developed by IFAC’s independent standard-setting boards.

IAASB - The International Auditing and Assurance Standards Board develops ISAs and International Standards on Review Engagements, which deal with the audit and review of historical financial statements; and International Standards on Assurance Engagements, which deal with assurance engagements other than the audit or review of historical financial information. The IAASB also develops related practice statements. These standards and statements serve as the benchmark for high-quality auditing and assurance standards and statements worldwide. They establish standards and provide guidance for auditors and other professional accountants, giving them the tools to cope with the increased and changing demands for reports on financial information, and provide guidance in specialized areas. The IAASB develops quality control standards for firms and engagement teams in the practice areas of audit, assurance and related services.

In November 2003, IFAC, with the strong support of member bodies and international regulators, approved a series of reforms to increase confidence that the activities of IFAC are properly responsive to the public interest and will lead to the establishment of high-quality standards and

practices in auditing and assurance. The reforms provide for the following - more transparent standard-setting processes, greater public and regulatory input into those processes, regulatory monitoring, public interest oversight, and ongoing dialogue between regulators and the accountancy profession.

1. IAASB - The International Auditing and Assurance Standards Board

The IAASB is committed to the goal of developing a set of International Standards generally accepted worldwide. IAASB members act in the common interest of the public at large and the worldwide accountancy profession. This could result in their taking a position on a matter that is not in accordance with current practice in their country or firm or not in accordance with the position taken by those who put them forward for membership of the IAASB.

The IAASB's pronouncements govern audit, review, other assurance and related services engagements that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern the audit of historical financial statements or assurance engagements on other information in a particular country required to be followed in accordance with that country's national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB's Standards. A Professional accountant should not represent compliance with the IAASB's Standards unless the professional accountant has complied fully with all of those relevant to the engagement.

2. The Authority Attaching to International Standards Issued by the International Auditing and Assurance Standards Board - IAASB

- International Standards on Auditing (ISAs) are to be applied in the audit of historical financial information.
- International Standards on Review Engagements (ISREs) are to be applied in the review of historical financial information.

- International Standards on Assurance Engagements (ISAEs) are to be applied in assurance engagements dealing with subject matters other than historical financial information.
- International Standards on Related Services (ISRSs) are to be applied to compilation engagements, engagements to apply agreed upon procedures to information and other related services engagements as specified by the IAASB.
- ISAs, ISREs, ISAEs and ISRSs are collectively referred to as the IAASB's Engagement Standards.
- International Standards on Quality Control (ISQCs) are to be applied for all services falling under the IAASB's Engagement Standards.

3. International Standards on Auditing

ISAs are written in the context of an audit of financial statements by an independent auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. It is undertaken to enhance the degree of confidence of intended users in the financial statements. ISAs, taken together, provide the standards for the auditor's work in fulfilling this objective.

In conducting an audit, the overall objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor's findings. In all cases when this overall objective has not been or cannot be achieved, the ISAs require that the auditor modifies the auditor's opinion accordingly or withdraws from the engagement. The auditor applies each ISA relevant to the audit. An ISA is relevant when the ISA is in effect and the circumstances addressed by the ISA exist.

The ISAs deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics. An ISA contains objectives and requirements together with related guidance in the form of application and other explanatory material. It may also contain

introductory material that provides context essential to a proper understanding of the ISAs, and definitions. It is, therefore, necessary to consider the entire text of an ISA to understand and apply its requirements.

4. International Standards on Quality Control

ISQCs are written to apply to firms in respect of all their services falling under the IAASB's Engagement Standards. The authority of ISQCs is set out in the introduction to the ISQCs.

5. Other International Standards

The International Standards (ISRE - International Standards on Review Engagements, ISAE - International Standards on Assurance Engagements, ISRS - International Standards on Related Services) contain basic principles and essential procedures together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. The basic principles and essential procedures of a Standard are to be applied in all cases where they are relevant in the circumstances of the engagement. In exceptional circumstances, however, a professional accountant may judge it necessary to depart from a relevant essential procedure in order to achieve the purpose of that procedure. When such a situation arises, the Professional accountant is required to document how alternative procedures performed achieve the purpose of the procedure, and, unless otherwise clear, the reasons for the departure.

6. Strategy and work program IAASB for the period 2009 – 2011

The International Auditing and Assurance Standards Board (IAASB) develops International Auditing Standards, International Standards on Review Engagements and International Standards Assurance Engagements. The IAASB develops also quality control standards for firms and engagement teams in the practice areas of audit, assurance and related services. Here is the list of all IAASB standards:

7. International Standards on Quality Control (ISQCs)

Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

8. Audits and Reviews of Historical Financial Information

- 100-999 International Standards on Auditing (ISAs)
- 100-199 INTRODUCTORY MATTERS
- 200-299 GENERAL PRINCIPLES AND RESPONSIBILITIES
- 200 Objective and General Principles Governing an Audit of Financial Statements
- 210 Terms of Audit Engagements
- 220 Quality Control for Audits of Historical Financial Information
- 230 Audit Documentation
- 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements
- 250 Consideration of Laws and Regulations in an Audit of Financial Statements
- 260 Communication of Audit Matters with Those Charged with Governance
- 300-499 RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS
- 300 Planning an Audit of Financial Statements
- 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- 320 Audit Materiality
- 330 The Auditor's Procedures in Response to Assessed Risks
- 402 Audit Considerations Relating to Entities Using Service Organizations
- 500-599 AUDIT EVIDENCE
- 500 Audit Evidence
- 501 Audit Evidence—Additional Considerations for Specific Items
- 505 External Confirmations
- 510 Initial Engagements—Opening Balances
- 520 Analytical Procedures
- 530 Audit Sampling and Other Means of Testing
- 540 Audit of Accounting Estimates
- 545 Auditing Fair Value Measurements and Disclosures
- 550 Related Parties
- 560 Subsequent Events
- 570 Going Concern
- 580 Management Representations

600-699 USING WORK OF OTHERS
 600 Using the Work of Another Auditor
 610 Considering the Work of Internal Auditing
 620 Using the Work of an Expert
 700-799 AUDIT CONCLUSIONS AND REPORTING
 700 The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements
 701 Modifications to the Independent Auditor's Report
 710 Comparatives
 720 Other Information in Documents Containing Audited Financial Statements
 800-899 SPECIALIZED AREAS
 800 The Independent Auditor's Report on Special Purpose Audit Engagements

1000-1100 International Auditing Practice Statements (IAPs)

1000 Inter-Bank Confirmation Procedures
 1004 The Relationship Between Banking Supervisors and Banks' External Auditors
 1005 The Special Considerations in the Audit of Small Entities
 1006 Audits of the Financial Statements of Banks
 1010 The Consideration of Environmental Matters in the Audit of Financial Statements
 1012 Auditing Derivative Financial Instruments
 1013 Electronic Commerce—Effect on the Audit of Financial Statements
 1014 Reporting by Auditors on Compliance with International Financial Reporting Standards
2000-2699 International Standards on Review Engagements (ISREs)
 2400 Engagements to Review Financial Statements (Previously ISA 910)
 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity

9. Assurance Engagements Other Than Audits or Reviews Of Historical Financial Information

3000-3699 International Standards on Assurance Engagements (ISAEs)
 3000-3399 APPLICABLE TO ALL ASSURANCE ENGAGEMENTS
 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information
 3400-3699 SUBJECT SPECIFIC STANDARDS

3400 The Examination of Prospective Financial Information (Previously ISA 810)

10. Related Services

4000-4699 International Standards on Related Services (ISRSs)
 4400 Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (Previously ISA 920)
 4410 Engagements to Compile Financial Information (Previously ISA 930)

The **IAASB** in its **strategy** and **work program** for the years 2009 – 2011 sets some main tasks relating development and implementation of auditing standards:

- *activities relating to development of Standards:*
- development of high quality up-to-date auditing standards,
- development of standards on the effective operation of the world's capital market and the needs of SMEs (small and medium-sized entities),
- *activities relating to the global acceptance, convergence and partnership,*
- *activities relating to implementation,* in this case the IAASB plans:
 - to co-operate with other subjects by providing implementation of ISAs,
 - to develop a process for assessing the effectiveness of the implementation of new standards,
 - to consider other activities to facilitate the implementation of its standards, including in the audit of SMEs,
 - *activities relating to communication.*

The goal of the IAASB is to develop a set of up-to-date high quality standard for the audit of historical financial information. High quality auditing standards, particularly ISAs, help by enhancing public confidence in Financial Reporting. Furthering globalization has involved the revisions to many of the auditing standards over the past five years. The focus of IAASB on auditing standards in last few years was in response to calls from auditors and regulators to ensure, that the auditing standards were high quality standards that were worthy of global acceptance and would facilitate convergence. In the next few years, the IAASB intends to focus the development of standards on the effective operation of the world's capital markets and the needs of SMEs.

World's capital markets are the markets that are under the high public interest. High quality auditing standards, particularly ISAs, contribute to high quality financial reporting which ultimately leads to growth and efficiencies in the capital markets, decreased cost of capital, reduced corruption and also improved decision making and transparency. Very important are also the needs of SMEs. It exist the question, if the ISAs are the right standards for SMEs or if the audit is the right service for SMEs. Some countries assert the exemptions relating audit or auditing standards for those entities. But IAASB has the view, that audit is an audit and that ISAs are the standards to be applied to all audits. So, the IAASB does not support any possibility that the audit of SMEs might be carried out to limited auditing standards. The IAASB intends the revision of ISA 610 – Using the Work of Internal Auditors in the 2nd quarter of 2009, also the revision of ISA 720 – The auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements in 1st quarter of 2010. Next goal of the IAASB in 1st quarter of 2009 is to develop guidance for auditors on the approach to be followed when XBRL financial statements are to be filed together with the auditor's report. Further planned activities are the revision of ISAE 3400 – The Examination of Prospective Financial Information in 3rd quarter of 2009, the revision of ISRE 2400 – Engagements to Review Financial Statements and ISRS 4410 – Engagements to Compile Financial Statements in 1st quarter of 2009. The IAASB intends to develop an assurance standard on reporting on carbon emissions information. Strategy contents also activities that are of a monitoring nature, for example:

- monitor technology-related matters, that may affect the audit of financial statements,
- monitor the developments in auditing to assess, if is necessary to develop guidance,
- monitor the developments of national standards setters and others with regard to an alternative assurance service for SMEs to determine whether a service other than compilation, review or audit is necessary etc.

Project/Revision	Planned Date
Revise ISA 610 – Using the Work of Internal Auditors	2 nd quarter 2009
Revise ISA 720 – The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements	1 st quarter 2010

Revise ISAE 3400 – The Examination of Prospective Financial Information	3 rd quarter 2009
Revise ISRS 4410 – Engagements to Compile Financial Statements	1 st quarter 2009
Revise ISRE 2400 – Engagements to Review Financial Statements	1 st quarter 2009

Convergence and global acceptance of ISA is an important strategic initiative of the IAASB. The vision is that the International Standards on Auditing, which develop IFAC in the public interest are adopted and applied internationally, said John Kellas, the chairman. It is the fact, that ISAs use more that 100 countries in the world. Also some international bodies use ISAs as the basis for their guidelines and methodologies. In order to facilitate global acceptance, convergence and partnership the IAASB plans these activities:

- discuss with national standard setters, oversight bodies that monitor audit quality and international regulators,
- cooperate with the International Organization of Supreme Audit Institutions, promoting the use of ISAs as the basis for audits in the public sector,
- consult with IFAC Small and Medium Practices Committee on issues of relevance to SMEs and practices regarding audit and quality control standards etc.

The next step after the development of standards is their implementation. The process of implementation is also as important as their development. By the implementation of auditing standards IAASB also plans to co-operate with other IFAC boards, regional and national professional accountancy organizations, the Forum of Firms, national standard setters, regulators and development agencies. The goal of the IAASB is to develop a process for assessing the effectiveness of the implementation of new standards. Such process facilitates to detect the needs for further refinement of those standards. The IAASB plans to consider also other activities to facilitate the implementation of auditing standards, including in the audit of SMEs. Other activities include for example preparing of guide on quality control to assist smaller firms of auditors. IAASB plans to identify implementation guidance developed by professional accountancy organizations, national standards setters and others that is applicable in an international context; and communicate the existence of and facilitate access to such guidance.

The goal of the communication process of IAASB is to promote its activities, initiatives and plans. The communication with interested bodies facilitates the development of new standards and projects and also facilitates the process of implementation of new or revised standards. Activities relating to communication include these goals:

- IAASB also intends to publish a short note of key changes introduced as a result of the new or revised standard; this should help professional accountants in implementing the standards,
- consultation with the International Accounting Standards Board (IASB) on financial reporting developments that may affect the pronouncements of the IAASB or create a need for new auditing standards,
- issue a press release relating to major activity of the IAASB,
- issue IAASB eNews communications,
- publish an annual report on the performance of the IAASB,
- through the IAASB web site promote the activities and publications of the IAASB,

- consider, if it is possible to translate the IAASB eNews and the list of most important IAASB activities and the IAASB annual report in the five languages of the United Nations.

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