



Australian Government

Auditing and Assurance Standards Board

Addressing the Scope of Assurance – International and Australian Perspective

Financial Reporting and Auditing Conference – A New Landscape

Victoria University of Wellington
20 October 2010

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Factors Impacting on Scope of Assurance:

- Role of Auditing - Current Challenges
- Audit Quality Debate
- Auditing and Assurance Standards: Adoption and Implementation
- Innovation and Responsiveness – Current Initiatives and Emerging Issues

Review Engagements

- Meeting SME needs



Role of Auditing - Fundamentals

- The external audit is the assurance baseline
 - Underpins quality and credibility of financial information, and public confidence in financial reporting and disclosure
 - Is a critical part of regulatory and supervisory infrastructure
 - Is an activity of significant public interest
- High quality audits promote efficient and effective capital markets and are integral to financial stability
- The perceived value of the audit is influenced also by perceptions of its relevance



Auditing Standards

- Public Interest
- Improved global Auditing Standards
- Need to improve audit quality



Recent economic challenges to the effectiveness of audits

- Unparalleled stress on financial markets and the world economy
 - Financial turbulence and spill-over effects; economic and social disruption; concerns over sovereign risk
 - Amplified the need for, and importance of processes that promote international financial stability
- Institutions and processes that contribute to financial stability are being extensively re-examined
- Fundamental questions about future of auditing:
 - The value of auditing is strongly affirmed
 - The role and relevance of audits can be enhanced



Further challenges for the Future of Auditing and Assurance

- Significant increase in complexity of financial reporting and financial information disclosure
 - Relevance from the perspective of users
 - Scope of the financial statement audit questioned
 - Nature of audit processes and auditor judgment under scrutiny
- Call for improved auditor communication
- Call for more transparent audits and transparency of audit firms



The Audit Quality Debate

- There must be public trust in the integrity and quality of work
- What is the value of an Audit?
 - Who's interested to know?
- Demand side
 - Consumers of audit services (variety of different users incl. entities – large and small, public interest and non-public interest; governing bodies of audited entities; current and future shareholders, investors, lenders, suppliers, grant-funding bodies)
 - Financial intermediaries (financial analysts); regulators and supervisors
- Supply side
 - Auditors and audit firms
 - Professional accounting bodies



The Audit Quality Debate

- Substantial existing body of research and policy analysis on audit quality
- What is audit quality?
 - It is described from many different perspectives; there is no universal definition.
 - It is multi-faceted: different users see different aspects as being important to audit quality
 - It is not directly observable or measurable; different proxy measures are identified in the audit quality research literature
- Audit quality is an intrinsic part of standard setting
 - High quality auditing standards are one element of audit quality
 - High quality audit work is vitally important



Important Elements of AUDIT QUALITY

Contextual Factors	<ul style="list-style-type: none">• Governance and Accountability Arrangements• Regulation and Oversight• Participants and Perceptions; Markets
Outputs & Responses	<ul style="list-style-type: none">• Auditor's Report• Other Auditor Communications and Disclosures• User Responses and Interactions, e.g. Audit Committees• Client service and audit fees
Inputs & Indicators	<ul style="list-style-type: none">• Audit Process and Quality Control• Audit Evidence and Auditor Judgment• Auditing Standards• People: Education, Ethics, Mindsets; Culture• External Expectations (also a context factor)



Audit Quality: Context and Importance

- Who is responsible for delivering audit quality?
 - Professional auditors and audit firms
 - Clients and their governing bodies including audit committees
- Many other participants influence audit quality
 - Regulators and policy-makers, incl. auditing standard setters and auditor oversight/inspection bodies
 - Professional accounting bodies; academic institutions



Some Observations ...

- There is an increased global effort to embed audit quality
 - Firms' quality control processes and procedures
 - Policy makers look to identify key drivers of audit quality
 - Auditor oversight bodies and inspection bodies are proactive in pointing out threats to delivery of audit quality
 - Regulators require more transparency from audit firms
- Professionalism and standards; training; use of sound processes and methodologies are important elements
- However audit quality is also a contextual concept - how it is achieved inevitably differs in individual audits to some degree



Implementation Challenges

- Effective implementation is key to realising full benefits of audit quality
- Challenges exist for auditors and audit firms, clients and national audit regulators/oversight bodies
 - Capacity building, training and education
 - Audit methodologies, programs, manuals
 - Consistent application of the standards
 - Application in SME audits; proportional application
- Quality control and compliance



Auditor Reporting and Communication

- Users generally appear to want more from auditors
 - What users want differs between various types of users
- Research revealed user needs broadly related to:
 - More information about the audit process and about the results of the audit (e.g. materiality thresholds; level of assurance)
 - More information about the audited entity (e.g. qualitative aspects such as quality of financial reporting; adequacy of risk assessment processes)
 - Assurance on additional matters relating to the audited entity (e.g. on effectiveness of the entity's internal controls)



Auditor Reporting and Communication

(continued)

- Professional Scepticism – raising the bar on matters to be communicated (e.g. *ISA 250 Laws and Regs*, *ISA 265 Internal Control Deficiencies*)
- Continuous Auditing – a new perspective (aided by XBRL/SBR)
- Sustainability Reporting and Assurance – Assurance on Greenhouse Gas Emissions Reports



Meeting SME Needs

- High IAASB priority on development of appropriate response
 - First priority on revising existing international standards on financial statement reviews and compilation engagements
- Key areas under consideration:
 - Compilations (non-assurance engagement): scope; work effort and reporting
 - Reviews (limited assurance engagement): work effort and reporting



Meeting SME Needs (continued)

- Compilations (ISRS 4410)
- IAASB ED proposes more robust approach than existing ISRS 4410
 - Need to consider appropriateness for each jurisdiction
 - Independence issues undertaking review of compilation report
 - Approved by IAASB for exposure
- Reviews (ISRE 2410)
 - Underlying concept is that assurance practitioner must be “risk informed”
 - Nature and extent of review procedures still under discussion
 - Form of review conclusion (negative v positive) still being considered
 - Extent of work effort if likely misstatements are detected
 - Expected to be approved by IAASB for exposure in December



An AUASB Initiative - ASRE 2415 Reviews – Companies Limited by Guarantee

- Brought about by amendments to the *Corporations Act* 2001 that became effective for financial reporting periods ending on or after 30 June 2010, which permit certain companies limited by guarantee to have their financial reports reviewed
- Applies to companies limited by guarantee with reported annual revenue < \$1m which elect for a review of the annual financial report instead of an audit



ASRE 2415 (continued)

- Where a review is to be undertaken instead of an audit:
 - requires an auditor who has conducted an audit of the company's previous financial report, to conduct the review in the first reporting period under the revised legislation, in accordance with ASRE 2410
 - requires an auditor who has not conducted an audit of the company's previous financial report, to conduct a review in accordance with ASRE 2400
- Requires the auditor conducting the review to comply with relevant ethical requirements and to implement quality control relevant to the individual engagement