

Debate - We Don't Need ISA-light

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IFAC in the News

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Freely translated debate article from the Swedish accountancy journal Balans no 12/2012: http://www.far.se/PageFiles/1645/Balans12_12.pdf

"Those who complain have seldom tried to understand the rules. The ISAs are, contrary to what many say, very well suited even for audits of smaller companies," said certified public auditors Helena Adrian and Mats Olsson.

In a debate article in Balans no 11/2012, the author seeks an audit standard for smaller companies. It exists already, and it's called the ISAs. In order to conduct an efficient audit according to the ISAs, you have to understand them. Understanding means reading. If you have not read them, you can't possibly say whether or not conducting an audit in accordance with the ISAs is time consuming or efficient.

No matter where you are in the world, France, Nigeria, Denmark, and so on and so forth, the auditors complain about the ISAs as burdensome and expensive for the client; they ask for an ISA-light. If you ask the very same auditors if they have read the ISAs, most often you're met by an embarrassed smile and a "no." Those few who actually have read and understand the ISAs question the cries for an ISA-light, since performing audits in accordance with the ISAs is not very difficult. IFAC is very clear in the fact that the ISAs can be applied to all companies no matter the size; they are scalable.

Phil Cowperthwaite, former member of the IAASB, has a short document "Anatomy of a 12 hour audit of micro-entities," which describes how an experienced auditor with good knowledge of the customer and with IT support can conduct an efficient audit in 12 hours—if the auditor masters the ISAs.

While they can provide practical help, guides, checklists, tips and tricks, are not a substitute for the auditor's knowledge of the ISAs. We think the member bodies of IFAC have a responsibility to try to inspire their members to read and use the ISAs.

Critics ask, won't you find more errors due to more (and excessive) documentation? No, the documentation aims to make it possible to evaluate the audit afterwards. If a client is not happy and says that they have not had a good enough audit, it should always be possible to evaluate the audit. If there were no demands for proper documentation and the auditor did not properly document the audit, for example, because the client wants to pay as little as possible, then the auditor would not be able to show that the audit had been properly performed. It is important that the documentation is made in a way that makes the audit comparable and possible to evaluate. Two different audits are supposed to be judged by the same rules. The same goes for comparisons between different audits.

The demand of documentation could, therefore, be seen as a market-driven change, both from the auditor and the client perspective. Naturally, the documentation of a micro-entity and a public interest entity (PIE) will differ. However, both are subject to risk and materiality. The risks vary and many things applicable for the PIE are not applicable for the micro-entity. There is, for example, nothing that requires you, for every micro audit, to get audit evidence from third parties, such as a bank. Furthermore, the often-questioned management letter has in several cases led to substantial improvements of audit quality, not to mention that it generally affects the dialogue with the client in a good way. The latter helps narrow the expectation gap, important in itself! The ISAs, which focus on risks, might even be more useful for small companies than large ones. You are only required to audit areas with risk, so with proper planning, there may not be much left to audit—and document!

In a way, the ISAs might lead to and support an efficient audit in smaller companies. Perhaps ISAs are what we need when everyone is crying for checklists, etc. Help us change this trend, read the ISAs. If you consume fifty pages a week, well, then you will know what you are talking about in about ten weeks from now.

Helena Adrian is a certified public auditor on Adrian & Partners, also member of FARs policy group of Audit. Mats Olsson is also certified public auditor on Adrian & Partners and member of IFAC SMP Committee.

Related Resources

- Die Wirtschaftsprüferpraxis der Zukunft und die Rolle der wertbasierten Preisbildung („value-pricing“)
- How to Cope with Pressure to Lower Fees
- ISRS 4410: The Standard for Today's Compilation Engagements
- The Standard for Limited Assurance Review Engagements
- Tomorrow's Firm and the Role of Value Pricing