



Federation of European Accountants
Fédération des Experts comptables Européens

FEE/CNDCEC SME/SMP Congress

European Accountants: Shaping the future
How to advise, assist and audit SMEs in a changing regulatory environment

15 – 16 April 2010, Venice

Standing for trust and integrity



How to apply ISAs in an SME audit?

Roberto Tizzano

- Introduction of the speakers
- Status on ISAs in the EU
- Views on
 - ↳ Guidance on Using ISAs in the audit of SMEs
 - ↳ Applying ISAs in practice
 - ↳ Audit software
 - ↳ Public Oversight

- Under the Statutory Audit Directive the European Commission may adopt international auditing standards
- The European Commission consulted on “Adoption of International Standards on Auditing” in 2009
- 89 responses were received with the majority from the audit profession and respondents within Europe
- The results showed majority in favour of adoption of ISAs in Europe for all statutory audits

Status on ISAs in the EU (2)

- The results showed:
 - ↳ The Commission should limit EU amendments to ISAs
 - ↳ Add-on made by Member States should be only in limited cases
 - ↳ Carve-outs by Member States should be none or extremely limited
 - ↳ Any EU amendments should only affect part 2 of the audit report
 - ↳ Majority was in favour of inclusion of Application Material in the adoption process – but not as best practice
 - ↳ Majority was in favour of adoption of ISQC1

Status on ISAs in the EU (3)

- On timing of the adoption no clear consensus among the respondents:
 - ↳ Responses from Forum of Firms: adoption should be soon
 - ↳ Responses from public authorities and non-Forum of Firms: adoption in the medium term highlighting that SMPs may need more time than the bigger firms
- The Commissioner will now consider the way forward and decide on whether and when to adopt ISAs
- Uncertain when decision from the Commissioner will be made but it is expected to be soon

International Federation of Accountants

Guide to Using ISAs in the Audits of SMEs

Sylvie Voghel

Chair, IFAC Small and Medium Practices (SMP)
Committee

FEE/CNDCEC Congress

Venice, Italy

April 16, 2010



Introduction

Introduction

- “...new challenges posed by standards implementation over the near term and the need for coordinated implementation support....International standards will deliver tangible benefits in the international public interest only if they are properly adopted and implemented.

(Fourth Public Report, May 2009)

- IFAC strategic objective - assist in adoption and implementation of standards



General

- Building capacity of SMPs to support SMEs
- Helping member bodies to help their SMPs
- Help shape form & content of international standards
- *Proportionality of Application of the ISAs*
- Providing practical support to help SMPs efficiently implement standards



Implementation Guidance

- Member bodies can promote as is, adapt, extract, translate, reproduce etc.
- High quality, free to download guides
 - *Guide to Using ISAs in the Audits of SMEs*
 - *Guide to Quality Control for SMPs*
- Other
 - *Tips for Cost-Effective ISA Application*



Current Edition

- To help apply ISAs cost effectively
- Published Dec. 2007
- Non-authoritative guidance: almost all ISAs
- Integrated case study, illustrations...
- Downloads (25,000+) and translations (12+)
- Derivatives - CICA checklists & forms
- Feedback on current edition
 - mainly positive but some critics



Next Edition

- Based on redrafted ISAs
- Two volumes
 - Volume 1 – approach to risk-based ISAs
 - Volume 2 – practical guidance for SME audits
- Two case studies (micro-entity audit added)
- ETA – Q3 2010



How to Use the ISA Guide

- Basis for education and training
- Reference document
- Develop audit methodology
- Member body use
 - ICAA – adapted, training, packet of forms
- Core education and training materials may follow in 2011



Other Implementation Support

- International Center for SMPs at www.ifac.org/smp
- IAASB Clarity Center at www.ifac.org/iaasb
- Translations





**International Federation
of Accountants**

www.ifac.org/smp



Descartes Methodology and IT-tool

Per Hanstad

CEO

Den norske Revisorforening/
The Norwegian Institute of Public Accountants

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revisorforeningen•no

Introduction

- The Norwegian Institute of Public Accountants (DnR) is the professional body for public accountants in Norway
- Approximately 3700 public accountants are members of DnR
- Descartes is a product owned by The Norwegian Institute of Public Accountants
- More than 2800 of our members and their employees are users of Descartes

side 2

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Background

- Statutory audit required for all limited liability companies in Norway (approx. 230.000)
- Implemented ISAs already in 1998
- More than 50 % of statutory audits performed by SMPs
- Only Big Firms had sophisticated audit methodologies and tools
- Institute's goal to give all members access to a high quality methodology supported by an IT-application for planning, performing and documenting the audit
- Descartes launched first time in 2000

side 3

Regulatory environment

- Public oversight for decades
- Very few regulating amendments required due to Audit directive implementation
- Systematic quality control/inspections since 1991
- Clarity ISAs implemented from 2010

side 4

About Descartes

A high quality audit methodology operationalising the new standards and supported by a modern IT application is the only way to an effective quality audit fully in compliance with the ISAs.

side 5

About Descartes – cont.

- ISA compliant (Clarity from August 2010)
- Support the audit work flow (phases and audit steps)
- Using the same expressions as in the ISAs
- Help the auditors to document the work in compliance with ISAs
- Sophisticated help function (every screen image)
 - purpose of the actual screen image
 - link to relevant section of ISAs
 - link to relevant national regulation
- Scalable – very small assignments => big assignments
- Also as a training tool

side 6

About Descartes – cont.

- Using latest technology (Microsoft Windows, .net and SQL)
- Simple internet based installation
- Automatic distribution of program updates on a continuous basis
- Online and offline/synchronising

Descartes ensures:

- relevant information is obtained and assessed
- the required procedures are performed (risk assessment)
- important assessments are made (risk, materiality and audit evidence)
- sufficient documentation

=> effective ISA compliant SME audits

Applying ISAs – the UK experience

Sue Almond
Quality and Professional Standards Director
Kreston International

Background

- ISAs adopted for accounting periods beginning on/after 15 December 2004
- 'Big bang' approach
 - All audits
 - All ISAs
- UK ISA pluses



"People do business with people they know, like and trust"

- Availability of
 - Standards
 - Software/tools
 - Industry guidance
- Uncertainty over
 - Cost
 - Regulators' response
- Other changes – IFRS, ethics
- Why are we doing this?



"People do business with people they know, like and trust"

What did we learn?



Leadership

- Change management
- Partner engagement

Comms

- Clients
- Software providers
- Regulators

Software

- Quality
- Training



Successful implementation takes several years

"People do business with people they know, like and trust"

Practical issues



➤ Implementation dates – short periods

➤ Controls

- Auditors understanding
- Design and implementation
- What is missing?
- Reality for SME audits

➤ Documentation



"People do business with people they know, like and trust"

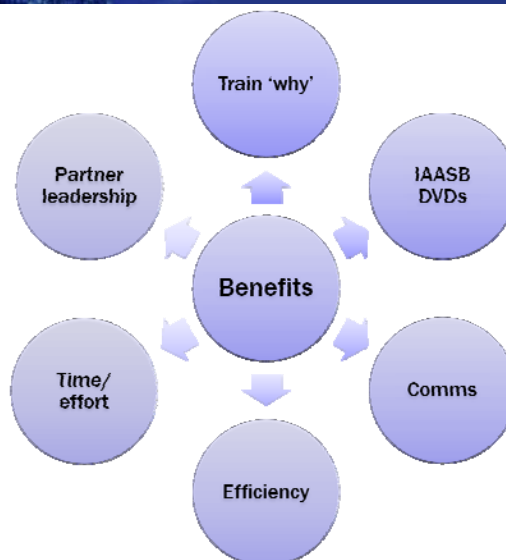
Benefits



- Audit quality
- Change in behaviour
 - Risk focus
 - Thinking approach
 - Team discussions
 - Efficiency gains from partner involvement
- Feedback on controls
- Costs



Clarity ISAs



- **Partner leadership**
 - Change management
 - ISA understanding
 - Big picture
 - Risk focus
 - Team briefing
 - Auditing versus form-filling
 - Brave decisions
- **Challenges for software providers and regulators**



"People do business with people they know, like and trust"

Applying ISAs – the UK experience

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How to apply ISAs in a SME audit in Belgium ? Inge Saeys

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How to apply ISAs in a SME audit in Belgium ?

- Now => national standard (20 years)
- Future => Adoption of clarified ISAs
- ISA Implementation Plan



Adoption of clarified ISAs

- Principle “An audit is an audit”
- Why now only?
 - Opposition from stakeholders – cost increase
 - Opposition from small practitioners
- Timing :
 - ⇒ For the PIE's: periods ending on 15th December 2012
 - ⇒ For the non PIE's: periods ending on 15th December 2014
 - SMEs (thresholds: Sales 7.300.000 €
Balance sheet 3.650.000 €
Workers : 50)
 - NGO, public institutions, non profit organisations, ...
- Approval of HCEP (December 2009) waiting for the final approval of the Minister of Economy



ISA Implementation Plan

- Inventory
- Ongoing process
- Training
 - ⇒ Since 2004 – to be continued
 - ⇒ Specific seminar ISAs for SMEs
- Software
 - ⇒ Forum 26th May 2009 + 15th November 2010
 - ⇒ Belgian market
 - 1000 auditors (SMPs, sole practitioner)
 - 2 languages
 - ⇒ Software providers from other EU countries (UK, Germany, France, Netherlands)
 - ⇒ Preparation of the specifications, ISA compliant software?



ISA Implementation Plan

- Help desk ICCI
- Manuals
 - ⇒ Templates of ISA documentation for SMEs with Belgian specificities
 - ⇒ ISQC-1
 - ⇒ publicly available
- Translation
- Guide of quality control
- National standards complementary to ISAs



Quality assurance

- Quality Assurance Standard of September 9th 2008, organised at audit firm level taking into account the number of registered accountants eligible to represent the firm
- Quality assurance is performed using guidelines tailored to the specific industry (standard commercial entity, bank, insurance, non-profit organisation and health insurance funds)
- Future Quality Assurance Guidelines will be adapted to audits performed according to the ISA's or to the Belgian audit standards



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ISA Implementation Plan

- Communication with the audit profession and the public :
 - ⇒ organisation of forums, seminars,...
 - ⇒ working groups on ISA implementation with SMP and sole practitioner members



Public oversight of auditors

Linda Barnes, Senior Reviewer, ICAEW

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ICAEW's quality assurance role

- UK's largest accountancy body:
 - over 11,500 practices including 4,100 registered audit firms
 - over 134,000 members, 23,000 with practising certificates
- Monitoring via Quality Assurance Department (QAD)
- Monitoring responsibilities include: audit, insolvency, money laundering, investment business and Practice Assurance (member mandated)
- Investigations, discipline, complaints and committee management via Professional Conduct Department (PCD)

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Our approach

- Serious assessment
 - effective, proportionate and uncompromising inspection
 - where needed, focus on long-term and sustainable improvement in audit quality
- Emphasis on support by providing:
 - constructive on-site guidance, based on experience
 - helpsheets, *Accountancy*, newsletters, alerts,
 - helplines, faculties, special interest groups,
 - presentations to members and member groups

Visit cycles

- Combined cyclical and risk-based approach
- We do approx. 750 audit visits each year
- Most firms are on a six-year visit cycle (more frequent visits if risks arise or if previous visit led to significant concerns)
- Firms with listed clients visited every three years
- Large firms visited every year

What we do

- Monitor compliance with Audit Regulations which require compliance with auditing and ethical standards, etc
- On the visit
 - assess audit quality through review of audit files
 - assess adequacy of whole-firm procedures (ISQC1)
- Visit concluded taking account of
 - findings
 - commitment and ability
 - focus on getting things right in the future
- Report to ARC; detailed reporting for more serious cases
- ARC can impose conditions and restrictions, and withdraw registration in the most serious cases
- Feedback from firms on the visit process

The main problem areas for smaller firms

- The planning ISAs, especially ISA 315
- Using the planning to drive the audit
- Addressing the risk of fraud (ISA 240)
- Documentation generally; files don't always do justice to what the firm has done
- Rigour of substantive analytical procedures
- Off-the-shelf audit systems
- Lack of awareness and understanding of ISQC 1
- Introduction of other new standards at the same time (APB Ethical Standards and IFRS)
- APB Practice Note 26

What we are doing to help firms

- Working with training and audit system providers
 - various events
 - training providers advisory group
 - meetings on individual basis with QAD
- Discussing firms' plans for clarity implementation on our visits
- Presentations to local groups
- Audit and Assurance Faculty roadshows
- Guidance material on difficult areas
- Articles in *Audit News*
- Help and education through our visits
- Our approach once clarity implemented – statement from ARC to firms



A world leader of the
accountancy and finance profession