It would be very difficult for auditors, no matter the size of firm they work for, not to know about the introduction of ‘clarified’ international standards on auditing (ISAs) from this month. But whether they are prepared for them and fully aware of their implications is another matter, especially as many smaller auditing practices will only now be looking at planning upcoming audits.

Clarified ISAs come into force in the UK and Ireland for audits of financial statements for periods ending on or after 15 December 2010. The move marks the biggest shift in auditing standards since the original ISAs were introduced in the UK in 2005. Back then, the national and global economies were booming and of course since then there has been the international financial crisis and subsequent global recession. And the fall-out from the crisis has renewed the debate on the role of audit and auditors. The clarified ISAs come, therefore, at a critical time for the profession.

The clarity project, begun by the International Auditing and Assurance Standards Board (IAASB) in 2006, completed last year. Its broad aim was to improve the understandability of ISAs to enhance the quality and consistency of auditing around the world, following the major corporate accounting scandals of the early 2000s. The objectives of the standards have been spelt out, auditor obligations clearly stated and ‘grey letter’ requirements reclassified as either a requirement or guidance.

So are auditors ready, what are the opportunities and how does the move to clarified ISAs fit in with the wider debate on the future of auditing?

STILL TIME TO PREPARE

In terms of preparedness, much depends on the scale of the individual firm. ‘The Big Four, and the next tier down are going to be pretty well prepared,’ says Hugh Morgan, audit technical director at Baker Tilly. ‘They will have gone through training and mapped the ISAs to their own software and audit manuals. They’ll be set up and ready to go.’ However, Morgan points out that there will be smaller firms that are reliant on external software and training providers – they will need to ensure that they have been, or are being, updated by their providers.

The ICAEW, through its Audit and Assurance Faculty, has just published a guide, Right First Time With The Clarified ISAs, highlighting the major implementation issues in order to help medium-sized and smaller firms to plan their own approaches to the changeover. It is important to remember that although the clarity...
‘There is an opportunity to make the audit as relevant as possible to the actual risks that the audit client is facing’

The new ICAEW guide, *Right First Time With The Clarified ISAs*, for medium-sized and smaller firms is available at www.isaaudit2010.com. The download is free for ICAEW Audit and Assurance Faculty members and costs £20 for non-faculty members.

Visit www.youtube.com/icaewnewsroom for clarified ISA implementation advice from Martyn Jones, Deloitte national audit technical partner.

The Audit and Assurance Faculty helps auditors with guidance, technical advice and peer support. Find out more at www.icaew.com/aaf

The IAASB (www.iaasb.org) has a wealth of information on the clarified ISAs, including video modules that help explain certain aspects. Its ISA centre can be found at http://web.ifac.org/clarity-center/index

The Auditing Practices Board (www.frc.org.uk/apb) has details of the ISAs, as adopted in the UK, available to download in its publications section.

Questions You Should Ask

**On Audit Software and Training**

1. Is your ISA-compliant software available and can you issue your updated audit manual?
2. Will your software, training and methodology providers deliver on time? Will it be right?
3. When will your training for trainers be ready? Will they be able to promote the changes and benefits?

**On People Management**

4. What behaviours within your firm are you seeking to change? What learning techniques can you apply?
5. Is your leadership leading on this?
6. If you are part of a network, will other network members deliver?
7. How can you keep things simple and avoid over-complexity?

**On Client Management**

8. What will the impact of the new ISAs be on your practice economics? What will your strategy be?
9. Are new engagement letters ready? What messages are you giving to clients?
10. Have you prepared an implementation plan?

Avoid the Pitfalls

There are, however, pitfalls of which practitioners need to be aware – it is not a case of simply updating software and manuals. ‘One of the pitfalls is that people think of this as just being a box-ticking exercise,’ says Martyn Jones, national audit technical partner at Deloitte, who has helped lead the ICAEW’s clarified ISAs awareness campaign and development of its new guide. ‘Audits are about thinking about what is there in the external environment. There is an opportunity to make the audit as relevant as possible to the actual risks that the audit client is facing.’

Jones believes there will be real benefits for auditors, who can have a more valuable dialogue with their clients. ‘If you have a clearer and better interaction with the client about the significant risks and about the issues that really matter, then the clients will be impressed not with the design of the ISAs but the outputs of the audit, making the process more valuable and more interesting,’ he says.

Clarified ISAs are also an opportunity for the profession to demonstrate its commitment to auditor scepticism. The subject has been brought to the fore recently as part of the wider debate on the role of auditors during and after the financial crisis, but it has already been embedded into the text of the new ISAs.

‘These standards are coming into force at the right time,’ says Morgan, adding: ‘One of the reasons for the revisions is that we, as a profession, needed to demonstrate to the regulators that we are sceptical, and by toughening up the ISAs through the clarity process, we can demonstrate that we are responding to current concerns.’

There has been some debate over how the UK Auditing Practices Board is now putting forward the notion of ‘presumptive doubt’ in a move to strengthen auditor scepticism. Some senior practitioners argue, however, that the new ISAs need to be given a chance to prove their value before further changes are made.

Whatever the high level arguments, it is the practicalities of implementation that will matter to firms. ‘Implementation really should be championed from the top, at partner level,’ says Bagshaw. ‘It’s not worth cutting corners here because there’ll be more depth of understanding required and judgments to apply, as well as more boxes to tick. Skimp on the former and you double the work. Given the time and financial investment involved, it makes absolute business sense to get it right first time.’

The project was intended to make auditing standards more easily understood, some of the standards have been revised during the process. There has also been some substantial change in areas such as related parties (ISA 550, Related Parties) and group audits (ISA 600, Special Considerations - Audit of Group Financial Statements (Including the Work of Component Auditors)).

‘Auditors need to familiarise themselves with the key points of the revised standards,’ advises Katharine Bagshaw, the ICAEW Audit and Assurance Faculty technical manager responsible for auditing standards and editor of its guide. Bagshaw recommends that practitioners consider attending courses if they have not done so already and study the material available on various websites (see box). ‘We’ve worked hard over the last three years with the training providers to make sure that they are on top of things and are aware of what’s at stake for the profession,’ she says.

The point is that there is still time for practitioners to get on top of the changes since, although the clarified ISAs come into force this month, planning for many affected audits in the SME sector will begin in earnest early next year.

‘Smaller practitioners probably have a window of opportunity until the middle of next year,’ says Morgan, though the message is clear that practitioners should be planning now.

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