Original Article

A single set of worldwide auditing standards: The road is long ...

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ABSTRACT This article makes the case for convergence on a single set of global, high quality auditing standards. The need is driven by the fact that business and capital markets have 'gone global', whereas relevant laws, regulations and standards remain predominantly national in nature. The article is written for stakeholders in the financial reporting supply chain – preparers and issuers, including audit committee members; auditors; investors and investor representatives; auditor oversight bodies; other regulators and global and regional organizations such as the Financial Stability Board, the World Bank and various European institutions. It is written in the hope that it will encourage national regulators and others involved in the legislative and standard-setting process to take appropriate action in favor of convergence, thereby serving the global public interest. I also hope that the arguments presented will help global and regional organizations play their role in discouraging narrow nationalism.

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INTRODUCTION

Life was much simpler when I started auditing during the late 1960s. This was partly because there weren't many accounting and auditing standards around at the time. At least, not in the United Kingdom (which is where I started out), and even less so in Continental Europe and much of the rest of the world (which my professional career would soon lead me to get involved with).

Some would say that this gave greater rein to the use of professional judgment, and of course that is far from being a simple exercise. However, the rules and regulations in the context of which judgments must be made were indisputably far less voluminous and complex than they are these days.

A second reason why the world was a simpler place for auditors back then is that client companies were far easier to wrap one's mind around. The transactions they conducted and the way they were accounted for were mostly not too complicated. Derivatives, special purpose entities, and even anything clever to do with leasing activities, were rare or non-existent. Most people could have been forgiven

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for thinking that an example of software was a cashmere sweater, and the Internet, let alone Internet-based business, was not even something on the horizon. Outsourcing, multi-sourcing, nearshoring and so on were also for the future.

Third, with the notable exception of the United States, preparing consolidated accounts was not yet a requirement in many countries, even for listed companies and even assuming there was much to consolidate in the first place. That in itself is worth remembering as it is one reflection of the limited 'transnationality', which characterized many companies at the time outside of the United States.

Lastly, the other big difference between then and now is that information technology (IT) systems were far less sophisticated and, especially, far less integrated.

So why embark on a mini-history lesson such as this?

Well, the thrust of this article will be to shed some light on the very practical implications of a changing world in terms of its impact on the way audits and auditors have had to evolve over the years in response, and on the way that *international* auditing standards developed and have attempted to keep up. I will then highlight some of the unfortunate (and costly) consequences arising from the fact that coexistence of the many *national* auditing standards and related legislation is no longer suitable to deal with this changed world. This will lead me to my main theme, which is a plea for global convergence on International Standards on Auditing (ISAs) published by the International Auditing and Assurance Standards Board (IAASB).

Finally, I will mention some other areas where, in my view, national legislators and regulators would do well to recognize that (as is increasingly the case in other domains, such as protection of the environment or financial supervision) it is no longer appropriate to take a local view of matters affecting auditors whereas the businesses they audit have 'gone global'.

In fact, let's begin with 'globalization', as it forms the backdrop for much of the rest of what I have to say.

'GLOBALIZATION' OR 'GLOBAL ECONOMIC INTERDEPENDENCE'?

Some years ago, the United Nations Conference on Trade and Development (UNCTAD) defined the concept of globalization as referring to 'both an increasing flow of goods and resources across national boundaries and to the emergence of a complementary set of organizational structures to manage the expanding network of international economic activity and transactions' (UNCTAD, 1997, p. 70). However, UNCTAD opined in that report that the world economy was far from being *global* in the sense that the situation was not one where '... goods, factors of production and financial assets would be almost perfect substitutes everywhere and it would no longer be possible to consider national States as distinct economic identities with autonomous decision-making power in the pursuit of national objectives'. A more apt description of the situation, they felt, was that of *global economic interdependence*, where 'cross-border linkages between markets and among production and financial activities are so strong that economic developments in any one country are influenced to a significant degree by policies and developments outside its borders' (ibidem.).

The recent (and ongoing) financial and economic crisis has certainly demonstrated the aptness of this latter description. However, it is interesting to note that the recent discussions, recommendations and activities of the G20 are symptomatic of a continuing move towards the reinforcement of the powers of organizational structures, such as the International Monetary Fund and the Financial Stability Board (FSB), which UNCTAD would see as being characteristic of a truly global economy. Similar trends can be seen at a regional level with, for instance, the recent creation of a European Systemic Risk Board and three new European supervisory authorities to monitor financial markets, banks and insurance companies as well as recent calls for greater coordination of economic and fiscal policy among member states within the Eurozone.

Traditional measures of globalization include the level of foreign direct investment (FDI), which – for our purposes – is a useful surrogate for increasingly transnational business structures, and thus a challenge for auditors, as we will see. To give an idea as to what we are talking about, shortly after I began auditing, in 1970, annual FDI represented some 13 to 14 trillion dollars globally. During the first decade of this century, the average level per annum was reaching about 100 times that amount. And of course the *cumulative* effect is what matters.

Another measure, which helps assess this cumulative effect, is what is called the Transnationality Index. This is calculated as the average of the following three ratios at transnational corporations: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment. This average in 2008 for the top 100 global non-financial transnational corporations was 62.4 per cent (and the trend has been on the increase for many years) (UNCTAD, 2010a, p. 18). For 21 of the top 100, that ratio exceeded an impressive 80 per cent. Companies such as Anglo-American, Pernod Ricard, Vodafone, ArcelorMittal, Nestlé, Linde, Nokia or WPP Group got into that list (UNCTAD, 2010b).

Obviously the audit of a company where 80 per cent or more of the assets, sales and employees are overseas compared to the umbrella entity is not going to be conducted in the same way as a predominantly domestic company. There is going to need to be heavy reliance on the work of other auditors in those overseas locations.

But how about dispersion? These overseas assets and/or revenues could all be concentrated in just a few locations. Well, no. In 2007, the top 14 transnational corporations had majority-owned affiliates in overseas host economies ranging from 62 countries (Novartis) to 111 countries (Deutsche Post AG). For the top 100 transnational corporations, the average overseas presence was in 41 countries that year (UNCTAD, 2008, p. 28).

Back in 1970, I was part of the team that audited what was then known as the General Electric Company (not to be confused with

the American GE), which subsequently became Marconi before its ultimate dismemberment. It was my firm's biggest and most international client at the time. It had quite a few foreign subsidiaries (mostly in ex-Commonwealth countries), but by far the most significant part of the group's activity was UK-based. We received a signed consolidation package and copies of the audited accounts from most of the overseas locations before signing off on the consolidation. But (also partly because the World was a much bigger place, with steam-driven communications) that was more or less the limit of our involvement, given the lack of significance of these subsidiaries compared to the group as a whole. I would venture to guess their combined weight as having been less than 10 per cent of the total at the time, in stark contrast to the current situation at many transnational corporations seen above.

At the risk of stating the obvious, today's auditor has no choice but to take a global view in order to issue an opinion on a transnational corporation. The ability for the entire audit team – wherever they are located – to be able to follow the same standards facilitates communications within the team, helps ensure a uniform level of quality, and removes a source of confusion and hence potential non-compliance.

But is the auditor supported in that task by the world he or she lives in today?

INFORMATION TECHNOLOGY

In the old days, larger individual entities installed home-based mainframe or mini-computer systems to record transactions and manage the business. The auditor had everything to hand, and life was simple (even if you might have needed some help from an electronic data processing specialist).

Then came the age of electronic data transfer, with centralized processing power being shared by a number of entities in a group. But the initiation, recording, control and documentation of transactions remaining decentralized. Although the auditor typically had to rely on someone else's evaluation of the centralized

IT systems, he or she still had access to all of the other elements of audit evidence at the local location (and could probably still audit 'around the computer' if they so wished).

With the advent of more sophisticated enterprise resource planning (ERP) systems and an increasing move towards the use of shared service organizations and other forms of business model for transnational companies, frontier lines have become increasingly blurred in the way these companies conduct their business, even if they still necessarily organize their operations within national legal entities.

To illustrate: one of my firm's clients has manufacturing and sales operations in over 20 European countries. Using a well-known ERP system, purchases, payables and inventories *for the region* are processed and accounted for (and supporting documentation kept) in the Netherlands, sales and receivables in Germany, fixed assets in France and treasury in Switzerland. The various sales operations around the region (lodged in legal entities) initiate and process the accounting for their own payroll, taxation, sundry receivables and payables and a certain number of other general ledger matters. Of course, the sales operations have access to information on the purchases, sales and inventories related to their legal entity via on-line access to the regional IT processing center, but they don't perform the processing or hold the supporting documentation.

Since the whole purpose of this organization is to reduce costs through specialization in the service centers and obtaining economies of scale by avoiding duplicative processes in each location, the client clearly does not wish to see 20 or so audit teams from around the region descending upon each of the service centers to perform 'their' part of the audit of 'their' legal entity. Apart from the disruption, the cost would be prohibitive.

The way it works, therefore, is that (with overall coordination at the European level) audit teams from the countries where the service centers are located perform the audit of, for instance, receivables for the whole of the

region *on behalf of* the auditors of the individual legal entities. They then send a memorandum providing assurance on the work they have performed to the local auditors, which allows the latter to issue their opinion on the local statutory accounts. So far so good, although there is obviously a strong need for the global team to be working to the same standards and with the same methodology.

The problems begin when the authorities from a country (such as Spain or Finland) say that they expect all of the work papers relating to the audit of the local entity to be held by the local auditors. The technical and logistical challenges (not to say the cost) of extracting from the service center's records those elements relating to an individual location and generating specific 'stand-alone' work papers are considerable, and (from the client's point of view) partially defeat the purpose of adopting a service center approach in the first place.

Now add to that the fact that in countries such as Germany or France, the statutory auditor (who has performed the work at the service center on behalf of the various other audit teams in the region) is prohibited under professional secrecy laws from providing copies of work papers to third parties, even from their own network, and it is easy to conclude that life is far from simple for the transnational auditor.

As one can see, therefore (and this goes back to the UNCTAD observation quoted earlier), 'national states as distinct economic identities with autonomous decision-making power in the pursuit of national objectives' are still very much the order of the day, even if business models have moved on.

But even if sharing out the audit (if I can call it that) across borders is a challenge owing to legal constraints, surely at least it should be possible to share methodologies across network firms, permitting a common set of audit procedures, a single learning curriculum and a common 'language'. Well, of course, many networks do precisely that; but this has tended to be *in spite of* the environment, rather than *because of* it, as we will see.

STANDARD SETTING

In the introduction to his report on 'Challenges and Successes in Implementing International Standards', commissioned by the International Federation of Accountants (IFAC),¹ Peter Wong stated:

As the forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses themselves expand across borders, both the public and private sectors are increasingly recognizing the benefits of having a commonly understood financial reporting framework supported by strong globally accepted auditing standards.

The benefits of a global financial reporting framework are numerous and include:

- Greater comparability of financial information for investors;
- Greater willingness on the part of investors to invest across borders;
- Lower cost of capital;
- More efficient allocation of resources; and
- Higher economic growth.

Before these benefits can be fully realized, however, there must be greater convergence to one set of globally accepted high quality standards. (Wong, 2004, Introduction)

Auditing *standards* (rather than recommendations of one sort or another) are not as old as one might think. They were introduced in the United States as early as 1939, but the United Kingdom, for instance, only had 'recommendations' (beginning in 1941) and non-binding 'statements' (from 1961); the introduction of standards *per se* did not come until as recently as 1980.

In Continental Europe, auditing standards often had to wait until there was an auditing requirement in the first place. In the Netherlands, Belgium and Spain, for instance, public companies didn't have to be audited until 1970, 1988 and 1989, respectively. France has had an audit requirement since 1966, but auditing standards

as such, as opposed to recommendations, were only introduced in 1988.

In Japan, an independent audit requirement was introduced in 1951 for listed companies, but auditing standards did not really mature until much later, culminating in the creation of the Japanese Institute of Certified Public Accountants' (JICPA) Auditing Standards Committee in 1992.

All of this, though, constituted activity at a purely *national* level until the IAASB's predecessor, the International Auditing Practices Committee (IAPC), began publishing ISAs to replace its previous 'guidelines' in 1991.

Implementation of the ISAs at a national level received some impetus from the creation of the Statements of Membership Obligations imposed on IFAC member bodies (the national professional organizations) in 1994, since they provide that member bodies '... should have as a central objective the convergence of national standards or related other pronouncements with International Standards and related Practice Statements issued by the IAASB'.

The activities of IFAC's Compliance Committee, which was somewhat 'hands-off' in its dealings with member bodies, followed by the current – more 'muscular' – Compliance Advisory Panel, serve to oversee this effort. Interested parties can monitor progress at: <http://www.ifac.org/ComplianceAssessment/published.php>.

Finally, in response to calls for a clearer definition as to what auditors were *required* to do in order to comply with the standards, the clarified ISAs were developed and are effective for audits of financial periods beginning on or after 15 December 2009. In addition, the IAASB issued the first International Standard on Quality Control (ISQC 1) in 2004, followed by its clarified version.

CREDIBILITY OF THE STANDARDS

Several important bodies have endorsed the ISAs.

In June of 2009, the International Organization of Stock Exchange Organizations (IOSCO)

endorsed the clarified ISAs in a media statement, and stated:

IOSCO believes that there is an important role to be played by a set of international auditing standards in contributing to global financial reporting and supporting investor confidence and decision making. Current events in the global capital markets underscore the importance of this support. With respect to ISAs, IOSCO notes that today many securities regulators accept audits performed in accordance with ISAs in their capital markets. As a result ISAs are able to play an important role in facilitating cross-border securities offerings and listings in those markets. (IOSCO, 2009)

The FSB includes the ISAs in their list of 12 standards designated as 'key for sound financial systems and deserving of priority implementation depending on country circumstances' (FSB, 2010), and in 2006 the World Federation of Exchanges (WFE) endorsed the ISAs and their public oversight and review processes (WFE, 2006, p. 9).

Support for the credibility of IAASB's standards also comes from the user community. Here is a quote from the European Federation of Financial Analysts Societies (EFFAS)² in their response to the European Commission's recent consultation on the adoption of ISAs.

Further to the widely demonstrated international recognition, the EFFAS considers that the governance and due process of the IAASB provides the necessary guarantee to ensure that the public interest is best served.

Justification for their opinion included the following:

the representatives of the public interest, including audit regulators, are already actively involved in the standard setting of the IAASB;

the IAASB has public members who must be individuals who are, and will be seen

to be, capable of representing the broad public interest;

half of the members of the IAASB are non practitioners;

observers, including the EC, have a right to speak at IAASB meetings and more generally to raise issues and present arguments during all stages of the standard setting process;

involvement of the IAASB Consultative Advisory Group (CAG) whose members represent a balance of geographical representation and regulators, international organizations (including the EC), users and preparers;

public oversight by the Public Interest Oversight Board (PIOB) (made up of 10 members, including 2 members nominated by the European Commission, 4 members nominated by IOSCO and others by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the World Bank) which has its mandate from the Monitoring Group. (EFFAS, 2009, p. 2)

Finally, ISA's have been supported by the academic community. In their report to the European Commission on the adoption of ISAs in the EU, the University of Duisberg-Essen states:

On balance, an adoption of the clarified ISAs through the EU would contribute to the credibility and quality of financial statements and to audit quality in the EU, and to a greater acceptance of audit reports outside of their home jurisdictions within and outside of the EU. (Köhler, 2009, Executive summary, 9)

CURRENT STATUS OF ADOPTION OF ISAS

Although significant progress has been made, the truth is that the world is still some way from having converged on the ISAs (and ISQCs).

Europe

Most disappointingly, in spite of having imposed a highly ambitious work program and deadline on the IAASB for completion of the 'clarity' project (successfully achieved on time thanks to much hard work on the part of the Board, the task forces, IFAC staff and the Public Interest Oversight Board), and the very positive conclusions of the University of Duisberg-Essen study referred to above, the European Commission has not yet been able to deliver endorsement of the ISAs for use in the 27 member states of the European Union, as contemplated by the EU 4th Directive (European Commission, 2006), and appears unlikely to do so until 2011 at the earliest. The legislation, in whatever form it takes, will in turn presumably incorporate an implementation date sometime down the road, whereas the ISAs are intended to be effective as early as the current (2010) calendar year-end.

At present, in the absence of a decision at the European level, approximately two-thirds of the member states have decided to adopt the ISAs anyway (on or within a couple of years of their normal effective date), a third are awaiting a European decision, and the situation is still unclear in a couple of cases. However, there are several larger member states (France, Germany, Italy, Poland and Spain) among those that are awaiting a European decision.

Whatever the reasons for delay (including the difficulties involved in getting *any* legislation through the EU constitutional processes), the interim result is therefore likely to be a confusing and potentially dysfunctional situation for all concerned, since even those member states that have decided to adopt the ISAs will do so in a variety of different fashions. One cannot help but feel that this was a lost opportunity for European leadership in good regulation.

United States

Although the American Institute of Certified Public Accountants will adopt the clarified ISAs

in the United States (with a small number of exceptions) with an expected effective date for audits of periods commencing on or after 15 December 2011, US *public* company audits are subject to Public Company Accounting Oversight Board (PCAOB) standards which differ in form, and to some degree in substance, from the ISAs. For instance, PCAOB standards have little guidance on group audits, and what there is was written back in the 1970s. Although the PCAOB is working on a project to deal with issues related to the work of the principal auditor of a group (probably based on ISA 600), it is likely to add more specific requirements, thereby perpetuating differences compared to the ISAs.

Both sets of standards will of course produce an effective audit. However, given the significance of the US economy within the global economy, and the level of outbound investment by these US public companies as well as by foreign public issuers (non-US companies having listings on one of the US stock exchanges and which are equally subject to the PCAOB's standards), the patchwork of auditing requirements that results for group audits clearly represents an increased cost and a source of complexity, resulting in a heightened risk of non-compliance by their staff, for the international auditing networks.

Without underestimating the difficulties, one can only encourage the parties involved to persevere in their quest for convergence, even if that takes the form of 'ISAs plus' in the United States, in order to accommodate the internal control reporting requirements of Section 404 of the Sarbanes-Oxley Act and certain other specific matters.

Other countries

A number of economically significant countries (including Australia, Brazil, Canada, China, Hong Kong, India, Japan, Mexico and South Africa) have indicated their intention to adopt the clarified ISAs or to incorporate them within their national standards within the next 3 years. This is encouraging, although it

remains to be seen how 'pure' that adoption will turn out to be.

The situation in other significant countries, such as Russia or South Korea, is less clear.

ISAs AND THE FORUM OF FIRMS

The largest international networks began adopting global methodologies towards the end of the 1970s, some earlier than others, at the time that members of the networks started to formalize their relations beyond simply that of 'correspondent' firms, and began to impose quality standards as a condition of membership. Until then, when they needed to audit the subsidiary of a US company, for instance, member firms would use checklists and programs produced by the US firm. For local audits (typically conducted under a local name at the time, rather than the brand name of the network) they followed whatever was required locally, which was often much less.

Even with the introduction of global methodologies, however, supplementary procedures were needed (and still are) in order to comply with the specific requirements of the auditing standards, and ethical or other requirements, of the 'referring' firm's country. This in turn meant that staff on these audits needed to be trained in those standards and requirements.

As international standards, in the form of the ISAs, began to emerge and achieve a significant level of credibility, the large networks tended to ensure their global methodologies complied with these standards as a base line minimum.

In the aftermath of the 1997 Asian financial crisis, criticism was expressed to the effect that it was not always clear to those investing in that part of the world precisely what standards (both accounting and auditing) had been applied in the context of financial reporting, perceived as having been deficient in a number of instances (for example, Rahman, 1998, pp. 47–48).

To cut a long story short, discussions between regulatory authorities, IFAC and the large network firms ultimately led to further support for

global adoption of the ISAs (along with reinforcement of the governance over their development) and to the creation of the Forum of Firms, the members of which (currently 21 of the largest global networks) committed to meeting the following obligations for transnational audits:

- (i) maintain appropriate quality control standards in accordance with International Standards on Quality Control issued by the IAASB in addition to relevant national quality control standards and conduct, to the extent not prohibited by national regulation, regular globally coordinated internal quality assurance reviews;
 - (ii) have policies and methodologies for the conduct of such audits that are based, to the extent practicable, on ISAs;
 - (iii) have policies and methodologies that conform to the IFAC Code of Ethics for Professional Accountants and national codes of ethics.
- (Forum of Firms Constitution, 2007, Section 4d)

(The 'to the extent practicable' in the second obligation is there to accommodate the use of the US PCAOB standards, not to provide an easy 'out'.)

The result of these commitments by the largest networks is that there is and will continue to be *de facto* adoption of the ISAs for probably something in excess of 95 per cent of all the listed companies in the World, and probably significantly in excess of 50 per cent of the rest, irrespective of national requirements. The problem is: that isn't clear to users of financial statements when they read today's audit reports, which refer to many different national standards.

So, one may well ask, why don't national and regional legislators simply move rapidly to adopt a single set of high quality, credible audit and reporting standards (the ISAs) that will lead to enhanced confidence in the overall financial reporting system?

Good question.

‘Not invented here’ may be part of the answer. But (in spite of the credibility of IAASB’s governance described earlier) there also is a reluctance in some countries to entrust standard-setting to a private independent body that is not under the direct control of a national legislative process.

ISA ADOPTION AND SMEs

Whether or not ISAs and ISQCs are appropriate for the audits of companies of all sizes has been the subject of much debate in Europe and indeed elsewhere. Of course, governments have the option of not requiring that a statutory audit be carried out at companies below certain size thresholds, and many have adopted that approach. However, in a number of countries *all* limited liability companies (including micro-entities) are subject to statutory audit.

In its position paper, ‘IFAC’s Support for a Single Set of Auditing Standards: Implications for Audits of Small- and Medium-sized Entities’ (SMEs), IFAC promoted the concept of ‘an audit is an audit’, arguing that each audit is different but that ‘While the audit approach itself may differ, the auditing standards on which it is based and the level of assurance the auditor is required to obtain, should not’ (IFAC, 2008, p. 2).

The large audit networks are also strongly in favor of a single set of auditing standards, whether it be – as we have seen – for transnational audits or for the smallest of clients, but it is comforting to see that representatives of the users of financial statements share that view too. In its response to the European Commission’s recent consultation on the adoption of ISAs, EFFAS noted:

We support option 3 (*ISA’s should be adopted for statutory audit of all companies, including small companies for which an audit is required.*) as we believe that this is the option that best serves the principle of “an audit is an audit” and advances consistent audit quality throughout the EU and so enhances confidence in the reliability of financial reporting. (EFFAS, 2009, p. 6)

EFFAS went on to say that the other options (which would not require that all statutory audits be conducted in accordance with the ISAs) present the following potential disadvantages:

a confusion in the minds of users of financial statements such as financial analysts (sell-side, buy-side, credit analysts, ...) as to the nature and level of assurance provided in any given circumstance and a consequent lowering of confidence in the reliability of financial reporting;

an increased complexity in the conduct of transnational audits incorporating different methodologies for different components;

an increase in costs for all audit firms that are present in both markets (small and bigger companies) due to the need to deploy dual methodologies, tools, training ... (EFFAS, 2009, p. 6)

If one digs into the reasons why small and medium practices (SMPs) are concerned about adoption of the clarified ISAs, it appears to be principally because of a perception that the documentation requirements are becoming more extensive, especially with respect to ISA 315, ‘Obtaining an Understanding of the Entity and its Environment’ (IAASB, 2009), but also in order to satisfy the requirement that documentation should be sufficient to enable an experienced auditor to conduct a quality control review or an inspection.

This concern is compounded by uncertainty as to whether auditor oversight bodies will display acceptance of a ‘proportionate’, principles-based approach to the audit of smaller entities and the documentation thereof in assessing the appropriateness of the opinion issued during their inspections.

Although the University of Duisberg-Essen study referred to earlier was unable to develop a clear view as to the extent of additional costs for small audits that this might imply, given the poor response rate on the part of SMPs (Köhler, 2009, pp. 31–32), a study performed in the United Kingdom by the Auditing

Practices Board (APB) indicated that adoption of the Clarity ISAs could increase the cost of SME audits by 9.6 per cent on average. However, the range was wide depending on the extent to which an audit firm's current methodology already incorporated *new* requirements of the Clarity ISAs (APB, 2008, p. 9).

To help allay fears that oversight bodies might take a different approach to practitioners in interpreting the documentation requirements of the clarified ISAs, in December 2009 the APB issued Practice Note 26 (revised) on 'Guidance on Smaller Entity Audit Documentation' (APB, 2009). This note provides a platform for mutual understanding between the regulator and the practitioner on the documentation requirements for the audits of small entities. The pre-clarified ISAs version of the note was very well received in the United Kingdom and perhaps other jurisdictions should consider adopting a similar approach.

An alternative approach, if there is a desire to lighten the administrative burden on smaller enterprises, is to remove the statutory audit requirement below certain thresholds. In certain countries the audit requirement has been usefully replaced by a lower level of independent assurance, such as a review engagement. The IAASB is progressing with a project to update its standards for such engagements (IAASB, 2010).

ISAs AND REGULATORY OVERSIGHT SYSTEMS

It appears that the firms believe that on the basis of the ISAs and ISQC 1 the audit regulators *ought* to improve their collaboration, whereas the audit regulators take the rather parochial view that they will determine whether or not they ought to collaborate more.

This judgment that regulators in Europe are taking a 'rather parochial view' was expressed by the University of Duisberg-Essen (Köhler, 2009, p. 109). However, to be charitable, one

can understand the challenges faced by regulators, who are themselves often constrained by national laws and regulations.

Indeed, the International Forum of Independent Audit Regulators (IFIAR)³ is to be commended for having got as far as it has in promoting the enhancement and harmonization of oversight régimes by sharing knowledge and experience among its members (currently representing auditor oversight bodies from 35 jurisdictions) and promoting collaboration and consistency in regulatory activity. IFIAR, however, is a relatively young organization and this journey is just beginning.

Returning to Europe, the University of Duisberg-Essen noted that

ISA adoption under Article 26 of the EU Statutory Audit Directive would also bind audit oversight authorities within the European Union and would form a foundation for improving cooperation amongst them. This regulation effect would be enhanced through the adoption of ISQC 1, "*Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*", which would also form the basis for the harmonization of the methodology for inspections or external quality reviews of audit firms. (Köhler, 2009, Executive summary 9)

All of this is of course music to the ears of the audit firms, whose ideal scenario would be mutual recognition between the regulators following the principle of 'home oversight', or at the very least a single inspection process, even if it involves more than one regulator. One can only hope that the European institutions (and others) will in turn come to see things the same way.

A FINAL WORD

I have tried to make the case for global convergence on the ISAs and ISQCs, and have touched on the desirability of auditor oversight bodies using them as one of the components

of a platform for mutual recognition of each other's home régimes.

Clearly, a common set of Ethical Standards for auditors should *also* form part of that platform and, although I have not dwelt on this subject, the Code of Ethics for Professional Accountants (developed with similar due process and oversight as for the ISAs) published by the International Ethics Standards Board for Accountants (IESBA) would seem to fit the bill (IESBA, 2006). The current cacophony of rules that differ from one location to another, and even sometimes conflict with one another, creates an added level of complexity to the conduct of transnational audits, and may prove to be simply unsustainable.

As the University of Duisberg-Essen puts it: 'Harmonization in general contributes to cost reduction because it makes it easier in a global world to comply with law. Moreover, it becomes easier to check compliance and to enforce the law for transnational audits. The public is entitled to have confidence that, regardless of where a business activity occurs, the same high quality standards were applied. It is widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information gathered and audited on a similar set of standards'. (Köhler, 2009, p. 91)

So what are we waiting for?

NOTES

- 1 IFAC (www.ifac.org) is the global organization for the accountancy profession, dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. It is comprised of 159 members and associates in 124 countries and jurisdictions, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce.
- 2 The EFFAS (www.effas.net) is a Pan-European grouping of the National Societies of Financial Analysts, bringing together leading experts from all of Europe's Equity and Fixed Income markets.
- 3 IFIAR (www.ifiar.org) was established on 15 September 2006, based on the following activities: (1) to share knowledge of the audit market environment and practical experience of independent audit regulatory activity; (2) to promote collaboration in regulatory activity; (3) to provide a focus for contacts with other international organizations which have an interest in audit quality.

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