Audit Education:

Audit Process & IFRS for SMEs

Wien – 8th February 2012
Part 2

Practice internationally accepted in terms of organisation of the profession of the legal audit and of its supervision
• Since the ENRON affair, some principles of organization have been confirmed
  – Relationship with the national government authorities
  – Relevance of the public authority of supervision
  – Initial vocational training, access to the diploma, continuing education and quality control
  – Difference of approach between Public Interest Entities and other entities
• The national institutes are placed under a governmental regulator

Ministry of Finance

Ministry of Justice
National institutes are given an additional independent national authority in charge of their supervision:

- Education
- Professional responsibility
- Standards design
- Management of the profession

Approval of professional standards
Quality control organization and realization (for PIEs)
Regulation of the profession
Initial Vocational Training

- Minimum of
  - 3 years of studies
  - 3 years of internship
    - 2 years minimum at a legal auditor office
- Diploma
  - Title of Legal Auditor
Compagnie Nationale des Commissaires aux Comptes (CNCC)

Companies of Statutory Auditors (any type of company)

- Diploma of Chartered Accountancy
- University degree Bachelor
  + 3 years of training course
  + National certificate of Statutory Auditors

• Examples: in France – initial vocational training
• **Examples: in France** – organization of the profession

- Ministry of Justice
- **Haut Conseil du Commissariat aux Comptes** (H3C)
- **Authority of Financial Market** (AMF)
- **National Institute of Statutory Auditors** (CNCC)
- **Regional Institute of Statutory Auditors** (CRCC)
- **Statutory Auditors**
- **Examples: in the UK** – initial vocational training

4 Recognized Qualifying Bodies (RQS):

- Institute of Chartered Accountants in England and Wales (ICAEW)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Association of Chartered Certified Accountants (ACCA)
- Association of International Accountants (AIA)

Examination + Experience - 3 years

=> Member of Recognized Qualifying Body + Experience - 3 years

=> Practicing certificate

Certified Auditor
Examples: in the UK – organization of the profession

GOVERNMENT

Financial Reporting Council (FRC)

Consultative Committee of Accountancy Bodies (CCAB)

Professional Oversight Board

Institute of Chartered Accountants in England and Wales (ICAEW)

Association of Chartered Certified Accountants (ACCA)

Recognised Qualifying Bodies

Chartered Institute of Public Finance and Accountancy (CIPFA)

Association of International Accountants (AIA)

Registered Auditors
• **Examples: in the USA** – *initial vocational training*

The Uniform CPA examination is organised by:

- **American Institute of Certified Public Accountants** (AICPA)
- **National Association of State Boards of Accountancy** (NASBA)
- **State Boards of Accountancy**
- **Prometric company**

- **CPA License**
  - **Regular**
  - **Associate**
- **Experience – 2 years**
- **Uniform CPA Examination**
- **Education (150 semester hours)**
Examples: in the USA – organization of the profession

- Ministry of Finance, the Economy and Investment
- Public Company Accounting Oversight Board (PCAOB)
- Securities Exchange Commission (SEC)
- American Institute of Certified Public Accountants (AICPA)
- National Association of State Boards of Accountancy (NASBA)
- Auditors
Examples: in Germany – initial vocational training

- Autonomous Professional Chamber of the Statutory Auditors
  Wirtschaftsprüferkammer (WPK)

- Institute of the Statutory Auditors
  Institut der Wirtschaftsprüfer (IDW)

- Companies of statutory auditors
  Wirtschaftsprüfungsgesellschaften (WPG)

Professional Examination
+ University Degree + 3 years of training course
+ Diploma of Business School + 6 years of practice
+ 10 years of practice
• **Examples: in Germany** – *organization of the profession*

- Federal Ministry of Economics and Technology
- **German Auditor Oversight Commission (APAK)**
- Autonomous Professional Chamber of Statutory Auditors
  - Wirtschaftsprüferkammer (WPK)
- Institute of Statutory Auditors
  - Institut der Wirtschaftsprüfer (IDW)

- Auditors
• Continuing education

  Update knowledge and consistency of professional behavior

– For the auditors
  • Minimum of 120 hours of training on a 3 years period
  • Choice of topics under their responsibility and the control of professional institutes
• **Example : in France**
  
  – *Continuing education*
  
  – For the auditors
    • Minimum of 120 hours of training on a 3 years period
      – Minimum of 20 hours per year
      – Minimum of 60 hours in total about auditing
  
  – For the staff
    • No minimum but a moral obligation to maintain updated knowledge
Part 3

Particular questions about audit in SMEs
DEFINITION OF A SME

- There is not one worldwide accepted definition. Depending on the country, many different criteria can define an SME.
IS THERE AN EFFICIENT MODEL FOR SME’S?

• The fact is that from an international point of view, there is no alternative to ISA’s
• However, there are many national approaches

« We should not be looking at whether one set is better than the other, but looking at them all and deciding how we can draw the best answer out of these standards to create one set of high quality, efficient and appropriate standards. »
IS THERE A DIFFERENT SET OF STANDARDS?

• **No** – An Audit is an Audit.
  A risk based approach is the same whatever the profile of the company:

  - **RISK ASSESSMENT**
  - **RISK RESPONSE**
  - **REPORTING**
NEVER FORGET PROFESSIONAL JUDGMENT

Professional judgment is required throughout the audit based on the particular circumstances and where interpretation of a particular standard is required.

PROFESSIONAL JUDGMENT IS NOT SOMETHING THAT CAN BE LEARNT IN A BOOK.

ONE NEEDS EXPERTISE BUT ALSO EXPERIENCE.
THE PUBLIC INTEREST ENTITY APPROACH

- Every company has stakeholders and at least:
  - One shareholder
  - One client
  - One supplier
  - One bank
  - One employee
  - One tax administration

It is impossible to state that there is less of a guarantee in terms of external Auditing process (or no guarantee at all) simply because of the size of the company.
Are SMEs only managing simple operations?

Generally: **YES**

But SMEs can also be brought in to realize more complex operations.

Beyond the diverse stratifications that can be imagined, any structure can be brought in to manage any kind of questions regardless of quantitative criteria.
Some basic conditions need to be fulfilled:

- A highly educated team
- Deploying trained teams matching the client’s environment and operative mode
- Offering an optimized responsiveness
- Applying an approach geared towards a permanent and durable relationship with the client
- Accepting a risk based Audit approach
- Providing Senior teams
- Considering the Audit Appointment on a six yearly review to expect a positive reliability/profitability balance
Part 4

The challenge of the international standards of the IFAC applied to SMEs

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The French example
The audit profession: The way forward

• The pillar of the audit development remains the professional body.

• The main challenges for small and medium practices are:
  ➢ to improve quality and
  ➢ To increase productivity
TWO SOLUTIONS IMPLEMENTED BY THE FRENCH INSTITUTE OF AUDITORS

1) A national standard of auditing dedicated to Small Entities.

2) A Toolkit for auditing Small Entities
1 - NATIONAL STANDARD OF AUDITING for SMALL ENTERPRISES

SMALL ENTERPRISES:

• TOTAL ASSETS < 1,550 MILLION €
• TOTAL INCOME < 3,100 MILLION €
• STAFF < 50

• PRINCIPLE: An audit is an audit regardless of the size on the entity
1- MAIN FEATURES OF THE STANDARD

The auditor may adapt:

- The scope of audit procedures
- The time table of the audit engagement

When:

- Limited number of transactions
- Lack of complexity of accounting entries
- The involvement of the Management in the Internal Control
- The ownership of the entity
- Basic financing of the entity
1. The engagement letter should refer to the standard SE

2. Identification of fraud risk factor includes a questionnaire about Ethics and business behavior of the Management

3. Risk of Material Misstatement: opportunity to reduce the number of tests
1- MAIN FEATURES OF THE STANDARD

4. External confirmations are not requested if end of the year Receivables and Payables are settled at the time of the audit.

5. Subsequent events could be addressed through a meeting with the Management.

6. Accounting estimates such as Accruals & Provisions can be easily checked at the time of the audit work.
1- MAIN FEATURES OF THE STANDARD

7. Management representation: the content of the letter can be simplified

8. Using the work of an independent accountant who prepared the Financial statements

9. The documentation may be adapted to the size and the specificities of the entity
2- TOOLKIT FOR AUDITING SMALL ENTITIES

The toolkit has been devised by the Institute of Auditors

It is not an audit software but an electronic package based on Word and Excel documents.

It is a structured process fully compliant with ISAs. Auditors can modify and/or create documents.

It’s free !!!!