



International Standards on Auditing (ISAs)

International Standards on Auditing (ISA) are professional standards for the auditing of financial information. These standards are issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB).

Let's understand it step by step:

So, what is Audit?

- An audit is an independent evaluation or examination of something by a person or group of people.
- Audit can be done internally by - Employees or Heads of a particular department and externally by an outside firm or an Independent auditor.
- Audits are mostly performed by professionals like Chartered Accountants (CA) having thorough knowledge of the subject & command over the field.
- Audits are done to check something, like a person is paying their taxes correctly or that a document is correct and appropriate.

Why Audit is Important?

- In commercial parlance, companies disclose and report their operations, their finances and their incomes in financial statements to public at large for many reasons

- The audited data is to be used by various stake holders like banks, governments, investors, and the public, for variety of reasons like getting a loan, paying taxes, getting investments, invoking confidence for the public image to name a few.
- It is important that this financial data should be thoroughly verified by an independent auditor having thorough knowledge of a subject & who can perform it in a professional manner, ensure trustworthiness of audited data so that users of the financial information can rely on it.

Why Standards are required to perform an Audit?

Having said that, what would happen if there are no such standards to perform an audit procedure?

The following consequences would follow:

- There would be no standardization in process of audit.
- There would be no structured method for performing an audit.
- Every professional would perform an audit in his/her own way.
- There might be a chance of compromising Effectiveness of the audit.

Auditing becomes efficient by following Auditing Standards and adhering to it.

Now what is ISAs?

ISAs are professional standards for the auditing of financial information, these standards are developed by IAASB (International Auditing and Assurance Standards Board) a subset of the International Federation of Accountants (IFAC), on global level.

The goal is to align auditing standards worldwide ensuring transparency, consistency, quality, professionalism and civic confidence in global auditing. They not only act as an aid for end user for whom the report is ultimately prepared but also assist the auditor to present his audit narrative.

So as we know the importance of the standards, Adopting ISAs is not a compulsion for all countries but they provide direction for setting parameters of conducting audit and achieving audit objective. In India ICAI develops Auditing and Assurance standards on the basis ISAs and recognizes the value of lining up oneself with international standards.

ISAs are cross referenced hence one standard cannot be read in isolation. ISAs cover areas such as materiality, risk assessment, planning & performing of audit, audit evidence, audit documentation, using work of expert, communicating

deficiencies in internal control, audit and reporting considerations in context of special engagements etc.

Structure of ISAs:



“I strongly believe that setting standards at the international level is the most effective way to respond to the relentless globalization of business and avoid the economic costs and regulatory arbitrage that come with a fragmentation in rules. I firmly believe that auditors must play a critical role in ensuring trust in markets. This is a vision where the IAASB is seen as a highly responsive independent standard-setter with characteristics”

**Tom Seidenstein in his speech -
“The future of international standard setting”
-October 4, 2019**

Major institutional factors like banking system, laws and policies, infrastructure, education system, political stability, formal/informal markets, corruption levels and minor economic factors like tax rate, exchange rate, interest rate, demand/supply of a country ensure a country’s commitment to adopt ISAs. As per July 1, 2019 130 jurisdictions have adopted ISAs.

“Higher the level of standards of auditing higher the trust of investors in investment climate.”



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Article