

Helping practitioners (CPAs) to efficiently implement International Auditing Standards - Simplified Guide on SME Audits

in line with IFAC Guide on Using ISAs in SME audits

Albania Case

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1- Accountancy profession in Albania

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- **(1997 - 2007)** – 20 years audit profession (CPA) in Albania
- After **2000** - Certified Accountants (CA), internal auditors (IA), accountants for government, etc.
 - No prior tradition on organizing accountancy profession;
 - Separate streams for different designations (CPA, CA, IA, etc.)
- Initial range of professional services – very limited
 - Review, audits, control and verifications
- Auditor – giving assurance on the company financial information, to help on:
 - transformation of state owned enterprises into private entities
 - restructuring of the state owned enterprises/organizations
 - privatization of state owned companies, etc.
- Mainly requested by
 - Commercial Company law (1994/95),(2008),(2014)
 - Accounting law (1993) (2004), Financial Reporting Standards (2008), (2014)

2- Auditing standards used by the Audit profession in Albania

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1995 - 2000

- Training, auditors preparation
- CNCC Model on FS audits

2000 - 2005

- Small Company Audit Procedures (SCAP) developed with CNCC France and ICAS support)

2006 - 2014

- ISAs
- IFAC Handbooks on ISAs, Ethics and other Pronouncements Translated in Albanian

2014 – on

- Clarified ISAs
- IFAC Guide on ISAs for SME, parts 1 and 2
- IFAC Guide on Quality Control
- Local simplified guide on auditing SMEs
- Modified QA on SME Audits based on the local Guide

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3 – Simplified Guide on SME Audits – Why?

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■ Albania

- Majority of Audits are SME Audits (however, a significant number is out of statutory audit scope)
- SMEs are not complex
 - In most cases SMEs are family owned businesses
 - Very small compared to EU thresholds
 - Day to day activities managed by the owner- who is also administrator
 - No formal internal procedures;
 - Financial reporting prepared by the owner or a limited number of staff or provided by external service providers
 - The main users of FSs – Rax administration, Banks, Owner

3 – Simplified Guide on SME Audits – Why?

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- Assisting members on ISAs implementation
 - ISAs obligatory according to IEKA regulation and the Law [Audit law (2009)] requirements:
- Institute involved in providing members with relevant documents and tools
- Literature Translations and Publication in Albanian
 - Clarified ISAs
 - Guide to Using ISAs on the Audits of Small and Medium-Sized Entities, Third Edition (Volume 1 and Volume2)
 - Guide to Quality Control for Small and Medium-Sized Practices (SMPs)
 - IFAC staff Q&A
- Trainings - special CPD sessions

3 – Simplified Guide on SME Audits – Why?

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- ✓ **Guidance developed by IFAC – considered primarily unlisted entities, including SME audits, no limit on the responsibility to comply with ISAs requirements**
- ✓ **Clarified ISAs allow proportional application of ISAs**
 - ✓ ISAs designed to be applied proportionately with size/complexity of an entity
 - ✓ Proportionality ≠ modification of requirements
 - ✓ Audit approaches may vary with circumstances (simpler/more complex)
 - ✓ Professional judgment needed regarding audit procedures to meet the ISAs requirements and gather audit evidence
- ✓ **In a SME audit not all ISAs are relevant:**
 - ✓ Some SME does not use a service organization (ISA 402)
 - ✓ SME audit may not be a group audit (ISA 600)
 - ✓ Some SME has no internal audit function (ISA 610)
 - ✓ Etc.. Many other characteristics

4 – Simplified Guide on SME Audits – How?

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- Developing the idea.
 - IFAC Guide – a model to develop a more straightforward approach on listing the procedures required at each stages on SME audits in a very specific format.
- Setting up an working group - 2014
 - One year to draft the simplified guide
 - Discussions – most debates how to be in compliance with ISAs
- Simplified Guide based on the proportionality of ISAs, approved by IEKA Council - 2015.
- Why the simplified guide is useful?
 - Help in training and education
 - Unify the practice in terms of performing the audit
 - Protect public interest
 - Protect certified auditors interest as their files will be more structured and will “tell better the story of the audit”
- However:
 - It is not an exhaustive guide – further reference to ISAs as well as industry practices is required to ensure full application of ISAs in various situations.
 - it can be used for the audit of a SME under the assumptions provided in the guide.

5 – Simplified Guide on SME Audits – main components

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- The guide focuses the auditors on the proper planning process
 - ▣ Timely planning and identifications of risks will ensure ISA compliant audit and ensure effective and efficient audit.
- The guide consists in a checklist of procedures to be carried out at each stage of the audit
- The guide has been divided into the following main stages:
 - ▣ Planning
 - ▣ Audit response
 - ▣ End of period/process procedures
 - ▣ Completion

5 – Simplified Guide on SME Audits – main components

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- Acceptance and Continuance of Engagement and Engagement Letter
- Independence of the engagement team and the audit firm
- Understanding and assessment of Client internal control components
- Identifying and Assessing the risks of material misstatements and audit planning
- Materiality
- Audit Strategy and Approach –Table of Risks and Strategy
- Risk response and obtaining Audit evidence
 - Test of controls and Substantive procedures.
 - Audit procedures by the end of audit
 - Audit evidence
- Audit Conclusions and Reporting
- Sumarized steps on Audit file
- Templates - to assist in executing the audit:
 - Acceptance/reacceptance questionnaires
 - Contract template
 - Independence confirmation templates
 - AR/AP confirmation letters
 - Bank confirmation letter
 - Lawyer confirmation letter
 - Summary of assessed risk and strategy

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6 – Next steps – profession digitalization

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- A lot more to be done on automating audit procedures and documentation
- In the framework of EQ-FINREP – the main focus is on developing electronic based audit methodologies for auditors providing tools and methodologies to improve the audit quality
 - PACK PE – French model on SME audits – in cooperation with CNCC
 - Using Audit software to support
 - auditors and audit firms to increase their knowledge and capacity on applying ISAs;
 - IEKA as PAO to improve its ISA based quality assurance system, and

7 – ISAs and EU REPARIS Audit Training of Trainers

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- **EU REPARIS** Audit Training of Trainers program organized by CFRR Vienna has been a very good support to our efforts
- A practical approach to educate Smaller and Medium Sized Practices while performing SME audits
- Materials and cases translated in Albanian and disseminated to our members during our CPD sessions
- In the next CPD sessions we will continue to treat The **PejaSko case study**, as we consider it a very useful tool that can aid ISA documentation in SMEs,
- Many simulations developed by the program will also help develop practitioner's softer skills