

# A single set of global auditing standards

Investors and other capital market participants want to know that the quality of audits is the same everywhere so that they can rely on the information to inform their decisions. But at the moment standards and their enforcement vary internationally, which means that ‘risk premiums’ are likely to be charged. **Jim Lee** looks at where we are and what needs to change to reach the goal – a single set of global auditing standards

The globalisation of our capital markets requires a single set of global auditing standards designed to promote uniformity in audit quality across the world. Such standards do not currently exist. In large part, this is because national auditing standards are incorporated in national laws, or in legislation that expressly delegates the setting of those standards to national standard setters.

Another complicating factor that gets in the way of everyone using one set of auditing standards is the national differences in the oversight of auditors and enforcement of auditing standards, including variations in the rules for how auditors should conduct their activities.

Some progress towards a single set of global auditing standards has been made, however. The largest firms have adopted audit methodologies based on International Standards on Auditing (ISAs).

## The price of varying standards

PricewaterhouseCoopers supports the development of global auditing standards and a consistent system of auditor oversight and enforcement of those auditing standards. Investors in global markets and other stakeholders want to know that the quality of audits is the same regardless of where they are conducted. Otherwise, investors and lenders will inevitably demand a ‘risk premium’ before they will be induced to lend to or purchase a security from companies in countries that have demonstrably weaker audit standards or, perhaps worse, where the quality of audits is unknown.

## The path to a single set

PwC’s view is that a single set of global auditing standards should have the following attributes:

- Principles-based to facilitate appropriate use of professional judgement and scalability to all companies
- Understandable and clear to support consistent application and performance
- Stock audits to meet the expectations of users of the auditor’s report
- Support the performance of audits that provide reasonable assurance that the financial statements present a ‘true and fair view’

The path to a single set of global audit standards is likely to be staged. It should begin with the development of ISAs with broad applicability and clear distinction between principles, requirements and guidance. In recent years, the International Auditing and Assurance Standards Board

(IAASB) has made substantial progress in the development and enhancement of ISAs as part of its ongoing ‘Clarity Project’. However, substantial work remains and there continues to be a significant risk that the IAASB will tend towards requirements in certain areas that are more prescriptive than needed.

The next step is for harmonisation of auditing standards among international and national standard setters. Several national standard setters are already in the process of harmonising their standards with ISAs. For example, the body responsible for establishing auditing standards for US private companies has committed itself to harmonising with ISAs. However, the same commitment has not been made by the standard setter for US listed companies.

## What does this mean?

A single set of global auditing standards is critical to provide investors and lenders with consistently high quality financial information to make investing and lending decisions across capital markets. However, to reap the full benefit of global standards, we need greater consistency around the inspection of auditors and the enforcement of auditing standards in different countries. Varying requirements raise the costs of performing audits and decrease the comparability of audits performed in different countries.

Collaboration among national regulators overseeing auditors will reduce the costs of regulatory oversight on the capital markets and can work to increase investor confidence that information quality is globally consistent across the capital markets.

Global auditing standards should reduce the cost of audits. It would allow global networks of firms to train their people on a single set of auditing standards, thereby reducing the cost of delivery. It would also facilitate the mobility of professionals from country to country and allow for sourcing of work in parts of the world with highly qualified workforces and lower delivery costs.

At PwC, we will actively advocate a single set of global auditing standards that will contribute to high quality audits consistent with the needs of the capital markets. We will also support development of a consistent system of auditor oversight and enforcement of compliance with the auditing standards.

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