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International Federation of Accountants

# Principles and Objectives of an Audit

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# *Agenda*

- Role of standard setters
- Objectives of an audit
- Principles of an audit
- What an audit does not do

## Role of Standard Setters

- To develop standards for the performance of auditors in order to maintain and improve the consistency and quality of audit opinions in the public interest
- To work within the agreed objectives of an audit

## Objectives of an audit

- To provide an independent opinion on whether the financial statements give a true and fair view in order to enhance the confidence of users in those statements
- Law, regulation or contract may impose further objectives – eg, in respect of controls, accounting records, management reports

## Principles of an audit

- Ethical principles are to be followed: integrity, objectivity, professional competence and due care, confidentiality and professional behaviour
- Independence and objectivity: the statements are those of management, and the opinion that of the auditor
- Professional judgment

## Principles of an audit - continued

- Professional scepticism
- Reasonable assurance: auditor obtains that assurance that can be reasonably expected, not unrealistic levels
- Evidence-based opinion
- A focus on risk of material misstatement
- Fraud as a possible source of misstatement

## Principles of an audit - continued

- Opinion on truth and fairness in context of accounting principles
- Opinion deals with all relevant matters: that is, the auditor does not hide behind one qualification to avoid giving another

## What an audit does not do

- Guarantee the accounts are ‘right’
- Provide assurance on matters outside scope: eg, ability to continue in business, appropriateness of commercial decisions, compliance with law and regulation generally, absence of commercial fraud not affecting financial statements
- Compensate for inadequate law or regulation





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