

International Standards on Auditing and SMEs

Hervé Puteaux
Chief Executive Officer
JPA International



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THE FRENCH EXAMPLE

- All Public companies have the obligation to appoint an Auditor with no minimum level (Business Act 1966)
- Other companies have to appoint an Auditor if two of the following levels are met:
 - ❖ Total balance sheet $\geq 1,5$ M €
 - ❖ Turnover ≥ 3 M €
 - ❖ Employees ≥ 50
- The French Institute (CNCC) has developed French Standards (Normes d'Exercice Professionnel) historically based on ISA's

International network of independant auditors, accounting and consulting firms

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FACTS

- Globally more than 2 M companies in France
- About 200 000 need an Auditor
- Most of these companies are SMEs
- About 50-60% are under the minimum level
- An Auditor is appointed for 6 years and can be renewed.

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. »



QUESTIONS

Do we need 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

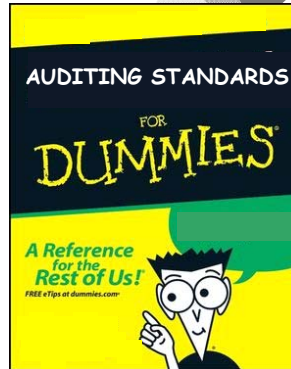
BASIC CONCEPTS

Should the auditing standards for SME's only be a « light » version of full audit Standards?

What should be the basic concepts of Professional Auditors?

EFFICIENCY
QUALITY
RELIABILITY
TRUST
INTEGRITY
FAME

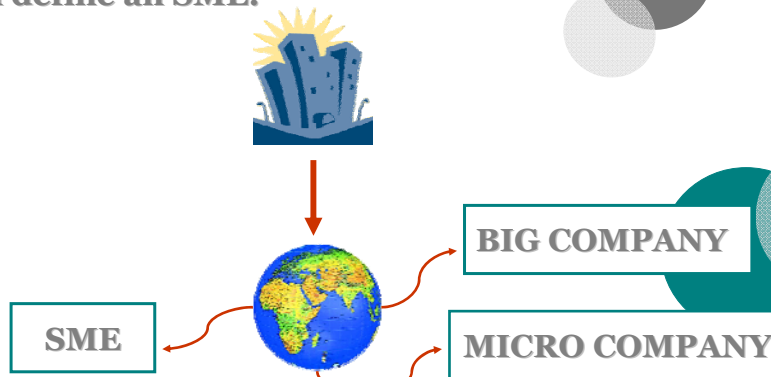
or



DEFINITION OF A SME

There is not one worldwide accepted definition.

Depending on the country, many different criteria can define an SME.





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 realise 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.



CONCLUSIONS: How to apply ISAs in SMEs?

Some basic conditions need to be fulfilled:

- **A highly educated team**
- **Deploying trained teams matching the client's environment and operative mode**
- **Offering an optimised 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**