

PREFACE

When we wrote the previous edition of this book in 2003, we were referring to a crisis of confidence in the underlying financial system. Over the period 2001-2003 we had seen a number of corporate collapses (HIH Insurance and One.Tel in Australia, and Enron and WorldCom in the United States, just to name a couple) and the demise of the auditing firm, Arthur Andersen. As a result there was a loss of confidence by the investing community in the financial reporting processes worldwide, of which the auditing profession is an integral part.

We are now writing this new edition in 2005. Over these last two years we have actually seen the auditing profession go from strength to strength. The need of society for a strong independent auditing and assurance profession has been recognised over these two years. To aid this process, there have been a lot of reform activities that have been undertaken. This book will outline the initiatives that have been achieved up until 2005, as well as identify those which are planned over the next couple of years.

These issues provide a background to the current auditing environment. It is not possible to fully understand the environment confronting auditors without contemplating the impact of these issues. All these issues will be considered at various stages throughout this text.

The initiatives contained in the previous edition of this book have continued to be built upon in this new edition. First, it emphasises an auditing approach called the business risk approach. This approach is becoming standard in audit practice and has been incorporated into both national and international auditing standards over the last two years. It involves the auditor obtaining a greater knowledge of their clients than was required under previous audit approaches, including obtaining increased understanding of their business strategy and methods of dealing with business risks. The auditor then needs to consider the impact of this knowledge and the evaluation of these business risks on potential misstatements that may occur in the financial report.

The second major initiative is the extension of the business evaluation, evidence collection and reporting model from simply a consideration of providing assurance on financial reports to

providing assurance on a whole range of other services. This initiative has been supported by developments over the last two years, such as the approved assurance framework. It is hard to argue against the premise that people need assurance on a whole range of information or services other than financial reports. This may include assurance that the party at the other end of the web address is going to deliver the product or service that you have paid for, of a quality or at the time that is agreed. Or it may be that assurance is required that the sporting memorabilia recently acquired is genuine, or the claims that the business is not hurting the environment are of substance. This book outlines the extension of the audit methodology to other services, and reflects the recent and likely future developments in this area.

The third major initiative concerns the increasing impact of globalisation on accounting and the auditing profession. There is an increasing alignment of national and international accounting and auditing standards. This book continues to reflect the convergence to international auditing standards by including references to both Australian and International Auditing Standards and examining the convergence policy of Australia with International Standards. We argue that further attention needs to be paid by the standard-setters to the increasingly complex environment confronting the auditor.

Over the next few years it is expected that auditing standard setting bodies will pay greater attention to the increase in complexity which is being confronted by the auditor. This is associated with factors such as the increasingly complex client structures that the auditor is being required to audit, and the increased complexity of accounting issues being faced, such as the move away from historical cost accounting as a basis for preparing financial reports. This book reflects on how issues such as increased globalisation and client complexity are likely to be addressed by the profession.

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