

Chapter 5

ISO Standards and Audit: A Case Study About ISO 31000

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ABSTRACT

Standards are applicable to any kind of activity and could be defined, in a general way, as an activity aiming to apply an ordered system to repetitive functions that take place in the context of industry, technology, science, and economy. Auditing is deeply connected to the implementation of any standard, and this chapter aims to do its connection. Standardization can stimulate international comparability eliminating obstacles arising from some different national practices in accounting and in auditing using IFRS and ISA, in risk analysis using ERM or ISO 31000, in people's safety, in the product or in the environment. A case study about ISO 31000 in a municipality where IFRS and ISA are followed and ISO 9001, 14001, 18000 are a reality will frame this issue. ISO 26000 about corporate social responsibility will be the new future challenge.

INTRODUCTION

This chapter aims to make the connection between the audit function and the applicable standards. Audit consists of an activity of analysis, inspection and verification carried out about any subject, with the purpose of issuing an opinion about its veracity, transparency and accuracy according to a reference or a benchmark of performance. These benchmark tools, often called standards, may be related either to accounting, auditing, risk, safety or to the quality of the product, the environment and the social responsibility of the organization. After considering each of them – IFRS, ISA, ERM and ISO standards 9001, 14001, 18000, 31000, 26000 – a brief description of the respective audit process associated will be considered. Finally, so as to frame this issue, a case study about ISO 31000 in a municipality of the District of Porto – that has already implemented most of these standards – will be displayed.

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BACKGROUND

Over the last few years, an acceleration of the process of standardization concerning business management has taken place in an economic context characterized by a marked process of globalization and economic integration of markets. Under this scope of analysis, many studies have been undertaken considering the role of standards that are, in many cases, non-tariff barriers to international trade relationships.

As various authors have emphasized, while tariff barriers are becoming lower and lower, non-tariff barriers (i.e., technical standards and regulations affecting the requirements for products, services and, indirectly, production processes) are acquiring increasing importance (Blanco & Bustos, 2004). In short, the importance of international trade in the global economy has grown dramatically over the last two decades, but while tariffs and quantitative restrictions on trade have been lowered or eliminated, barriers of a different nature have had an increasingly restrictive effect on trade, especially in the case of a broad range of technical standards (Dias, 2014; Giovannucci & Ponte, 2005; Henson & Loader, 2001).

Standardization has been crucial for the development of the industrial society (Blind, 2004). At its origins, in the early 20th century, standardization was introduced in order to curb an uneconomical divergence of components, parts and supplies and to foster their interchangeability so as to facilitate mass production and the repair and maintenance of products and services.

However, standardization has gone further than this and comes to be applied to the very management processes and systems by which products and services are produced (Antonelli, 1999; Brunson & Jacobsson, 2000; Dias, 2014; Heras, 2006). Standards-based management is a research field that has received considerable attention in recent years, due to the great success experienced by management standards all over the world. Therefore, it is important to review the different approaches of the study of standardization in a management context, in order to try to synthesize and, thus, improve the academic knowledge about these interesting management tools, within the interest of the various different stakeholders involved (e.g., managers, consultants, policy makers and researchers). It is well known from the perspective of the executives of organizations that all these standards need an accurate plan of audit in order to test their fulfillment. This way, audit must be considered as a proactive and adaptive issue of analysis and assurance that should make part of the management of any organization.

The auditing function concerning financial statements is developed according to ISA (International Standards on Audit). This audit process has the aim of analyzing the organization accounting transactions that must fulfil IFRS (International Financial Reporting Standards) (issued by IASB – International Accounting Standards Board – United Kingdom). These standards have the purpose of creating the global harmonization and comparability of the financial statements once they are applied worldwide. These standards start with ISA 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, and end with ISA 810 – Engagements to Report on Summary Financial Statements covering the most relevant aspects of the audit process. Nowadays they are a compulsory tool to be used by auditors along the development of the work on the organizations' financial statements.

Many articles have been written about the early application of IFRS. Some organizations were not very interested in implementing these standards. It is interesting to note that there are very different opinions. Hans, Edward, Martin, and Cheng (2015), in Germany, decided to measure the impact that the early implementation of these standards would have on the quality of management reports. They took as reference previous studies that measured the accounting quality through the management of the results,

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