

**Arnold Schilder**  
**IAASB Chairman**  
**545 Fifth Avenue, 14th Floor**  
**New York 10017**  
**United States of America**

## **IAASB CP – Proposed Strategy and Work Program for 2015-2019**

Dear Arnold,

The European Securities and Markets Authority (ESMA) considered the Consultation Paper on the IAASB's Proposed Strategy for 2015-2019 and the Proposed Work Program for 2015-2016 (CP) and thanks you for the opportunity to contribute to the IAASB's due process. The views expressed in this letter are made from the point of view of securities regulators with the aim to enhance investor protection and improve listed entities' auditors' reports.

ESMA believes the strategic objectives of IAASB for 2015-2019, as indicated in the CP, are appropriate and reasonable given the time and organizational constraints of the IAASB. Acknowledging the importance of good quality audit work, ESMA supports the development and maintenance of high quality International Standards of Auditing (ISA) that remain relevant and effective in a changing environment, including the impact of technological developments on audit. In this respect, we would like to indicate that in the EU, issuers will be required to prepare and file annual financial reports in a single electronic reporting format from 1 January 2020.

Considering the necessity of the international applicability of IAASB standards and the on-going global debate on the improvement of financial reporting, ESMA appreciates the importance given to a good collaboration and cooperation between stakeholders involved in audit matters. ESMA advises the IAASB to seek further convergence with the International Ethics Standards Board for Accountants (IESBA) because of the interdependencies within the two sets of standards which deserve special consideration in the language and definitions used as well as the requirements in order to facilitate a common understanding by stakeholders.



## *Work Program 2015-2016*

ESMA welcomes the priorities of the proposed 2015-2016 work programme and in particular the special audit considerations related to financial institutions. Given the crucial role they play in complex financial markets, ESMA believes that the development of specific standards is appropriate not only for the audit of banks but also with respect to the audit of insurance companies.

ESMA agrees with the IAASB's decision to review the International Standard on Quality Control 1 (ISQC1) - *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and to reinforce professional scepticism by clarifying definitions and issuing guidance to be applied during the different phases of audit.

ESMA supports the IAASB's intention to revise ISA 600 - *The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements* and advises the IAASB to address the concerns already identified in the strategy document, particularly those related to the auditor's involvement in the work of the component auditor. We believe that the audit of "letterbox companies", where the company's operations are located in a different jurisdiction to that of the company's legal registration, would also deserve particular consideration. ESMA encourages the IAASB to make every effort to deal with the revision of this standard sooner than 2017.

ESMA acknowledges the limited resources of the IAASB but would like to highlight some additional issues that could be addressed in the work programme or considered at an earlier date than proposed:

- Consistent with ESMA comment letter to the IAASB's Exposure Draft – *Reporting on Audited Financial Statements*<sup>1</sup>, further guidance related to going concern should be developed in close cooperation with the International Accounting Standards Board (IASB). ISA 570 – *Going concern* establishes the relevant requirements but due to the envisaged developments in auditor reporting, a more in-depth consideration might be appropriate to address key concepts such as the appropriateness of the management's use of the going concern assumption and the identification of material uncertainties;

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<sup>1</sup>[http://www.esma.europa.eu/system/files/2013-1880\\_esma\\_comment\\_letter\\_to\\_iaasb\\_on\\_reporting\\_on\\_audited\\_financial\\_statements\\_o.pdf](http://www.esma.europa.eu/system/files/2013-1880_esma_comment_letter_to_iaasb_on_reporting_on_audited_financial_statements_o.pdf)

- In relation with ISA 320 - *Materiality in Planning and Performing an Audit* and ISA 450- *Evaluation of Misstatements Identified during the Audit* and after ESMA's Consultation on materiality in financial reporting<sup>2</sup>, further guidance for the determination of materiality should be provided in order to ensure consistent application in audit practice and improve the comparability of auditor's reports;
- Some practical application of ISA 530 - *Audit Sampling and other Means of Testing* could be analyzed and developed in order to issue guidance to take into account current audit practices particularly in a high data volume environment (for example on how to appropriately link the sample size of the substantive tests to the confidence on the entities' internal control system);
- Direct assistance by the internal audit function to the external auditors in ISA 610 - *Using the Work of Internal Auditors* remains an area of concern for regulators. Several jurisdictions do not consider direct assistance by the internal audit function acceptable;
- The implications of the use of the services of persons working on audit in off-shore and on-shore centers should be assessed as they ought to be subject to all the quality assurance procedures that any member of the team is subject to.

Finally, ESMA would like to encourage the IAASB to carefully consider the developments of the European audit reform and the potential implications in the development of ISAs, as the new Audit Directive and Regulation contain several new requirements for statutory audits.

Please do not hesitate to contact us should you wish to discuss any of the issues we have raised.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'S/M', is written over a light blue horizontal line.

Steven Maijoor,  
Chair  
European Securities and Markets Authority

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<sup>2</sup> <http://www.esma.europa.eu/system/files/2013-218.pdf>