

## SECTION IV—QUESTIONS FOR RESPONDENTS ABOUT THE IAASB'S STRATEGY FOR 2020-2023

### GLOBAL ISSUES, TRENDS OR DEVELOPMENTS

- 1. In your view, what will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain, will impact the environment in which the IAASB's stakeholders operate, etc.), and what may be the implications for the IAASB's International Standards.**

We consider that the planned work to explore what more can be done in relation to audits of smaller or less complex entities is important. The issues around scalability of the ISAs and the concerns raised around the length and complexity of the standards is likely to continue, together with the need for implementation and application support with practical examples. We recognize that this is an area on the future IAASB agenda and believe this should be a priority given its critical nature.

It is important for the IAASB to continue to engage closely with the International Accounting Standards Board (IASB) as practitioners need to fully understand the financial reporting standards before carrying out any audit and assurance work on the financial statements. There is a perception that financial reporting standards are becoming lengthier, more complex and detailed, rather than being principles-based. This is also a trend identified with the ISAs. Truly principles-based standards (as opposed to standards that are rules-based or include principles over-layered with rules) are better suited to standing the test of time. If standards are principles-based and written in clear and concise language, they should be “scalable” irrespective of developments in the business environment, which will always be unpredictable and uncertain. A “think-small first” approach to standard setting is also appropriate in this regard.

The IAASB have appropriately identified that the fast pace of technology developments will continue to have a significant impact on how organizations operate and how audits and other engagements are being undertaken. The role of evolving technologies, such as artificial intelligence, machine learning, robotics and blockchain etc. are anticipated to have a significant impact, which all practitioners will need to understand. We agree that keeping the standards ‘fit-for-purpose’ with the current pace of change in relation to technology is going to be a key challenge affecting the IAASB in the future. The ‘traditional’ approaches to performing audit procedures are already being impacted with questions raised about ‘continuous assurance’ on current information (therefore the value of a year-end financial statement audit) and around the use of sampling procedures if all transactions in an entire population can be analyzed through technology, with a greater focus on exceptions.

As indicated in our [response](#) to the IAASB Proposed Strategy for 2015-2019, the proportion of SMPs undertaking audits of SMEs in many jurisdictions has reduced in recent years, partly as a result of the introduction of, or increase to, audit thresholds. This may result in a rise in demand for review, other assurance and related services engagements, such as agreed-upon procedures engagements.

The traditional model of firms is shifting as a result of automation and digitization. Talent management and both attracting and retaining talent is critical to firms' success. There is a clear need for the accountancy profession to "re-skill" itself, transform and be open to new ways of working. For example, there is a movement towards professional accountant "led" firms, which are actively recruiting outside of accountancy, for example with data scientists or cybersecurity experts. The skills required by professional accountants are rapidly changing, with a need to do more with data to remain relevant and a focus on 'soft' skills as well as technical. The amount of training and development provided by firms is important and Professional Accountancy Organizations (PAOs) will need to support SMPs in particular, through both facilitating cost-effective Continuing Professional Development (CPD) courses and focusing on the education syllabus for new entrants to the accountancy profession.

In general, due to technology, firms are increasingly likely to move from models of traditional compliance services to providing more business advisory services. The lower value historical focus on transactional services (e.g. bookkeeping or payroll services) is likely to change as this type of work is automated and firms focus on higher value and future focused services involving analysis and interpretation, specialization and advising through insight and expertise. Such developments may not directly impact the IAASB standards, but it is important for the Board to be fully aware of the significant changes which are happening within the profession.

In the future, a greater focus is anticipated to be directed towards non-financial elements of financial reports. It may be that stakeholders will increasingly want more specific work to be undertaken that is tailored towards the entity. Additional guidance on specific areas or industry sectors may then be required. In this context, the IAASB's current project to revise ISRS 4400 is considered very important. We note the anticipated finalization of the revised standard is June 2020 and believe it is critical that this timetable is maintained.

The timeframe for revisions of international standards is also likely to come under increasing pressure with a need to react more quickly to changes in the market place. For example, more focus will be required on the use of data analytics and how it is reflected in the standards in order for it not to appear that there is a significant gap between what is happening in practice and what is in the standards. Greater clarity and guidance about what techniques can be used will not only assist practitioners, but also regulators.

Nevertheless, the Board needs to ensure that any changes are carefully considered. We believe that the IAASB should look closely at root cause analysis behind, for example, regulator findings that result in calls for it to act. If the standards are sound, but non-compliance is the issue, there may be no need for action by the IAASB. Where misunderstanding/ misinterpretation of the standards has led to non-compliance, clarification (e.g. implementation support) could be warranted. There is also a significant difference between the standards being clearly faulty (i.e. a full revision is required) and a specific aspect needing to be changed (i.e. a limited scope revision). The Board should determine what the most efficient method of addressing the issues is.

**2. Section II describes the additional challenges and opportunities that the IAASB has identified relating to its people, processes, technology and activities, including possible changes that**

**may arise from the MG consultation. In your view, as the IAASB develops its Strategy for 2020–2023, what are the:**

**(a) Key challenges and other factors that may impact the IAASB's focus in relation to its people, processes, technology and activities; and**

**(b) Main opportunities for changing the way it undertakes its activities.**

**Your response may include views about the matters identified by the IAASB as set out in Section II, but any views about matters that have not been mentioned are particularly welcome.**

We agree with the challenges identified and support consideration of making changes to the standard-setting process and embracing the use technologies. The IAASB has an opportunity re-consider its processes and how it approaches the different phases of standard-setting, including identifying the issues, the development/ revision of standards and post-implementation reviews.

For example, in exploring the need to revise standards, the IAASB could enhance its focus on evidence-informed standard setting with more comprehensive and regular engagement with the academic community, together with a root cause analysis to determine the most efficient approach to addressing the issues. As noted above, it may be that not all standards require a full revision or the issue could be resolved through specific implementation support. We strongly believe that piecemeal changes to the requirements in isolated standards should be avoided wherever possible and that there is a robust and rigorous cost/benefit analysis of the potential impact on both SMPs and SMEs in the Board's consideration of future changes.

Given the fast-paced and changing world, consideration should also be given to ensuring the Board and staff support have the appropriate expertise in the specific areas to be dealt with in the 2020-2023 period. For example, strong technology skills and experience, knowledge of non-financial reporting audit and assurance etc.

**3. Are there specific initiatives within the stakeholder group to which you belong, or of which you are aware, that you believe the IAASB should actively monitor in light of their potential to inform the IAASB's future agenda? If so, what are they, and why do you think they are relevant to the IAASB?**

We are aware that certain jurisdictions have developed (or are considering developing) national standards due a perceived lack of activity at an international level addressing concerns around the scalability of the ISAs for small and less complex entities. Such initiatives may be 'simpler' at a national level as the definition of the entities to be captured by such standards is likely to vary. For example, Sri Lanka have recently developed the 'Sri Lanka Auditing Standard (SLAuS) for the Audits of Non-Specified Business Enterprises (Non-SBEs). The IAASB needs to address these developments as a matter of priority as there is a risk that the absence of an international response may lead to a number of disparate local standards for SME audits and a move away from IAASB standards. This will add additional complexity for both users and practitioners.

We acknowledge that the Board is planning to discuss matters related to audits of SMEs/ less complex entities in September, with a Consultation Document planned for approval in March 2019. This may result in a more substantial project in 2019, depending on the Board discussion and stakeholder views. The SMPC

believes that this project is critical to the future of the IAASB as a global standard setter and it warrants significant attention.

The debate is complex and requires sufficient resources to fully explore all the issues. There is significant complexity with different situations in individual countries due to national legislation, as well as when international standards were adopted. IFAC’s policy Position Paper 2, [A Single Set of Auditing Standards: Audits of Small- and Medium-Sized Entities](#) outlines the importance of principle-based standards that are capable of being applied to audits of the financial statements of entities of all sizes. This enables a consistent level of assurance to be associated with the word “audit” and allows users to make decisions based on a common understanding about the reliability of audited financial statements.

**THE FOCUS OF THE IAASB’s ACTIVITIES IN 2020–2023**

**One of the significant challenges facing the IAASB, as noted in Section II, is dealing with different and competing calls for IAASB action, including the prioritization of projects that are selected, such that the IAASB is seen to be continuing to act in the public interest.**

- 4. Section II illustrates that the IAASB has, and will continue to, focus a significant part of its efforts in 2015–2019 on revising and developing standards addressing the audit of historical financial information and quality control. With respect to new standard-setting projects for the period 2020–2023, in light of where you believe IAASB actions are needed and to continue to serve the public interest, in your view what proportion of effort should the IAASB allocate to each of the following? (Allocation should total 100%)**

Quality control	<input style="width: 40px; height: 20px;" type="text" value="20"/>	indicate %
Audits and reviews of historical financial information	<input style="width: 40px; height: 20px;" type="text" value="25"/>	indicate %
Other assurance – EER engagements [4]	<input style="width: 40px; height: 20px;" type="text" value="10"/>	indicate %
Other assurance (and related services) - other than EER engagements [18]	<input style="width: 40px; height: 20px;" type="text" value="10"/>	indicate %
<i>Crossover Topics:</i>		
Professional skepticism	<input style="width: 40px; height: 20px;" type="text" value="5"/>	indicate %
Matters relating to audits of smaller and less complex entities	<input style="width: 40px; height: 20px;" type="text" value="30"/>	indicate %
<b>TOTAL =</b>		<b>100%</b>

Please indicate the rationale for your response and any related comments you may have.

### **Small-and medium-sized entities**

Worldwide, small-and medium-sized entities (SMEs) represent over 90 per cent of the business population, who rely primarily on SMPs as their preferred advisers. We believe it is important for the IAASB to give greater consideration of matters relating to SMEs and SMPs in all of its activities. We have therefore spread the allocation of percentages across the areas on the basis this will be reflected in each. The percentages also include implementation support for the current projects. For example on Quality Control, which is planned to be finalized in March 2020.

We have proposed 30 percent of time for exploring the issues relating to audits of smaller and less complex entities. Practitioners continue to raise concerns about the length, level of detail and complexity in the ISAs requirements and application material. We appreciate that the IAASB has attempted to address proportionality and scalability in the standards through the inclusion of conditional application of certain requirements and the ability to escalate the magnitude of the response to the requirements based on the circumstances. However, it is often not a specific requirement in one ISA that creates the issues, but the cumulative volume of material, which significantly raises the cost in applying the standards to smaller and less complex entities and may inhibit the quality of those audits, particularly with increasing pressure to lower fees, which continues to be a top challenge facing SMPs. The overall volume and movement towards more rules-based standards is also a contributing factor driving the development of national standards on audit for SMEs. We recognize that this is largely driven by a need to respond to increasing demands from regulators directed primarily towards listed entities and PIEs and acknowledge the necessity for the IAASB to balance the needs of all stakeholders, but support more attention being directed towards SMEs and SMPs.

It is important to distinguish between implementation support provided by the IAASB, which we believe should be focused on post-implementation reviews and the development of non-authoritative interpretation guidance (e.g. IAASB Staff Publications, Questions and Answers, International Auditing Practice Notes), and more comprehensive application material (e.g. guidance, education, training materials), which may be developed by IFAC, PAOs and other stakeholders. A more innovative approach to development of support and tools should also be explored going forward.

The SMPC notes that the IAASB has previously included post-implementation reviews of other standards on its work plan, including compilations (ISRS 4410 Revised) and reviews (ISRE 2400 Revised), but work has not commenced due to a focus on other priorities. We believe that it is important this activity is undertaken. Future post-implementation reviews (e.g. revised ISAs 540, 315 and ISQC 1 in due course) should also include a focus around the specific impact on SMPs, covering the costs incurred from staff training, methodology changes etc. and exploring the ability of SMPs to conduct cost-effective quality audits.

It may also be helpful for the Board to undertake an information-gathering exercise to understand the adoption and use of IAASB standards other than the ISAs, as well as more comprehensively understanding what services are being performed by SMPs in various jurisdictions and whether the IAASB's International Standards are appropriate for these purposes.

### **Period of stability**

We believe that there is a need for a period of stability for the ISAs once the significant projects on the current work plan (including Audit Evidence and Group Audits) are completed. It is in the public interest for practitioners, PAOs and national standard setters to have adequate time for effective implementation, including for translation and updating audit methodologies and training materials. For example, we

recognize the mixed views on the proposed effective date of ISA 540 (Revised) and are satisfied that the Board supported the revised standard being effective for periods beginning December 15, 2019. This is a significant issue as poor implementation risks further damaging the public perception around the value of audit and the credibility of standard-setters. The percentages we have allocated to both quality control and the audits and reviews of historical financial information therefore represent a focus on implementation support and education.

**Other Assurance**

As indicated above, we see an increasing demand for other services aside from audit, in particular in jurisdictions which have introduced and/ or raised the audit threshold for certain sized entities. In our view, it is important for the IAASB to continue to monitor the emerging forms of external reporting (EER) and other assurance and related services particularly, those relating to non-financial information.

**Professional Skepticism**

As the IAASB is aware, it is essential that the activities of the IAASB on professional skepticism in the audit and assurance arena (and other projects as appropriate) are coordinated with the IESBA. This is very important given the interaction of the IAASB’s standards – both for assurance and non-assurance services with the Code and the impact that changes to the Code may have on the take-up of the IAASB’ standards. We recognize the increased efforts that have been undertaken, including the establishment of a coordination framework and the organization of annual joint board meetings.

5. **Section II has noted another significant challenge for the IAASB is deciding how to heed the call for more efforts to support effective global implementation of the IAASB’s standards, for example through the development of implementation guidance. However, the IAASB also recognizes the need to strike a balance between activities related to implementation and the development of new, or revising extant, standards to further enhance practice. Accordingly, the IAASB is also seeking views on the appropriate balance between setting new or revising standards, and implementation activities (e.g., through developing material that assists implementation of the standards, or development of guidance such as Practice Notes or staff publications, as well as post-implementation reviews).**

**How, in your view, should the IAASB focus the majority of its efforts?**

- (i) Developing new or revised standards; or**
- (ii) Undertaking implementation activities; or**
- (iii) Apply efforts to both, and if so, in what proportion**

***(Please provide relative %; each category to total 100%)***

Quality control

- Indicate:

- (i) develop new or revised standards;
- (ii) undertake implementation activities; or
- (iii) apply efforts to both, and if so, in what proportion

10%

90%

0 %

60%

0%

Audits and reviews of historical financial information	- Indicate: (i) develop new or revised standards; (ii) undertake implementation activities; or (iii) apply efforts to both, and if so, in what proportion	40%
Other assurance – EER engagements [4]	- Indicate (i) develop new or revised standards; (ii) undertake implementation activities; or (iii) apply efforts to both, and if so, in what proportion	0% 100% 0 %
Other assurance (other than EER engagements) and related services[18]	- Indicate (i) develop new or revised standards; (ii) undertake implementation activities; or (iii) apply efforts to both, and if so, in what proportion	0% 0% 50 %

Please indicate the rationale for your responses and any related comments you may have.

We believe that the prime responsibility for the IAASB is developing high-quality, principles based standards. Using simpler language helps in developing clearer standards and should assist in better understanding and implementation by practices. The current projects including Quality Control, ISA 540 (Revised) and ISA 315 (Revised) will require implementation support, with examples developed for SMPs and audits of SMEs. As the Quality Control projects are intended to be finalized in March 2020 we allocated 90% to implementation support with 40% for audits of historical information.

During the moratorium for ISAs (see response to question 6) it would be appropriate to undertake a strategic review of extant auditing standards before prioritizing projects on new topics, together with considering how the ISAs can best reflect developments in technology. We believe there should be a period of stability with no new or revised auditing standards becoming effective for a period of time to assist with implementation of the current approved standards/ projects.

For EER engagements, once the current project developing guidance is completed it may not be necessary for further implementation activities.

For other assurance and related services, we consider it important to finalize the revision of ISRS 4400 and undertake a post implementation review of ISRS 4410.

**6. In relation to the development of new, or the revision of extant, standards as noted in Question 5, and keeping in mind the potential impact of the evolving environment and the challenges and opportunities for the IAASB in 2020–2023, should the IAASB, in your view:**

- (a) Focus first on a strategic review of extant standards (for example, consider how the standards could be better structured or presented in light of evolving technologies) before prioritizing projects on new topics. Please provide an explanation for your view.**

- (b) Prioritize projects on new topics (as determined by the consultation on the IAASB's future strategy and priorities). Please provide an explanation for your view.**
- (c) During implementation of the current standards under revision (i.e., those standards that currently have a committed project plan in place), consider a moratorium on developing new or other revised standards? If so, how long should such a moratorium last? Please provide an explanation for your view.**
- (d) Undertake other actions related to the development of new, or revision of extant, standards, and/or implementation support. Please describe what these actions should be and provide an explanation for your view.**

Given the significant changes to the ISAs from the current projects, we consider that the IAASB should consider a moratorium for a period of two years on developing new or other revised standards. Keeping up with new regulations and standards has been consistently ranked as one of the top challenges facing SMPs in surveys conducted by IFAC. The costs and burden of the adoption of revised standards is felt more acutely by SMPs, who may not have the necessary in-house resources to easily implement revisions. The IAASB must be sensitive to balancing the burden arising from changes to standards and the likely benefits to the public interest.

During the moratorium it would be appropriate to undertake a strategic review of extant standards before prioritizing projects on new topics. This review could consider how the standards may be structured from a 'think-small first' approach, together with how the ISAs can best reflect developments in technology. There is also the need to allocate sufficient time and resources to the development of specific implementation support addressing the scalability of the standards.

#### **SPECIFIC AREAS OF POTENTIAL FOCUS**

- 7. If there was a specific topic(s) that, in your view, should be the IAASB's priority(ies) when developing new, or revising existing, standards or related guidance for the period 2020—2023, what would it be, and why?**

**Where applicable, kindly indicate whether in your view the topic(s) (you have indicated) has particular relevance mainly for engagements for listed entities, small- and medium-sized entities (SMEs), or for entities of all sizes. Views in relation to matters of relevance to developing nations and the public sector are also encouraged.**

In order to ensure that the international standards continue to serve SMEs, we believe the IAASB should give greater consideration to how it engages with this critical constituency and the professional accountants that service them. The stakeholders at the listed/ PIE end of the spectrum have considerably more opportunity and resources to react and proactively respond to the formal consultation process as currently structured, but the voice of SMPs and SMEs need to be heard throughout the IAASB projects, from exploration and development of standards.

We recognize the difficulties with obtaining input from this group of stakeholders, but strongly encourage the IAASB to focus more on how it hears from this constituency in all jurisdictions. This is an important strategic issue and is likely to require a different approach to the Board's current working arrangements and outreach plans. For example, a greater emphasis and effort could be directed towards resources explaining



the potential impact of new and revised standards and designed to raise awareness about proposals (e.g. developing more short videos). New innovative approaches should be explored on how feedback is obtained, which covers a range of different languages. Such initiatives may require more targeted engagement with both national standard setters and PAOs.

The SMPC is aware that documentation requirements are a persistent source of conflict between regulators and practitioners. In particular, there are expectation gaps with regulators, oversight bodies and those undertaking peer reviews, especially when considering the level of sufficient and appropriate evidence, the use of professional judgement and what is documented. In addition, there have been concerns raised about the approach to SME audits by some audit oversight bodies, which follow the same method for high risk, listed entities. This may result in auditors focusing overly on documentation, which could be detrimental to resourcing other aspects of the audit, as well as undertaking more work on certain areas than may be considered necessary. The IAASB may consider facilitating discussions on this topic and seek to address the scalability of audit inspections.

#### **OTHER**

- 8. Are there any other topics of interest or matters of relevance that you feel the IAASB should consider when conducting its strategic review, including those related to its the way that the IAASB undertakes its activities (e.g., changes to address matters highlighted in the MG review)?**

None