

## **Consultation on the IAASB's Work Plan for 2017–2018 and Consideration of Current Priorities and Resources**

### **Feedback from the Invitation to Comment (ITC)**

1. The following specific question was included in the ITC to assist the IAASB in developing its 2017–2018 work plan:

To assist with the development of future work plans, are there other issues and actions (not specific to the topics of professional skepticism, quality control, and group audits) that you believe should be taken into account. If yes, what are they and how should they be prioritized?

2. The Steering Committee has considered the feedback in response to this question. The following key areas were noted most frequently:
  - The need for priority attention to **audit data analytics** and taking steps to update the ISAs to take into account the IT/digital environment, including potential issues related to obtaining sufficient appropriate **audit evidence** and cybersecurity. Some have even argued that we should do so before continuing revising ISAs.
  - **Materiality**, as this was an important theme in the ISA Implementation Monitoring project and also noted during both the Disclosures and ISA 600 projects. This includes not only the possibility of revisions to ISA 320<sup>1</sup> (and potentially ISA 450),<sup>2</sup> but also the possibility of requiring disclosure of materiality in the auditor's report.
  - Other important themes from the ISA Implementation monitoring projects, including using the work of **auditor's experts**, the **risk of fraud in revenue recognition**, **analytical procedures**, and, as well as the potential need for changes to **ISA 330**<sup>3</sup> as a result of other projects
  - **Sustainability and environmental, social and governance (ESG) matters**, including a suggestion that the audit should be extended to focus on enhancing disclosures about going concern matters that go beyond a 12 month period and a view that changes to auditing standards may be needed to be more responsive to investors' expectations with respect to ESG disclosures
  - The need for further investment in matters relevant to **small and medium practices (SMPs)**, including a specific focus on information gathering to more fully understand SMP issues to develop new guidance and tools. Some even argue that the ISAs are losing relevance for

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<sup>1</sup> International Standard on Auditing (ISA) 320, *Materiality in Planning and Performing an Audit*

<sup>2</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>3</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

SMPs, in particular as the IAASB seeks to respond to inspection findings mostly relevant to listed entities.

- Consideration of what more could be done to better explain what an audit is and address the expectations gap.
3. The role of audit committees was also highlighted, with a suggestion that the IAASB could do more to encourage audit committees to further promote and assess quality, including providing guidance on audit tendering.
  4. A number of areas that are not directly under the control of the IAASB were noted, including the need for a focus on threats to independence, including concerns over the perceived emphasis at firms on generating revenue from non-audit services; the payor model as an impediment to the auditor appropriately challenging management; concerns over audit fees; the need for efforts to further build the audit supply chain, clarify the expected capabilities of auditors and strengthen the examination and licensing process for auditors.

#### *Steering Committee Recommendation*

5. The Steering Committee noted that a number of topics (e.g., data analytics, integrated reporting) are already addressed on the IAASB's current agenda. For other areas such as ISA 330, ISA 500<sup>4</sup> and ISA 620,<sup>5</sup> while not on the Board's current agenda, Steering Committee members agreed that certain issues could be incorporated into the IAASB's existing projects on ISA 315 (Revised), professional skepticism and ISA 540,<sup>6</sup> and the IAASB could then consider whether a more robust look at these standards is needed.
6. Other topics have been specifically highlighted in the Survey in **Agenda Item 4-B**. For example, on the topic of materiality, the IAASB-IASB Liaison Working Group continues to monitor IASB developments, including the work on materiality. At this time, the Steering Committee agreed that it was not necessary to dedicate additional resources to the topic, but may reconsider this in due course to explore what IAASB actions might be necessary. The post-implementation review of the Auditor Reporting standards will specifically explore the experience of disclosing materiality in the auditor's report.

#### **Steering Committee Views on Current Priorities, Prioritization and Anticipated Milestones**

##### *Steering Committee Recommendations*

7. The Steering Committee noted the interconnectedness of a number of topics on its current agenda and the importance of taking this into account and moving forward in a coordinated matter on key topics. The Steering Committee tentatively agreed the following should be the Board's priorities, subject to the IAASB's views:

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<sup>4</sup> ISA 500, *Audit Evidence*

<sup>5</sup> ISA 620, *Using the Work of an Expert*

<sup>6</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

- The **ISA 540** timeline should continue as planned, with the exposure draft (ED) to be issued after the December 2016 IAASB meeting and a final standard approved at the end of 2017. In light of views about the interactions between ISA 540 and ISA 620, the ISA 540 ED could potentially set out an IAASB position about whether a broader revision of ISA 620 is needed and solicit feedback in that regard.

In light of other priorities, it will likely be necessary to slow down the development of additional guidance in support of ISA 540 (e.g., guidance on the relationship between auditors and supervisors and guidance on audits of banks) until later in 2017 or early 2018.

- To support the efforts and fundamental questions being considered in the ISA 540 project (and the likely effects on the ISA 600 project), the timing of the project proposal on **ISA 315 (Revised)** should be accelerated to September 2016, with efforts to develop an ED in 2017. To this end, the ISA 315 Working Group is already prioritizing consideration of issues related to significant risks. The importance of updating the standard to reflect the increasing impact of information technology on business and audits has also been stressed in outreach meetings, as have concerns over the continued inspection findings related to tests of controls.
- The IAASB should endeavor to develop EDs of the **quality control standards** and **ISA 600** as soon as possible in 2017, as this was flagged as particularly important in recent discussions with the International Forum of Independent Audit Regulators (IFIAR) Standards Coordination Working Group and feedback to the ITC overall. In order to effectively do so, it will be necessary to prioritize certain crossover issues for the Board's consideration in the early part of 2017, in particular, the engagement partner's responsibilities for direction, supervision and review.

It may also be necessary to look at whether the approach to the quality control project should be reconsidered – for example, can core elements be addressed by one group tasked with making recommendations to the Board (e.g., in relation to monitoring and remediation), while another looks to develop the quality management approach (QMA)? The Steering Committee also acknowledged that more research may be needed in certain areas, for example transparency reporting.

Finally, there may be a need to issue project publications or other material to raise awareness about the issues being considered by the IAASB and their status.

- Work on **data analytics** should continue to be prioritized, and the implications of data analytics to the ISA 315 project explored. The Steering Committee also noted there may be a need to take a different approach to topics like data analytics, including potentially using a wider group of experts and interested parties as a “project advisory panel” that could be consulted on key issues as needed or focus groups or events in partnership with others.
- Efforts related to **Auditor Reporting Implementation** should continue. The Working Group will commence the design of a post-implementation review and will engage with the IAASB in September 2016 with initial recommendations. This work will focus on key audit matters, but will also look for feedback on approaches in the UK and other jurisdictions relating to communicating about materiality, scope of the audit and going concern in the auditor's report.

8. In order to achieve these milestones in 2017, the Steering Committee notes that anticipated timing on other initiatives will likely be affected: For example:
- While the **Integrated Reporting** discussion paper is planned to be issued in August 2016, and be open for comment through the end of December, it may not be feasible for the feedback on that consultation to be brought to until Q3 2017 or later.
  - The same is true for the work on **Agreed-upon Procedures**. The Working Group hopes to issue the paper after the September meeting (likely in November). Feedback from this discussion paper will help the Board determine whether to move forward with a revision to ISRS 4400 and whether further consideration of matters related to multi-scope engagements is necessary and how this work should be prioritized.
  - At this time, it is not feasible to commence the design of post-implementation reviews on the review, compilation or other assurance services, unless such work could be conducted by NSS or others.
9. A summary of the implication of this prioritization is included in the Appendix to this paper. It is envisaged that this table would be published together with the Survey.

*Opportunities for Further Efficiencies and Additional Resources*

10. The Steering Committee also raised suggestions as to how the Board, Task Force and Working Groups could become more nimble and best utilize the limited amount of time available for Board deliberations and overall resources. These included:
- Enhancing the efficiency of Board meetings and keeping discussions focused on issues, with wording suggestions shared with Task Force and Working Group chairs and associated staff offline for their consideration and finalization.
  - During physical Board meetings, utilizing the practice in Board teleconferences whereby each member is asked to give a view on key issues, to then assist with managing the balance of time in the Board session.
  - The possibility of an additional board meeting in 2017, with perhaps some of the other meetings being less than 5 days to allow time for Task Forces and Working Groups.
  - Making more frequent use of IAASB teleconferences (for example, two per quarter).
  - For documents other than consultation papers and EDs, allowing the Task Force and Working Group to finalize documents offline with the agreement of the Chairman and Technical Director, rather than assuming a turn-around during the Board meeting or a “fatal flaw review”.
  - Reconsidering the size of certain Working Groups and Task Forces, and whether smaller subgroups may be helpful to progress discrete issues.
  - Considering whether there is the possibility for more coordination and leverage of the resources within the National Standard Setters (NSS) Liaison Group, recognizing that Board or staff involvement would continue to be necessary to a degree.

- Potentially issuing annual Staff Alerts that could address the hot topics from the prior year's inspection report, which could include key reminders about how the ISAs address the topics and highlight progress of any relevant IAASB initiatives, to raise awareness.

#### **Matters for IAASB Discussion**

1. The IAASB is asked to share views on the matters described above, including:
  - (a) Whether there are any matters raised by respondents to the ITC not on the IAASB's agenda that should become a priority. If so, why?
  - (b) Whether the IAASB supports the Steering Committee's assessment of priorities and the timing of anticipated deliverables, as set out in the Appendix.
2. The IAASB is asked to share any suggestions of how the IAASB might further leverage resources or undertake alternative approaches to address key issues, building on the discussion in paragraph 10.

#### **Draft Survey and Supplemental Publication**

11. In coordination with the Steering Committee, Staff has developed the survey in **Agenda Item 4-A**. The survey will be tabled with the Board at the upcoming meeting and issued electronically as soon as practicable after the meeting. A Word template will be made available on the website to facilitate the compilation of information by respondents. As previously discussed with the Board, the survey will remain open through September 30, in recognition of the summer holiday in the northern hemisphere
12. A supplement to the consultation using material previously included in consultations about the Board's strategy and work plans has also been developed, to provide context to respondents about why certain projects are being prioritized and explored (**Agenda Item 4-C**). Much of the material in the supplement is extracted from the previous consultation on the strategy and work plan and the final *Strategy for 2015–2019*.
13. The aim of the survey is two-fold:
  - (i) To enable the IAASB to see if its preliminary assessment of priorities is in line with stakeholders' views and, if not, why.
  - (ii) To solicit feedback as to whether any matters not currently on the IAASB agenda should be prioritized ahead of the current initiatives and, if so, why.
14. Previous IAASB and CAG discussions have highlighted the need for the survey to be open about the limited capacity for the 2017–2018 plan and transparent about the rationale for the priorities. It is also necessary to get a steer directionally from stakeholders as to where they believe efforts should be placed. For this purpose, the survey uses a combined approach – first to ask a discrete question about whether respondents agree with the priorities and if not, what is viewed as a lesser priority, and then a more granular scale in relation to other initiatives to understand their relative priority.
15. The survey also highlights plans to place particular emphasis in the future work plan on interactions and topics of mutual interest with the International Ethics Standards Board for Accountants (see

**Agenda Item 9)** as well as addressing the concerns of small and medium practices (SMPs). An open comment field also allows for respondents to share any specific views not otherwise addressed by the specific questions.

**Matters for IAASB Discussion**

3. The IAASB is asked for its views on the draft survey (**Agenda Item 4-B**) and the supplement to the survey (**Agenda Item 4-C**). Staff is particularly interested in hearing whether the survey design and detail is sufficient to enable useful responses to be obtained and whether more is needed in either document to highlight the constraints facing the Board / matters outlined in this paper.

## Appendix

### Overview of IAASB Projects and Initiatives and Activities Planned for 2016–2018

(Subject to Periodic Update and Change by the IAASB)

Project/ Initiative	Initial IAASB Discussion	Activities Planned for 2016 <sup>7</sup>	Activities Planned for 2017–2018
<b>Standard-Setting</b>			
Revision of ISA 540 – Accounting Estimates – and Special Audit Considerations Relevant to Financial Institutions	In process	<ul style="list-style-type: none"> <li>Exposure draft of ISA 540 (Revised) to be issued</li> </ul>	<ul style="list-style-type: none"> <li>ISA 540 (Revised) to be finalized in 2017</li> <li>Other guidance to be developed as necessary to address special audit considerations relevant to financial institutions<sup>8</sup></li> </ul>
Quality Control	In process	<ul style="list-style-type: none"> <li>Consideration of feedback to December 2015 Invitation to Comment</li> <li>Project proposal</li> <li>Commencement of work to revise ISQC 1 and ISA 220</li> </ul>	<ul style="list-style-type: none"> <li>Exposure drafts of ISQC 1 (Revised) and ISA 220 (Revised) issued in mid-2017; potentially finalized in 2018</li> <li>Development of other guidance as considered necessary</li> </ul>
Group Audits – ISA 600	In process	<ul style="list-style-type: none"> <li>Consideration of feedback to December 2015 Invitation to Comment</li> <li>Project proposal</li> <li>Commencement of work to revise ISA 600</li> </ul>	<ul style="list-style-type: none"> <li>Exposure draft of ISA 600 (Revised) to be issued in late 2017, potentially finalized in 2018</li> <li>Development of other guidance as considered necessary</li> </ul>
Further Understanding of ISA Implementation Monitoring Findings Related to ISA 315 (Revised)	March 2016	<ul style="list-style-type: none"> <li>Discussion of key issues and Staff-prepared research to further understand ISA implementation findings, implications of other IAASB initiatives, and potential actions needed</li> <li>Project proposal</li> </ul>	<ul style="list-style-type: none"> <li>Exposure draft of ISA 315 (Revised) issued in late 2017; potentially finalized in 2018</li> <li>Development of other guidance as considered necessary</li> </ul>
<b>Information-Gathering Activities to Inform Future Work</b>			
Professional Skepticism	In process	<ul style="list-style-type: none"> <li>Consideration of feedback to December 2015 Invitation to Comment</li> <li>Decision on way forward in relation to standard-</li> </ul>	<ul style="list-style-type: none"> <li>Commencement of work in accordance with decision on way forward</li> </ul>

<sup>7</sup> Text in this column is as presented in the final *Work Plan for 2015–2016*, with updates as necessary to reflect 2015 milestones. Projects that were completed in 2015 do not appear, unless there are ongoing monitoring or implementation support efforts associated with them.

<sup>8</sup> Such non-authoritative guidance may, for example, address specific audit considerations related to financial institutions, the relationship between the financial institution's regulatory supervisor and the external auditor, or specific guidance in relation to accounting estimates in accordance with IFRS 9 or the IASB's proposed standard on insurance contracts (or similar standards under other financial reporting frameworks).

Consultation on the IAASB's Work Plan for 2017–2018 and Consideration of Current Priorities and Resources  
IAASB Main Agenda (June 2016)

Project/ Initiative	Initial IAASB Discussion	Activities Planned for 2016 <sup>7</sup>	Activities Planned for 2017–2018
		setting and other activities	
Data Analytics and the Effects on the Audit	In process	<ul style="list-style-type: none"> <li>• Discussion of key issues, including review of ISAs that may be affected as a result of changes in information technology</li> <li>• Issuance of DP or other publication</li> </ul>	<ul style="list-style-type: none"> <li>• As applicable, review of DP responses and decision on way forward in relation to standard-setting and other activities</li> </ul>
Auditor Reporting Implementation Support	In process	<ul style="list-style-type: none"> <li>• Efforts to promote awareness and understanding and support implementation</li> <li>• Planning for post-implementation review</li> </ul>	<ul style="list-style-type: none"> <li>• Efforts to promote awareness and understanding and support implementation</li> <li>• Planning for post-implementation review</li> </ul>
Integrated Reporting	In process	<ul style="list-style-type: none"> <li>• Issuance of DP</li> <li>• Review of DP responses</li> </ul>	<ul style="list-style-type: none"> <li>• Decision on way forward in relation to standard-setting and other activities</li> </ul>
Agreed-upon Procedures – Revision of ISRS 4400 and Consideration of More Holistic Issues Involving Agreed-upon Procedures	In process	<ul style="list-style-type: none"> <li>• Discussion of key issues, including exploratory discussions on more holistic issues involving agreed-upon procedures, such as “hybrid” engagements</li> <li>• Issuance of DP or other publication</li> <li>• As applicable, review of DP responses</li> </ul>	<ul style="list-style-type: none"> <li>• Decision on way forward in relation to standard-setting (e.g., revision of ISRS 4400)</li> <li>• As applicable, exposure draft of ISRS 4400 (Revised) in 2018</li> </ul>
Innovation Working Group Efforts	In process	<ul style="list-style-type: none"> <li>• Annual review in relation to other topics identified for monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Annual review in relation to other topics identified for monitoring</li> </ul>
Addressing Financial Statement Disclosures	In process	<ul style="list-style-type: none"> <li>• Proactively monitoring IASB developments pertaining to disclosures</li> </ul>	<ul style="list-style-type: none"> <li>• Proactively monitoring IASB developments pertaining to disclosures</li> <li>• Development of further guidance if determined necessary</li> </ul>
Development of a Process for Post Implementation Reviews of the IAASB's Other Assurance and Related Services Standards	2016 (or later)		<ul style="list-style-type: none"> <li>• For reviews expected to be undertaken in 2017 and beyond</li> </ul>
<b>Strategy and Work Plan Consultation</b>			
Strategy and Work Plan	In process	<ul style="list-style-type: none"> <li>• Review of IAASB priorities</li> <li>• Limited consultation on the 2017-2018 work plan and mid-period review of whether the strategic objectives remain appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• Development of the Strategy for 2020–2024</li> <li>• Limited consultation on the 2019 work plan</li> </ul>
<b>Other, Including Efforts of IAASB Leadership, Working Groups and Staff</b>			
Outreach Activities	Ongoing	<ul style="list-style-type: none"> <li>• Continued liaison and further development of relationships with key stakeholders, including</li> </ul>	<ul style="list-style-type: none"> <li>• Same as 2016</li> </ul>

Project/ Initiative	Initial IAASB Discussion	Activities Planned for 2016 <sup>7</sup>	Activities Planned for 2017–2018
		the CAG, the IASB, Monitoring Group Members, <sup>9</sup> practitioners (through the Forum of Firms, Global Public Policy Committee and IFAC Small and Medium Practices Committee), the International Organization of Supreme Audit Institutions, NSS and users of financial statements	
IASB Liaison	Ongoing	<ul style="list-style-type: none"> <li>• Annual Review</li> <li>• Continuous monitoring of IASB pronouncements for auditability and verifiability issues</li> <li>• Considering whether there is a need to address the auditor's efforts in relation to new or amended financial reporting pronouncements through changes to the ISAs or other outputs (in particular developments relating to materiality)</li> <li>• Continued liaison and collaboration on topics of mutual interest</li> </ul>	<ul style="list-style-type: none"> <li>• Same as 2016</li> </ul>

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- Ensure that ISAs Continue to Form the Basis for High-Quality, Valuable and Relevant Audits Conducted Worldwide by Responding on a Timely Basis to Issues Noted in Practice and Emerging Developments*
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- Ensure the IAASB's Standards Evolve as Necessary to Adequately Address the Emerging Needs of Stakeholders for Services Other than Audits of Financial Statements*
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- Strengthen Outreach and Collaboration with Key Stakeholders in the Reporting Supply Chain on Public Interest Issues Relevant to Audit, Assurance and Related Services*

<sup>9</sup> Including the International Forum of Independent Audit Regulators, the International Organization of Securities Commissions, the Financial Stability Board, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the World Bank and the European Commission