

ALIGNING THE PERIODS OF THE IAASB AND IESBA FUTURE STRATEGIES AND WORK PLANS

Objective of Discussion

1. To consider recommendations concerning alignment of the IAASB and IESBA Strategy and Work Plan (SWP) cycles, how that might best be accomplished, and the implications.

Background

2. At present, the IESBA's and IAASB's strategy periods are as follows:

	Current Strategy	Next Strategy
IESBA	Ending 2018	2019-2023
IAASB	Ending 2019	2020-2024

3. Related details include:
 - The IESBA's recent stakeholder survey to inform its 2019-2023 strategy closed July 2017.
 - The IAASB uses a rolling two year Work-Plan, which includes a PIOB-required mid-period assessment. The IAASB's most recent mid-period assessment was completed December 2016, and involved a relatively robust outreach and stakeholder consultation exercise. IESBA undertook an informal mid-cycle strategy review in March 2017 which did not involve structured stakeholder consultation.
 - IAASB's consultation process for its 2020-2024 strategy is scheduled to begin in 2018, commencing with a stakeholder survey.
4. The CAGs earlier this year have suggested the benefit of increased coordination between the standard-setting Boards (SSBs). In that spirit, they prompted further consideration of the alignment of the periods that the Boards' future Strategies will cover. The PIOB observer concurred.
5. It was noted there are advantages and disadvantages to this possibility, and different options regarding how that might be accomplished. These matters should be considered by the Boards before any decision on direction is taken. The PIOB's input will be sought in due course.
6. For clarity, the discussion concerns whether aligning *the periods* of the Boards' SWPs will bring a net benefit to the Boards themselves and their stakeholders. It is NOT about achieving jointly-agreed Board SWPs or aligned content of those SWPs, though alignment of content around strategic themes or projects of common interest may be the result. Nor is it about combining the Boards' strategic planning or standard-setting efforts. While the Boards share many common elements in their standard-setting efforts, there are important differences as well (e.g., differences in remit, audiences, etc.). The Boards' strategies, work plans and activities should therefore continue to remain distinct.
7. The IAESB has recently published its 2017-2021 SWP. At a later stage SSB leadership and staff shall also engage the IAESB in this process, where relevant. Nonetheless, SSB leadership and the PIOB have noted the importance of coordination with IAESB on strategically relevant themes.

Summary Recommendations

- (i) **It is recommended that the IAASB and IESBA consider moving to an aligned period for their future SWPs.** There is likely to be, on balance, a net benefit to the Boards and their stakeholders.
- (ii) **It is recommended that the IAASB and IESBA adopt a staged-approach to align their SWP periods. The Boards' next (2021-22) mid-period SWP assessment should be used as a step towards ultimately an aligned SWP cycle.** In the interim period, robust communication and effective two-way IESBA-IAASB dialogue should happen over the next 18-24 months (during the course of IESBA's consideration of its 2019-forward SWP and IAASB's preliminary consideration of its 2020-forward SWP), particularly around thematic strategic issues such as disruptive technological developments and innovation.
- (iii) **It is recommended that attention be placed on communicating with stakeholders about the SSBs' strategic coordination considerations, and on resource planning (including forecasting of demands on volunteers and staff).**

Discussion

I. Aligning SWP Periods

8. The major benefit of aligning SWP periods is the opportunity for additional flexibility, consistent approaches and even joint consideration by the SSBs on both technical subjects and on major themes.
9. Such benefit may arise by way of the Boards having the opportunity at their strategy setting stage to be more informed about areas of common relevance and stakeholder need. As a result, the Boards would be in a position *ex ante* to consider whether alignment is necessary. It may also assist in avoiding the situation where a Board prioritizes a major work plan initiative that it otherwise would not have done had it known the existence of an equally or more important matter.
10. Alignment will not resolve all the various challenges or conflicts that arise in the course of programming activities. For example, it will not necessarily produce a different result where different strategic priorities are assigned to major projects, as in the case of NOCLAR and Auditor Reporting. It does provide, however, the opportunity to identify matters of strategic relevance and to make informed decisions more proactively than otherwise might be the case. This can also lead to improved communications to stakeholders.
11. A major potential drawback is the possible loss of full attention on strategically important elements of one Board's mandate. For example, by their nature some issues in the auditing environment can have a gravity that can make them seem more important than ethics issues. Equally, the opposite may occur. An "overweighting" of concerns – either by commentators to the Boards' SWP proposals or inadvertently by the Boards themselves when discussing common strategic issues – would be counterproductive. However, the potential for such an outcome – where the concerns of one Board or its stakeholders overshadow or "swamp" the other – is mitigated by the Boards' independent deliberations and consultations.
12. Additional advantages / benefits to aligning the SWP periods include:

- Allows both Boards to see a complete picture of major environmental developments or trends of overlapping concerns within both Boards' stakeholder base.
 - Allows both Boards to understand in "real-time" what each has identified from their strategic development process and, in respect of topics or issues that overlap both Boards' remits, how each is intending (or not) to prioritize efforts and why. Strategic decisions around priorities and timings of specific work streams can then be proactively considered in tandem and from a 'top-down' perspective.
 - Allows stakeholders, including CAGs, and PIOB to see the bigger picture of where the Boards will be jointly directing their strategic focus and to enhance their ability to share perspectives on matters of cross-Board concern.
 - Allows for identifying early potential synergies of effort (e.g., information gathering initiatives, initiatives to strengthen alliances such as with academia, etc.) and increased visibility to where coordination issues may unfold.
 - Reduces the potential for challenges and disruptions arising from misaligned projects or initiatives of common interest.
 - Improves "optics" of coordination, including by those that have the general perception that aligned SWP periods (and content?) is the natural and obvious approach.
13. Additional disadvantages / drawbacks to aligning the SWP periods include:
- Increased strain on stakeholder capacity to consider both SWP consultations contemporaneously.
 - Potential lengthening of the SWP development process, to allow time for joint Board consideration and deliberation. This includes the consequence of increased work effort at Board, Steering/Planning Committee and staff levels to develop each Board's SWP given the need for increased liaison and coordination between the two Boards.
 - Increases perceptions of coupling and inter-dependency between IAASB standards and IESBA Code, which some stakeholders may consider inappropriate given that not all jurisdictions adopt both sets of standards together.
 - Potentially impacts flexibility to prioritize and set timings of other projects or initiatives for one Board if a joint initiative has to be prioritized because of the particular urgency to address the topic or issue for the other Board, or an impact on completion if there are unanticipated delays in projects affecting overall agenda timings.
14. On balance, the potential advantage to the Board and their stakeholders of a more coherent and cogent outcome from an aligned SWP process appears to outweigh potential disadvantages that may arise, most of which could be managed practically.

Recommendation: It is recommended that the IAASB and IESBA consider moving to an aligned period for their future SWPs.

II. Options for Aligning Strategy Periods

15. If there is support for aligned SWP periods, there are three apparent options for accomplishing this:
 - a) For the IESBA to align the start of its next period with that of the IAASB's, i.e., to move to 2020-2024.
 - b) For the IAASB to align the end of its next period with that of the IESBA's, i.e., to adopt a four year period for its next strategy such that it ends 2023.
 - c) For the IESBA to align the end of its next strategy period with that of the IAASB's, i.e., to adopt a six year period for its next strategy such that it ends 2024.
16. The principal advantage of option (a) is its timeliness. This option, however, has certain specific and significant disadvantages to the IESBA.
17. First and foremost, it delays immediately IESBA decision-making and action on forward planning. The significance of this is particularly acute given the stage at which the IESBA is in its standards development cycle. This year, the IESBA will complete its major 'clarity project' which, similar to IAASB's experience, has resulted in the identification of a number of possible improvement initiatives that were outside the scope of the clarity work but are nonetheless pressing. It would not be in the public interest to introduce uncertainty or postpone deliberations and decisions on these and other potential priority topics. This may also disappoint some stakeholders.
18. A postponement of strategy deliberations to align with IAASB's would necessarily mean IESBA should update its survey process, at the beginning of 2018 in tandem with IAASB, in order to achieve the desired benefits of coordination. This would fatigue stakeholders.
19. Delaying the IESBA SWP could also leave the impression that work on the ethics standards and the public interest issues the IESBA needs to address are neither urgent nor substantive (in depth and breadth), which is not the case. It has been observed already that such an impression can be taken. This should be avoided by all means.
20. In contrast, options (b) and (c) would delay action for a considerable period.
21. In light of these facts and considerations, a solution with potential merit is for the IAASB and IESBA to continue to set their strategies following their existing schedules and to use the mid-period SWP assessment process as a step towards ultimately an aligned SWP cycle.
22. That is, at year 2021-2022, the IAASB and IESBA could undertake contemporaneously a mid-period review of their SWPs. This would enable the Boards at that time to refine and adjust priorities and work plan as needed to achieve further coordination, based on stakeholder input and with the benefit of a period of experience. The opportunity could be taken at that time to also consult in a coordinated fashion on whether the IAASB or IESBA should adjust the start time of their next SWP cycle (or end time of the existing SWP cycle) to achieve aligned SWP periods going forward. This may also allow strategic coordination considerations to include IAESB developments, also at the mid-point of the IAESB's current SWP.

23. If pursuing this staged-approach, it will be essential that robust communication and effective two-way IESBA-IAASB dialogue happen over the next 18-24 months (during the course of IESBA's consideration of its 2019-forward SWP and IAASB's preliminary consideration of its 2020-forward SWP), particularly around thematic strategic issues such as disruptive technological developments and innovation. This is already understood by SSB leadership and consistent with their intentions. It has also been noted that SSB leaderships' intention to ensure close planning and management of SSB project coordination (including the principles noted in Item X) should help alleviate the urgency in identifying by when IAASB and IESBA should formally align SWP periods.

Recommendation: It is recommended that the IAASB and IESBA adopt a staged-approach to alignment of their SWP periods. The Boards' next (2021-22) mid-period SWP assessment should be used as a step towards ultimately an aligned SWP cycle.

III. Implications from a Board Management Perspective

24. While no major disruption is anticipated for either IAASB or IESBA following the above recommendation, there are important implications to be managed:
- Necessity of clear communications to stakeholders about the process and rationale.
 - Necessity of adequate arrangements in support of timely and relevant communication and dialogue on matters of strategic importance between the SSBs. This will likely involve further arrangement for additional joint dialogue at the Steering & Planning Committees level. It also points to the importance and advantage of at least one annual meeting of the Boards at the same time/location thereby allowing the opportunity for joint plenary sessions, and for continuation of joint CAG sessions.
25. In planning and managing these matters, forecasting of additional demands on volunteers and staff – and a robust assessment against capacity – will be essential. Additional demands may include: briefings to both Board on SWP responses; cross-Board staff analysis on topics of mutual interest; and preparations for additional joint Steering/Planning Committee meetings and Board sessions, among others.

Recommendation: It is recommended that attention be placed on communicating with stakeholders about the SSBs' strategic coordination considerations, and on resource planning (including forecasting of demands on volunteers and staff).

Matters for Consideration

The IAASB and IESBA are asked for their views on the above recommendations. In particular:

- a) Do you believe there is a net advantage to the Boards and their stakeholders by aligning the Boards' SWP periods?
- b) Taking into account the circumstances and concerns described, do you agree with the recommendation that the IAASB and IESBA adopt a staged-approach to alignment of their SWP periods?
- c) Are there other implications from the recommendations that need to be considered?