

Complexity, Understandability, Scalability and Proportionality (CUSP)—Proposals

Objective of the Agenda Item:

The objective of this Agenda Item is to obtain the Board's views on proposed actions to address complexity, understandability, scalability, and proportionality of ISAs. The proposed actions include proposed Drafting Principles and Guidelines (see **Section III**) and other actions (see **Section IV—Way forward**).

Approach to the Board Discussion:

The CUSP Working Group Chair will go through the questions in the order that they are set out in this Agenda Item. As part of the discussion in **Section III**, the Board's views will be sought on the proposed Drafting Principles and Guidelines presented in **Agenda item 1-A**.

I. Introduction and Approach to this Paper

Background

1. At the December 2019 IAASB meeting, feedback from respondents to the Discussion Paper (DP), [Audits of Less Complex Entities \(LCEs\): Exploring Possible Options to Address the Challenges in Applying the ISAs](#) and related outreach, was presented (see [Agenda Item 6](#)). The DP gathered feedback from stakeholders on the challenges identified to date, and the underlying reasons for those challenges, relating to applying the International Standards on Auditing (ISAs) for audits of LCEs to inform the IAASB in developing an approach how these can be best addressed going forward.
2. Although the DP focused on audits of LCEs, there was a strong message in the responses to the DP that many of the issues within the ISAs have a significance for all audits and are not unique to just audits of LCEs. It was noted that a combination of actions would likely be needed to address the challenges identified by respondents. Accordingly, at the April 2020 IAASB meeting, the Board was broadly supportive of progressing the work to address respondents comments to the DP as two workstreams (see [Agenda Item 9](#) at that meeting):
 - (a) An 'ISA Focused Workstream' which aims to address challenges that have been identified in applying ISAs related to CUSP relevant to audits of all types of entities (lead by the CUSP Working Group); and
 - (b) A 'Separate Standard Workstream' which explores the development of a separate standard to focus on addressing the challenges in applying the ISAs in an audit of an LCE (lead by the LCE Task Group).

It was highlighted that as both workstreams are exploring what can be done in relation to similar issues, it is essential that the two workstreams run in parallel to inform each other as work is progressed in each.

Introduction to the CUSP Working Group and its Proposals

3. This paper is focused on the work of the CUSP Working Group. **Section II** of this paper describes the overall actions proposed by the CUSP Working Group. **Section III** of this paper is focused on the

main proposed action – drafting principles and guidelines to help Staff and Task Forces address the challenges that have been noted in the DP related to CUSP. Other proposed actions are discussed in **Section IV**.

II. Proposed Actions to Address Complexity, Understandability, Scalability and Proportionality of ISAs

Table 1: Highlights of Respondents' Feedback to the DP Relevant to the CUSP Workstream:¹

- *Challenges within the ISAs:*
 - *The overall length and volume of the ISAs when applied together.*
 - *Use of complex language seen as a contributing factor to the increasing complexity of the ISAs.*
 - *Increasing level of prescriptiveness and moving away from being principle based.*
 - *Onerous documentation and other requirements which lead to a “checklist approach” within audits, leading to diminishing application of professional judgement.*
 - *The overall approach to standards, and lack of clarity as to how the requirements can be scalable.*
- *Challenges beyond the ISAs:*
 - *Increased complexity of financial reporting standards.*
 - *Pressure from regulators driving a “checklist approach” and overshadowing professional judgement.*
- *Actions proposed by respondents to address the challenges:*
 - *Consideration of drafting approaches for extant ISAs to address the challenges with language and complexity.*
 - *Building on the drafting principles developed as part of the IAASB's Clarity project, with additional focus on understandability of the standards.*
 - *Further clarity on the concepts of scalability and proportionality.*
 - *Enhance the accessibility of the ISAs by converting the IAASB Handbook to an electronic format.*

Drafting Principles and Guidelines for Future ISAs

4. As noted in Table 1, respondents to the DP have commented that the drafting of the ISAs could be improved with regards to complexity, understandability, scalability, and proportionality. Respondents' concerns are that, over time, the ISAs have increased in length and complexity, which has affected their understandability. Various influences have contributed to these changes, including the complexities of the evolving business environment, and calls from stakeholders for more specificity in requirements and expectations for more guidance as to how the requirements may be carried out. As a consequence, the

¹ See section on “Challenges Related to Applying the ISAs in Audits of LCEs” in paragraphs 39-51 of [Agenda Item 6](#), presented to the IAASB at its December 2019 meeting.

standards are longer, and in some instances are perceived as more prescriptive and more complex than those issued in the past. There are also complexities inherent within the ISAs themselves, including the interrelationships and interdependencies among the standards, their size as a comprehensive body of standards, and the volume of changes to the standards that need to be addressed through conforming and consequential amendments.

5. Scalability and proportionality of ISAs have been a particularly challenging area and different individuals attribute different meanings to these concepts. In the past, the IAASB has developed non-authoritative guidance² to highlight how the design of the ISAs issued by the IAASB under the Clarity project enables them to be applied in a manner proportionate with the size and complexity of an entity. Also, in the IAASB's recently completed projects (ISA 540 (Revised),³ ISA 315 (Revised 2019),⁴ and the Quality Management projects⁵), these have been a topic of ongoing consideration by Task Forces and the IAASB about what more can be done. These terms are referred to interchangeably in IAASB literature and there is no commonly agreed standalone description for these concepts. The CUSP Working Group have used the following working definitions:
 - Scalability is the ability of the standard to address the needs of different stakeholders, particularly with respect to both complex and less-complex circumstances.
 - Proportionality is the ability of the standard to be applied appropriately in light of the public interest issues being addressed and the impact of those issues on different stakeholders.
6. In considering how to address the concerns raised by stakeholders with respect to the CUSP of the ISAs more broadly, the IAASB considered that the primary action would be to develop Drafting Principles and Guidelines.⁶ The CUSP Working Group believes that the drafting principles and guidelines it has developed will improve the quality of the drafting of standards and respond to the concerns related thereto. The drafting principles and guidelines would aim to:
 - Provide a common understanding to Staff, Task Forces and the IAASB about how the ISAs are drafted.
 - Establish a set of drafting principles and guidelines to promote consistency, clarity and uniformity while drafting ISAs.
 - Encourage a reflective mindset while drafting with respect to CUSP.
 - Enable a more consistent and effective application of the ISAs through a focus on how the ISAs are written and presented.

² See IAASB Questions and Answers: [Applying ISAs Proportionately with the Size and Complexity of an Entity](#), August 2009.

³ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁴ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁵ The Quality Management projects include the following standards: International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*, and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

⁶ At its April 2020 meeting, the IAASB supported the development of Drafting Principles and Guidelines which would underpin the drafting of ISAs and help promote clarity and consistency for audits of all entities, see [March and April 2020 IAASB Board meeting minutes](#).

Development of the Drafting Principles and Guidelines

7. In developing the proposed Drafting Principles and Guidelines, as a starting point, the CUSP Working Group considered the drafting conventions developed as part of IAASB’s Clarity project. The IAASB’s Clarity project was undertaken in the five-year period between 2003 to 2008 and aimed to identify ways to improve the clarity, and thereby the consistent application of its standards.
8. As a result of IAASB’s Clarity project, the drafting conventions (“Clarity conventions”) to be used by the IAASB in drafting future ISAs were established, and a new structure was introduced to the ISAs, whereby introduction, objectives, definitions (as applicable), requirements, and application and other explanatory material are presented in separate sections in an ISA, which together form the complete standard. The Clarity project also led to substantive revisions to the ISAs to reflect the new structure of the standards and the established drafting conventions.
9. The table below provides a high-level summary that illustrates how the Drafting Principles and Guidelines relate to the drafting elements relevant to improve the CUSP of the ISAs. The drafting principles and guidelines are discussed further in **Section III** below.

| <i>Drafting Element</i> | | <i>Ref. to Agenda Item 1-A</i> |
|---|---|--|
| <i>Complexity & Understandability</i> | <ul style="list-style-type: none"> • Preserving a uniform structure across the body of ISAs to promote consistency and understanding. • Use of clear, simple, and concise language (short sentences and simple English language that is easy to understand and translate). • Consistency in formatting and use of techniques that support readability. • Use of consistent terms across the ISAs to mean the same / similar action / circumstance and to facilitate common understanding. • Clarity on how certain terms in the ISA are used and avoiding proliferation of terminology that complicates the ISAs. • Use of definitions to explain terms used in ISAs that assist in the common and consistent interpretation and translation of the standards (clarity about what terms should be defined and what the definitions should include). • Use of consistent cross-referencing that improves understandability (by connecting concepts that might otherwise be missed by the reader). • Avoiding unnecessary material in the ISAs. | <ul style="list-style-type: none"> • Sections 1.1. & 1.2. • Section 2.1. • Section 2.3. • Section 5. • Section 5. • Section 8. • Section 4. • Section 2.2. |

| <i>Drafting Element</i> | | <i>Ref. to Agenda Item 1-A</i> |
|--|--|--|
| <i>Scalability & Proportionality</i> | <ul style="list-style-type: none"> • Appropriate scope statements that identify what the standards applies to, and therefore if all of its requirements are relevant to the circumstances of certain audits or not. • Inclusion of a scalability statement to emphasize how the ISA is intended to be scalable for audits of all entities, regardless of size or complexity. • Identifying any conditionality for a requirement at the beginning of the sentence to help make clear if there are limits to their relevance and applicability. • Limiting the application of a requirement when there is a need to differentiate that requirement when it is only applicable for certain types of entities (e.g., for listed entities). • Use of the application and other explanatory material to further explain specific considerations relevant for entities that operate in a specific sector. • Use of the application and other explanatory material to help the auditor by illustrating how a particular requirement can be scaled up or down. • Describe relevant factors in the application material that can be used to scale the requirement to the circumstances. | <ul style="list-style-type: none"> • Sections 3. & 6.1. • Sections 3. & 6.1. • Sections 3. & 9. • Sections 3. & 9. • Sections 3. & 10. • Sections 3. & 10. • Section 3. |

Related Activities and Workstreams

10. The following other IAASB activities, while not part of the CUSP workstream, also address aspects of the CUSP concerns:
- (a) Audits of LCEs. At its June 2020 meeting, the IAASB agreed to commence development of a separate standard for audits of financial statements of LCEs. At the December 2020 meeting, the IAASB approved the related project proposal and at the same meeting the Board discussed an initial draft of the separate standard. As both the CUSP workstream and the Audits of LCEs project are exploring what can be done in relation to similar issues, the work undertaken in each workstream will further inform the activities of the other workstream.
 - (b) Enhancing the accessibility and usability of the ISAs by converting the IAASB Handbook to an electronic format. The project to convert the IAASB’s paper Handbook to a digital format is well underway and the first phase of this project is expected to be completed mid-2021. This initiative, which is supported by the International Federation of Accountants and is progressing to its final stages, will deliver a digital solution with enhanced functionality (e.g., an enhanced

search function), will improve navigation in the standards and is expected to address some of the usability concerns related to the ISAs.

III. Drafting Principles and Guidelines Developed Under the CUSP Workstream

11. The drafting principles and guidelines are provided in **Agenda Item 1-A**.
12. This section provides further context and information in respect to the drafting principles and guidelines, and:
 - Explains who are the intended users of the drafting principles and guidelines;
 - Provides an overview of the content of the drafting principles and guidelines;
 - Describes the structure of the drafting principles and guidelines;
 - Outlines the scope of the standards addressed by the drafting principles and guidelines; and
 - Sets out the proposed approach to apply the drafting principles and guidelines.

Intended Users of the Drafting Principles and Guidelines

13. The drafting principles and guidelines have been developed for the use of the Staff, operating under the direction of the Board and Task Force, if applicable. They will be used as a training document for new Staff and as a reference document for experienced Staff. They will also be helpful to the Board in reviewing and commenting on standards and may also be useful to Task Forces and Working Groups.
14. The CUSP Working Group also notes that the drafting principles and guidelines may also be useful to:
 - National standard setters (NSS) who adopt ISAs in their jurisdictions. The drafting principles and guidelines may also assist them in addressing consistency when drafting national standards to adapt or sit alongside the ISAs;
 - Translators and translating organizations; and
 - Other users of the ISAs since a common understanding about how the ISAs are being drafted also may contribute to their understanding and application.

Content of the Drafting Principles and Guidelines

15. In developing the drafting principles and guidelines, the CUSP Working Group took into account:
 - The clarity drafting conventions developed when the IAASB undertook its Clarity project;⁷
 - Staff training materials;
 - The enhanced presentation tools used in the revision of ISA 315 (Revised 2019);⁸ and

⁷ The clarity drafting conventions were issued for exposure in the Exposure Draft (ED) [Improving the Clarity of IAASB Standards: Proposed Amendments to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services](#) (October 2005), and supplemented by subsequent conclusions documented in the [Basis for Conclusions: Clarity](#) (December 2006).

⁸ See the [Basis for Conclusion: ISA 315 \(Revised\), Identifying and Assessing the Risk of Material Misstatement, including Conforming and Consequential amendments to Other International Standards](#)

- The scalability and proportionality changes introduced with recently revised ISAs by considering how these would be helpful to the ISAs more broadly.
16. In addition, the CUSP Working Group considered information provided by NSS⁹ on specific elements of the drafting principles and guidelines.

Enhanced Presentation in ISA 315 (Revised 2019)

17. The CUSP Working Group considered the enhanced presentation of the recently revised ISA 315 (Revised 2019). Most of these enhancements used have been reflected in the drafting principles and guidelines. Notwithstanding that there was support for most of the enhancements made, there were mixed views about two of the enhancements discussed below. Accordingly, the CUSP Working Group concluded to not include in the drafting principles and guidelines:
- The use of boxes/tables to help with understandability of certain requirements where there were many aspects to be understood; and
 - The use of boxes to separately identify the examples in the application and other explanatory material.

The CUSP Working Group has identified that these formatting matters are being addressed differently by NSS when adopting standards in their jurisdictions. While some NSS retained the boxes and tables, others chose to remove them. The IAASB is asked to consider whether these two presentation tools should be used in future standards or should be discontinued.

Specificity of References to the International Standards Other Than ISAs

18. The CUSP Working Group considered the specificity of references to the international standards other than ISAs, including those which reference to the IESBA Code¹⁰ and other financial reporting frameworks (such as IFRS¹¹ and IPSAS¹²). When using such references, extant ISAs usually provide a reference back to the specific paragraph of the international standards. The CUSP Working Group noted that having specific references to the paragraphs of those international standards is helpful for clarity and understandability of the ISAs and may aid translation (although it was recognized that this adds complexities related to maintenance of the ISAs). On the other hand, references to another standard may be misleading (for example, the IESBA Code is intended to be applied through an integrated approach, rather than focusing only on particular sections or requirements) and create a significant maintenance burden. Accordingly, the IAASB's input on this matter is sought to balance the different viewpoints.

⁹ Responses from NSS were received via email based on Staff requests for information to address the following questions: (i) Any work NSS have done in their jurisdictions on the IAASB Glossary of Terms; (ii) Drafting conventions, principles and guidelines that are used by NSS as part of their standard setting activities; (iii) "Drafting cheat sheets" that may be used to help the drafting of standards; and (iv) Any other information that could be helpful for the information gathering related to the CUSP workstream.

¹⁰ International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

¹¹ International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB).

¹² International Public Sector Accounting Standards promulgated by the International Public Sector Accounting Standards Board (IPSASB).

Other Content in the Drafting Principles and Guidelines

19. Most of the drafting principles and guidelines are self-explanatory. Staff have taken the opportunity presented by the CUSP Working Group's work to comprehensively address common drafting matters encountered by Staff in developing ISAs—even if these matters are not directly related to CUSP.
20. Of specific note are two appendices included in the Drafting Principles and Guidelines. Appendices 1 and 2 describe terms commonly used in the ISAs to describe likelihood of occurrence, and work effort and documentation implications, respectively. These appendices are not intended to be exhaustive, nor are they authoritative interpretations of the terms or their implications.
21. Appendix 2 describes the spectrum of work effort implied by commonly used verbs. It also includes possible documentation implications for the work effort described. In places, Staff have included common dictionary definitions of terms (when not defined in the IAASB Glossary) and, for the commonly used verbs, possible work effort and documentation implications. This is not meant to be definitive or definitional but rather suggests a spectrum that may be useful in distinguishing work effort and considering what may be necessary to demonstrate, through documentation, the work that was performed. Verbs also are used throughout the ISAs within a particular context linked to different stages of the audit process, which also is relevant in understanding their meaning.
22. The appendices are a drafting aid for standards development and have, among other sources, drawn on the drafting of, and learnings from, the development of past standards. These appendices are helpful to give Staff a common base for drafting going forward; however, they are not intended to be used as an interpretative guide on the meaning of the verbs in the extant standards. Further, there is no plan to reconsider the choice of terms in the extant standards. In developing the drafting principles and guidelines, the CUSP Working Group separately focused on documentation considering that it is a key matter continuously being highlighted through stakeholder feedback. As part of the drafting principles and guidelines, the CUSP Working Group developed separate principles and guidelines to address specific documentation requirements in individual standards other than ISA 230.¹³

Structure of the Drafting Principles and Guidelines

23. In developing the drafting principles and guidelines, the CUSP Working Group distinguished the principles from the guidelines, as follows:
 - The drafting principles include drafting instructions about what to adhere to when drafting an ISA (i.e., the do's and don'ts). IAASB Staff are expected to follow the principles while drafting ISAs. They include the conventions developed during the IAASB's Clarity project and do not propose any changes to the structure of the ISAs.
 - The drafting guidelines include further explanations of the drafting principles and help clarify how to apply the principles. Examples and other guidance are provided in the guidelines to help explain how to apply a principle, or when there is a need to draw attention to a certain relevant matter and to clarify the principle or guideline.
24. The drafting principles are intended to be considered as a whole while drafting ISAs. Some of the drafting principles are more overarching, stated at a higher level or aiming to promote a reflective

¹³ ISA 230, *Audit Documentation*

mindset while drafting with respect to CUSP. Other principles follow more closely the structure of an ISA or relate to general matters of drafting.

Scope of Standards Addressed by the Drafting Principles and Guidelines

25. The drafting principles and guidelines have been written to be applied in the context of the ISAs, considering that:
 - The DP was focused on the ISAs and excluded further consideration of engagements that are not audits (such as the review, other assurance and related services standards).
 - The drafting principles and guidelines are based on the clarity drafting conventions, which principally focused on the ISAs.
26. Notwithstanding their focus on the ISAs, some principles and guidelines may be useful to the development of other IAASB International Standards.¹⁴

Proposed Approach to Apply the Drafting Principles and Guidelines

27. The proposed Drafting Principles and Guidelines are non-authoritative.¹⁵ Staff are expected to follow the principles and need to discuss deviations with senior Staff. Judgment will need to be exercised on when to raise deviations from the principles with the Board through the normal Issues Paper process for each project.
28. The Board discussion in April 2020 indicated that the Drafting Principles and Guidelines needed to first be developed, with a decision thereafter on the appropriate way to apply them. The CUSP Working Group's discussions have been based on developing the drafting principles and guidelines for application to new ISA development/revision projects.
29. The outreach program will include whether the Drafting Principles and Guidelines should be applied to the extant ISAs. Recognizing the importance of outreach on this issue, Staff's initial assessment is that they should not be applied retrospectively (i.e., to the current IAASB Handbook) because:
 - Respondents to the DP had mixed views how a project to revise the ISAs should be undertaken (i.e., all in one big project or on a rolling basis) and recognized that the changes made would be most useful if applied to open and ongoing projects.
 - Such a project would not be helpful in responding to current public interest concerns as it would likely involve years of incremental change.
 - Conducting this exercise would likely consume the majority of the board's resources for several years.
30. It is intended that the drafting principles and guidelines be updated from time to time with additional content. This might include revising existing content or adding new content as needed.

¹⁴ These include: International Standards on Quality Management (ISQM), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), and International Standards on Related Services (ISRSs).

¹⁵ 'Non-authoritative' material is not part of the IAASB International Standards and is not subject to the IAASB's due process (i.e., not subject to the formal approval process as for authoritative documents).

Matters for Board Consideration

1. The Board is asked for their high-level views if they support the proposed Drafting Principles and Guidelines presented in **Agenda Item 1-A**. In particular, are there any other elements relating to drafting of ISAs which should be considered? (*Please note: the Working Group is looking for overarching comments on Agenda Item 1-A. Detailed or editorial suggestions can be made offline.*)
2. The Board is asked to provide views on the following matters:
 - a) The exclusion of the formatting techniques applied in recently revised ISA 315 (Revised 2019) (the use of boxes/tables to present the requirements and use of boxes to separately identify the examples in the application and other explanatory material) and if these should be applied to the ISAs more broadly (see paragraph 17).
 - b) The references to specific paragraphs of international standards other than ISAs and if these should be retained (see paragraph 18).
 - c) The appendices dealing with likelihood of occurrence and work effort terms (see paragraphs 20–22).
 - d) The principles and guidelines to address specific documentation requirements in individual standards other than ISA 230. (see paragraph 22)

IV. Way Forward

Drafting Principles and Guidelines

31. Based on the feedback received from the Board during the April 2021 Board meeting, the CUSP Working Group will continue to develop the proposed Drafting Principles and Guidelines and undertake further targeted outreach to obtain stakeholder perspectives on the drafting principles and guidelines.
32. The targeted outreach will be undertaken with national standard setters and other stakeholders, including regulators, to obtain viewpoints on the proposed Drafting Principles and Guidelines from those with experience in drafting standards and rules. These stakeholders will be asked to provide further input, including what other matters in the context of the drafting principles and guidelines, could be helpful to address the issues and challenges with the CUSP of the ISAs more broadly. Broader views from all stakeholders will also be encouraged and it is the intention of the CUSP Working Group to share further information on the drafting principles and guidelines through its social media channels and through the CUSP project webpage.

Documentation

33. The CUSP Working Group will further consider any further actions needed about the documentation requirements within the ISAs. The CUSP Working Group is considering developing high-level non-authoritative material to support the application of the documentation requirements in ISA 230 and within individual ISAs. While the topics are not yet finalized, the non-authoritative material will likely make clear that ISA 230 always applies and the objective of documentation requirements in the ISAs.
34. It is intended that the process for this non-authoritative documentation material will include deliberation by the Board in public sessions and approval by the Board.

Coordination with Other IAASB Workstreams and NSS

35. As discussed in paragraph 14, above, the CUSP Working Group will continue to coordinate with the LCE Task Force for any learnings that would be relevant to the CUSP workstream. In addition, as discussed in paragraphs 31–32, above, the CUSP Working Group will undertake further outreach with NSS.

Matters for Board Consideration

The Board is asked for views on:

3. The proposed way forward outlined by the CUSP Working Group in paragraphs 31–35 above.
4. Any other matters that the CUSP Working Group should consider.

CUSP Working Group Members and Activities

CUSP Working Group Members

1. The CUSP consists of the following members:
 - Roger Simnett, Chair
 - Isabelle Tracq-Sengeissen
 - Eric Turner
 - Tania Sergott
 - Kohei Yoshimura
2. Information about the project can be found [here](#).

CUSP Working Group Activities

3. The CUSP Working Group held 7 virtual meetings since its establishment in July 2020.

Coordination with Other Task Forces

4. The Chair of the CUSP Working Group is a corresponding member of the LCE Task Force and attends all task force meeting of the Audits of LCEs project.
5. Staff of the CUSP Working Group met with staff of the Audit Evidence Task Force (AETF) to discuss:
 - (a) Work being done in relation to aspects of the CUSP Working Group's activities that may impact the audit evidence project; and
 - (b) The general approach taken by the AETF in describing the auditor's work effort in relation to information intended to be used as audit evidence more broadly.

Outreach and Related Activities

6. In Q4 2020, the CUSP Working Group undertook outreach to NSS member organizations to gather further information on aspects deemed relevant to inform the development of the drafting principles and guidelines.
7. In March 2021, a feedback session was held to obtain inputs from IAASB Staff on the Drafting Principles and Guidelines being developed under the CUSP workstream.