



**INTERNATIONAL AUDITING AND ASSURANCE  
STANDARDS BOARD (IAASB) PROPOSED  
STRATEGY FOR 2020-2023 AND WORK PLAN  
FOR 2020-2021**

**RESPONSE FROM ICAS TO THE IAASB**

**31 May 2019**

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## Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

## General comments

ICAS welcomes the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB) Proposed Strategy for 2020-2023 and Work Plan for 2020-2021.

We are generally supportive of the proposed strategy and work plan as set out in the document but would draw to your attention our key observations as follows:

- We welcome the focus being given to developing ways to address complexity while maintaining proportionality and scalability in the standards. We have become concerned with the increased length of some of the recent standards and extent to which the requirements have become more prescriptive which does not facilitate a scalable application of the standards.
- We would welcome a move back to more principles-based standards where the requirements focus on the objectives of the standard with any supporting or implementation material in another document or in an appendix to the standard. We therefore find it encouraging that the IAASB is giving due consideration to a potential alternative approach in its development of the revised ISA 315.
- We would also encourage the IAASB to consider whether any of the recommendations emerging from the Brydon Review being conducted into the UK audit market might also have a global impact that would necessitate further revisions to the standards.

Our responses to the specific questions are summarised below.

## Specific questions

### Question 1

Do you agree with Our Goal, Keys to Success and Stakeholder Value Proposition (see page 6), as well as the Environmental Drivers (see page 7)?

### Response 1

We support the IAASB's goal, keys to success and stakeholder value proposition, as well as the environmental drivers.

On stakeholder value the ultimate objective of sustained public trust is increasingly important and relevant, and in an ever-changing business environment, it is imperative that the standard-setting bodies and professional bodies keep pace with these changes. This point was emphasised in the joint ICAS/FRC Report: Auditor skills in a changing business world <https://www.icas.com/technical-resources/auditor-skills-in-a-changing-business-world-icas-frc-report>

We are also concerned that some of the recently issued standards have become much longer and much more prescriptive with a greater emphasis on the consistency of their application as opposed to being focused on the overall objectives of the standards. We would therefore welcome a move back to more principles-based standards where the requirements focus on the objectives of the standard with any supporting or implementation material in another document or in an appendix to the standard. We therefore find it encouraging that the IAASB is giving due consideration to a potential alternative approach in its development of the revised ISA 315.

As far as environmental drivers are concerned, we agree that those referred to in the strategy document represent the most significant of these for the work of the IAASB. Nevertheless, there is a need to prioritise these drivers in terms of urgency given the current resourcing constraints of the IAASB.

## **Question 2**

Do you agree with Our Strategy and Focus and Our Strategic Actions for 2020–2023 (see pages 8 to 13)?

## **Response 2**

We generally support the proposed strategy and focus and the strategic actions for 2020-2023, but would make the following comments on each theme:

*Under theme A: Complete our major audit quality enhancements and enable them to take root*

This theme gets to the core of what stakeholders would expect the IAASB to deliver. Consequently, we are supportive of this theme.

*Under theme B: Further challenge and enhance the fundamentals of our international standards*

The use of technology within the audit process is at different stages and will depend on a variety of factors, for example, the jurisdiction or size of firm. Consequently, it becomes difficult to design a solution to tackle the evolving use of technology that will be suitable for all.

We believe that a return to more principles-based standards will help to address this issue as the requirements will focus only on the objectives of the standard. Further implementation guidance should be included outside of the standard or in an appendix to the standard.

However, in the meantime, we would be supportive of 'limited-scope' updates to the current standards to ensure that there is nothing that would deter or prevent the use of technology or automated tools in the audit process.

*Under theme C: develop ways to address complexity, while maintaining scalability and proportionality*

We welcome the inclusion of this theme within the IAASB strategy. We believe that this is one of the challenges that the IAASB is currently facing.

As previously stated, we are concerned with the increased length of some of the recent standards and extent to which the requirements have become more prescriptive. This does not facilitate a scalable application of the standards and presents a challenge for many auditors in determining the work effort required.

It has also been noted that many of the standards have been updated to capture the most complex of transactions, most of which will be irrelevant for auditors working in SMPs.

As a result, we would prefer to see this theme being given even greater priority with the aim of developing a solution. Such a solution could take the form of separate standards being made applicable to the audits of smaller and less complex entities, or building a solution (building blocks approach from an SME first perspective) based on the current ISAs.

We also believe that greater use could be made of technology to facilitate navigation of the current standards. The inclusion of hyperlinks and other tools might create documents that are more interactive and more user-friendly. In this respect the e-Code being developed by the International Ethics Standards Board for Accountants (IESBA) might serve as a useful example of how such an approach could be applied in practice.

*Under theme D: Strengthen and broaden our capability and capacity to respond by innovating our ways of working*

As previously stated, the greater application and use of technology will facilitate more effective application of limited resources. We also favour the use of stakeholder roundtables at an early stage in the work of Task Forces to help mitigate the risk that a project inadvertently goes off in the wrong direction. Input from key stakeholders can be vital at this stage and save considerable time at a later stage in the standard setting process.

*Under theme E: Deepen our connectivity and collaboration opportunities*

We support closer coordination between auditing and ethical standard setting bodies in order that their respective activities are sufficiently aligned.

We would also encourage closer interaction with the accounting standard setting bodies to ensure that any emerging changes to the financial reporting environment are identified at an early stage. In particular, the relationship with the International Accounting Standards Board (IASB) is key.

There are currently a series of reviews underway in the UK into the future of the UK audit market. We are also aware of other such reviews in other jurisdictions. We would urge the IAASB to reach out to those responsible for conducting these reviews, in particular the Brydon Review, as any proposed changes are likely to have an international dimension. The IAASB needs to be made aware of the potential implications for its standards that such proposals may have on the delivery of transnational audits.

### **Question 3**

Do you agree with the IAASB's proposed Framework for Activities, and the possible nature of such activities (see pages 11 and 12), as set out in Appendix 2 (see pages 19 and 20)?

### **Response 3**

We are supportive of developing proportionate non-authoritative practical guidance.

We also support the development of a process for 'limited-scope' revisions to standards with appropriate due process.

We are not clear as to what an 'interpretations' mechanism represents. We believe that to ease implementation, the issue of standards should be accompanied by a communications plan and supporting material which might include implementation guidance; practical examples; webinars; flowcharts and decisions trees. There should also be a mechanism to gather feedback on the standards at the earliest opportunity and, if possible, using this feedback as the basis for limited-scope revisions to the standards. If the latter is what is meant by 'interpretations' then we would be supportive.

### **Question 4**

Do you support the actions that have been identified in our detailed Work Plan for 2020–2021 (see pages 15 and 16)? If not, what other actions do you believe the IAASB should prioritize?

### **Response 4**

We are concerned that some of the deadlines appear unrealistic. In particular, for an important standard such as ISA 315, sufficient time should be dedicated to address the issues raised during the consultation period. We have similar concerns around the proposed timescale for the revision of ISA 600.

We are supportive of the proposal for a post-implementation review of the new standards on auditor reporting. In particular, we would encourage consideration of the developments in some of the UK auditor reports. These include a reference to the application of the concept of materiality and disclosure of the materiality level in the auditor's report, which have been very much welcomed by investors following its introduction in the UK. A further development is the graduated findings approach to reporting which expresses the findings on a range from cautious to optimistic which the IAASB may wish to consider as part of its post-implementation review of enhanced auditor reporting. Again, this approach has been welcomed by investors. Ultimately, the IAASB has to ensure that its standards remain relevant for the increased transparency that is being expected from auditors by their ultimate clients – the shareholders.

**Question 5**

Are there any other topics that should be considered by the IAASB when determining its 'information gathering and research activities' in accordance with the new Framework for Activities? The IAASB has provided its views on tentative topics to be included in its 'information-gathering and research activities' (see page 10).

**Response 5**

The future of audit is the subject of a review currently being conducted in the UK by Sir Donald Brydon. One aspect of this review is to revisit the scope and purpose of audit and to consider whether/how to address the issue of the audit expectation gap. A key element of this is the auditor's responsibility in relation to the prevention and detection of fraud. There is a perception that the auditor's responsibility for the prevention and detection of fraud extends beyond what is required under the ISAs. There are also calls from some quarters for the auditor to do more in relation to the prevention and detection of fraud. Based on these developments in the UK, perhaps the IAASB may need to consider revisiting the requirements of ISA 240 when the results of the Brydon review are made public which are expected later in 2019. Whilst we fully understand that an international standard setter would not necessarily revise its standards on the basis of developments in one jurisdiction it is likely that this is a debate that will need to be held on the global level in the near future as user expectations increase with regards to what they expect from the auditor.

Another aspect of the various reviews into the UK audit market is whether the auditor should be expected to do more in relation to forward-looking information, specifically on going concern. The UK FRC has issued its own exposure draft on proposed changes to ISA (UK) 570. Once again, this is an area that the IAASB may wish to consider as part of its strategy and work plan in response to developments in the UK.