



Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

Via e-mail

Mr Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
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Proposed strategy for 2020–23 and work plan for 2020–21

Dear Mr Schilder

The Basel Committee welcomes the opportunity to comment on the IAASB's proposed 2020–23 strategy and 2020–21 work plan. The Committee echoes the view expressed by the IAASB Chairman in his foreword that the Monitoring Group's review is an opportunity to enhance the IAASB's operations to meet the needs of all of its stakeholders. Notwithstanding the Monitoring Group's work to review the structure of audit standard setting, which we understand may result in necessary changes to the IAASB's strategy and workplan, please see below the Committee's comments on specific elements of the IAASB proposal. These comments are made on the basis of the IAASB's existing structure and its current available resources.

Workplan and activities

The Committee agrees that the IAASB should complete the work that is in progress. Quality management, group audits and implementation activities are particularly important. We further agree that outreach and research are vital to the development of robust standards (see further below). In particular, we are supportive of the IAASB's research and innovation activities being supported by a framework for assessing potential projects. However, the Committee is not fully convinced that audits of less complex entities is a key public interest issue that should be a "top priority" (under Theme C on page 11).

Stakeholders

The Committee appreciates that the IAASB strategy includes "timely and meaningful dialogue with a broad range of stakeholders, including with regulatory, user and practitioner communities" (page 6). The IAASB should be carrying out sufficient outreach to be able to issue standards that meet the public interest. We encourage the IAASB to identify its key stakeholders and to focus its efforts on proactively reaching out to those stakeholders to ensure that all relevant views are heard. We believe that Theme E could be developed further so that it is clearer who the IAASB intends to reach out to and for what purpose.

Addressing issues and challenges on a timely basis

The IAASB proposal, on page 12, references 'limited-scope revisions'. We support this suggestion and also support the idea of having in place an interpretations group. These proposals would allow the IAASB to make necessary amendments to its standards and keep them fit-for-purpose.

We understand that the IAASB has limited resources and that international auditing standards are highly interrelated. As such, we suggest that the IAASB scope its work with the objective of better delivering timely and comprehensive changes that are in the public interest. For example, it is not ideal that some of the changes deemed necessary in relation to the audit of estimates were delivered through amendments to International Standard of Auditing (ISA) 540 (effective 2020) and some through amendments to ISA 315 that are still in draft and will not be effective until at least 2021. We would like the IAASB to consider whether there are ways of scoping projects so that, when an issue (or related issues) affects several standards, those standards are all amended at the same time.

Consideration of the broader environment

Any strategy promoting public trust would benefit from considering the broader environment in which standard-setting takes place. This is recognised in the IAASB's strategy paper in page 7, where the IAASB notes that changing expectations and public confidence in audit is an "environmental driver" behind the IAASB's strategy. However, it is not clear whether the IAASB's strategy and workplan includes work that considers changes in the environment and responds in broad and ambitious ways. This may be part of Themes B and D, in which case such elements could be made more explicit and expanded upon.

Following a loss of confidence in audit quality and the audit as a product in at least some jurisdictions, there is much discussion about the future of audit. Some of those discussions – such as those regarding competition within the audit services market and aspects related to audit regulation – fall outside the scope of the IAASB's responsibilities. Others, perhaps, do not, and we believe that the IAASB's strategy should place more consideration in those issues and into whether and how auditing standards might be used in response.

For example, one of the questions being asked in some jurisdictions is whether the existing audit product continues to meet stakeholders' needs. Behind this question are issues about:

- audit reports (does the binary report remain the right model, even including key audit matters, or would users of the audit report find other forms of report more useful?);
- considerations about what an audit should deliver under current standards or the need for new standards (eg should the audit be looking to do more on fraud or companies' business models?); and
- scope (should other parts of the annual report be the subject of a reasonable assurance report and should there be a report on internal controls?).

In many cases, the final decision as to whether the existing position should be changed will need to be taken at the national level, but we think the IAASB should be an important voice in the debate and anticipate the need for new standards.

Implementation activity

The Committee agrees with the IAASB's goal of developing standards that are capable of consistent and proper implementation (page 6). We therefore support the IAASB's focus on implementation support. A "good" standard that is not implemented well is not indicative of a successful outcome.

We also note that the IAASB is committed to "principle-based standards...able to be applied to a wide variety of circumstances" (page 11). ISA 540 is one of those standards.

Although the strategy paper refers to implementation support and to industry-specific non-authoritative guidance, it is not specific in this regard. We recommend that the IAASB gives consideration to this important element of standard setting. In particular, as the IAASB is aware, the Committee believes that the audits of banks, and of estimates made by banks in particular, require special consideration. Since ISA 540 is a principle-based standard, its proper implementation for bank audits necessitates that the IAASB develop bank-specific implementation guidance (such as a practice note for bank audits). We urge the IAASB to incorporate this into its 2020–21 workplan.

We hope you find our comments constructive and helpful. This letter has been prepared by the Committee's Accounting Experts Group, chaired by Fernando Vargas Bahamonde, Associate Director General of the Bank of Spain. If you have any questions regarding these comments, please contact Mr Vargas (+34 913 38 61 04), Michael Gaull, chair of the Committee's Audit Subgroup (+44 20 3461 5781), or Ruby Garg (+41 61 280 8463) and Masaya Hatoma at the Basel Committee Secretariat (+41 61 280 8577).

Yours sincerely

Pablo Hernández de Cos