



Tel: +1 212 885 8000
Fax: +1 212 697 1299
@: bdo@bdointernational.com
www.bdointernational.com

BDO International Limited
Contact:
100 Park Avenue
New York, NY 10017-5001
United States of America

4 April 2014

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

RE: Consultation Paper - The IAASB's Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016

Dear Mr. Gunn,

BDO International Limited¹ is pleased to have the opportunity to respond to the International Auditing and Assurance Standards Board's (IAASB or Board) Consultation Paper, *The IAASB's Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016* (paper or proposal).

We recognize that the clarity project was a significant endeavour and anticipate the auditor reporting project will remain at the forefront of IAASB activities for the next few years. Overall we are supportive of the proposed strategy and work plan. However, we have recommended some specific areas we believe the IAASB should consider addressing. In particular, these include responding to challenges practitioners may have regarding the implementation of the standards, specifically with respect to consistent and effective application of certain requirements.

Proposed Strategy for 2015-2019

We agree with the objectives set out in the proposed strategy, and wish to emphasize the importance of some of the points raised in the paper. Paragraph 24 states that 'the IAASB recognizes that, in order to achieve effective implementation globally, standards need to be, and seen to be, proportionate to the size of the entity'. Effective implementation of the standards on smaller audit engagements is an area we believe deserves particular attention. We appreciate the specific guidance in the ISAs geared towards smaller, less complex audits, and believe that more robust guidance in the form of implementation guides or practice aids would be of great value to the auditors of these entities, and would assist in improving consistent global implementation.

The second objective, 'Ensure the IAASB's Suite of Standards Continues to be Relevant in a Changing World by Responding to Stakeholder Needs', implies that economic changes would be considered as one of the key elements. While we recognize that the IAASB has established the Innovation, Needs, and Future Opportunities (INFO) Working Group to explore emerging developments to assist in identifying opportunities for relevant and effective standard setting, we believe there is a need for additional guidance for audits of entities operating in emerging markets in particular as it relates to significant judgements that need to be made.

¹ BDO International Limited is a UK company limited by guarantee. It is the governing entity of the international BDO network of independent member firms ('the BDO network'). Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited, Brussels Worldwide Services BVBA and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network.
BDO is the brand name for the BDO network and for each of the BDO member firms.

Generally we agree with the factors listed in Appendix 2 for the IAASB to consider when developing future work programs. We also believe an economic analysis of the proposed changes should be reflected in the factors listed when considering new projects. We support providing users with additional information and updating standards to reflect the public interest, and believe the stakeholders requesting changes should be fully informed of the cost implications of significant changes.

The third objective of the IAASB is to 'collaborate and cooperate with contributors to the financial reporting supply chain to foster audit quality and stay informed'. We recognize the channels the IAASB has in place to obtain input and feedback, including the Consultative Advisor Group (CAG), other outreach activities as outlined in Appendix 3, and the ISA Implementation Monitoring project that has been ongoing since 2009. In that regard, we believe it is important for the Board to engage in regular dialogue with the audit regulators to ensure they have a clear understanding of the intent of the standards, leading to consistent interpretation by them and more consistent application by auditors.

We encourage the IAASB to consider stakeholder needs more evenly when looking at future changes by considering the impact to both the companies under audit and the auditor.

Paragraph 3 of Appendix 2 makes no mention of post-implementation review of assurance projects (for example ISRE 2400 (Revised)); however, Appendix 2 of the Work Program indicates that a process will be developed in 2016 for a post-implementation review. We agree with developing a process to review these standards, and believe it should be developed earlier (in 2015) to allow for the review to begin earlier in 2016 and for supplementary guidance to be issued in time for smooth adoption of the revised standard.

Proposed Work Program for 2015-2016

Generally, we are supportive of the 2015-2016 proposed work program. There are a few comments we would like to raise in response to certain questions asked in the paper.

(a) The approach taken to the development of the Work Program for 2015-2016, in particular the IAASB's decision to focus on fewer key projects towards the goal of their completion by 2017.

We agree with the IAASB's decision to focus on fewer projects based on its limited resources and heavy reliance on volunteers. We believe that this will lead to better implementation of difficult standards by providing more timely guidance to assist auditors/practitioners in interpreting the standards. The clarity project and auditor reporting project were significant milestones, and we agree that the focus should shift to consistent implementation of the more difficult standards.

(b) The appropriateness of the topics chosen as the focus for the Work Program for 2015-2016 (see paragraph 4 of the Work Program and Table A on pages 26-29) in light of the strategic objectives set out in the IAASB's Strategy for 2015-2019.

We generally agree with the topics chosen. In addition, we believe there are other worthy projects the IAASB should consider prioritizing, such as implementation guidance on:

- the Design and Implementation of Controls;
- Group Audits;

- Materiality; and
- the integration of the revised COSO framework into the ISAs.

We agree with the importance placed on the project on professional scepticism, given its fundamental role in the audit process. We also agree with the challenge posed by this subject, as acknowledged by the Board. In that regard, it is highly likely that any enhancements to the standards will need to be supplemented by behavioral training and on-the-job coaching.

(c) Whether there is an action(s) or project(s) that has not been included in the *Work Program for 2015-2016* that you believe the IAASB should address during that period. For example, should any of the topics in Appendix 1 (on pages 39-41) be prioritized sooner? If so, which initiative(s) identified in Table A (on pages 26-29) do you believe should be replaced by this action(s) or project(s). Please provide an explanation of your views.

Appendix 1 mentions issues related to ISA 315, and refers to 'how controls are addressed in the audit'. We believe there is an inconsistency in practice in the way some of the requirements are interpreted by various firms, specifically with respect to the concept of 'controls relevant to the audit' as outlined in paragraph 315.12, and believe this is an important project for the IAASB to consider. We believe that there will be significant benefit from implementation guidance developed to address the inconsistency (or clarification of the intent of the standard). We also believe the timeline for the COSO project should be brought forward, and could be examined in conjunction with this request.

We also believe there is some confusion or inconsistency with auditors' determination of materiality as it relates to group audits. Specifically, we believe auditors would benefit from some detailed guidance around setting performance materiality, determining group and component materiality, and would like the IAASB to consider the need to add the concept of group performance materiality to the ISAs.

We also believe the IAASB should allow for some flexibility in the work plan for unforeseen issues that addressing on a timely basis would benefit stakeholders more than some of the other planned projects.

We support the overall vision and objectives of the proposed strategy and work program and appreciate the opportunity to provide input into the IAASB.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting