

Mr. James GUNN
Technical Director
IAASB
545 Fifth Avenue, 14th Floor
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New York 10017
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Paris, 7 April 2014

YN.JZ.BNB.CB 20140251

Objet : Re: Consultation Paper – Proposed IAASB Strategy for 2015-2019 and Work Program for 2015-2016

Dear Mr. Gunn,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB's Proposed Strategy for 2015-2019 (hereafter Proposed Strategy), and Proposed Work Program for 2015-2016 (hereafter Proposed Work Plan).

Responses to the specific questions raised in the Consultation Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Yves NICOLAS
President of CNCC



Joseph ZORGNIOTTI
President of CSOEC

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

Proposed Strategy for 2015-2019

Question (a) Whether the strategic objectives identified are considered appropriate for the period 2015–2019. If not, please explain.

CNCC and CSOEC are generally in agreement with the strategic objectives proposed by the IAASB. However, we have the following observations and suggestions to clarify them and make them more appropriate:

- (i) We agree with developing additional standards but only if they are absolutely required. We therefore suggest changing the first objective to: "Maintain and, if necessary, develop, High-Quality ISAs that Are Accepted as the Basis for High-Quality Financial Statement Audits";
- (ii) As mentioned in paragraphs 20 to 27, the new and innovative forms of reporting, such as Integrated Reporting, affects the demand for new assurance and related services. We consider that the challenge for the IAASB with the second strategic objective ("*Ensure the IAASB's Suite of Standards Continues to Be Relevant in a Changing World by Responding to Stakeholder needs*") will be to develop new international assurance standards other than audits or reviews of historical financial information that will promote the value of professional accountants worldwide;
- (iii) We consider that the third objective "*Collaborate and Cooperate to the Financial Reporting Supply Chain to Foster Audit Quality and Stay Informed*" is in many ways a process rather than an objective. However, apart from this point, we have the following comments: The scope of the "Financial Reporting Supply Chain" is too restricted. It should be extended to the "Non-Financial Reporting Supply Chain". In the current changing world and in order to better respond to stakeholder needs, the entities are changing the nature, the extent of the published financial information and also the way under which and the timing the information is disseminated. There is an increasing trend for entities to produce non-financial information (for example on social, environmental and sustainable aspects of their operations). Entities may find it in their interest to disclose voluntarily certain non-financial information, particularly if it is designed as part of a package to improve their credibility and acceptance in key markets, or if it enables them to undertake business more successfully. Moreover, disclosure of such information may be seen as an important business driver. In this context, we consider that the IAASB should extend its third objective to cover the "non-financial reporting supply chain".

Finally, we consider that the strategic objectives for 2015-2019 should include a fourth objective, i.e. "to better collaborate and cooperate within the IFAC structure, between the IFAC Standards Boards". Such cooperation would result in common exposure drafts for transversal subjects, such as, for example, the non-compliance with laws and regulations that concern not only the International Ethics Standards Board for Accountants but also the International Auditing and Assurance Standards Board.

Question (b) *Whether the factors included in Appendix 2 on page 19 represent a reasonable basis for the IAASB to use in developing its Work Programs beyond the Work Program for 2015–2016.*

Overall, the factors included in Appendix 2 appear to be reasonable. They are oriented towards the public interest which is the role of the IAASB.

However, when used as criteria to select which project to be included in the work program, we observe that they result in an agenda being primarily oriented towards the needs/ interest of the regulators rather than that of the auditors and their clients. This results in prioritized topics (such as quality control or professional skepticism) that could be challenged. In one word, the work program seems more regulators centric rather than auditors oriented. Please also refer to our answer to the question (b) here below.

Moreover, as far as the wording of the objectives is concerned, we believe that the adjective "perceived¹" used to define the first factor considered to identify the actions and their relative priority for 2015-2016 is inappropriate and should be deleted. It may lead one to assume no due process was followed by the IAASB and the work program was not built on factual criteria.

Proposed Work Program 2015-2016

Question (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.*

On the assumption that IAASB's resources are both limited and fixed, focusing on few key projects is likely to achieve the best outcome.

Nevertheless, we consider that the proposed 2015-2016 work program is not ambitious enough. In our view, some of the projects that were included in the IAASB findings from the post implementation review should be addressed earlier than planned, especially projects that are linked with the interpretation or the clarification of ISAs. This would be the case for ISA 315 and ISA 320 for example:

- Additional guidance on ISA 315 seems to be needed in the context of the auditor reporting project. ISA 315 needs to be consistent with what a key audit matter is – in light of the requirements included in ISA 700 and ISA 701 as currently being developed – and the link between the nature and number of assessed risks of material misstatements, significant risks and key audit matters; We believe that such clarifications should contribute to the success of the implementation of the future ISAs on the reporting on Audited Financial Statements;
- It seems also important to further clarify the concepts of materiality and performance materiality to promote greater consistency in practice (ISA 320) and provide additional guidance for the component materiality (ISA 600).

¹ "The perceived urgency in the public interest of the need for change, and the potential implications if action is delayed, taking into account both the demands of the capital markets and the impact on businesses of all sizes."

We recognize the value of a robust due process. However, it is not logical that all documents go through the same due process when they do not have the same authoritative value. At this stage, the IAASB is certainly lacking an interpretative committee. We believe that such subjects, as mentioned above (significant risks in ISA 315, materiality and performance materiality in ISA 320, component materiality in ISA 600) could easily be monitored by an interpretative committee, supported by the IAASB's staff. If no interpretation is needed, it could even be done through staff alerts or staff Q&A.

We also consider that the Integrated Report should be included in the 2015-2016 work program, i.e. develop an assurance or related services standard addressing Integrated Reporting, using ISAE 3000 (revised) as a basis for doing so. We believe that it is important for the IAASB to anticipate the future role of the auditors with regards to the needs of the stakeholders otherwise the train may have left the station when the IAASB will be ready to provide the needed standards.

Finally, we believe that appropriate training actions should be developed to facilitate adoption and implementation of IAASB outputs. We are particularly supportive of actions such as webinars.

Question (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.*

IAASB proposed that the following topics be prioritized in 2015-2016 in the public interest:

- Quality control;
- Professional skepticism;
- Special audit considerations relevant to financial institutions.

We have the following comments on the topics chosen as the focus for the Work Program for 2015-2016:

- Professional skepticism

Professional skepticism is certainly a critical topic for the auditing environment to address. However, we are surprised that this subject constitutes a priority for 2015-2016. As a matter of fact, an IAASB Staff Q&A has already been issued in February 2012 on this subject. The Q&A was addressed to the firms and auditors of entities of all sizes but also to users of financial statements, in particular TCWG and regulators and oversight bodies.

- Special audit considerations relevant to financial institutions

We consider that an audit is an audit whatever the sector of the entity. We therefore are not supportive of such industry-specific audit guidance to be addressed within the suite of the ISAs. Moreover the IAASB might not have the right expertise to tackle such industry-specific issues. We would rather welcome individual industry specific International Auditing Practice Notes (IAPNs).

Question (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.

As mentioned in our response dated 29 May 2013 to the consultation relating to the development of the IAASB's strategy for the period 2015-2019 and in addition to our comments to the question (a), we consider that the following subjects should be included in the Work Program for 2015-2016:

- The future role of the auditor with regards to the needs of the users of the financial statements taking into accounts the context of increased speed and widespread dissemination of continuous information.

The following issues should consequently be included in the IAASB's future agenda: preliminary announcements, non-GAAP financial information, and prudential information.

- Direct engagements

The IAASB in its April 2013 meeting took the decision not to deal direct engagement in ISAE 3000 because of the complexity of treating in a single standard 2 types of engagements (direct and indirect) which differ significantly. It was nevertheless acknowledged that :

- Direct engagements were allowed to be performed under ISAE 3000 ;
- There would be a specific project on direct engagement in the near future.

We agree with the IAASB's decision and we consider that it is important that the IAASB finalize such standard on direct engagements as soon as possible. As a matter of fact, practitioners regularly perform such engagements and it is important for them to have a specific standard to harmonize their practices. Accordingly, we believe that the IAASB should not abandon this project, but tackle this issue as part of its future work program.

- The follow up of the findings from a post implementation review of the clarified ISAs

Input from the implementation of the clarified ISAs has been received by the ISA monitoring working group. Even if feedback suggests that the clarified ISAs are generally understood and most of those that were revised appear to have achieved the goals that the IAASB had when revising them, there are also many suggestions as to how individual ISAs can be further improved. The findings from the post-implementation review is an important issue to monitor, that is why we believe it is important to include this follow up in the work-program.

- Shared service centers

The issue relating to shared service centers "(SSC)" is not dealt with in the ISAs. Such SSC are more and more common in today's business world and they raise specific and complex difficulties for auditors in practice. We observe that some practitioners tend to rely on ISA 402 when their clients are using SSC while others have an approach based on ISA 600. That is why we consider that it is highly important to tackle this issue even though we know the difficulties involved and we are aware that opponent of the project are going to raise the fact that all cases are different.

- Comfort letters

The issue of comfort letters is also very important. ISRS 4400 is outdated, not clarified and yet is frequently used, e.g. as a vehicle for comfort letters. We consider that such engagement has to be "revised" and the comfort letter "standardized" since practitioners are not on a level playing field on this area and may take risks in performing such engagements.

- Audit sampling

We believe that the IAASB should monitor developments in the area of audit sampling, particularly with respect to how data analysis can contribute to sufficient appropriate audit evidence through risk assessment or substantive audit procedures ("big data").

- Convergence with the EU

We consider that the IAASB should continue its liaison and collaboration efforts with the European Union which is engaged into an in-depth reform of statutory audits. Such efforts are increasingly important, especially as practitioners often must operate under different sets of auditing standards and the consistency in audits worldwide is fundamental.

- SMEs and SMPs

We encourage the IAASB to continue to consider in its work program the needs SMPs and SMEs. IAASB should consider the situation where a SME, which financial statements are not subject to statutory audit and that requests a practitioner to assist management with the preparation and the presentation of financial information, needs an assurance engagement on its financial statements. In some cases, we understand that SMEs would like to have the possibility to ask this practitioner to issue such an assurance.

- Audit documentation and sufficient appropriate audit evidence

As mentioned in the findings in the post implementation review, the clarified ISAs have led to a significant increase in the volume of audit documentation, especially for very small audits. While a few of the respondents had the view that additional documentation clarifies the auditor's thought process, most had the view that the documentation requirements are excessive and lead to a compliance mentality. Some respondents have expressed particular concerns in relation to ISA 315. In this context, we consider that this topic should be included in the work program.

Question (d) Whether there are alternative approaches for the IAASB to consider in order to enhance the IAASB's ability to address calls from stakeholders for IAASB efforts on a variety of important topics, in light of the constraints of available resources and the need for due process to be applied in the development or revision of standards.

IAASB's demanding due process in developing standards is a strength as far as the quality of the final standards is concerned. At times, however, this could be seen as a detriment to the timeliness in delivery.

However, we believe that there are alternative approaches for the IAASB to consider in order to enhance the IAASB's ability to address calls from stakeholders for IAASB efforts on a variety of important topics, in light of the constraints of available resources and the need for due process to be applied in the development or revision of standards. The alternative approaches that we propose are the following:

- Leverage on the work already performed by IFAC member bodies;
- Development of staff papers under a "lightened" due process;
- Better use of technical advisors in the working groups;
- Develop the practice of seconded staff by audit firms, institutes or regulators.