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Mr. Willie Botha
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Proposed IAASB Strategy for 2020-2023 and Work Plan for 2020-2021

Dear Mr Botha

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the *Proposed Strategy for 2020-2023 and Work Plan for 2020-2021* (the Strategy and Work Plan, respectively), issued by the International Auditing and Assurance Standards Board (IAASB).

We recognize the uncertainty that exists regarding the IAASB's future operations due to the reforms being contemplated by the Monitoring Group that are likely to affect the IAASB during the 2020-2023 strategy period. However, we see the timing of the refresh of the IAASB's Strategy as opportune because it is generating timely stakeholder input that is highly relevant to establishing and confirming the value of, and priorities for, the IAASB's operations.

Publishing a refreshed Strategy for 2020-2023 allows the IAASB to crystallize to its stakeholders how it views its mandate, the critical aspects of its operations that allow the IAASB to achieve that mandate, the challenges it sees to its success and how its planned actions are expected to address those challenges. In this period of reform, we view the clarity and thoroughness of the Strategy and Work Plan to have a new importance because the final publication may be viewed by new audiences or viewed differently through the lens of reform.

We recognize that the drivers for reform to the audit standard-setting model are occurring mainly in the context of enhancing audits of listed or other public interest entities. However, we believe it to be vitally important that any reform undertaken also appropriately acknowledge and address audits of non-public interest entities, as well as the other assurance and related services engagements addressed by the IAASB standards. We see the IAASB's Strategy and Work Plan as an important mechanism for explaining and reinforcing the value of the full suite of the IAASB's quality control, audit, review, other assurance and related services standards, including how these standards contribute toward the profession's role to serve the public interest.

Because the IAASB's Strategy and Work Plan may become an important point of reference for stakeholders providing input and making decisions around reforms of the standard-setting model, we have attempted to read the documents from the perspective of an interested party that may not be highly knowledgeable about the IAASB's mandate or operations, including the supporting role that the Consultative Advisory Group and certain IFAC committees (e.g., Small and Medium Practices Committee) play in the current standard-setting model. In reading the document from this

perspective, our observation is that the IAASB's decision to take perhaps a more streamlined approach to the Strategy than in prior strategy periods potentially comes at a cost of clarity in certain instances.

As the IAASB moves forward in finalizing the Strategy and Work Plan, we encourage the IAASB to specifically review these documents through the lens of reform and determine whether there is sufficient clarity on the entire remit of the IAASB in addition to the descriptions of the areas of focus and the operating protocols of the IAASB. We have included specific recommendations in our comments where we believe clarity could be improved or certain aspects of the IAASB's operations could be better highlighted. The majority of our comments are provided from this perspective. In addition, we have the following significant comments:

- ▶ We believe the IAASB's research activities should have an explicit focus on the audit of the future. Monitoring developments that indicate changing demands and stakeholder needs for the audit should be a central theme in the IAASB's research activities because of the critical importance of maintaining the relevance of the audit in the current fast-changing environment and is necessary for the role of the audit to continue to appropriately serve the public interest.
- ▶ We believe the Audit Evidence project needs to be expedited and escalated beyond the research phase as quickly as possible in this new Work Plan period. We encourage the IAASB to actively collaborate with the AICPA (which has an equivalent project currently underway and is approaching the release of an exposure draft) as a primary mechanism for expediting the IAASB's project.
- ▶ We believe ISA 520, *Analytical Procedures*, needs specific consideration to address challenges in practice resulting from the use of data analytics, as well as regulator expectations for how the auditor sets expectations and documents those expectations. We understand that ISA 520 is identified as a standard that will be given further consideration as part of the Audit Evidence project. However, we believe that the responses to the IAASB's 2016 Data Analytics consultation justify specific research activities related to ISA 520.
- ▶ We support the proposed Framework for Activities; however, we believe a project should be added to the Work Plan for the design and implementation of the Framework because the Framework for Activities would introduce a new and formal process to IAASB project identification and scoping. This project should include establishing clear protocols, including due process procedures where necessary, around each activity. In particular, we believe that the IAASB should have an objective of putting processes in place to respond to challenges in practice on a timely basis through a greater focus on issuing interpretations and non-authoritative guidance and through enhanced protocols for identification of national standard-setting projects that have global relevance. Firms are currently in the position of needing to determine an approach or solution to emerging practice issues years ahead of when the IAASB releases revisions to its standards to address the issues. Improved timeliness of the IAASB's standard-setting activities is particularly important to improving the IAASB's credibility with its stakeholders.
- ▶ Because of the significance and extent of implementation assistance that may be required for these standards, we strongly encourage the IAASB to institute formal cooperation with IFAC, member bodies, National Standard Setters or others to obtain assistance with these implementation activities, including potentially outsourcing some of the specific enablement.

- ▶ Considering the April 2019 release of the IESBA Strategy and Work Plan 2019-2023, we believe that the IAASB's Strategy and Work Plan should include more specifics around the planned topics for coordination, including that the projects related to non-audit services, fees, service delivery models and the definitions of listed and public interest entities should be identified for specific coordination.

Our responses to the specific questions on which the IAASB is seeking feedback are set out below.

Q1. Do you agree with Our Goal, Keys to Success and Stakeholder Value Proposition, as well as the Environmental Drivers?

Overall, we agree. However, although we appreciate the value that conciseness can bring to strategy statements, we believe that the conciseness of the statements on page 6 is sometimes at the expense of clarity. We encourage the IAASB to consider whether these statements alone provide enough information to stakeholders that may not be well-versed in the IAASB's role and activities.

In particular, the *Our Goal* statement refers to "financial and other reporting". We do not believe it is clear from this statement (or from the Strategy document as a whole) what "other reporting" falls within the scope of the IAASB strategy or remit. To help clarify the full breadth of the engagements performed under IAASB standards, we believe including an overview of the IAASB (such as the section in the IAASB's 2015-19 Strategy entitled "Our Standards") would provide useful context. It would also be useful for the Strategy document to clarify and emphasize the public interest role that the IAASB's International Standards have in addressing stakeholder needs for engagements other than audits.

We have the following specific observations related to the clarity of the statements made in the *Our Stakeholder Value Proposition* section:

- ▶ The scope of "public-interest focused activities" in the proposition related to *Our Strategy* is not clear. It would be useful to include an expanded description of what such activities entail.
- ▶ The proposition for *Our Standards* should more explicitly address the importance of their capability to be consistently and practically applied to audits and other engagements for all entities. We do not believe the words 'scalable' or 'globally relevant' are adequate to convey this critical objective. We also do not believe that the IAASB "implements" the standards; they support the implementation thereof (which is sufficiently addressed through the last proposition in the list).
- ▶ Regarding the proposition for *Our Methods*, the critical importance of the IAASB's due process to achieving high-quality widely-accepted International Standards should be included. We would also recommend highlighting public transparency as a critical aspect of this due process. Such transparency also facilitates stakeholder engagement and collaboration with others.
- ▶ Regarding *Our Engagement with Our Stakeholders*, the IAASB's coordination with IFAC and its committees as a key mechanism through which the IAASB engages with stakeholders is particularly relevant in light of the contemplated reforms, which could be highlighted in this section or elsewhere in the document.

In addition, we observe that there is no mention of the “people” of the IAASB in these statements. The competence and capabilities of the IAASB, its supporting staff and its advisory groups are essential to the success of the IAASB. We would suggest adding a stakeholder value proposition that addresses *Our Expertise and Capabilities*, or something similar. This should focus on the need to obtain or maintain relevant skills and knowledge to keep pace with the developments of the profession and the business environment, as well as expected technical proficiency in auditing and assurance.

Q2. Do you agree with Our Strategy and Focus and Our Strategic Actions for 2020-2023?

Overall, we agree that the strategic themes are appropriate and are consistent with the relevant issues affecting the global standards. Consistent with our response to Q1, we also see that conciseness has come at an expense to clarity in the descriptions of the themes and strategic actions. We have the following suggestions to enhance clarity:

- ▶ Theme B - *Further Challenge and Enhance the Fundamentals of Our International Standards*
 - We do not understand why Theme B focuses solely on the “fundamentals” of the international standards. We would expect standard-setting activities to involve a more holistic consideration of the standards. We would therefore delete “the fundamentals of” in the title of this theme.
 - In relation to the IAASB’s activities in the assurance space, we believe that the IAASB’s 2015-2019 strategic objective to “Ensure the IAASB’s Suite of Standards Continues to be Relevant in a Changing World by Responding to Stakeholder Needs” provides a clearer focus than Theme B’s “Further Challenge and Enhance the Fundamentals of our International Standards”, which does not draw out the extended external reporting being performed by entities and for which assurance is being sought.
- ▶ Theme C - *Develop Ways to Address Complexity, While Maintaining Scalability and Proportionality*
 - We believe that the terms “scalability” and “proportionately” would benefit from further explanation to drive a consistent understanding by all stakeholders of the objective of the IAASB’s activities in this theme.
 - We do not believe that this theme should be limited to the standards being fit-for-purpose for audits or that this theme should focus only on the importance of principles-based standards for audits of less complex entities. Instead, it is evident to us that the importance of the IAASB’s International Standards remaining principles-based is ever increasing due to the environmental drivers included on page 7. Although standards can never be completely “future-proof”, they need to be capable of implementation in the face of innovation and changes in the environment that cannot be anticipated, as well as adaptable to the specific entities and environments within the 120+ jurisdictions that use the standards. Accordingly, we believe this theme should take a wider focus.
- ▶ Theme D - *Strengthen and Broaden Our Capability and Capacity to Respond by Innovating Our Ways of Working*. We view Theme D as a critically important theme to the ability of the IAASB to

address emerging demands and innovations relevant to auditing and assurance. We recommend that the strategic actions be expanded to address specific actions related to resourcing as follows:

- *Actions to attract, retain and develop IAASB staff.* At present, the theme appears solely focused on consider capacity and obtaining further resources. We believe an equal priority is to enhance the competence and capabilities of the current staff.
 - *Obtaining and effectively utilizing subject matter expertise for specific projects.* We recognize that it is not realistic to have in-house expertise related to all projects on the Board's agenda, particularly technology, integrated reporting and other innovative or emerging areas in audit and assurance services. Instead, we see a strong need for IAASB staff to have access to appropriate external resources such that the staff are properly enabled to analyze and distill the issues for the Board's consumption and for timely dialogue with its stakeholders. Although the IAASB has taken steps to obtain expertise through correspondent members or project advisory panels, we are not convinced that these resources are used as effectively as possible in all circumstances. In particular, we see a lack of progress in the data analytics initiative despite the presence of a project advisory panel with appropriate expertise.
 - *Establishing formal collaboration with National Standard Setters to provide more timely identification of national standard-setting priorities and applicability to global standard-setting.* We recognize that the IAASB does have coordination with the National Standard Setters in place, but we believe a focus should be placed on how this coordination can be enhanced and formalized when the issues driving a national standard-setting project have global relevance. Such coordination would have an objective of the IAASB leading the way in addressing emerging issues of global relevance, including through timelier issuance of interpretations and non-authoritative guidance.
 - *Establishing formal collaboration with IFAC, member bodies, National Standard Setters or others as relevant for activities related to the development of non-authoritative guidance and implementation and application of the standards.* We recognize that the nature of the IAASB's latest standard-setting projects is such that they will require fundamental change in the management of engagement quality and the approach to the audit. We also agree with the IAASB's focus on the development of implementation materials for these new standards; however, we do not believe that the IAASB staff capacity alone will be sufficient to produce these, especially in a timely manner. For the IAASB to commit to robust implementation support, we believe formal collaboration protocols with others needs to be established.
- ▶ *Theme E - Deepen Our Connectivity and Collaboration Opportunities*
- We recommend including a more fulsome description of the IFAC committees that play an important role in informing the IAASB's initiatives and actions (e.g., the Small and Medium Practices Committee, the Transnational Auditors Committee).
 - As we note in our comments to Theme D above, we see the establishment of collaboration opportunities as important to the resourcing of the IAASB in completing its projects. We

recommend drawing out this specific importance of collaboration in the strategic actions of Theme E.

Q3. Do you agree with the IAASB's proposed Framework for Activities, and the possible nature of such activities as set out in Appendix 2?

We agree with the Framework for Activities, especially the proposal to include a phase dedicated to researching the issues and challenge to existing standards to inform the IAASB's decisions on the appropriate action to take, which may not be standard-setting in all cases. We recognize however that the addition of a formal research phase may give the impression that there is a consequence of lengthening the standard-setting process. We do not believe this is the IAASB's intent and we would recommend further clarity in the description of the Framework as to its possible effects on the timing of the IAASB's activities and how the Framework may actually assist in improving the timeliness of IAASB's responses to emerging issues. Improved timeliness of the IAASB's standard-setting activities is particularly important to improving the IAASB's credibility with its stakeholders.

In our view, increasing transparency of IAASB efforts around emerging issues (for example, issuing publications, non-authoritative guidance or other statements of views designed to promote dialogue on the issues at an early stage) could not only improve the perception of the IAASB's timeliness but also increase the knowledge that the IAASB has in-house on the particular issues at the points in time when it is appropriate to commence standard-setting projects to address them. Having a visible and thorough incubation process for emerging issues would also benefit practitioners who may be able to provide timely practical insights or pilot or "road test" early thinking from the IAASB on solutions to issues, which also may help to shorten the development cycle.

Overall, we would like to see the IAASB become a thought leader on emerging auditing and assurance issues and challenges, changing from its current reactionary approach. The implementation of the Framework for Activities may be the mechanism for enabling the IAASB to analyze emerging issues in closer coordination with when such issues are being analyzed by its stakeholders. It should be made clearer if this is one objective of the Framework. Regardless, we believe there is a need for the Framework to approach the analysis of many issues through both the lens of an audit and the lens of an assurance engagement. For several emerging topics that are affecting current practice, such as blockchain and cryptocurrencies, there are effects on both audits and the demand for other assurance services.

We believe enhancing coordination protocols with National Standard Setters should be specifically considered in developing the Framework for Activities. When there are national standard-setting projects of global relevance, timely coordination and collaboration, as appropriate, could assist the IAASB in developing a timely response to emerging issues relevant to the application of its International Standards.

For the activities other than revising and developing standards and outreach, we believe that the IAASB should have an objective of putting processes in place to respond to challenges in practice on a timely basis through a greater focus on issuing interpretations and non-authoritative guidance. Firms are currently in the position of needing to determine an approach or solution to emerging practice issues years ahead of when the IAASB releases revisions to its standards to address the issues. However, we have the view that the other activities have challenges to their success because of the

capacity constraints of the IAASB and the ongoing expected priority for the IAASB to develop and revise standards. Accordingly, we believe that the Framework for Activities should include specific consideration of resourcing needs for the appropriate response and whether the activity should be performed by the IAASB or addressed through collaboration with others.

Because the Framework for Activities would introduce a new and formal process to IAASB project identification and scoping, we believe a dedicated project should be added to the Work Plan to address the design, development and implementation of the Framework. This project should include establishing clear protocols, including due process procedures where necessary, around each activity. Formalizing the Framework is important, in our view, to managing stakeholder expectations around the IAASB's project intake and prioritization process, as well as providing transparency about how decisions will be undertaken to determine the appropriate activity in the circumstances.

In particular, narrow scope interpretations are a new activity that would seem to need the development of specific due process procedures. For implementation materials for new standards, we would suggest setting a protocol that such materials are provided either concurrent with the issuance of a new standard or very early in the transition period. If the IAASB's capacity does not allow for such timeliness, protocols should be set for coordination with others to produce them (see our response related to Theme D in Q2).

Q4. Do you support the actions that have been identified in our detailed Work Plan for 2020-2021? If not, what other actions do you believe the IAASB should prioritize?

Overall, we support the Work Plan for 2020-2021. We however have the following specific comments and observations:

- ▶ The bullets on page 14 in the description of the objectives of the Work Plan describe resource needs in terms of the quantity and availability of resources. We would expand these criteria to focus more holistically on the 'right' resources (i.e., resourcing of the projects should be based on the appropriate resources v. only the available resources). Such resourcing should include collaboration with others, such as National Standard Setters.
- ▶ *Revising and Developing Standards* - We agree with the projects included here. However, we would suggest also including the IAASB's planned project for conforming amendments to its non-audit standards for Quality Management, ISA 315 (Revised) and ISA 540 (Revised).
- ▶ *Implementation Activities* - We find footnote 4 to be an indicator that it may be difficult to judge the volume, nature and work effort that will be required to deliver appropriate implementation materials. Implementation materials for new standards are most effective when they are provided concurrently with the issuance of a new standard or very early in the transition period (i.e., within the first six months of the transition period). The revised Quality Management Standards and ISA 315 (Revised) create an enhanced foundation for the audit such that proper implementation is especially important to achieving audit quality. Because of the significance and extent of implementation assistance that may be required for these standards, we strongly encourage the IAASB to pursue cooperation with IFAC, member bodies, National Standard Setters or others in order to obtain assistance with these implementation activities, including potentially outsourcing some of the specific enablement. See our response to Q2 where we believe that a specific

strategic action is needed to establish formal coordination with others to successfully deliver robust implementation materials.

- ▶ *Research Phase* - We strongly agree with the planned Audit Evidence project. We believe this project needs to be expedited and escalated beyond the research phase as quickly as possible in this new Work Plan period to address the challenges in practice, including with respect to the auditor's use of automated tools and techniques. However:
 - We believe that the scope of the Audit Evidence project should be much broader than dealing with the auditor's use of technology. Providing an enhanced framework around the auditor's determination of what constitutes audit evidence and how to evaluate its sufficiency and appropriateness would be very useful to addressing challenges in current practice. We encourage the IAASB to actively collaborate with the AICPA (which has an equivalent project currently underway and is approaching the release of an exposure draft) as a primary mechanism for expediting the IAASB's project.
 - We do not believe that the Audit Evidence project alone is sufficient to address the challenges raised to the IAASB's 2016 consultation on Data Analytics. In particular, we believe ISA 520, *Analytical Procedures*, needs specific consideration to address challenges in practice resulting from the use of data analytics. When performing data analytics, the approach to setting expectations is an iterative process improved upon by the interaction of the auditor with the entity's data as well as obtaining evidence independent to that data. This process is not contemplated by the current ISA. We understand that ISA 520 is identified as a standard that will be given further consideration as part of the Audit Evidence project. However, we believe that the responses to the IAASB's 2016 Data Analytics consultation justify specific research activities related to ISA 520. However, research activities on ISA 520 should not be limited to only challenges resulting from data analytics. We are experiencing increased scrutiny from regulators related to the expectations set by the auditor in performing substantive analytical procedures and the documentation of those expectations. For example, some regulators see an implied requirement in ISA 520 for the auditor to obtain information outside the entity as a basis for setting expectations.
- ▶ *Other Ongoing Activities - Coordination with the IESBA* - With the April 2019 release of the IESBA Strategy and Work Plan 2019-2023, we believe that the IAASB's Strategy and Work Plan should include more specifics around the planned topics for coordination. We believe that coordination with respect to the following IESBA current or new projects should be proactively planned:
 - Non-audit services and fees (particularly with respect to possible effects on group audits, use of auditor's experts internal to the firm and auditor reporting)
 - Trends and developments in technology (noting that the IESBA strategy document highlights intended coordination with IAASB on this project)
 - Emerging or new models of service delivery (particularly with respect to the effects on the definition of engagement team)

- Definition of listed entity and public interest entity (particularly with respect to the relationship with the definition of listed entity and concept of entities of significant public interest used in the IAASB standards)
- ▶ *Other Ongoing Activities* - As noted in our response to Q3, we believe a specific project should be added for the design, development and implementation of the Framework of Activities.

Q5. 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?

With respect to the list of possible research activities in Theme B on page 10, we have the following comments and suggestions:

- ▶ *An explicit focus on the audit of the future* - Monitoring developments that indicate changing demands and stakeholder needs for the audit should be a central theme in the IAASB's research activities because of the critical importance of maintaining the relevance of the audit in the current fast-changing environment and is necessary for the role of the audit to continue to appropriately serve the public interest.
- ▶ *Separate and distinct consideration of ISA 520, Analytical Procedures* - As noted in our comments in response to Q4, we believe that the responses to the IAASB's 2016 Data Analytics consultation justify specific research activities related to ISA 520. Such research activities should also include identifying other challenges to applying ISA 520, including the expectations of regulators for how the auditor sets and documents expectations when performing substantive analytical procedures.
- ▶ *Evolving technologies used by auditors* - Although the IAASB started its exploration of the use of data analytics in the audit and the effect on the ISAs in 2016, that exploration is already outdated from the perspective that firms are turning to the next wave of innovation in technology for audits. This includes technology such as artificial intelligence, robotics process automation and drones. We would suggest that these technologies be specified for exploration.
- ▶ *Evolving technologies used by entities* - We are developing methods to support audit procedures for entities using cryptocurrencies to assist with testing of blockchain assets, liabilities, equity and smart contracts, as well for entities' use of artificial intelligence. We are also seeing an increase in demand for assurance services regarding an entity's cryptocurrency holdings and blockchain applications. We would suggest that these topics be specified for exploration.
- ▶ *The changing corporate reporting environment* - The transition of the G4 Sustainability Reporting Guidelines to the GRI Sustainability Reporting Standards as of 1 July 2018 may affect the uptake of sustainability assurance services. We also see a continuing need for the IAASB to monitor broader trends around entities' expanding their reporting beyond financial objectives to also include progress toward achieving environmental and social objectives, and to do so in a manner that may be more forward-looking in nature than traditional historical financial reporting.
- ▶ *Ongoing work of the IESBA* - See our comments in our response to Q4. We believe there are several IESBA projects that should be specifically flagged for inclusion in the research phase.



We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Don Zimmerman, Global Vice Chair, Professional Practice (donald.zimmerman@ey.com).

Yours sincerely,

Ernst + Young Global Limited