

15 April 2014

Mr. James Gunn  
IAASB Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6th Floor  
New York  
NY 10017

Dear Mr. Gunn:

## **The IAASB'S Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016**

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Consultation Paper *The IAASB's Proposed Strategy for 2015-2019* (Proposed Strategy) and *The IAASB's Proposed Work Program for 2015-2016* (Proposed Work Program), issued by the International Auditing and Assurance Standards Board.

We continue to support the IAASB in serving the public interest by setting high-quality auditing standards to strengthen public confidence in financial reporting and to contribute to the ongoing relevance of the financial statement audit. The IAASB's role in promoting global convergence in auditing standards, through ongoing outreach and dialogue with regulators, standard-setters and other stakeholders, is vital in minimizing differences in auditing standards and contributing to the quality of audits worldwide.

### **Proposed Strategy**

We support the IAASB's decision to change its strategy period to five years, commencing in 2015, along with the IAASB's commitment to undertake a mid-period review to confirm that the identified objectives remain relevant or that revisions are required due to changes in the environment or new developments. We agree that the three strategic objectives identified by the IAASB are appropriate for the period 2015-2019 but we have the following comments on the areas of focus identified by the IAASB in fulfilling those objectives.

- *Develop and maintain high-quality ISAs that are accepted as the basis of high-quality financial statement audits*

The IAASB indicates that it will seek to strengthen its working relationship with IFIAR during the strategic period, in particular to work with IFIAR and others to understand the root causes of inspection findings to identify issues affecting audit quality and to determine potentially appropriate responses. We believe that the IAASB also should seek to clarify whether the inspection findings result from a regulator's interpretation of the ISAs that is different from that of the auditors in the particular jurisdiction and, if applicable, issue an authoritative interpretation of the ISAs in order to provide a common understanding among auditors and regulators and to drive consistent implementation.

- *Ensure the IAASB's suite of standards continues to be relevant in a changing world by responding to stakeholder needs*

The International Standards on Auditing are an important pillar in the performance of high quality audits, and their effective implementation is as important as their development. To maintain their quality and relevance, we believe that the IAASB needs to be able to address, on a timely basis, issues raised by those who apply the standards and by those who monitor their implementation. We therefore agree with the IAASB that post-implementation reviews should be a continuous focus of its forward strategy.

Concurrent with its post-implementation reviews, we believe that it is critical for the IAASB to devote sufficient time and attention to understanding developments affecting entities and their environments, such as changes in business models, and assess how those developments affect the way audits are conducted and whether new or revised ISAs are needed.

#### *Factors guiding the identification of potential priorities and actions in future work programs*

We believe that the factors identified by the IAASB to guide the identification of potential priorities and actions in future work programs are a useful starting point. However, given their subjectivity, it is difficult to conclude that, on their own, they represent a reasonable basis for the IAASB to use in developing its future work programs. Other factors might include:

- The relevance of a pronouncement in light of new developments (for example, whether ISA 510, *Initial Audit Engagements – Opening Balances*, is (or will still be) relevant in light of mandatory audit firm rotation)
- The need to develop solid principles-based auditing standards or other guidance in response to new financial reporting standards
- The need to revise a standard for new or revised requirements and guidance to make it “fit for purpose”

#### *Resources*

We support the IAASB's commitment, over the 2015-2019 period, to reviewing whether there are ways to ensure that it is operating in the most efficient and effective manner, and to identify opportunities to expand its capacity in light of growing demands from its various stakeholders.

We believe that there may be alternative approaches for the IAASB to consider to enhance its ability to address stakeholders' demands 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. For example,

- The IAASB could facilitate implementation of new ISAs by adapting or endorsing guidance (of suitable quality and international applicability) developed by others, resulting in new IAPNs and other industry-specific implementation guidance.

- The IAASB could use external task forces for certain projects (such as those requiring specialized skills and experience) so as to reduce the burden on board members and possibly IAASB staff.
- The IAASB could consider other resourcing models such as a fellowship program similar to those operated by the Financial Accounting Standards Board and the U.S. Securities and Exchange Commission.

#### *Performance measurement*

We believe that it is important for the IAASB to measure, report and communicate to its stakeholders the success and effectiveness of its standard setting, implementation and outreach activities. We agree that the IAASB's initial focus should be in the areas identified in the Proposed Strategy.

#### **Proposed Work Program**

An overarching consideration by the IAASB in prioritizing planned actions has been how best to deploy its resources in a way that has the greatest potential to respond to significant public interest issues. This has resulted in the IAASB's decision to focus on a small set of active projects in the period 2015-2016 with a view to complete them by 2017. However, the reasons leading to this decision, including the priority of the projects selected for completion by 2017 relative to other potential projects, are not clearly explained. The IAASB has received feedback on the post-implementation review of the clarified ISAs, and we believe that the IAASB should communicate the priority of all potential projects based on that feedback. This will not only assist the IAASB in determining how many projects could be started in 2015 but also allow the IAASB to remain flexible and assess, on a regular basis, its time allocation between standards, implementation and outreach in order to proactively respond to its stakeholder needs.

We also have the following comments regarding some of the projects that were identified by the IAASB for 2015-2016.

#### *Quality control*

We agree that ISQC 1 and the ISAs serve a fundamental role in underpinning audit quality and that the IAASB should be responsive to concerns from stakeholders that the standards may not be sufficiently robust in relation to quality control. As presented in the Proposed Work Program, we find the scope of the project in relation to ISQC 1 to be high level. We believe that the IAASB should obtain more information on the root causes of the concerns expressed by stakeholders before proceeding with a revision to ISQC 1; otherwise the project could potentially result in a number of limited amendments to the standard with no tangible improvements. However, as a first step, we would support a project dealing with a new ISA on EQCRs, as well as clarifying the distinction between a specialist and an expert.

#### *Professional skepticism*

We believe that the concept of professional skepticism in an audit should form part of a broader project on professional judgment. The exercise of professional judgment is an integral part of every audit. To improve the quality of auditor judgments and of the audit, we believe that the IAASB should develop a professional judgment framework. Such a framework could include, for example, the nature and

qualitative attributes of professional judgment (including professional skepticism), its application to fundamental concepts underlying the audit (such as materiality, audit risk and audit evidence), and the decision-making process to be followed by the auditor (including audit documentation).

We believe that a project focusing on the auditor's professional judgment has the potential to be more helpful in this increasingly challenging environment, while also responding to the calls for additional guidance on the application of professional skepticism in the audit.

*Special audit considerations relating to financial institutions*

We support the development of an IAPN dealing with the special audit considerations relating to financial institutions. We believe that the IAASB should establish a task force chaired by an IAASB member and made up of external banking experts and regulators. This would bring to the table the relevant skills and experience to address the key audit issues facing that sector, reduce the required project start-up time and Board discussions, as well as possibly allowing the Board to start another project on a concurrent basis.

*Auditor reporting: adoption and implementation*

The Proposed Work Program indicates that a key focus during 2015-2016 will be assisting auditors and national standard setters in supporting the use and effective implementation of the new and revised auditor reporting standards, and that such support may involve "train the trainer" materials and webinars, where necessary and appropriate. We do not believe that IAASB staff on their own should undertake to develop such implementation material, given their limited time and resources. Rather, we suggest that the IAASB undertake a close collaborative effort with national standard setters and others in order to develop the implementation material on a timely and cost effective basis.

*Group Audits*

We believe that implementation concerns in relation to the application of ISA 600 should be addressed as a matter of priority, including:

- The use of shared service centers by a group and its effects on the group audit
- The nature and extent of the group auditor's involvement in the work of component auditors
- The application of ISA 600 in particular circumstances, including when the engagement partner is at a different location from where the majority of the audit is performed, as well as funds of funds
- The approach to material equity investments (including consideration of whether these investments should be out of scope for ISA 600 due to legal issues with access to information or to component auditors in a number of jurisdictions)
- The sufficiency and appropriateness of audit documentation in the group auditor's workpapers in relation to the work performed by component auditors

We also have identified the following projects that have not been included in the Proposed Work Program that we believe merit consideration by the IAASB.

*Information Technology*

The increasing use of technology within entities (e.g., cloud computing, sophisticated integrated IT systems, etc.) as well as shared service center operations and external cross-border service organizations can affect how financial information is generated and shared, as well as the financial reporting process. In addition, the availability of entity documentation is often limited to electronic formats. All of this affects how audits are planned and conducted, including the nature and reliability of audit evidence. We believe that the IAASB should determine whether the current standards are “fit for purpose” for performing financial statement audits in this increasingly complex and information technology-reliant global business environment, including giving consideration to whether the development of an IT-specific ISA may be appropriate.

*Comfort letters to underwriters*

We are seeing an ever-increasing flow of capital across geographic borders, as many entities are sourcing capital in multiple geographic markets, resulting in multiple geographic listings. As markets are becoming global, underwriters are increasingly making requests of auditors for comfort letters in connection with securities transactions. For those reasons, we believe it would be in the public interest to have a baseline standard reflecting the procedures to be performed and appropriate reporting by auditors. Although securities laws and regulations, and auditor involvement with prospectuses, may vary across jurisdictions, we believe that it is possible to develop a global framework for the provision of comfort letters to underwriters. A standard covering the general principles underlying a comfort letter would greatly assist auditors, especially those auditors in emerging economies.

*Data analysis*

As the use of information technology in the global business environment is increasing, the auditor is increasingly able to use more sophisticated tools and techniques to perform potentially more effective risk assessments, as well as potentially performing more effective audit procedures by focusing on specific transactions (or classes of transactions) or by further exploring identified anomalies in the data. In addition, audit procedures can be applied to much larger populations of data and, in some instances, may be an alternative to existing or traditional sampling techniques. For those reasons, we believe that the IAASB should consider developing an ISA covering more current aspects of data analysis, including the nature, relevance and reliability of the resulting information to be used as audit evidence, as well as the auditor’s work and documentation effort in that area.

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We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Karen M. Golz, Global Vice Chair, Global Professional Practice ([karen.golz@eyg.ey.com](mailto:karen.golz@eyg.ey.com)).

Yours sincerely,

*Ernst + Young Global Limited*