

4 April 2014

Mr. James Gunn  
Technical Director  
International Auditing and Assurance Standards  
Board  
529 Fifth Avenue, 6th Floor  
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USA

by electronic submission

Dear James,

**Re: Consultation Paper – The IAASB’s Proposed Strategy for 2015-2019; The IAASB’s Proposed Work Program for 2015-2016**

We would like to thank you for the opportunity to provide the International Auditing and Assurance Standards Board (IAASB) with our comments on “The IAASB’s Proposed Strategy for 2015-2019; The IAASB’s Proposed Work Program for 2015-2019” (hereinafter referred to as “the strategy” and “the work program”, respectively). We submit our comments and responses to the questions posed in the Consultation Paper below.

**General Comments**

*Length of the Strategy Cycle*

We agree with the IAASB’s intention to change the period for its future strategy from three years to five years because the production cycle for most IAASB pronouncements in important areas exceeds three years. It is therefore not helpful to develop a strategy with a short-term planning horizon. However, we believe that the IAASB also needs to have a long-term strategy (of say, at least ten years) to provide a benchmark for longer term projects in assurance and related services (e.g., a conceptual framework). We also agree that a work program ought to cover a two year period and be updated annually, but such a work program also ought to cover those projects with a production cycle of more than two years.

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### *Credibility of the Board*

We note that in paragraph 11 of the Consultation, the IAASB states: “The most significant strategic issue facing the IAASB is how to ensure continued credibility and confidence in its work as a global standard setter.....” This is not appropriately reflected in the proposed strategy. In this context, we would like to raise three concerns.

First, we believe that the IAASB will need to develop a mechanism to address the continued pressure from regulators and audit oversight authorities towards rules-based standards to facilitate formal enforcement, even if this is not necessarily conducive to high-quality audits (this is important because the IAASB will need to be vigilant in resisting inappropriate pressures in this respect). Ultimately, rules-based standards provide greater opportunity for circumvention and for formal, rather than substantive, compliance and will not lead to credible standards in the long run. In this respect, we note the reference in paragraph 17 to having the IAASB perform outreach and to liaise with audit inspection groups to understand their expectations regarding IAASB standards and activities. When engaging in such liaison, the IAASB must remain cognizant of the fact that audit inspection groups are interest groups that often have an interest in reducing the complexity and judgment required to perform their inspection activities.

Second, although we understand the desire to respond to demands for the IAASB to address issues such as professional skepticism as a matter of urgency, we believe that the fundamental nature of such issues means that they need to be fully debated and addressed within a longer term project of broader scope than depicted in the work program. Questions can also be raised as to whether behavioral matters such as professional skepticism can be appropriately addressed through standards. In any case, such matters cannot be properly addressed without dealing with other fundamental issues, such as evidence, assurance and risk. We also refer to our responses to questions raised in respect of the work program, where we explain our concerns in more detail.

Third, we recognize the role of the IAASB to promote global stability, as discussed in the Consultation. However, we are also concerned that both the strategy and the work program concentrate overly on the audit of historical financial statements and liaison with parties primarily interested in the ISAs. In our view, the IAASB ought, in the near future, to devote a significantly larger proportion of its resources and its time on services other than audit, because audit is a mature service without growth potential, even if it remains important

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for the global economy. Other assurance and related services will have more growth potential, and unless the IAASB is seen to being proactive in this area, it will lose its pre-eminence in this area to other, less-qualified, standard setters that do not actively seek to fulfill the IAASB's public interest mandate. In this context we also refer to our detailed comments in the responses to the questions below.

## **Responses to Questions Posed in the Consultation Paper**

### **Proposed Strategy for 2015-2019**

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

We refer to our general comments concerning the significant strategic issue the IAASB identified in paragraph 11 of the Consultation, which we believe ought to feature in the proposed strategy. We also question why the emphasis on quality of the IAASB's standards is not extended beyond the ISAs.

In addition, as explained in our general comments above, we believe that the IAASB also needs to have a long-term strategy (of say, at least ten years) to provide a benchmark for longer term projects in assurance and related services (e.g., a conceptual framework).

With respect to the first strategic objective "Develop and Maintain High-Quality ISAs that are Accepted as the Basis for High-Quality Financial Statement Audits", we note the use of the term "develop". We are not convinced that developing new ISAs will likely be an area of activity of the IAASB for the near future because the ISAs currently represent a comprehensive set of standards. For this reason, the focus should be on maintaining the quality of those standards given the changing environment. We therefore suggest that the words "Develop and" be deleted from the strategic objective.

#### ***(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.***

In relation to audit the factors identified appear reasonable. These factors do, however, appear to be primarily driven by regulatory interests, as opposed to the interests of the profession and its clients and users. For example, potential clients' and users' changing needs outside audit are not given due

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consideration. We suggest the criteria be made more specific, since we are not convinced that the notion of “perceived urgency in the public interest of the need for change..... and the impact on businesses of all sizes”, is too vague and does not provide a basis for determining what the public interest is in the context of the IAASB’s work program.

In particular, in relation to assurance and related services, we believe that the following key issues, trends and developments in the current global environment ought to significantly influence the IAASB strategy for the period from 2015 – 2019 (with the reasons therefore provided in square brackets):

- The increasing demand for assurance and related services beyond audits of financial statements [this is important because standards are required to provide the basis for high-quality products in this area]
- The continued pressure from regulators and audit oversight authorities towards rules-based standards to facilitate formal enforcement, even if it is not necessarily conducive to high-quality audits [this is important because the IAASB will need to be vigilant in resisting inappropriate pressures in this respect]
- The increasing difficulty that SMPs have in applying increasingly complex standards [this is important because if the standards cannot be applied by SMPs, then IAASB standards will fail to have an impact on a large part of the market for assurance and related services]
- Regional (e.g., EU vs. North America) and national regulatory pressure for regional or national solutions to issues in relation to assurance and related services [this is important because differing regional or national solutions, often buttressed by local law or regulation, serve to undermine global solutions that would need to be provided by the IAASB]
- The increasing difficulty in obtaining sufficient appropriate evidence when information subject to assurance, its processing (such as the use of cloud computing) or the business processes themselves are outsourced [since the inability to obtain sufficient appropriate evidence undermines obtaining the needed evidence].

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**Proposed Work Program for 2015-2019**

***(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.***

In our opinion, although certain projects may lend themselves to relatively concentrated work schedules permitting the achievement of relatively speedy completion – as the IAASB has demonstrated in its ongoing work on auditor reporting – this is not necessarily the case for all issues with which the IAASB needs to deal. Some matters may require considerable preliminary research, either by IAASB staff or by specific task forces, to provide a basis for informed deliberation by the IAASB. In other cases, e.g., developing responses to practical issues, such as those highlighted by the ISA implementation monitoring project, such research may not be needed. We note the statement in Appendix 1 “The Work Program for 2015-2019 includes time to allow for research activities, education sessions to further inform the IAASB’s debates, outreach and direct interaction with interested stakeholders and development of communications relating to individual projects,” – it would have been helpful if the work program included an assessment of the nature of extent of these activities needed for each of the three key topics identified.

Furthermore, as noted in our general comments above, we agree that a work program ought to cover a two-year period and be updated annually, but such a work program also ought to cover those projects with a production cycle of more than two years. We also believe that the IAASB needs to have a long-term strategy (of say, at least ten years) to provide a benchmark for longer term projects in assurance and related services (e.g., a conceptual framework). In our opinion, the work on professional skepticism is one such matter, which – provided it is dealt with in appropriate depth – is unlikely to be fully completed by 2017. We comment in further detail on this specific topic in responding to the next 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.***

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### General Comments on the Appropriateness of the Topics on the Work Program

We do not believe that all of the projects chosen serve to address the strategic objectives appropriately. Specifically, we are concerned that the second part of the objective is unlikely to be addressed because of the limited nature of the work program regarding the IAASB's standards for services other than audit. In other words, we believe the work program is overly audit-centric. Furthermore, by singling out engagement quality control reviews and using the work of a specialist vs. using the work of an auditor's expert – all of which the IAASB highlights as being regulators' concerns – the IAASB appears to be placing more weight on regulator concerns than on those of other stakeholders.

As of the end of 2014, the auditor reporting project will likely have been completed. This project will cause major changes in auditor reporting that need to be digested by practitioners, firms and users. For this reason, auditing standards should not be subject to change to the extent possible so that they represent a stable platform for a number of years. The exception to this relates to the results of the implementation monitoring project for the ISAs. A number of key standards were identified in the project as potentially requiring limited improvements. On this basis, the new projects emanating from the ISA implementation project should be limited to that necessary, but need to be significant enough to reflect the IAASB's responsiveness to the issues identified.

As noted, other assurance and related services are becoming increasingly important, such that significantly more of the IAASB's effort ought to be expended on this area than is proposed in the work program. Furthermore, we also believe that additional focus should be given to updating the assurance framework and the need for requirements or guidance for direct engagements.

### Comments by Key Topic

#### Quality control

We believe that the proposed revision of requirements and guidance addressing engagement quality control reviews reflects regulators' preoccupation with ex-post controls (i.e., detective and corrective controls, rather than preventive controls). A far more effective and efficient approach would be to seek to improved quality control "at the coal face" – that is, in those controls over the conditions under which engagements are carried out (recruiting and training the right individuals, engagement acceptance, competence of engagement teams,

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assignment of team members, adequacy of resources, etc.) and in the engagement process itself so that the engagement is “done right” the first time.

It is also not clear to us why regulators appear to believe that there is a lack of clarity between a specialist and an auditor’s expert: when an individual has expertise in matters other than in accounting or auditing (and by implication is not competent in accounting or auditing), then that individual cannot be a specialist, but is an expert as defined in ISA 620. It appears to us that the issue is not one of lack of clarity, but rather that regulators might desire to have the requirements of ISA 620 apply to specialists, even though ISA 620 is designed to apply to only individuals or organizations that might be difficult to integrate into an audit team because they are not competent in accounting or auditing. In this respect, before commencing the project, the IAASB should investigate what the underlying reasons for regulator concerns are and whether in fact they might be ill-founded.

Many SMPs have difficulty applying ISQC 1 in a proportionate manner because ISQC 1 is neither written in a risk-based nor “think small first” manner, and the application material does not provide much guidance for SMP issues. Although the staff paper did provide some assistance to SMPs in this matter, such a paper cannot alleviate the weaknesses originating in the underlying standard. For this reason, we suggest that a project needs to be commenced to revise ISQC 1 as a whole. Our concern is that both paragraph 23 and Table A indicate that the IAASB is only currently considering further guidance in this regard. The primary focus should be on revising ISQC 1 to ensure each of the requirements is written on a “think small first” basis and to provide more guidance both on proportionate application and for its application to services that are not audits of historical financial statements. We also believe that ISQC 1 should be revised so as to require practitioners to adopt a more risk-based approach than is currently the case.

### Professional Skepticism

The identified “possible/expected outcomes” in Table A of the Work Program seem to us to be overly restrictive and serve to pre-empt the results of this project, as they imply that only a few isolated changes to specific ISAs (with emphasis on additional guidance) will be needed to address demands for the IAASB to work towards enhancing the use of professional skepticism by auditors. As we pointed out in our general comments above, some behavioral aspects of auditing cannot be addressed through standards, and projects on fundamental issues (including professional skepticism) should not be undertaken piecemeal: it should be recognized that there needs to be an

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internally consistent conceptual foundation for the concepts underlying assurance engagements and that these interact (professional skepticism, assurance, risk, evidence, professional judgment, etc.). We therefore do not support piecemeal projects on conceptual matters such as professional skepticism, but would support the commencement of a very long-term project on a conceptual framework.

#### *Special Audit Considerations Relevant to Financial Institutions*

We do not support the concept of industry-specific ISAs because the suite of ISAs should be sufficiently principles-based to enable auditors to deal with all audits of historical financial statements. It would also lead to calls for additional standards for audits of financial statements for other industries. Appropriate risk assessments should lead to the effective audits of financial statements of financial institutions. Where there is a need for additional guidance specific to a particular industry to support requirements across the suite of ISAs, an IAPN would be the appropriate guidance medium. However, we note that the development of IAPN 1000 led to the conclusion that ISA 540 could be strengthened – in particular with respect to the use of third-party pricing services. However, this would apply not only to financial institutions.

#### *Comments on Other Activities*

##### *Monitoring the INFO Working Group*

We agree that this activity will be needed on an ongoing basis. This is not an activity that, of itself, is likely to require significant staff resources or Board time. Achieving a timely and unbiased analysis of significant global developments for Board deliberation about future action will be a key to the success of this activity.

##### *Auditor Reporting: Adoption and Implementation*

We agree that the IAASB needs to monitor adoption and implementation of the revised and new auditor reporting standards once they are being applied in practice. This will enable the IAASB to amend these standards or take other further action, if needed.

However, moving beyond the 2015-2016 timeframe, we do not believe that IAASB resources should be devoted to material beyond staff guidance material dealing with questions that commonly arise. The preparation of training material

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– as noted as a possible/expected outcome on the work program – is, in our view, not within the remit of the IAASB, and would likely require considerable staff resources at the expense of standard setting. In our view, the preparation training material is within the remit of IFAC member bodies. Those countries that are not in a position to create their own material can use that developed by other IFAC member bodies.

*Development of a Process for Post-Implementation Reviews of the IAASB's Other Assurance and Related Services Standards*

In our view, including the “Process to be implemented in 2017 and beyond” as a possible/expected outcome for this activity is not necessarily helpful. As we note in our general comments above, other assurance and related services are becoming increasingly important. For this reason, we believe that a greater portion of the IAASB's effort ought to be expended on the revision of specific standards within the IAASB's other assurance and related services standards.

In particular, although the review standard ISRE 2400 was recently issued, ISRE 2410 has not yet been subject to clarification and is not aligned with ISRE 2400. For this reason, a project needs to be commenced to clarify and update ISRE 2410 (or to integrate it into ISRE 2400, as the case may be). Furthermore, the IAASB should monitor the implementation of ISRE 2400 to determine whether the application of the standard causes any problems in practice. For this reason, part of the IAASB's effort should be related to reviews of historical financial information.

We also note that ISAE 3400 for prospective financial information has neither been clarified nor updated since 1994! Prospective information is increasingly being subjected to assurance. For these reasons, a project on updating and clarifying ISAE 3400 needs to be commenced as soon as possible. However, such a project should be driven by voluntary engagements rather than those driven by regulatory requirements in individual jurisdictions.

In addition, ISRS 4400 for agreed-upon-procedures engagements, which is a basic standard that practitioners often use in practice, has neither been clarified nor revised since 1994! We believe that this should be a priority project for the IAASB because this standard is used in practice internationally – both by large and small firms. There are, however, many issues that arise from the application of that standard that could be the subject of a revision. The IAASB should also monitor the implementation of ISRS 4410. On this basis, we believe that a part of the IAASB's effort should be expended on related services.

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Activities to Support the Use of the IAASB's Framework for Audit Quality

We agree that there is a need to raise awareness of the IAASB's Framework for Audit Quality. Various stakeholders will benefit from various parts thereof, such that it might be appropriate to piece together specific content and packaging this to meet specific needs of particular users. For example, a guide directed towards those charged with governance that deals with the factors that may influence audit quality would potentially be helpful in auditor selection decisions. We believe that this is not an activity that, of itself, is likely to require significant staff resources or Board time.

***(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 noted above, we believe that the revision of ISRS 4400, ISRE 2410 and ISAE 3400 are topics in Appendix 1 that should be accorded higher priority.

We also believe that the wide range of fundamental issues that the IAASB is being asked to address piecemeal (professional skepticism, professional judgment and its documentation, audit quality, inherent limitations and added value of assurance, etc.) means that the IAASB needs to take a systematic look at fundamental issues by recognizing the interrelationship between them. This suggests commencing a long-term project on a conceptual framework (which we had suggested in 2004). Reconsideration of the assurance framework is also important because it is a prerequisite to any further development of requirements and guidance on direct assurance engagements: this has become more important due to the non-inclusion of the proposed requirements and guidance on those engagements in ISAE 3000 (Revised). However, a prerequisite for such an activity may be the establishment of educational sessions for the IAASB so that its members are in a position to understand the fundamental concepts currently underlying the Framework in this respect.

The nature of financial and other reporting is changing such that many different kinds of information are being placed into the same reports or reflect “blended” information (e.g., historical financial information together with future-oriented financial information or non-financial information, such as in integrated

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reporting). This means that so-called hybrid engagements have become increasingly important. We understand that a number of standards setters (e.g., the AICPA, as well as the IDW) have commenced projects to study the problems in these area. In this respect, initiatives in relation to assurance on real-time information (perhaps through “continuous auditing”) need to be considered in the longer term.

***(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.***

In our opinion, the due process established by the IAASB to govern the development of its standards is one of its strengths that needs to be maintained to safeguard the acceptability of those standards. In so far as particular aspects of these pronouncements need to be pulled together in a form that may be helpful to practitioners, staff papers may be an appropriate vehicle.

Consequently, we would not be in favor of a weakening of the due process to speed the issuance of standards, and would therefore urge the IAASB to maintain its due process in this respect when faced with calls from particular stakeholder factions to cut short the due process. We refer to our responses to the question concerning the suitability of factors for identifying potential actions.

In addition, as we have commented above, we believe that projects that by their nature have to be classified as longer term projects ought to feature on the work program so that preliminary work can commence.

We hope that you find our comments useful and would be very pleased if you were to contact us with any further questions or need for clarification that you may have.

Yours truly,



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