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Submitted via e-mail to:
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Posted as comment on:
www.ifac.org

26 March 2014

Ref.: AUD/AKI/HBL/NRO/HBU/EBL

Dear Mr. Gunn,

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

As the representative organisation of the European accountancy profession, FEE¹ is pleased to provide you with its comments on the Consultation Paper 'IAASB's Proposed Strategy for 2015-2019, and Proposed Work Program for 2015-2016'.

This letter includes our responses to the questions posed in the Consultation Paper, together with suggestions on potential further enhancements of the proposed Strategy and Work Program.

Main Comment

New Pieces of Legislation will set the Agenda in the European Union (EU) and beyond

Reference is made to the expected European legislation on audit policy, the outcome of which is now relatively clear. Implementation of this package of legislation will significantly influence and shape the audit profession in Europe and beyond over the coming years.

¹ FEE (Fédération des Experts comptables Européens - Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 48 institutes of professional accountants and auditors from 36 European countries, including all of the 28 European Union (EU) Member States.

FEE has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE very much appreciates that the IAASB was present on the European scene in the course of the deliberations on these legislative texts. However, in order for the IAASB's work to remain relevant to the European audit profession, FEE believes it is essential that the IAASB continues to be involved in the debates on the implementation of the new Audit Directive and Regulation and duly consider how this impacts its own Strategy and Work Program, especially in relation to ISA adoption and auditor reporting in the EU.

Other Comments and Responses to Questions on the Proposed Strategy for 2015-2019

Providing that a degree of flexibility is maintained, FEE agrees that the communication of a longer term strategy is desirable. This approach will benefit both the IAASB and its stakeholders by enabling the Board to provide valuable insight into how standards and guidance are expected to be developed, whilst at the same time acknowledging that certain aspects may alter due to changing external factors.

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

FEE is in overall agreement with the headline strategic objectives proposed by the IAASB. However, we do have observations and suggestions to make the objectives clearer and more appropriate:

- (i) FEE advocates developing additional standards only if they are absolutely required. With this in mind, we suggest changing the first objective to: **'Maintain, and develop if necessary, High-Quality ISAs that Are Accepted as the Basis for High-Quality Financial Statement Audits'**;
- (ii) The accompanying description of the second objective, as noted in paragraphs 20 to 27 of the Consultation Paper, involves the completion of significant implementation reviews and the challenge of reacting to changes in the business environment, as well as the way in which audits and reviews are carried out. The significant challenge of considering the need for standards in relation to engagements other than audit and reviews that are relevant to both large and small entities is also referred to. This is a challenging portfolio and FEE is concerned that the individually important components of this objective may be obscured by the wording of the second objective. We recommend the wording is expanded to capture all the significant challenges that the Board is striving to meet as the IAASB must further demonstrate its ambition in this area.
- (iii) The third objective is in many ways a process rather than an objective; however, given that the IAASB has to promote a holistic approach, we do consider its inclusion critical.

FEE supports the IAASB in placing greater emphasis on dialogue with other stakeholders in its strategy and in being more nimble and adaptive about this consultation. Nevertheless, the IAASB would need to maintain the right balance in discussing with a variety of different stakeholders and be careful not to compromise its own independence by appearing to be “pressured” by particular partners. To do otherwise would risk becoming less and less relevant. This is especially true in addressing the real needs of smaller entities; the IAASB should not lose sight of this part of the market.

FEE acknowledges that it is inevitable that the aims, objectives and priorities of relevant stakeholders will not be homogeneous. Many will not coincide with the strategic priorities of the IAASB.

Last but not least and linked to the second and third strategic objectives, the issue of non-financial information reporting continues to grow in importance. In this framework, we would like to suggest that the IAASB revise its third strategic objective to cover the ‘corporate reporting supply chain’ as opposed to the ‘financial reporting supply chain’.

(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. Some of these factors do, however, appear to be primarily driven by regulators’ interests, as opposed to the interests of the profession and its clients. For example, potential clients’ changing needs, especially in the SME sector, are not given due consideration. We suggest the criteria be made more specific, since we are not convinced that the notion of “*the perceived urgency in the public interest of the need for change [...] and the impact on businesses of all sizes*” appropriately reflects these aspects.

Other Comments and Responses to Questions on the Proposed Work Program for 2015–2016

(c) 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 resources are both limited and fixed, focusing on fewer key projects is likely to achieve the best outcome. Nevertheless, it is critical to understand that if this concentration is at the expense of a comprehensive approach, the IAASB will simply not achieve the timetable that it has set for itself. In addition, this enhanced concentration may be appropriate for some types of projects, but not necessarily for all, especially those that require more fundamental thinking and research to allow opinions to mature over time.

FEE is aware of the IAASB's extensive and valuable due process, as well as its staff constraints. However, stakeholders would be best served by an acceleration of the finalisation of current projects and a kick off of some projects earlier than planned, such as:

- (iv) Some of the projects that were included in the IAASB findings from the post-implementation review²:
 - i. ISA 315: additional guidance on this standard may 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.
 - ii. ISA 600: the IAASB might consider an earlier review of ISA 600 on Group Audits on the basis that this was the area that the European Commission highlighted as a weakness; and
- (v) Most importantly ISRS 4400: this standard is dated, not clarified and yet is frequently used e.g. as a vehicle for comfort letters. In addition, from a European perspective, this standard is the basis for a large number of assignments linked to the certification of financial statements and methodology of EU funds and grants schemes.

(d) 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.

ISQC 1

FEE welcomes the fact that the IAASB is embracing the project regarding ISQC 1, although we do have significant reservations regarding the proposed extent of the project. Currently, the Consultation Paper refers to “consideration” – and in particular “consideration of the need for further guidance to explain the applicability of ISQC 1” – which suggests a rather superficial review.

FEE believes that the entire ISQC 1 standard would need to be fully examined, including an analysis of the proportionality of guidance as more flexibility regarding the audit of non-Public Interest Entities (PIEs) is needed. A ‘think small first approach’ could be taken to result in an appropriate risk-based quality control mechanism. We believe that the current

² <https://www.ifac.org/sites/default/files/publications/files/Implementation-Review-of-the-Clarified-ISAs.pdf>

standard poses unnecessary challenges for Small and Medium Practices (SMPs) to implement and has a disproportionate impact on firms providing review engagements. In that context, the proposed work in relation to ISQC 1 seems too restrictive.

Last but not least, from a European perspective, reference is made to Articles 24.a and 24.b in the expected EU new Statutory Audit Directive which respectively deal with the 'Internal organisation of statutory auditors and audit firms' and the 'Organisation of the work'³. We suggest a review of ISQC 1 in light of these imminent legal stipulations on internal quality control in the EU. This would help in enhancing the consistency and interaction between international standards and EU legislation.

Special audit considerations relevant to financial institutions

Other relevant organisations like the Basel Committee are already working on this topic. Therefore, neglecting this issue would result in the Board not meeting stakeholders' needs.

Additionally, the audit of financial institutions is highly regulated at national level and FEE is therefore not supportive of such industry-specific audit guidance to be addressed within the suite of ISAs. In general terms, the IAASB might not always be well equipped with the right expertise to tackle such industry-specific issues. FEE would rather welcome individual industry specific International Auditing Practice Notes (IAPNs).

Professional scepticism

Professional scepticism is a critical topic for the auditing environment to address and as such FEE welcomes the Board prioritising this topic. However, we caution against producing abstract or theoretical literature or making quick-fix changes to individual ISAs. This issue should be reconsidered in full and addressed thoroughly. Conversely, more practical guidance, or training material, on applying professional scepticism will be valuable and well-received. Finally, with respect to scepticism, this issue applies to a wider audience than just auditors. Therefore, we suggest that the IAASB, IAESB or IFAC consider this as a matter for guidance for all professional accountants.

Also, scepticism is not a concept that can be considered in a vacuum. Its relationship with the fundamental principles of the IESBA Code of Ethics and concepts such as reasonable assurance and sufficient appropriate evidence are also critical and should form part of the Board's conceptual thinking.

³ Most recent legal text accessible at :
[http://www.europarl.europa.eu/meetdocs/2009_2014/documents/juri/dv/2011_0389\(cod\)/2011_0389\(cod\)_en.pdf](http://www.europarl.europa.eu/meetdocs/2009_2014/documents/juri/dv/2011_0389(cod)/2011_0389(cod)_en.pdf)

- (e) 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.**

Standards relating to services beyond financial statements

In general, there is a need to revise older standards relating to services beyond financial statement audits – e.g., ISRS 4400, ISRE 2410 or ISAE 3400. The Work Program is heavily ‘audit centric’ and does not appear to accord the appropriate weight to these other IAASB standards. This is especially an issue for SMEs; it also reflects the need for balance in addressing stakeholder needs.

Proportionality in application

In relation to the adoption of high-quality standards such as ISAs and ISQC 1, an overriding issue for SMEs and SMPs continues to be proportionality, and more specifically proportionality of both documentation and certain quality control requirements; this is a critical issue that cannot be ignored. There is a need to further demonstrate that proportionate documentation is possible and acceptable for quality assurance or inspection purposes, or for public oversight bodies in general terms.

FEE very much believes that the issue of proportionality should be addressed as a major issue and also highlighted as a relevant topic in the discussions between the IAASB and IFIAR.

Use of information technology

One of the most critical factors for the future of audit and assurance is the most effective use of information technology (IT) in carrying out the audit. IT has had, has and will continue to have a huge impact on our work. The so-called ‘Big Data technologies’ will likely be revolutionary for the audit profession: automation of data reconciliation, of audit sampling and testing, complex recalculations etc. will be used more and more in the future. IT development, increased complexity of our society and businesses should be seen as development opportunities for auditors, but can very easily become threats. Even if this issue is touched upon in paragraph 21 under the third strategic objective, the IAASB might want to develop more initiatives in this area.

- (f) 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.**

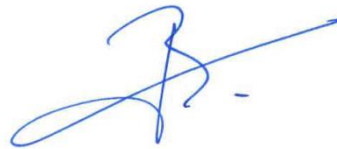
IAASB's demanding due process in developing standards is a strength as far as the quality of the final standards is concerned. At times, however, this could be seen as a detriment to the timeliness in delivery. Therefore, FEE would like to invite the IAASB to reflect on other potential forms of output than standards and pronouncements that need to go through the due process. For example, non-authoritative pronouncements would require a different level of application of the due process.

For further information on this FEE letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be, or Noémi Robert at +32 2 285 40 80 or via email at noemi.robert@fee.be.

Yours sincerely,



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