

April 7, 2014

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

Dear Mr. Gunn,

Deloitte Touche Tohmatsu Limited (DTTL) appreciates the opportunity to provide comments on the International Auditing and Assurance Standards Board (“IAASB” or the “Board”) Consultation Paper, *The IAASB’s Proposed Strategy for 2015-2019 and the IAASB’s Proposed Work Program for 2015-2016* (the “Proposed Strategy,” the “Proposed Work Program” or collectively, the “Consultation Paper”).

OVERALL COMMENTS AND PROPOSED STRATEGY

DTTL is supportive of the IAASB’s actions to define its forward strategic direction and work plan. DTTL commends the IAASB for its decision to separate its five-year strategy from its two-year work program, as set forth in the Consultation Paper. This separation enables stakeholders in the IAASB’s standard-setting activities to focus on the current key projects and understand how these projects interact with others identified within the context of the overall strategy and project framework.

DTTL believes that the following three strategic objectives to be adopted for 2015-2019 as set forth in the Proposed Strategy are relevant and provide an appropriate and sound foundation for the development of ongoing work programs:

- Develop and maintain high-quality ISAs that are accepted as the basis for high-quality financial statement audits.
- Ensure the IAASB’s suite of standards continues to be relevant in a changing world by responding to stakeholder needs.
- Collaborate and cooperate with contributors to the financial reporting supply chain to foster audit quality and stay informed.

By ensuring that any initiatives pursued by the Board as part of the ongoing work programs adhere to the guiding strategic objectives, DTTL believes that the IAASB will position itself to continue to remain credible as well as engender confidence in its work as a global standard setter. The factors identified by the Board in Appendix 2 of the Consultation Paper that have assisted in refining the Proposed Work Program are appropriate; however, DTTL believes that primary focus should be placed on (a) the *perceived urgency in the public interest* of the *need for change*, and the potential implications if action is delayed, and (b) the degree to which an identified issue would be best addressed effectively *through change to the standards* or *through other appropriate action* by the IAASB.

DTTL recognizes that the IAASB has formalized due processes that it adheres to when developing standards in order to protect the public interest, and that these mechanisms are designed to result in auditing standards that further audit quality and have global applicability and acceptance. However, DTTL believes that the time taken to follow due process to develop a new standard or revise an

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existing standard needs to be balanced with the desire and need to issue timely guidance in a capital market environment where the investor community is faced with rapidly evolving topical and industry-specific issues that may require a more prompt global response. There may be a more rapid response available, and which response may also comprise an interim step in a more formal standard-setting project. DTTL recognizes that the Board is currently considering avenues to provide more timely guidance and encourages the Board to continue to pursue potential means of doing so.

In addition to helping auditors address urgent audit issues on a timely basis, IAASB implementation guidance may also help to facilitate consistency in the approach being applied to prevailing audit issues. In order to maximize the efficiency of the information-gathering or research aspects of its projects, DTTL also encourages the IAASB to continue to explore ways to optimize leveraging the experiences of the auditing firms as they relate to new challenges or implementation issues. DTTL notes that a number of the projects identified in the Consultation Paper (including items highlighted in the Proposed Work Program) are consistent with matters highlighted by the International Forum of Independent Audit Regulators (“IFIAR”) in its 2012 Summary Report of Inspection Findings as common audit findings among its members (i.e., professional skepticism, group audits, revenue recognition, and the role of the engagement quality control reviewer), and, accordingly, the auditing firms are also taking actions to understand the root causes of these issues and to address them. DTTL also notes that by the Board keeping itself informed about the issues that auditing firms are experiencing and the related actions that the firms are undertaking to address them, the Board will also be provided with opportunities to better understand evolving trends and advances in auditing techniques, including the use of technology tools. In turn, the Board will then be well positioned to consider the effect of such trends and use of technology tools on its standards, and assess the need for any changes.

PROPOSED WORK PROGRAM

In reading and considering the listing of proposed priorities and actions for 2015-2016 included in the Proposed Work Program, DTTL notes that the IAASB is proposing to devote substantial resources to three topics: *Special Audit Considerations Relating to Financial Institutions*, *Quality Control*, and *Professional Skepticism*. Considering the stated resource constraints of the IAASB, it is imperative that the projects identified to be undertaken, as proposed for the 2015-2016 timeframe, are appropriate and achieve the objective of addressing the needs of the stakeholders. Focusing on fewer key projects with the aim of completing them on a timelier basis also appears to be a valid approach, and one of which DTTL would be supportive.

DTTL offers the following perspectives and suggestions relating to the topics reflected on the Proposed Work Program:

- *Special Audit Considerations Relating to Financial Institutions*: DTTL understands the importance of strong financial systems and the need for a robust regulatory infrastructure to support financial stability. DTTL further appreciates the important role that high-quality audits of financial institutions have within a regulatory infrastructure, and, accordingly, is supportive of the IAASB’s proposal to prioritize taking action to address auditing issues of particular significance in audits of banks or other financial institutions and use of fair value accounting and related estimates by these entities.
- *Quality Control and Professional Skepticism*: DTTL also recognizes calls for the IAASB to undertake proposed projects related to Quality Control and Professional Skepticism, and agrees that these are fundamentally important topics and, unquestionably, that IAASB efforts in these areas would enhance the IAASB’s auditing and quality control standards. DTTL notes the IFIAR observations in the above-mentioned report relating to the role of engagement quality control reviewers and agrees that more specific guidance around the role

and the related documentation would be of value. However, DTTL questions whether these topics meet the “urgency” factor referred to above (and discussed in the Consultation Paper), especially when considered in relation to some of the other topics highlighted in the Consultation Paper. Further, the project relating to Professional Skepticism may be an area where DTTL believes the IAASB could explore alternative ways to demonstrate how professional skepticism might be demonstrated in applying the requirements of the ISAs, e.g., through the development of practical (non-authoritative) guidance, including examples of what “professional skepticism looks like in practice.” DTTL believes that the work performed by the Standards Working Group of the Global Public Policy Committee with regards to Professional Skepticism would provide important and relevant input to the IAASB in developing its response to this topic¹.

- *Other projects that might be prioritized:* DTTL notes that there are other standards where significant implementation challenges currently exist (highlighted by the Board’s ISA Implementation Monitoring Efforts and IFIAR, and consistent with the experiences of DTTL practitioners). These standards include those identified in the Consultation Paper as possible future projects and projects where the Board will commence preliminary activities to identify and understand the issues in the nearer term. DTTL recommends that the Board consider and explore ways to accelerate progress in understanding the challenges and developing solutions (which might include revisions to the standards, but may also involve additional implementation guidance as an interim step).
 - In particular, DTTL believes that it would be in the public interest for the IAASB to prioritize efforts relating to ISA 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)* (“ISA 600”), and ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* (“ISA 315”). The IAASB in its *Clarified International Standards on Auditing — Findings from the Post-Implementation Review* (“ISA Post-Implementation Review”) identified both ISA 600 and ISA 315 as “key themes” or areas where changes are likely to have the greatest potential for improving audit quality. Implementation of ISA 600 is also an area that has been discussed by IFIAR, and has been identified as a common audit finding in the 2012 global survey of inspection findings.
 - Consistent with the findings of the ISA Post-Implementation Review, DTTL also notes that in the case of ISA 315, auditors struggle in practice to apply the requirements relating to understanding internal control over financial reporting and further notes that the application guidance in the ISAs is relatively limited. There have been some significant developments in the area of internal control over financial reporting, even in the short time since ISA 315 was clarified, and which would be worthy of the IAASB’s consideration in assessing the need for prioritizing the revising and updating of ISA 315. These developments include ongoing advances in the use of information technology in all aspects of financial reporting, increased use of outsourced service providers, as well as enhancements in the internal control frameworks available to preparers to use to design and evaluate internal control over financial reporting. For example, the Committee of Sponsoring Organizations (“COSO”) recently updated its 1992 Internal Control- Integrated Framework to address significant changes in the nature of businesses and the environments within which they operate, both of which have become increasingly complex, technology-driven, and global in the last 20 years.

¹ See *Enhancing Auditor Professional Skepticism*, a thought leadership paper produced by leading academics commissioned by the Standards Working Group of the Global Public Policy Committee of the six largest global accounting networks; published November 2013.

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Furthermore, within the context of Proposed ISA 701 (Revised), *Communicating Key Audit Matters in the Independent Auditor's Report*, and the proposed relationship between key audit matters and significant risks, the understandability and application of ISA 315, including consistent identification of significant risks, will become increasingly important.

DTTL appreciates the opportunity to provide perspectives on these important strategic initiatives and proposed work plans. DTTL would be pleased to discuss this letter with you or your staff at your convenience. If you have any questions, please contact me via email (csabater@deloitte.com) or at +1 305 372 3143.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Carlos Sabater', enclosed within a thin black rectangular border.

Carlos A. Sabater
Global Managing Director, Audit & Enterprise Risk Services
Deloitte Touche Tohmatsu Limited