

## 7. SECTION III: ABOUT THE RESPONDENT

### 1. From which perspective are you providing this feedback:

The view of an organization.

**Please Indicate:**

### 2. Please complete

Name of Organization: : Institute of Chartered Accountants in England and Wales (ICAEW)

Name or Person submitting Survey on behalf of the organization: : Katharine Bagshaw

### 3. Select from the following options that describe your organization:

IFAC Member Body or Other Professional Organization

**Is this a/an:**

**Is this response on behalf of the global network?**

**Is this response on behalf of a regional or national firm?**

**Other Firm?**

### 4. IFAC Member Body or Other Professional Organization

IFAC Member Body, Affiliate or Regional Organization

**National auditing standards same as, or based on, the IAASB’s current International Standards on Auditing**

**Please specify which standards are used:**

**Other national standards same as, or based on, IAASB’s other standards (i.e., assurance, related services and reviews)**

**Please specify which standards are used:**

**Are you a listed or non-listed entity?**

**Small or Medium-Sized The concept of ‘smaller or less complex entities’ varies country by country, but ordinarily exhibits one or more of the following characteristics:Concentration of ownership and management in a small number of individuals.One or more of the following:Straightforward or uncomplicated transactions.Simple record keeping;Few lines of business and few products within business lines;Few formal internal controls; Few levels of management with responsibility for a broad range of controls; orFew personnel, many having a wide range of duties.**

**.Entity?**

**Please Indicate:**

**Do you apply International Standards of Supreme Audit Institutions (ISSAIs) for financial audits**

**Those Charged with Governance**

**Private Sector**

**Please specify in the box below.**

**Are you any of the following?**

**5. Please select the geographical region where you are based:**

Europe

**8. SECTION IV - QUESTIONS FOR RESPONDENTS ABOUT THE IAASB'S STRATEGY FOR 2020-2023**

**6. 1. In your view, will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward and what will be the impact on the IAASB's International Standards (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain, will impact the environment in which the IAASB's stakeholders operate, etc.).**

We do not envisage significant changes in the audit market in the period 2020-2023 but there are long-term undercurrents that IAASB should consider. These include the slow marginalisation of external audit as a critical assurance technology within the financial reporting supply chain because of increasingly reliable technology, the emergence of alternative forms of assurance provided by non-auditors with specialist expertise in emerging technologies, and changes in the number and characteristics of young people entering the profession, some of which is also related to technology. IAASB also needs to take account of changes in firm methodologies in response to these technological developments, and unspoken disenchantment with ever lengthier and more complex standards among SME auditors and national standard-setters. IAASB's handling of the implementation of the revised ISAs 315 and 540 in particular will be important. Simply asserting that a standard is scalable will not make it so – IAASB will have to explain what it means by that assertion and provide examples.

Our outreach suggests that active consideration needs to be given to the current role of data analytics in auditing and how and why it should be reflected in auditing standards. We acknowledge limited IAASB resources and the fast moving nature of the subject, however, the current approach on the face of it seems peculiar. References to 'automated tools and techniques' appear to have been added as an afterthought within the ISA 315 project, which seems an opportunity missed given the extent of use of these techniques in risk assessment. We therefore urge IAASB to give full consideration to the issue within the audit evidence project. We do not want to see the perceived gulf between what auditors do in practice and what auditing standards appear to say they do to grow any wider. Appearing to pretend that data analytics does not exist is more damaging at one level than issuing standards that are quickly out dated. A lack of reference in auditing standards to these techniques is inhibiting the use of the techniques in some jurisdictions because some regulators will not countenance them on the grounds that they are not mentioned. Other regulators are suspicious about auditor use of data analytics techniques and question their value.

It is not necessary to build data analytics into the core of standards - indeed no amount of doing so would turn regulators into advocates therefor – but ISAs should not effectively inhibit their use as a result of silence or inertia. And it is hard to envisage what harm would come from a discussion in the application material to a number of ISAs about the relative merits of testing the entire population, by comparison with testing a sample.

IAASB is not in the driving seat with regard to technology more generally and we no more need an ISA on how to use data analytics than we do one on how to use Excel, AI or robotics in audit. Block chain may be a different matter though as auditors will need to understand how companies use block chain technologies, and the risks associated with them. In particular, auditors will need to consider how they obtain an understanding of controls and whether it is obtained directly or indirectly through a service auditor. In terms of other audit processes, they will need to think about, for example, third party confirmations, from whom the confirmation is sought, and how the confirmation needs to be adapted.

Our outreach also indicates that there are growing threats to the continuing adoption of ISAs because of their perceived unwieldiness for smaller audits. Current changes under the heading of scalability are unlikely, of themselves, to deter active consideration of the development of a national ISA for SMEs in an increasing number of jurisdictions. Acknowledging, but not addressing the issue, and justifying that with reference to the demands of other stakeholders suggests that IAASB is prepared to relinquish its role as a standard setter for SMEs if that is the price of serving the world's capital markets. We do not believe that IAASB has to choose between the two, but it must be prepared to do something genuinely different if it is to retain its locus with SME auditors. A great deal hangs on its project on issues in related to the audit of SME/less complex audits. We are willing to provide whatever help we can with this project. We note that the current project plan states that this project may become a more substantial project in 2019 depending on Board and stakeholder views. In our view, it does need to become a more substantial project.

**1. In your view, will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward and what will be the impact on the IAASB's International Standards (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain , will impact the environment in which the IAASB's stakeholders operate, etc.). - Text Analysis**

**7. 2. Section II. Describes the additional challenges and opportunities that the IAASB has identified relating to its people, processes and technology, including possible changes that may arise from the MG consultation. In your view, as the IAASB develops its Strategy for 2020–2023, what are the:**

- (a) Key challenges and other factors that may impact the IAASB's activities and focus; and(b)**
- (b) Main opportunities for changing the way it undertakes its activities.**

***Your response may include views about the matters identified by the IAASB as set out in Section III, but any views about matters that have not been mentioned are particularly welcome.***

Continuing to serve both PIEs and SMEs

There is an existential threat to IAASB as a standard-setter for SME audits if auditors abandon smaller audits or fail to implement ISAs properly because of excessive length, complexity or documentation requirements. Several jurisdictions already use alternative standards for the audit of SMEs, more are quietly developing national standards or frameworks for SME audits because ISA audits are perceived as unworkable and/or unnecessary for SMEs.

At the same time, there are continuing pressures on IAASB to focus its efforts on ever more complex PIE audits.

We believe that IAASB can and should continue to serve both constituencies but that it must, as a matter of urgency, consider rationalising its working practices to be more agile and responsive. It must also consider new types of pronouncement to serve the very different needs of its stakeholders at both ends of the spectrum.

Opportunities for changing the way IAASB works

We agree that the Board must operate in a more strategic manner. Better use needs to be made of Board time to deal with key issues and to direct staff who need to be upskilled and better resourced. The Board currently spends too much of its time on detailed drafting. It needs to be able to act more quickly to deal with emerging issues.

Despite several reviews and reformations, the substance of IAASB's current working arrangements might

appear to be little changed from what they were twenty years ago. IAASB needs to consider both new types of pronouncement and its own due process which, while effective in many respects, are cumbersome. We believe that IAASB itself is best placed to make these changes and that changes are needed as a matter of urgency to deal with perceptions of IAASB as a body that is less effective than it should be because of organisational sclerosis and a misguided belief that essential consensus can only be built within existing structures.

The creative use of technology will render ISAs more accessible and easier to use. But we do not believe that, in the absence of substantive change to the ISAs themselves, the remediation of any deficiency in this area has the scope to change behaviour.

**8. 3. Are there specific initiatives within the stakeholder group to which you belong, or of which you are aware, that you believe the IAASB should actively monitor in light of their potential to inform the IAASB's future agenda? If so, what are they, and why do you think they are relevant to the IAASB?**

There are no specific initiatives we wish to bring to the Board's attention.

**9. THE FOCUS OF THE IAASB'S ACTIVITIES IN 2020–2023**

**9. 4. Section II illustrates that the IAASB has, and will continue to, focus a significant part of its efforts in 2015–2019 on revising and developing standards addressing the audit of historical financial information and quality control. With respect to new standard-setting projects for the period 2020–2023, in light of where you believe IAASB actions are needed and to continue to serve the public interest, in your view what proportion of effort should the IAASB allocate to each of the following? (Allocation should total 100%)**

Quality control : 10%

Audits and reviews of historical financial information : 20%

Other assurance- [EER Emerging Forms of External Reporting \(EER\) refers to emerging forms of external reporting by entities that increasingly provide non-financial information that goes beyond the traditional \(financial statement\) focus on the entity's financial position, financial; performance and impact on its financial resources.](#) engagements : 10%

Other assurance (and [related services](#) Related services pronouncements include: [ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information \(currently being revised\); ISRS 4410 \(Revised\), Compilation Engagements.](#)) - other than EER engagements : 10%

Professional skepticism : 10%

Matters relating to audits of smaller and less complex entities : 40%

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Total : 100%

**Comments:** The figures suggested above assume that the significant revisions to the core ISAs – those on risk assessment, quality control, audit evidence and group audits together with conforming amendments to other ISAs - will be close to finalisation by 2020. At that point, one of the most significant revisions to ISAs in a generation will be complete. Regulators, practitioners and indeed standard-setters themselves must step back at that point to allow the changes to take root. If they do not, poor implementation will further damage (a) the credibility of standard-setters, including national standard-setters, (b) perceptions regarding the effectiveness of audit regulation and (c) the wider value of audit, both perceived and real. Quality control and audits and reviews: as indicated in our answer to question 5 below, the percentage indicated above represent implementation and preliminary exploratory activities. Emerging forms of external reporting (EER) engagements: firms and markets will drive EER and the time may not yet be ripe for IAASB to consolidate any of these developments. Nevertheless, engagements to assure the whole annual report are being performed, as are assurance engagements relating to contracts denominated in crypto-currencies and other applications of block chain. It is important that IAASB tracks and understands these developments because they are an increasingly important part of the assurance portfolio offered by practitioners. As indicated in our answer to question 5 below, the percentage indicated above represents preliminary exploratory activities for new standards rather than primary development of new standards or

implementation activities. Other assurance and related service engagements: established forms of assurance engagements other than audits and reviews of historical financial information, together with AUP and other non-assurance engagements, are also increasingly common in firms of all sizes, particularly as the number of regulatory agencies increases. To the extent that such engagements are often jurisdiction-specific, it may not be possible to consolidate practice internationally, however, IAASB has an important role to play in providing high level guidance to help professional accountancy organisations and national standard-setters engage with regulatory agencies, to manage expectations and prevent regulatory caprice. As indicated in our answer to question 5 below, the percentage indicated above represents preliminary exploratory activities for new standards rather than primary development of new standards or implementation activities. We note in our answer to question 2 above, the need for IAASB to balance the needs of PIEs and SMEs. Regulatory concern over PIE audits extends to standard-setting and some regulators do not believe that IAASB is going far enough to meet the needs of that constituency. This was evident in comments made by the PIOB observer in respect of ISA 540 at IAASB's June meeting. And on the other hand, there is a belief elsewhere that IAASB has scaled up, but not down to deal with very the simple estimates that are a feature of all audits. The ISA 540 project is a good example of the difficulties associated with trying to accommodate both ends of the scale. We are sympathetic to regulatory concerns. ISA 540 started out as a project dealing with IFRS 9 for banks and insurance companies and there is little in the standard recently approved dealing with the complexity of expected credit losses. Nevertheless, as we note in our answer to question 2 above, we are equally concerned about the risk of a complete loss of IAASB locus in the SME audit sector. The percentage indicated above for SME audit issues covers both standard-setting and implementation activities. This anticipates that the current IAASB project on ISAs for smaller and less complex entities, for which a project proposal is scheduled in March 2019 (but which may slip to June 2019 as a result of the knock-on effect of the decision to approve all three quality control standards in December 2018), will result in activity largely in the 2020-2023 period.

**10. Please provide relative %; for each option by category to total 100%**

	(i) Developing new or revised standards	(ii) Undertaking implementation activities	(iii) Apply efforts to both
Quality control		100%	
Audits and reviews of historical financial information		100%	
Other assurance – EER engagements	100%		
Other assurance (other than EER engagements) and <a href="#">related services</a> <a href="#">Related services pronouncements include: ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (currently being revised); ISRS 4410 (Revised), Compilation Engagements.</a>	100%		

**Comments:** Quality control and audits and reviews: the percentage indicated in both cases represents implementation and preliminary exploratory activities for new standards in equal measure. EER engagements and other assurance and related service engagements: the percentage indicated in both cases represents preliminary exploratory activities for new standards rather than primary development of new standards.

**11. 6. In relation to the development of new, or the revision of extant, standards as noted in Question 5, and in keeping an open mind as to the impact of the evolving environment and the challenges and opportunities for the IAASB in 2020–2023, should the IAASB, in your view:**

- (a) Focus first on a strategic review of extant standards (for example, consider how the standards could be better structured or presented in light of evolving technologies) before prioritizing projects on new topics. Please provide an explanation for your view.

- (b) Prioritize projects on new topics (as determined by the consultation on the IAASB's future strategy and priorities). Please provide an explanation for your view.**
- (c) During implementation of the current standards under revision (i.e., those standards that currently have a committed project plan in place), consider a moratorium on developing new or other revised standards? If so, how long should such a moratorium last? Please provide an explanation for your view.**
- (d) Undertake other actions related to the development of new, or revision of extant, standards, and/or implementation support. Please describe what these actions should be and provide an explanation for your view.**

Given the scale of change in ISAs currently taking place, it would seem logical to consider a moratorium on developing new or revised standards to permit an orderly implementation phase and to allow those changes to take root, during which a strategic review of extant standards could be started, and only after that would it be sensible to start prioritizing new projects. Other than the ISAs already on IAASB's agenda for revision, we see no others that are likely to require urgent attention in the foreseeable future. It would make sense, during the strategic review, to consider in detail how data analytics and other emerging audit technologies are to be dealt with if this still has not been done by that time. A moratorium of two years, during which no new standards became effective, would be appropriate. Less would be insufficient, more would be unnecessary.

**12. 7. If there was a specific topic(s) that, in your view, should be the IAASB's priority(ies) when developing new, or revising existing, standards or related guidance for the period 2020—2023, what would it be, and why?**

**Where applicable, kindly indicate whether in your view the topic(s) (you have indicated) has particular relevance mainly for engagements for listed entities, small- and medium-sized entities (SMEs), or for entities of all sizes. Views in relation to matters of relevance to developing nations and the public sector are also encouraged.**

As indicated in our response to the previous question, other than actively dealing with data analytics and other emerging technologies which should be a priority, albeit one that is unlikely to result in the development of any new standards, and other than the ISAs already on IAASB's agenda for revision, we see no others that are likely to require urgent attention in the foreseeable future.

**13. 8. Are there any other topics of interest or matters of relevance that you feel the IAASB should consider when conducting its strategic review, including those related to its the way that the IAASB undertakes its activities (e.g., changes to address matters highlighted in the MG review)?**

There are no other topics IAASB should consider when conducting its strategic review.