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Our ref **SS/288**  
Contact **Sylvia Smith**

4 April 2014

Dear Sirs

**Consultation Paper: The IAASB's Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016**

We appreciate the opportunity to respond to the International Auditing and Assurance Board's ('IAASB' or 'Board') Consultation Paper: *The IAASB's Proposed Strategy for 2015-2019 and The IAASB's Proposed Work Program for 2015-2016*, dated December 2013 ('Consultation Paper'). We have consulted with, and this letter represents the views of the KPMG network.

***Overarching comments***

Our detailed responses to the questions posed by the IAASB in the Consultation Paper are set out in the Appendix to this letter. The key points in our responses are summarized below.

We support the three strategic objectives proposed by the Board and believe they are key to robust standards that enhance audit quality. We also support the factors set out to assist the Board with the identification of potential priorities for 2015-2016.

Our main concerns relate more with the proposed approach to achieving the strategic objectives, in particular the proposed priorities for 2015-2016.

We do not agree it is preferable to devote more resources to fewer topics. This approach will result in a short term work program that is focused on making wholesale changes to a few standards and delaying improvements to parts of standards identified as leading to inconsistencies in interpretation during the post-implementation review. Addressing these inconsistencies sooner rather than later is, in our view, key to meeting the strategic objectives on audit quality.

We are also concerned that the topics chosen for the 2015-2016 work program do not focus enough on the strategic objective of ensuring the IAASB's suite of standards continue to be relevant in a changing world. Given the amount of time it takes for a project to be completed,



we believe it is critical that the IAASB devote more of its current resources to addressing how its standards need to change in view of developments in IT, data analysis techniques and business models. Leaving these projects to 2017 and beyond is, in our view, too late.

In our detailed comments we have included suggestions on how the Board could scale down its work and involvement in the three proposed priority projects so that it has capacity to address additional projects in the work program for 2015-2016.

We also believe that, in developing the strategy for 2015-2019, it is appropriate for the Board to firstly identify issues that should be addressed on the basis of the proposed strategic objectives, and in light of the needs of stakeholders. Resource constraints can then be taken into account in setting priorities for the work program. This approach will enable stakeholders to better understand the complete set of projects the Board believes need to be carried out. It will also provide transparency into the compromises made in identifying priorities in view of available resources. This transparency may be helpful to the IAASB when engaging in funding discussions with relevant stakeholders. It may also be helpful in engaging National Standards Setters and other relevant parties to provide assistance with certain standards setting activities.

To this end, we recommend that the IAASB reach out to National Standard Setters to encourage them to provide resources for initial information gathering to help scope out specific projects and to provide initial research. We also recommend that IAASB make greater use of working groups that are led by Board members and include non-board members with relevant experience, skills and expertise in the topic being considered. Increased use of the local knowledge obtained by National Standards Setters and the expertise of tailored working groups should enable the Board to tackle and complete more projects in a shorter timeframe.

Consistent with the IAASB's third proposed strategic objective, we also recommend that the Board reach out to audit oversight regulators for more information on audit quality deficiencies identified by them to help the IAASB better understand the concerns being raised and whether the root causes relate to deficiencies in standards as opposed to other reasons.

Please contact Sylvia Smith at +44 (0)20 7694 8871 if you wish to discuss any of the issues in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

cc: Jean Blascos

## **Appendix - Responses to specific questions**

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

#### ***The IAASB is particularly interested in respondents' views on:***

- (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.***

We agree with the statement made in paragraph 11 of the document that “the most significant strategic issue facing the IAASB is how to ensure continued credibility and confidence in its work as a global standard setter, both in terms of its ability to identify the most pertinent public interest issues and respond appropriately to them in a timely manner”.

We also support the three strategic objectives proposed by the Board. However, as we set out below, our concern relates more with the proposed approach to achieving these strategic objectives.

Part of this concern may rest with the fact that the Board is building its strategy and work program within the limits of the resource constraints described in Appendix 1.

We believe that the IAASB's strategy should clearly identify the strategic objectives, all the projects that need to be undertaken before consideration of resource constraints and how these projects relate to the strategic objectives. Resource constraints can then be taken into account in setting priorities for the work program. This will enable stakeholders to better understand the complete set of projects the IAASB believes need to be carried out. It will also provide transparency into the compromises made in identifying priorities in view of available resources. Such transparency may be helpful to the IAASB when engaging in funding discussions with relevant stakeholders. It may also be helpful in engaging National Standards Setters and other relevant parties to provide assistance with certain standards setting activities.

- (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.***

We support the factors developed by the Board to assist with identification of potential priorities for 2015–2016. We believe they include the appropriate considerations. However, as we discuss in more detail below, we disagree with the scope of the topics chosen as the focus for the Work Program for 2015-2016. This is most likely because we disagree with the main premise underlying the work program, i.e. that it is preferable to devote more resources to fewer topics.

### ***Proposed Work Program for 2015-2016***

***The IAASB is particularly interested in respondents' views on:***

***(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.***

We do not agree with the main premise underlying the 2015-2016 work program, i.e. that it is preferable to devote more resources to fewer topics. This approach results in a short term work program that is focused only on making wholesale changes to standards as opposed to making improvements to parts of standards identified as leading to inconsistent interpretation of standards during the post-implementation review. Addressing these inconsistencies sooner rather than later is, in our view, key to meeting the strategic objectives on audit quality.

***(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.***

We also have concerns with the appropriateness of the scope of the topics chosen as the focus for the Work Program for 2015-2016. In our view, these topics place too much emphasis on the needs of one group of stakeholders at the expense of the others. Our concerns are set out in more detail in our response articulated in part (c).

Given the amount of time it takes for a project to be completed (estimated by the IAASB to be 36 months), we believe it is critical that the IAASB devote current resources to addressing how ISAs need to change in view of developments in IT and data analysis techniques. Leaving this work to 2017 and beyond is, in our view, too late. The audit approach and procedures made possible by data & analytics techniques are not contemplated in the current ISAs; however they are key to enabling auditors to gain a deeper understanding of the entities they audit and the transactions and the risks such entities face. They also provide an opportunity to improve the quality and reliability of the audit evidence obtained. Waiting until 2017 to reflect these changes in standards will mean that the IAASB risks these standards falling behind industry developments and not continue to remain relevant.

***(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.***

We believe the Work Program for 2015-2016 should include actions/projects that address the following areas that, in our view, need to be more urgently addressed in order to ensure that the IAASB meets its strategic objectives:

- Issues identified in the post-implementation review

Clear standards that are capable of consistent interpretation and application are key to meeting the IAASB's strategic objectives on audit quality. Given this, we believe it is important that the IAASB address, prior to 2017, significant issues relating to inconsistent application of ISAs identified by stakeholders in the post-implementation review. For these issues, we recommend that the IAASB consider whether the inconsistencies relate to inherently subjective matters that would be better addressed by clarifying/revising existing standards or developing additional supporting implementation materials to guide auditors in the exercise of professional judgement.

- Issues relating to advancements in technology

We agree with the suggestion in the Consultation Paper that the IAASB needs to address *'emerging issues about audit evidence obtained through the use of sophisticated data analysis techniques, including the implications on the auditor's risk assessment and response, as well as the effect on the nature and timing of other planned audit procedures and the auditor's ability to obtain sufficient appropriate evidence'*. However, we strongly believe these issues need to be considered sooner than 2017 to help ensure the IAASB's standards continue to remain relevant.

- Business models not currently addressed by the ISAs

We strongly recommend that the IAASB undertake a project to address how ISAs may be adapted to address the use of the following business models by entities subject to audit:

- Alternative delivery centres to manage financial reporting functions, to process transactions or to produce financial statements (referred to as shared services centres);
- Cross-border structures to facilitate financing and/or to minimize taxes.

These business models often result in a separation of the engagement partner from the financial reporting and/or operating activities of the entity and are currently not addressed by ISAs. It is therefore necessary for auditors to adapt the requirements of the ISAs to these situations. These adaptations have resulted in inconsistencies in practice and in criticisms, in particular with respect to the second issue above, from audit oversight regulators. Such inconsistencies and criticisms undermine confidence in the audit and therefore need to be addressed before 2017.

To give the Board the capacity to address these issues, we recommend that the IAASB scale down work in the proposed projects on quality control and professional scepticism. We recommend that before the IAASB undertake full scale projects to change standards on quality control and professional scepticism, that it perform root cause analysis to determine whether the concerns expressed by regulators, especially those relating to engagement quality control reviews and other aspects of quality control, actually relate to deficiencies in standards and, if so, which aspects of the standards. A more targeted approach to addressing concerns will save

the Board time and will likely be more effective. For example, in our comment letter on post-implementation review, we recommended that standards on professional scepticism be expanded, as opposed to completely revised, to include consideration of biases and judgement traps that may negatively affect an auditor's professional judgement and scepticism. We do not believe that a complete overhaul of the standards in this area is necessary.

We suggest that the Board's time could also be more effectively utilized for the project on special audit considerations relating to financial institutions if professionals with relevant experience, skills and expertise in the financial services sector are invited to be members of a working group that works with the Board.

Also, we question whether the proposal to develop train-the-trainer materials and webinars relating to auditor reporting is the best use of staff time. It is not clear what this material will cover and how it will benefit practitioners.

***(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.***

The Board appears to be building its five-year strategy within the limits of current resource constraints. As we have noted in our response to item (a) under the proposed strategy section of this letter, we believe that, in developing a longer term strategy, it is important for the Board to first identify issues that should be addressed on the basis of the proposed strategic objectives, and in light of the needs of stakeholders. Resource constraints can then be taken into account in setting priorities for the work program. This provides more transparency as to the projects the Board believes are key. It may also be helpful to the IAASB when engaging in funding discussions with relevant stakeholders and to engaging National Standards Setters and other relevant parties to provide assistance with certain standards setting activities.

To this end, we recommend that the IAASB reach out to National Standard Setters and encourage them to provide resources for the initial gathering of information to help scope out specific projects and to provide initial research. We also recommend that IAASB make greater use of working groups that are led by Board members and include non-board members with relevant experience, skills and expertise in the topic being considered. Increased use of the local knowledge obtained by National Standards Setters and the expertise of tailored working groups should enable the Board to tackle and complete more projects in a shorter timeframe.

Consistent with the IAASB's third strategic objective, we also recommend that the Board reach out to audit oversight regulators for more information on audit quality deficiencies identified by them to help the IAASB better understand the concerns being raised and whether the root causes relate to deficiencies in standards as opposed to other reasons.