

The IAASB's Proposed Strategy for 2015–2019

The IAASB's Proposed Work Program for 2015–2016

A Consultation Paper issued by the International Auditing and Assurance
Standards Board

Comments from ACCA
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ACCA welcomes the opportunity to comment on the Consultation Paper *The IAASB's Proposed Strategy for 2015–2019 The IAASB's Proposed Work Program for 2015–2016* issued by the International Auditing and Assurance Standards Board (IAASB). The ACCA Global Forum for Audit and Assurance¹ has considered the matters raised in the Consultation Paper and the views of its members are represented in the following.

Our comments draw upon our world-wide membership, which includes significant numbers of members working in all aspects of the financial reporting supply chain in a wide range of industries, the public sector and small and medium-sized entities.

SUMMARY

The IAASB's Proposed Strategy for 2015–2019 explains important considerations in setting the work programme for 2015–2016. The most significant is that the resources available are essentially fixed and we feel that this has limited the vision of the strategic review.

We find the identified strategic objectives acceptable and the approach to developing the work programme reasonable. We suggest increasing transparency in how the IAASB balances stakeholder demands to match the excellent transparency in other aspects of its activities.

We believe that a sensible approach has been taken to developing a Work Program that focusses on fewer topics, but we recommend preliminary work on deferred topics so as not to lose momentum.

On the identified new Work Program projects we suggest that:

- updating the International Standard on Quality Control, should address its usability for smaller practitioners
- an urgent need to address professional scepticism should not preclude a further long-term investigation of its place in the context of related concepts, such as reasonable assurance
- appropriate action on financial institutions must also solve the general issue of how industry-related matters are dealt with in standards.

We also emphasise that, in its continuing other activities, the IAASB should give high priority to facilitating implementation of the auditor reporting standards expected to be approved later in 2014.

¹ <http://www.accaglobal.com/en/research-insights/global-forums/audit-assurance.html>

We regret that time could not be found for work on:

- matters identified by the ISA Implementation Monitoring project in relation to audits of group financial statements and identifying and assessing risks
- revision of the standard on agreed-upon procedures
- changes to the scope of a recent assurance standard to increase its take up
- the fundamental principles of audit and assurance (at least to inform the identified new Work Program projects).

We suggest that, by involving other interested parties, the IAASB could increase the resources available to it for activities not directly related to standards development. This might be achieved by allowing Board members to appoint two or more technical advisers.

PROPOSED STRATEGY FOR 2015–2019

In this section of our response we comment on the proposed strategy and provide our views on two matters that the IAASB has indicated are of particular interest (identified as paragraphs (a) and (b) in bold type below).

ACCA was pleased to participate in the IAASB's March 2013 stakeholder survey that preceded this consultation.

We earlier responded to the consultation on the IAASB Strategy and Work Program for 2012–2014 and, due to the acceleration of the auditor reporting project displacing other initiatives, we have drawn on views we expressed in it that remain relevant.

Appendix 1 to the IAASB's Proposed Strategy for 2015–2019 explains important considerations in setting the work programme for 2015–2016. The most significant consideration is that the resources available in that two-year period are essentially fixed as a result of budgetary constraints and the limited availability of volunteer time. In our view, this circumstance, and perhaps tacit acceptance that things will not change thereafter, has limited the vision of the strategic review. The proposals deal more with 'what could we do?' rather than 'what should we do?'

Although it might be regarded as a theoretical exercise, we would have preferred to see a strategic vision of what the IAASB could achieve with higher resources, so that the boundary of what is actually proposed could be better judged.

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

The three strategic objectives derive from the overall IAASB objective of serving the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards. They deal with the inward and outward aspects of setting standards and facilitating convergence: responding to stakeholder needs and influencing others. The objectives could be modified or reorganised but, as they encompass all of the external aspects of the IAASB's mission, we find them acceptable.

We suggest, nevertheless, that as the objectives are an important part of the public face of the IAASB they could be phrased more dynamically and sharpened to be more 'strategic'. This is particularly relevant to the third objective ('Collaborate and Cooperate with Contributors to the Financial Reporting Supply Chain to Foster Audit Quality and Stay Informed'). This is an activity that should reflect a leadership role rather than the passive 'stay informed'.

We are also concerned that, by restricting the words 'high quality' to the objective dealing with International Standards on Auditing (ISAs) the strategic objectives do not properly reflect the need for high quality in all the IAASB's standards.

We note and support the IAASB's intention to continue to actively monitor global developments and undertake a mid-period review of the strategy to determine whether the identified objectives remain relevant.

(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 do not believe that 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. This is because: (a) a list of factors is not, on its own, a reasonable basis for developing a work programme; and (b) the list is incomplete (it is introduced by the words 'including the following:').

If the intention is to provide transparency about how the IAASB balances stakeholder demands then, as well as disclosing the factors listed in Appendix 2, the IAASB should explain how potential actions are measured against them and what weighting is given to each factor. Some of the factors combine matters that could have been kept separate (for example, 'demands of the capital markets' and 'impact on businesses of all sizes'), so the explanation should extend to how the factors themselves were decided upon.

The IAASB will be aware of the extensive mechanisms put in place by the International Organization for Standardization (ISO) concerning the proposal of new work and approval as a new work item. Equivalent transparency in this regard would enhance the IAASB's already excellent transparency in other aspects of its activities.

PROPOSED WORK PROGRAM FOR 2015–2016

In this section of our response we comment on the proposed work program for 2015–2016 and provide our views on four matters that the IAASB has indicated are of particular interest (identified as paragraphs (a) to (d) in bold type below).

(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.

Overall, we believe that the approach taken to the development of the work programme is sensible. It pays attention to the IAASB’s objectives and recognises the resource constraints in the period. The circumstances prevailing as a result of the IAASB’s past work and the continuing need to communicate with stakeholders have been addressed in a balanced way.

Subject to the comments we make later in this section, we are generally supportive of the work programme focussing on fewer topics. We also believe, however, that it is important to carry out preliminary work on some of the deferred topics, so as not to lose momentum.

(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.

In 2015 and 2016, some work will be done on projects already commenced. We are generally supportive of the further topics and activities mentioned in the work programme and comment on them individually below. It is difficult to comment in detail when the outputs are not yet determined; but we acknowledge that that must await the preparation of the formal project proposal after appropriate research and outreach.

Quality control

We agree that concerns identified by the ISA Implementation Monitoring project and the momentum generated by the issue of the *Framework for Audit Quality* are strong drivers for a project addressing quality control. Audit quality is, after all, of fundamental importance.

While reported concerns, such as that relating to engagement quality control reviews, must necessarily be resolved, we are fearful that resource constraints will result in an unambitious and ultimately unrewarding project. It is particularly disappointing that the IAASB refers to the possibility of further guidance to demonstrate how standards can be applied proportionately; this is not a solution, it would just add to the problem.

The IAASB highlights how the design of International Standard on Quality Control (ISQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, enables it to be applied in a manner proportionate with the nature and size of a firm.

However, ISQC 1 has been written to be applied by audit firms, including the very largest global firms, on audits of considerable complexity. It is necessarily lengthy, comprehensive and cognisant of the various management structures in such firms.

These characteristics mean that demonstrating compliance with ISQC 1 is inherently difficult and costly for small practices, especially where a firm only carries out engagements subject to IAASB standards other than ISAs. We accept that it is possible to apply ISQC 1 in a proportional manner, but doing so is not easy²; it is necessary to develop an understanding of the design and intent of ISQC 1, to study its provisions and then, in light of the nature and size of a firm and the services the firm provides, develop policies and procedures tailored to the firm's circumstances.³ The IAASB has to deal with the widespread perception of SMPs and small businesses that the IAASB has failed to provide usable global standards allowing SMPs to deliver value to businesses in a cost effective way.

² This is apparent from the fact that the IFAC SMP Committee has felt it necessary to issue a *Guide to Quality Control for Small- and Medium-Sized Practices*, and that the IAASB has issued a Staff Questions & Answers publication – *Applying ISQC 1 Proportionately with the Nature and Size of a Firm*.

³ Here, we use wording taken from the IAASB Staff Questions & Answers publication.

We firmly believe that the approach to quality control standards needs to be re-examined in order to provide standards that are appropriate to all sizes of firm and all forms of engagement covered by IAASB standards. This approach would recognise the different levels of public interest in the types of engagements that firms carry out. Elsewhere in this response we have referred to the long-standing need for a review of the fundamental principles of assurance and the nature of standards; such a review would necessarily encompass the responsiveness of standards to the degree of public interest and provide a foundation for differences, such as those now becoming apparent through the development of ISAs applicable on a mandatory basis only for listed companies.

Professional scepticism

We acknowledge that there have been strong calls from some stakeholders for reinforcement of the application of professional scepticism in an ISA audit. The topic has also been on the agendas of regulators and national standard setters. As the IAASB is aware, as long ago as March 2012 the UK FRC issued *Professional scepticism Establishing a common understanding and reaffirming its central role in delivering audit quality* and in December 2012, the US Public Company Accounting Oversight Board (PCAOB) issued Staff Audit Practice Alert No. 10 *Maintaining and Applying Professional Skepticism in Audits*.

It is clear that some other actors have been able to move more quickly but in our view the IAASB still has a part to play in addressing concerns over the application of professional scepticism.

Possible outputs for the IAASB project are suggested as: clarifying the meaning of professional scepticism in ISA 200, additional requirements or guidance in areas of significant management judgement and further guidance on documentation. We fear that this points towards a short-term, narrow-scope project.

A longer-term project, involving other parties, is necessary to debate and resolve the societal and conceptual issues.

The value to society of the audit ultimately determines the breadth of its subject matter and its rigour. As professional scepticism increases, it tends towards forensic auditing and the audit becomes a very costly exercise. Professional scepticism versus objectivity in auditing is a debate as important and as complex as prudence versus neutrality in financial reporting.

There are potential links to the project on quality control and to a wider consideration of related concepts, such as reasonable assurance, sufficiency of evidence, professional judgement, objectivity and independence. Some of these concepts are in the domain of professional ethical rather than that of standards for audit and assurance.

Financial institutions

We support the inclusion of this project as, given both the relevance of financial institutions to financial stability and the activities of financial services regulators,⁴ it is clear that the IAASB should give consideration to related revision of ISAs and the issue of guidance. Given the specialist nature of the audit of financial institutions and constraints on Board time, we suggest that work in collaboration with knowledgeable stakeholders and recognised experts would be an effective way to progress quickly in relation to this difficult and diverse sector.

The prospect of change to ISAs for matters relating to just financial institutions raises significant questions about the nature of standards that hitherto have been written to be independent of the applicable financial reporting framework and to be relevant to all types of audited entity. The IAASB should instead explore industry-specific pronouncements that provide guidance and have sufficient authority to ensure compliance with it.

Other activities

We support the other activities planned for 2015–2016:

- monitoring of emerging developments by the Innovation, Needs and Future Opportunities (INFO) Working Group
- actions to facilitate adoption and implementation of the auditor reporting standards
- development of a process for post-implementation reviews of the IAASB's other assurance and related services standards
- ongoing dialogue with stakeholders
- activities to support the use of the *Framework for Audit Quality*
- Information-gathering activities related to projects commencing in 2017.

⁴ For example the letter by the Basel Committee to the IAASB concerning its guidance on the external audits of banks <http://www.bis.org/bcbs/commentletters/ifac45.pdf>

In relation to the auditor reporting standards, we believe that actions to facilitate implementation should have a high priority. Interactions with national standard setters will be important to help them balance prescription and flexibility and support consistency within the local environment. In addition, the IAASB should support:

- dissemination of good practice in reporting Key Audit Matters identified in early adopters
- professional bodies or regulators issuing jurisdiction-specific guidance on independence wording
- user education, to mitigate any increase in the expectation gap concerning going concern
- voluntary adoption of reporting improvements in audits for which requirements are not mandatory.⁵

In relation to post-implementation reviews of other assurance and related services standards, we believe that the focus for that should be on their use by small and medium-sized practices (SMPs), as these firms carry out the majority of such engagements. We caution that such activity should also seek to understand the reasons for non-implementation of standards; whether that results from lack of mandating in a jurisdiction or lack of commercial appeal.

In relation to dialogue with stakeholders and information gathering generally, we recommend that the IAASB issues its significant consultations in more languages, or, at a minimum, that it encourages translations. Experience has shown that this has a substantial impact on feedback and engagement with stakeholders that otherwise might never voice their views.⁴

⁵ These matters were identified in the EFAA *Survey on IAASB Auditor Reporting Standards Proposals*

http://www.efaa.com/files/pdf/Publications/Consultations/EFAA%20AUD_REP%20SURVEY%20published%204%20March%202014.pdf

- (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 are encouraged by the inclusion in the Work Program for 2015–2016 of information gathering activities on future projects. Initial research and relevant consultation will allow early-stage thinking on project objectives and outputs to be tested and improved. There is insufficient information provided, however, for us to judge whether that will result in significant progress in relation to the topics concerned.

In relation to initiatives not included in the Work Program for 2015–2016 we are concerned that, other than the preliminary activities referred to above, there is to be no immediate action on significant matters identified in the ISA Implementation project in relation to ISA 600 *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)* and ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

We have earlier called for, and would still like to see, revision of International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*, so as to complete the suite of other assurance/related services standards that are potentially relevant for non-audit engagements that are particularly relevant in jurisdictions where audit is not mandatory for smaller entities.

Although it is only recently revised, we believe that there is a need to repair the scope of International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. It is an important standard that is used for assurance on sustainability reports of major corporations and may be used in future for assurance on integrated reports.

Because it is mandatory for all assurance engagements other than audits or reviews of historical financial information, jurisdictions will be reluctant to require its use, as, for small, non-public interest engagements, it would be costly and anti-competitive. However, we recognise that the IAASB may wish to obtain evidence from post-implementation assessment as to whether our concerns are shared by the majority. We expect post-implementation assessment also to convince the IAASB that its recently revised standard for review engagements is not meeting commercial needs and so merits, if not revision, then diversification so as to provide standards better tailored to the needs of non-public interest engagements carried out by SMPs.

In view of the resource constraints and the strong calls for action in relation to the matters in the Work Program for 2015–2016, we would ordinarily suggest that, despite its importance, a review of the fundamental principles of audit and assurance could be again deferred. We have, however, explained earlier in this response that projects on professional scepticism and quality control, should evolve into consideration of many concepts. It would make sense to capture relevant thinking and begin at least to scope out a review of the fundamental principles. This could provide a research challenge for academics instead of absorbing Board time.

- (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 need for due process to be applied in the development or revision of standards is a given. The current IAASB due process, along with its transparency, plays a significant part in establishing the authority of the IAASB's standards.

We see two ways in which the IAASB's ability to address calls from stakeholders can, nevertheless, be enhanced. Both of these rely on collaboration and cooperation with parties prepared to provide resources to facilitate the IAASB's public interest role (such as national standard setters and representative bodies).

In relation to standards we see scope for other parties to be involved in information gathering activities relating to future projects and to be involved in the detailed work carried out by project task forces that is then subject to Board discussion and agreement. A mechanism for involvement in project task forces would be to allow Board members to appoint two or more technical advisers for such purposes.

Such parties could also assist the IAASB in relation to activities not directly relating to standards development or revision; such as staff papers, post-implementation monitoring and exploring ways of enhancing audit quality (in the light of the IAASB's *Framework for Audit Quality*).

