

CHAMPIONING CHANGE IN THE PUBLIC INTEREST



IAASB

International Auditing
and Assurance
Standards Board

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CHAIRMAN'S REPORT



PROF. ARNOLD SCHILDER
CHAIRMAN, IAASB



The IAASB is responsible for global audit and assurance standard-setting. That's what we do, and we are passionate about it. We believe that audit and assurance standards are fundamental to the way our modern societies work. They enhance credibility and trust in a society's external reporting, which is undertaken in the interests of the public at large, from the core financial statements right through to elements of sustainability, ethics, and integrity. High-quality external reporting, in turn, contributes to the stability of companies and economies, and that, in the end, is what we are working for. We call this the public interest.

To enhance credibility and trust, we are committed to advancing audit quality worldwide. This commitment results in us developing standards — that both protect the interests of those who rely on audits, assurance and other services and are practicable for those who must implement them. Our work increases the relevance of the audit and society's trust in the accountancy profession.

Global cooperation and input from our many stakeholders give us opportunities not only to achieve genuinely worthwhile accomplishments such as our new and revised Auditor Reporting standards, released in January 2015, but also to understand whether such accomplishments have created value for our stakeholders and enhanced their trust in our organization and in our work.

Clearly, the more involved stakeholders are in the standard-setting process and the more closely we work and communicate with them, the more likely they are to understand and trust how and why we arrived at our decisions. Where that trust can be enhanced, we can and should do more, and more effectively.

As a standard setter, we acknowledge our role and responsibility in the quality of the interactions taking place all along the financial reporting supply chain. As we discuss in our 2014 publication, *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*, while responsibility for performing the audit itself rests with the auditors, audit quality is best achieved in an environment in which there is support from—and appropriate interactions among—all the participants, whether

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preparers of financial statements, the audit committees charged with oversight, regulators, or even the users, commentators, and analysts who use the financial statements and the auditor's report. Each participant has the opportunity to facilitate improvement in—and perceptions of—audit quality.

Enhancing audit quality is the central theme in our comprehensive consultation released in December 2015, Invitation to Comment, *Enhancing Audit Quality in the Public Interest—A Focus on Quality Control, Group Audits and Professional Skepticism* (the ITC). Key topics addressed in this consultation are professional skepticism, quality control and group audits. At the same time, we have started a project to revise International Standard on Auditing (ISA) 540, *Auditing Accounting*

Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, with special attention to the application to audits of financial institutions. We hope to learn much from dialogue with our stakeholders and comment letters to advance revisions to certain auditing standards.

Other innovation work is currently focused on the auditing and assurance implications of two key phenomena: data analytics and integrated reporting. We are keen on exploring and understanding emerging developments in these areas and determining how best to respond to them. The world is changing, and we need to change with it.

In closing, let me express my sincere gratitude to all those around the globe who continuously support us on this fascinating journey.

I would particularly like to thank Prof. Linda de Beer, who served as the Chairman of the IAASB Consultative Advisory Group (CAG) from October 2010 to March 2015, and her successor Matthew M. Waldron. The IAASB would not have achieved what it has these past two years without the intense efforts of the board, technical advisors and staff – and their unwavering commitment to the public interest.

ORGANIZATIONAL OVERVIEW



We believe that accurate and thorough work by auditors is essential to the credibility of audited financial statements. As a result, we are continuously enhancing the utility and robustness of the audit, with a primary goal of boosting confidence in the role of auditors and in audited financial statements. We hope to give the investing public enhanced confidence in the financial information they use to make investment decisions, thus supporting credibility and trust in financial markets.

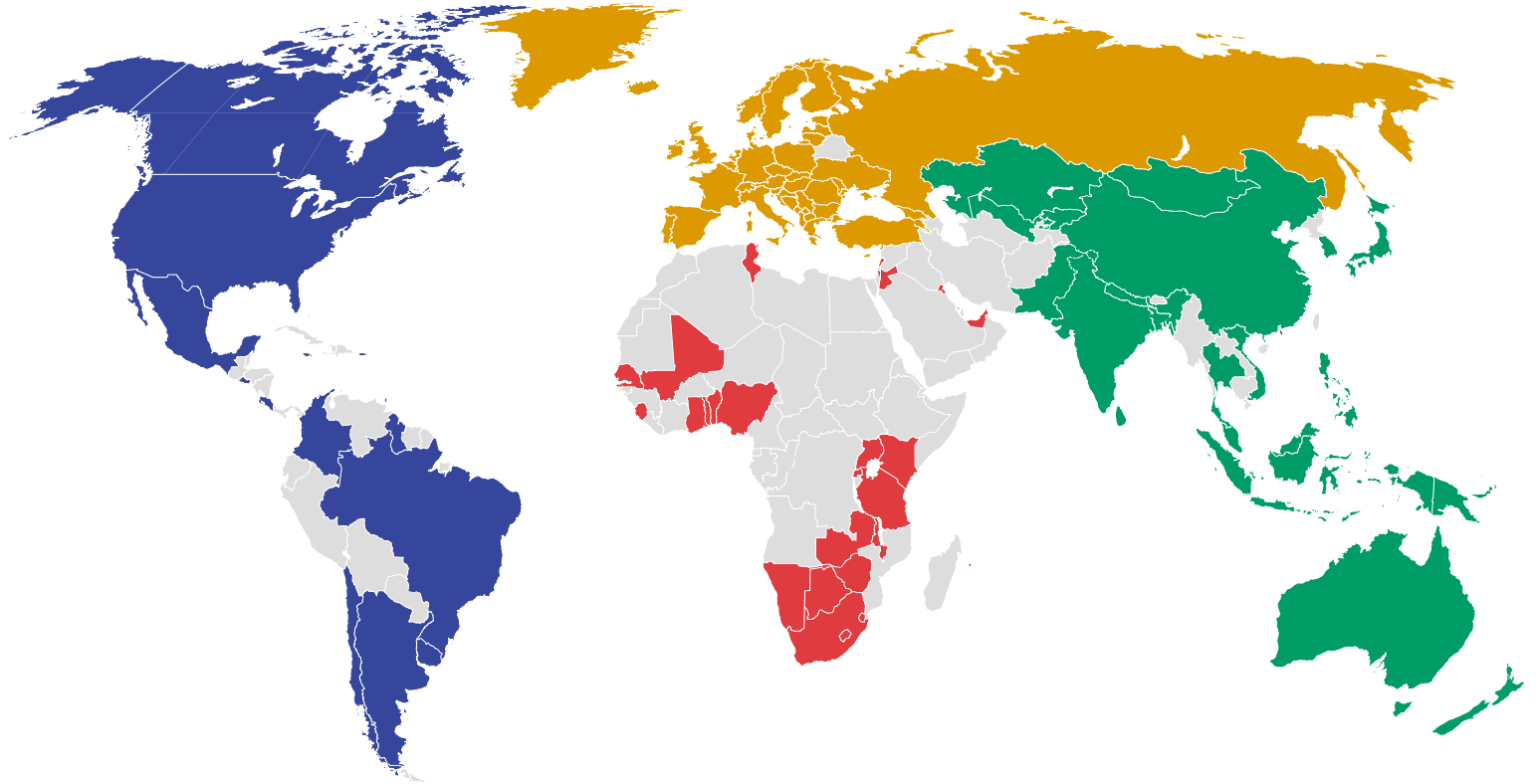
One of the primary means we do so is by developing the ISAs, a set of performance and reporting standards for use in all audits. We are proud to note that 111 jurisdictions world-wide have committed to using the clarified ISAs.

We have also invested efforts to develop or revise our standards other than ISAs, in response to calls from stakeholders for international standards that support services for small- and medium-sized entities (SMEs), as well as respond to demands from users, practitioners and regulators for relevant new assurance services.

We hope to give the investing public enhanced confidence in the financial information they use to make investment decisions.

JURISDICTIONS USING CLARIFIED ISAs OR COMMITTED TO USING THEM IN THE NEAR FUTURE (111)

As at December 31, 2015



Americas (20)

Argentina, Bahamas, Barbados, Brazil, Canada, Cayman Islands, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Guyana, Jamaica, Mexico, Nicaragua, Panama, Puerto Rico (private companies), Trinidad and Tobago, Uruguay, USA (private companies)

Europe (42)

Albania, Armenia, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France (Experts Comptables), FYR Macedonia, Georgia, Greece, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Lithuania, Luxembourg, Malta, Moldova, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom

Asia and Oceania (22)

Australia, Bangladesh, China, Hong Kong, India, Indonesia, Japan, Kazakhstan, Kyrgyz Republic, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Singapore, South Korea, Sri Lanka, Thailand, Uzbekistan (listed entities), Vietnam

Africa/Middle East (27)

Bahrain, Benin, Botswana, Ghana, Jordan, Kenya, Kuwait, Lebanon, Lesotho, Malawi, Mali, Mauritius, Namibia, Nigeria, Palestine, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Tunisia, Uganda, United Arab Emirates (Abu Dhabi and Dubai), Zambia, Zimbabwe



| | |
|------------------------------|--|
| OUR MANDATE | The IAASB sets, independently and under its own authority, high-quality international standards to serve the public interest. |
| OUR COMMITMENT | The IAASB is committed to the goals of developing a set of robust international standards that are generally accepted worldwide in both the private and public sectors, and facilitating the convergence of international and national standards. The IAASB's objectives contribute to enhanced quality and consistency of practice throughout the world, and strengthened public confidence in the global auditing and assurance profession. |
| OUR PRINCIPAL AREAS OF FOCUS | <p>The IAASB's principal areas of focus are:</p> <ul style="list-style-type: none"> • Developing standards; • Monitoring and facilitating the adoption of those standards; and • Responding to concerns about the implementation of the standards. <p>These areas align closely with the IAASB's mandate and are expected to continue to remain valid over the longer term.</p> |
| OUR STANDARDS | <p>The IAASB's standards cover a broad range of engagements, including:</p> <ul style="list-style-type: none"> • Audits of historical financial information for all entities, irrespective of size or sector (known as International Standards on Auditing or ISAs); • Engagements to review historical financial information (known as International Standards on Review Engagements or ISREs); • Assurance engagements other than audits or reviews of historical financial information (known as International Standards on Assurance Engagements or ISAEs); and • Compilation engagements, engagements to apply agreed-upon procedures to information and other related services engagements (known as International Standards on Related Services or ISRSs). <p>International Standard on Quality Control (ISQCs) 1, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>, applies to firms performing these engagements.</p> |
| STRATEGIC INPUT | The IAASB CAG in its independent capacity provides valuable public interest input into the IAASB's strategy, agenda, priorities, and technical issues. The IAASB CAG is comprised of over 30 Member Organizations representing global regulators, business and international organizations, and users and preparers of financial statements. Interaction with the IAASB CAG is a key element of the IAASB's due process. |
| OVERSIGHT | The IAASB sets its standards following due process , under the oversight of the Public Interest Oversight Board (PIOB) . |
| STRUCTURES AND PROCESSES | The structures and processes that support the IAASB are facilitated by the International Federation of Accountants (IFAC). |

IAASB AT A GLANCE



**18 BOARD MEMBERS, 17 TECHNICAL ADVISORS,
3 OBSERVERS, 10 TECHNICAL STAFF**

| | | Meetings | Teleconference |
|------------|------|----------|----------------|
| IAASB | 2015 | 4 | 3 |
| | 2014 | 4 | 2 |
| IAASB CAG | 2015 | 2 | 2 |
| | 2014 | 2 | 1 |
| IAASB-NSS* | 2015 | 1 | - |
| | 2014 | 1 | - |

* See Appendix 4 for an overview of partnering with national auditing standard setters.



29 IAASB CAG MEMBER ORGANIZATIONS

3 IAASB CAG OBSERVERS

19 IAASB-NSS MEMBERS



IAASB WORKING GROUP/TASK FORCE MEETINGS (IN ADDITION TO OVER 100 TELECONFERENCES).

2015 **26** ↑ 2014 **19**



OUTREACH ACTIVITIES

COUNTRIES COVERED

2015 **191** ↑
2014 **127**

36 ↑
22

Jurisdictions using or committed to use the ISAs:

111 ↑ grown from **92** at the end of 2013



PROJECTS RUNNING

2015 **14** ↑
2014 **10**

PROJECTS INITIATED

2015 **5** ↑
2014 **1**

| OUTPUTS | 2015 | 2014 |
|---|------|------|
| Standard setting projects finalized | 3 | - |
| Exposure drafts published | 3 | 2 |
| Consultation papers published | 1 | - |
| Guidance and Implementation Support published | 13 | 4 |
| Other publications | 2 | 1 |
| Responses to public consultations | 2 | 4 |

¹ In developing our final *Strategy for 2015–2019*, we have considered input from the recently completed *ISA Implementation Monitoring* project, the IAASB's Stakeholder Survey on its future Strategy and Work Plan, responses to its consultation paper addressing the proposed *Strategy for 2015–2019*, and other outreach with various key stakeholders. See also the *Basis for Conclusions*.



MESSAGES FROM THE IAASB
CONSULTATIVE ADVISORY GROUP
(CAG)



FINAL REMARKS OF THE OUTGOING CHAIRMAN OF THE IAASB CAG



PROF. LINDA DE BEER

I strive to live by the words of Aristotle who said “We are what we repeatedly do. Excellence therefore is not an achievement, but a habit”.

My term as IAASB CAG Chairman started shortly after the global financial crisis and the unmistakable immediate objective of the IAASB was to enhance audit quality and improve auditor reporting to contribute to restoring confidence in financial reporting.

The standard-setting construct at the time was perceived by some as flawed and in need of greater robustness and independence. Most of these concerns have been addressed. The IAASB today is still impacted by the lack of funding for such important processes and is hence largely served by a dedicated group of volunteers, which comprise a mix of practitioner and non-practitioner members. However, the selection is independently monitored and every member is well aware of the clear brief to act in the public interest.

Clear excellence has been achieved with the issuance of the IAASB's Framework for Audit Quality and the new suite of Auditor Reporting standards, contrary to the perceived imperfections of the standard-setting process.

These accomplishments can be attributed to a number of good habits of the members of the IAASB and the IAASB CAG Member Organizations alike. The foundation of the standard-setting process is grounded by the following attributes:

- A space where robust debate is encouraged, comment is sought from all stakeholders, every comment received is considered and no stone is left unturned to achieve the best outcome.
- The ability of individuals to put personal or institutional agendas aside and focus on enhancing auditing standards and hence audit quality.
- An unwavering commitment to serve the public interest.

My wish is for excellence to continue as the IAASB, with the input of the IAASB CAG, takes its new agenda forward. I am confident that the IAASB CAG will continue and enhance the quality of its input under the new leadership of Matthew M. Waldron, who is perfectly placed and experienced to take its work to new heights.

The list of the IAASB CAG Member Organizations is included as Appendix 2.

REPORT OF THE CHAIRMAN OF THE IAASB CAG



MATTHEW M. WALDRON

In my experience, the IAASB works with others, including the IAASB CAG, to develop robust auditing standards in the public interest within the appropriate bounds of due process and oversight.

My term as Chairman of the IAASB CAG began on April 1, 2015, so much of what I have to report came about under the leadership of former Chairman Prof. Linda de Beer (whose report is shown on page 11). Since its inception in 1999, the IAASB CAG has been a significant contributor to many of the changes to the auditing profession, auditing standards, and financial reporting. With more than 30 Member Organizations and observers who represent stakeholders from across the globe, leading this group to ensure that the IAASB considers its input is no easy task. Linda served as Chairman with the highest level of professionalism and leadership during her term and also through her many years of service as a representative of the World Federation of Exchanges. The standard-setting process has benefitted from her leadership and dedication. On behalf of the IAASB CAG Member Organizations and the Representatives and Observers, I thank Linda for all of her contributions.

The IAASB CAG's [Terms of Reference](#) state that the objective of the IAASB CAG is to provide input to and assist the IAASB in three areas:

- Advice on the IAASB's agenda and project timetable (work program), including project priorities;
- Technical advice on projects; and
- Advice on other matters of relevance to the activities of the IAASB.

I believe the IAASB CAG has met its Terms of Reference over the last two years and continues to be strongly relevant in today's standard-setting process. As I explain in more detail below, continuing to meet these Terms of Reference will be essential as the IAASB addresses some early stage projects. The formal "report back" mechanism provides the IAASB CAG with insight into how the IAASB has considered its comments in moving forward. The IAASB CAG will play an important role in the standard-setting process as the IAASB continues its work consistent with its mission to strengthen public confidence in the global auditing and assurance profession.

My report addresses the following matters:

- Key IAASB achievements in 2014 and 2015 of which the IAASB CAG was an integral contributor;
- Future activities; and
- Due process and oversight.

HIGHLIGHTS OF 2014 AND 2015

For a more comprehensive discussion of the activities of the IAASB, I refer you to Chairman Schilder's report; however, I highlight the following three key accomplishments.

Improved Independent Auditor's Report

Probably the most significant accomplishment of the IAASB over the last two years has been the issuance of the new and revised standards to improve the independent auditor's report. Under the requirements of these standards, independent auditors issuing audit reports in accordance with ISAs will be required to provide greater transparency about the results of the financial statement audit. This is welcomed by many stakeholders, who for years have been calling for the auditor to provide more relevant information regarding the annual audit. Furthermore, what I find to be most impactful is that this suite of standards is written with an appropriately heavy emphasis on the users' needs.

The most significant change is that there will be a new section in the audit report to communicate key audit matters. Key audit matters are defined as those audit areas or matters that were of the greatest significance to the audit work. The auditor will now be required to discuss audit risk areas, matters requiring significant auditor judgments and significant events or transactions occurring during the period subject to the audit. This improved auditor's report and focus on reporting key audit matters is expected to improve financial statement disclosures and result in enhanced audit quality, both of which make financial statements more reliable for investors and other stakeholders.

The Auditor's Responsibilities Relating to Other Information

The IAASB completed a substantial project regarding the auditor's responsibility for other information contained in annual reports. Investors and other stakeholders place a great deal of importance on the information in annual reports beyond just the audited financial statements. Annual reports include more information, quantitative and qualitative than in the past, which opened up an opportunity for companies to explore ways to better integrate financial statements, Management's Discussion and Analysis and other sections of the entity's reporting package. With the plethora of information contained in the financial statements, there was a need for the IAASB to better define the responsibilities of the auditor for this other information and how the auditor reports on what was done.

The perceived value of an audit should increase with the issuance of these new and revised auditing standards. Investors and other stakeholders will now have a better understanding of the auditor's work effort with respect to other information, thereby hopefully adding to more reliability on that work.

Disclosures

Over the years the disclosures accompanying financial statements have increased at a rapid rate. There are numerous reasons for this increase, including the widespread use of fair values and its associated disclosures. Given that disclosures are an integral component of the financial statements, the IAASB developed new requirements and enhanced application material to help auditors focus on disclosures throughout the audit process.

FUTURE ACTIVITIES

Enhanced audit quality is top of mind for stakeholders and, as such, very difficult matters are being discussed as the IAASB embarks on its future work program. Anchoring the future standard-setting challenges are projects launched by the IAASB related to enhancing audit quality in the areas of quality control, professional skepticism and group audits. These three projects, along with improvements to the audit requirements for financial institutions (including a look at the standards for auditing fair values and estimates), will be the focal point in the next year or so. But this isn't all. The IAASB is grappling with audit issues related to technology, data analytics, the future of external reporting and the like. All of which will make for a busy technical plan. The IAASB CAG will play an active role in advising the direction and content for changes to ensure that key stakeholder views are considered.



PUBLIC INTEREST OVERSIGHT AND DUE PROCESS

Applying appropriate oversight and due process is at the heart of ensuring that new audit standards are developed, implemented and monitored. To that end, the PIOB is well-placed to provide effective oversight of the due process. Shown in italics on the right side is an excerpt from former IAASB CAG Chairman David Damant’s final report in 2009. His remarks capture the nature of this oversight and apply today.

I take the opportunity of saying that the integrity and expertise of those involved in the work of the IAASB are of a commendable level. As someone coming from outside the auditing profession, I can observe that, if there should be a subsequent scandal in the area of auditing, it will be extremely unlikely to be the result of any lack of quality in the standards on auditing and assurance, or the result of a lack of due process, or of a lack of attention paid to the public interest, in the setting of those standards. The PIOB has, of course, played an important role in these last areas. No doubt, even so, improvements can always be made to the IAASB’s output, especially as circumstances evolve, and the IAASB CAG is well placed to contribute to those improvements.

In my experience, the IAASB works with others, including the IAASB CAG, to develop robust auditing standards in the public interest within the appropriate bounds of due process and oversight.

IN CONCLUSION

Thank you to all of the IAASB CAG Member Organizations and the Representatives and Observers of the IAASB CAG for their continued commitment and contributions. In addition, many thanks to Prof. Arnold Schilder, IAASB Chairman, IAASB members, and staff for helping to ensure that the IAASB CAG views are thoughtfully considered.

Much work lies ahead to further advance the audit profession. I believe that working together we are well positioned to continue to make meaningful changes for the benefit of the many stakeholders.



OUR STRATEGY FOR 2015-2019



The most significant strategic issue we face is ensuring continued credibility and confidence in our work as an international standard setter. This is both in terms of our ability to identify the most pertinent public interest issues and to respond appropriately to them in a timely manner. An essential element therefore is a broad public consultation on our agenda and ongoing collaboration with stakeholders. At the same time, adhering to a rigorous due process to ensure their varied perspectives are factored into our work is essential. In this way the most relevant activities and issues in the public interest are identified, prioritized and addressed.

During 2013 and 2014, we developed our current strategy. For the first time, this strategy covers a five-year period, instead of three years as in the past. The decision to extend the strategy period reflected stakeholders' views that it was important for us to demonstrate over the mid-term how we will respond to more strategic challenges in the international context in which we operate.

Stakeholders internationally expect the IAASB to not only produce high-quality standards that enhance audit and assurance practice, but also to carry out its efforts in coordination with key stakeholders. That way, the standards the IAASB develops can achieve global acceptance and can be seen to work internationally.

We have identified three strategic objectives for 2015–2019 to demonstrate to our stakeholders how their needs are being addressed in a changing environment.

These strategic objectives illustrate how the IAASB intends to focus its 2015–2019 activities. They take into account the strong platform of standards the IAASB has developed over the last ten years, the current environment, and feedback from stakeholders.¹ We believe these objectives are highly relevant to our work to support engagements for entities of all sizes, whether in the private or public sectors.

THE IAASB'S STRATEGIC OBJECTIVES FOR 2015–2019 ARE TO:

- (i) Ensure that ISAs Continue to Form the Basis for High-Quality, Valuable and Relevant Audits Conducted Worldwide by Responding on a Timely Basis to Issues Noted in Practice and Emerging Developments
- (ii) Ensure the IAASB's Standards Evolve as Necessary to Adequately Address the Emerging Needs of Stakeholders for Services Other than Audits of Financial Statements
- (iii) Strengthen Outreach and Collaboration with Key Stakeholders in the Reporting Supply Chain on Public Interest Issues Relevant to Audit, Assurance and Related Services

PERFORMANCE



KATHLEEN HEALY

HIGHLIGHTS FROM THE TECHNICAL DIRECTOR

The 2014–2015 period was pivotal for the IAASB. At the heart of the IAASB's efforts were the issuance of the *Framework for Audit Quality* and the **new and revised Auditor Reporting standards**. These two important topics responded to strong public interest calls from our stakeholders to not only explain the Board's views about what drives audit quality (and highlight the role of auditing standards), but also take steps to make the audit and the auditor's report more relevant for investors and others.

As further explained in [Appendix 4](#), the IAASB undertakes a robust consultative process to develop its Strategy and Work Plans. When we initially consulted on our *Work Plan for 2015–2016*, many stakeholders indicated expanding beyond what we initially proposed would be appropriate in order to deal with issues related to group audits on a more timely basis – as multinational audits are becoming more complex in light of the changing business and regulatory environment. At the same time, we recognized the interaction between a number of our key projects, and therefore the need to approach them in a coordinated manner.

In late 2014, the IAASB therefore commenced work on a number of priority projects: professional skepticism, quality control, and group audits. The IAASB prioritized this work in light of the ISA Implementation Monitoring findings and subsequent audit inspection findings, and was aware of a number of issues that needed to be considered.

The IAASB believed timely feedback from firms, regulators and others about the root causes of these inspection findings would be essential to inform future standard-setting activities. Early Board and IAASB CAG discussions also highlighted the interactions between the projects. The IAASB therefore decided to consider these projects together, and issued a comprehensive ITC in December 2015, responses to which will significantly inform and influence the Board's standard-setting agenda for the next few years.

The December 2015 ITC highlights potential revisions to ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements*; ISA 220, *Quality Control for an Audit of Financial Statements*; and ISA 600; *Special*

Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors), and asks for views on other actions by the IAASB or others that might be appropriate to address the public interest issues underlying these topics.

During 2015, our deliberations on the topic of special audit considerations relating to financial institutions and accounting estimates, together with feedback from the IAASB CAG, led to a shifted focus from the more narrow aspect of addressing potential audit implications of IFRS 9, *Financial Instruments*, for financial institutions to a more fulsome revision of ISA 540 on a priority basis.

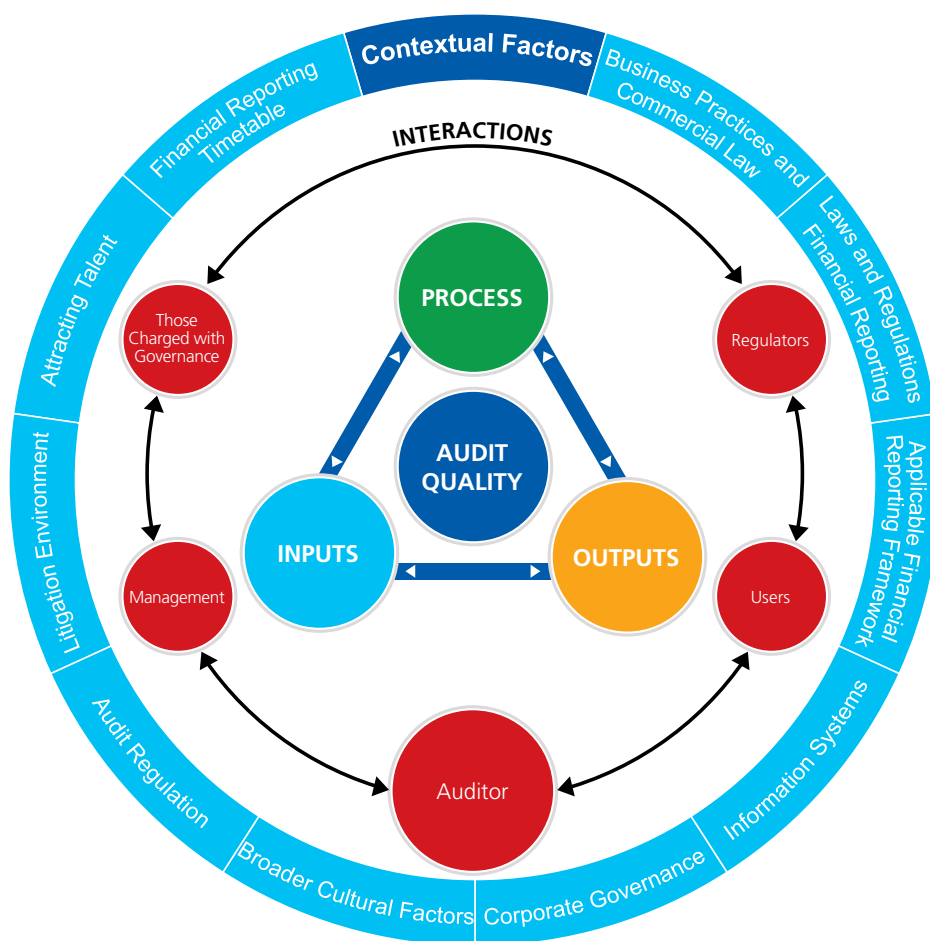
Further details on these fundamental initiatives are set out below.

OUR FRAMEWORK FOR AUDIT QUALITY

Audit quality is a topic of continuous debate, relevant to every stakeholder involved in financial reporting. With this in mind, we developed our *Framework for Audit Quality* (the Framework) which details all the elements that make up the environment for audit quality at the engagement, firm and national levels. Its objectives include:

- Raising awareness of the key elements of audit quality;
- Encouraging key stakeholders to explore ways to improve audit quality; and
- Facilitating greater dialogue between key stakeholders on the topic.

The purpose is to generate discussion all along the financial reporting supply chain, as well as stimulate positive actions towards continuous improvement in audit quality. We refer to the Framework in all of our outreach activities given the importance of engaging stakeholders towards the shared goal of enhancing audit quality. The Framework, in particular the interactions amongst stakeholders



and the contextual factors that influence audit quality, provided a strong foundation for the thoughts we set out in our December 2015 ITC – as it was a means of bridging the gap between questions of a technical nature and concepts that were familiar to investors, audit committees and preparers in particular.

NEW AND REVISED AUDITOR REPORTING STANDARDS

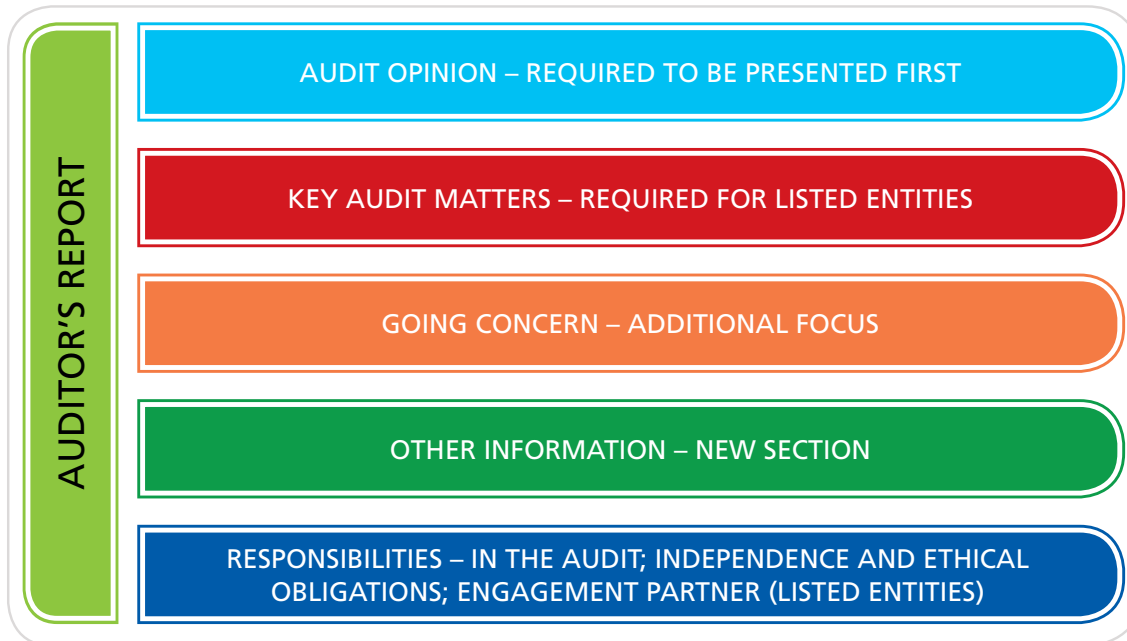
Enhanced auditor reporting is critical to the continued relevance of the audit. Investors and other users of financial statements called on the IAASB to take steps to make the auditor's report more informative – noting that more transparency could be provided to users as an output of the audit performed. The European Union's Audit Regulation also contemplates enhanced

auditor reporting, and the US Public Company Accounting Oversight Board is exploring a similar initiative.

In response, we developed new and revised Auditor Reporting standards, released in January 2015. Informed by international academic research, public consultations and stakeholder outreach, our Auditor Reporting standards aim to increase the transparency and informational value of the auditor's report, boosting confidence in the audit and the financial statements. The new and revised standards will also have the benefit of:

- Enhancing communications between the auditor and investors, as well as between auditors and those charged with governance;
- Increasing the attention paid by management and those charged

KEY FEATURES OF THE NEW AND REVISED AUDITOR REPORTING STANDARDS



with governance to the disclosures in the financial statements to which reference is made in the auditor's report; and

- Renewing the auditor's focus on the matters to be reported, which could indirectly result in an increase in professional skepticism.

The most significant outcome of our work on auditor reporting is the requirement for auditors of financial statements of listed entities to communicate key audit matters – those matters that were, in the auditor's judgment, most significant in the audit of the financial statements of the current period. These matters are selected from matters communicated to those charged with governance (e.g., the Audit Committee) and are intended to be tailored to the individual audit, explaining why they were important and how the auditor addressed those matters in the audit. We believe that communicating key audit matters in the auditor's report is a way for users to understand better

the important work being done by auditors and, therefore, its relevance to them.

These standards will come into effect for 2016 audits, and their implementation represents a significant change in practice. Collaboration is therefore needed by all participants in the financial reporting supply chain to ensure the objectives are realized. In addition to the United Kingdom, where the Financial Reporting Council introduced similar reporting a few years ago, we are already pleased to see early adopters in the Netherlands, South Africa, Australia and Poland. Feedback from investors has been positive. We know that many firms have been doing internal pilot testing. This helps them not only to ensure they have methodologies in place when the standards become effective, but also to educate management and those charged with governance of the entities they audit about the intent of communicating key audit matters in the auditor's report.





INVITATION TO COMMENT, ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST

The public interest is also at the forefront of our minds in our December 2015 ITC. This document and related Overview explores the way forward with respect to three key topics – professional skepticism, quality control and group audits. We need to take steps to make sure that the ISAs continue to be fit for purpose as the environment in which they are applied continues to evolve. Our extensive outreach already in 2016 has supported the public interest themes we see emerging, most notably the need to:

- Foster an appropriately independent and challenging skeptical mindset of the auditor
- Enhance documentation of the auditor's judgments
- Encourage proactive quality management at the firm and engagement level
- Explore transparency and its role in audit quality
- Focus more on firms (including networks) and their internal and external monitoring and remediation activities
- Reinforce the need for robust communication and interactions during the audit

Our December 2015 ITC acknowledges that contextual factors – such as audit regulation, corporate governance and information technology, among others – impact the nature and quality of financial reporting and, directly or indirectly, audit quality. We have begun exploring where specific standards could be enhanced. Making changes to our standards in key areas – with the goal of strengthening auditor performance – is one way to enhance audit quality. For example, in addition to considering enhanced engagement-level requirements, our planned work on firms' systems of quality control should help firms increase the prospect of delivering quality audits and expressing appropriate opinions.

We are also exploring what actions could be taken by us or others to improve the application of professional skepticism in audits – recognizing the concept of professional skepticism is closely related to professional judgment, audit evidence and documentation.

OUR PROJECT TO REVISE ISA 540, INCLUDING ADDRESSING SPECIAL CONSIDERATIONS RELATED TO FINANCIAL INSTITUTIONS

A project to address special considerations related to financial institutions was included in the *Work Plan for 2015–2016*, in response to stakeholder feedback about the importance of financial institutions to financial stability. An IAASB Working Group undertook significant outreach activities. Supervisors of financial institutions and auditors of financial institutions were of the view that the IAASB should initially focus on the issues regarding Expected Credit Loss (ECL) accounting in respect of the audits of financial institutions, arising from the impending adoption of IFRS 9,² as well as a similar United States Financial Accounting Standards Board project. The move to accounting for expected credit losses, rather than on an incurred loss basis, fundamentally changes the way that banks and other entities will account for credit

risk exposures through holdings of loans and similar financial assets. Many stakeholders are of the view that these changes will bring new and urgent challenges for management and the audit profession. However, in considering the audit issues arising from IFRS 9, discussions of the Board and IAASB CAG highlighted that most, if not all, of the issues identified would be equally relevant when auditing complex accounting estimates more generally, rather than only financial institutions. The Board recognized the importance of being responsive to concerns raised in relation to complex accounting estimates, including ECL. Accordingly, in December 2015 the Board agreed to a project proposal to undertake a holistic revision of ISA 540 as a matter of priority.

A description of these and other current projects and initiatives can be found on our [website](#).

² The effective date is for financial statements for annual periods beginning on or after January 1, 2018.

OVERVIEW OF OUTPUTS IN 2015 AND 2014

| Project | Outputs | Publication Date |
|---|---|------------------|
| STANDARD SETTING | | |
| Audit Quality (including professional skepticism, quality control and group audits) | <p>Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits</p> <p>Overview of the ITC</p> | December 2015 |
| Auditor Reporting | <p>Final Standards, The New and Revised Auditor Reporting Standards:</p> <ul style="list-style-type: none"> • ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements • ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report • ISA 260 (Revised), Communication with Those Charged with Governance • ISA 570 (Revised), Going Concern • ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report • ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report • Conforming Amendments to Other ISAs | January 2015 |
| Auditor Reporting – ISA 800 Series | <p>Exposure Draft, Proposed ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, and proposed ISA 805 (Revised) Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</p> | January 2015 |
| | <p>Exposure Draft, Proposed ISA 810 (Revised), Engagements to Report on Summary Financial Statements</p> | August 2015 |
| Auditor's Responsibilities Relating to Other Information | <p>Re-Exposure Draft, Proposed ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information</p> | April 2014 |
| | <p>Final Standard, ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information</p> | April 2015 |
| Disclosures | <p>Exposure Draft, Proposed Changes to the ISAs—Addressing Disclosures in the Audit of Financial Statements</p> | May 2014 |
| | <p>Final Standards, Addressing Disclosures in the Audit of Financial Statements—Revised ISAs and Related Conforming Amendments</p> | July 2015 |
| Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations | <p>Exposure Draft, Proposed Amendments to the IAASB's International Standards—Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations</p> | July 2015 |

| GUIDANCE AND IMPLEMENTATION SUPPORT | | |
|--|--|---------------|
| Audit Quality | <p>A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality (the Framework)</p> <p>At a Glance: A Framework for Audit Quality</p> <p>Feedback Statement: A Framework for Audit Quality</p> <p>Launch of IAASB webpage "Focus on Audit Quality," which includes supplemental material supporting the use of this <i>Framework</i></p> | February 2014 |
| Auditor Reporting | <p>At a Glance document containing an overview of the key features of the new standards</p> <p>Basis for Conclusions providing background for, and a summary of, the rationale for the IAASB's conclusions</p> <p>Factsheet, <i>The New Auditor's Report: Greater Transparency into the Financial Statement Audit</i>, summarizing key aspects of the new and revised Auditor Reporting standards</p> <p>Publication on Key Audit Matters assisting investors, preparers of financial statements, those charged with governance and others interested in understanding key aspects of key audit matters as set out in ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i></p> <p>Publication on Going Concern providing an overview of how the new auditor's report will address going concern as set out in ISA 570 (Revised), <i>Going Concern</i></p> | January 2015 |
| | <p>Slide Presentation, assisting IAASB members, national auditing standard setters (NSS), auditors and others to promote awareness of the new and revised Auditor Reporting standards within their respective jurisdictions</p> | March 2015 |
| | <p>Illustrative Key Audit Matters, illustrating how the concept of Key Audit Matters may be applied in practice in accordance with ISA 701</p> | April 2015 |
| Auditor's Responsibilities Relating to Other Information | <p>At a Glance document containing an overview of the key features of ISA 720 (Revised)</p> <p>Basis for Conclusions providing background for, and a summary of, the rationale for the IAASB's conclusions</p> | April 2015 |
| Disclosures | <p>At a Glance document containing an overview of the key revisions to the ISAs related to addressing disclosures in the audit of the financial statements</p> <p>Basis for Conclusions providing background for, and a summary of, the rationale for the IAASB's conclusions</p> <p>Staff publication highlighting matters that may be of relevance for auditors when addressing disclosures as part of an audit of financial statements</p> | July 2015 |
| Group Audits | <p>Staff Audit Practice Alert: Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work Is Performed</p> | August 2015 |

| STRATEGY AND WORK PLAN CONSULTATION | | |
|--|--|---------------|
| Strategy for 2015-2019 Work Plan for 2015-2016 | <p>The IAASB's Strategy for 2015–2019 and The IAASB's Work Plan for 2015–2016</p> <p>At a Glance: The IAASB's Strategy for 2015–2019 and The IAASB's Work Plan to 2015–2016</p> <p>Basis for Conclusions: The IAASB's Strategy for 2015–2019 The IAASB's Work Plan for 2015–2016</p> | December 2014 |
| OTHER PUBLICATIONS | | |
| Integrated Reporting | Working Group publication: Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting | July 2015 |
| IAASB Handbook | 2014 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements | October 2014 |
| | 2015 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements | December 2015 |
| RESPONSES TO PUBLIC CONSULTATIONS | | |
| International Accounting Standards Board | Comment letters on the following relevant IASB projects: Discussion Paper, <i>A Review of the Conceptual Framework for Financial Reporting</i> (June 2013) | January 2014 |
| | Tentative agenda decision on IAS 1, <i>Presentation of Financial Statements – disclosure requirements relating to assessment of going concern</i> , (March 2014) | June 2014 |
| | Exposure Draft, Proposed amendments to IAS 1, <i>Presentation of Financial Statements</i> , (March 2014) | July 2014 |
| International Integrated Reporting Council (IIRC) | Submission of a comment letter to IIRC on consultation on assurance on integrated reporting | December 2014 |
| Nordic Federation | Response to the Nordic Standard for Audits of Small Entities consultation <i>Proposed Standard for Audits of Small Entities (SASE)</i> | October 2015 |
| US Public Company Accounting Oversight Board (PCAOB) | Response to PCAOB's Staff Consultation Paper <i>The Auditor's Use of the Work of Specialists</i> | August 2015 |

CHALLENGES AND OPPORTUNITIES



Managing challenges and identifying opportunities in an increasingly complex and dynamic international environment is an important element in achieving our mission. It is important that stakeholders recognize that our work is credible and independent and that our activities are viewed as well-informed by our rigorous due process. We will continue to promote an understanding of how we work – described in the PIOB’s publication, **Standard Setting in the Public Interest: A Description of the Model** – and take steps that serve to continually enhance our independence.

Setting standards in the public interest that can be applied internationally to audits of all sizes is not an easy undertaking, for a few reasons:

- An audit is done on behalf of investors – who may not always directly contribute to audit standard-setting.
- The legal and regulatory regimes in which our standards apply vary widely, as does the culture in which auditors apply these standards.
- The global business environment also continues to evolve, and at differing speeds across jurisdictions – which requires firms to adapt.
- Varying interpretations of what actions may be in the public interest exist – and there are challenges in quantifying the costs and benefits of standard-setting activities.
- Auditing and assurance is not an exact science; rather, practitioners are required to apply professional judgment and professional skepticism in the context of the specific entity and the service being performed.
- The standards themselves are only one contributor to audit quality – their effective implementation is equally important.

Investors and other end-users of the audit must speak up about what matters to them.

In light of our mandate, it is important that we continually seek to respond to these challenges in a manner that resonates with our diverse range of stakeholders. Our outreach activities provide us with the opportunity to directly engage and seek to understand the rationale behind various stakeholders’ perspectives – and reflect upon how their concerns can be mitigated.

Investors and other users of the audit must speak up about what matters to them. Practitioners have to be open to change, and also let us know what the constraints are and how we might find solutions to overcome them. NSS and academia can contribute unique and valuable perspectives.

Regulators can work alongside preparers, auditors and other interested stakeholders toward continual improvement in audit quality.

Regulators can further share their insights and expectations, and can continue to contribute to audit quality through their inspection findings being communicated in a positive, educative and constructive theme.

We view these challenges as opportunities for us to further demonstrate why we as an independent board are best placed to develop audit and assurance standards and facilitate their effective implementation.

The dynamic international context in which the IAASB operates also creates opportunities to further contribute to the mission of the IAASB beyond standard setting. As an international standard setter, we have the ability to facilitate open and frank dialogue on public interest issues amongst our stakeholders. We can facilitate their cooperation and interaction – so that each stakeholder group can enhance the quality of financial and corporate reporting and related audit, assurance or other services.

Our Innovation Working Group monitors developments relevant to assurance and recommends to the Board when it may need to become involved in the global debates or begin thinking about whether a particular response is needed in the public interest. Examples of the topics which the IAASB is exploring in greater detail include new and changing information technology and the impact this may have on how audits of financial statements are conducted, the changing external reporting context and the emerging demand for assurance or other engagements to enhance the credibility of this kind of reporting. Other topics that are emerging include corporate governance, risk management and internal control and cyber security risks – we continue to monitor these with interest.



OUTLOOK



The IAASB recognizes the importance of preparing for the future, whether in revising existing standards or developing new ones, or supporting the implementation of new and revised standards. Outreach will continue to be an important focus in 2016 and beyond – including intense dialogue and outreach with stakeholders and others, hopefully leading to increased stakeholder engagement, particularly with investors and audit committees.

Our focus in 2016 and beyond is two-fold: enhancing audit quality and encouraging innovation in the context of the Board's International Standards and services that practitioners who use them may provide.

The comment period on our December 2015 ITC closes in mid-May 2016 – a significant part of the Board and Staff's time in 2016 will therefore be spent analyzing this feedback to inform the commencement of standard-activities.

We are also aiming to issue an exposure draft of a revised ISA 540, addressing auditing accounting estimates, by the end of 2016. Continued dialogue with the IAASB CAG, Basel Committee on Banking Supervision (Basel Committee), the International Association of Insurance Supervisors, the Global Public Policy Committee (GPPC) of the six largest accounting firms and others will be essential to progressing timely revisions in the public interest.



OVERVIEW OF 2016 OUTPUTS THROUGH MARCH 31, 2016

| Project | Outputs | Publication Date |
|---|--|------------------|
| STANDARD SETTING | | |
| Auditor Reporting – ISA 800 Series | Final Standards, <i>ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</i> ; and <i>ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> | January 2016 |
| | Final Standard, <i>ISA 810 (Revised), Engagements to Report on Summary Financial Statements</i> | March 2016 |
| Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures | Project Proposal, <i>Revision of ISA 540</i> | March 2016 |
| GUIDANCE AND IMPLEMENTATION SUPPORT | | |
| Auditor Reporting | Publication, <i>What Audit Committees and Finance Executives Need to Know</i> | March 2016 |
| Auditor Reporting – ISA 800 Series | <i>ISA 800 (Revised)</i> and <i>ISA 805 (Revised) Basis for Conclusions</i> providing background for, and a summary of, the rationale for the IAASB's conclusions | January 2016 |
| | <i>ISA 810 (Revised) Basis for Conclusions</i> providing background for, and a summary of, the rationale for the IAASB's conclusions | March 2016 |
| Accounting Auditing Estimates, including Fair Value Accounting Estimates, and Related Disclosures | Project Update, <i>The IAASB's Project to Revise ISA 540</i> | March 2016 |

The work into 2016 and beyond related to innovation includes mainly information-gathering activities:

- Exploring whether we need to revise ISRS 4400, *Engagements to Perform Agreed-upon Procedures*, and how best to do so, as well as whether new approaches to multi-scope engagements meet stakeholder demands for new services.
- Exploring the engagements needed to enhance credibility and trust in integrated reporting and other developments in external reporting and the role international standards or other type of guidance have in supporting these engagements.
- Exploring the role data analytics may have in the current suite of IAASB's International Standards, in particular the ISAs.

Finally, we will continue our efforts in support of auditor reporting – we have a dedicated Working Group thinking about how best to do so, to consider questions that arise in practice, and to closely follow global implementation efforts.

To inform our stakeholders on the progress of projects the IAASB website includes a project timetable, detailing current initiatives and the meetings at which they are expected to be discussed. In addition, the IAASB periodically issues eNews publications to keep its stakeholders informed of developments. We encourage interested parties to sign up for eNews and follow the IAASB on Twitter (@IAASB_News) to stay abreast of our developments in 2016.



“The ISAs need to better address increasing complexity and new technologies in the business and audit environment, and deliver against the public’s heightening expectations of quality. The profile of tomorrow’s auditor is a critical challenger, supported by a regime focused on public interest and quality management and better observable for stakeholders.”

—IAASB Chairman
Prof. Arnold Schilder

APPENDICES

APPENDIX 1

IAASB MEMBERS, TECHNICAL ADVISORS, OBSERVERS AND STAFF

As at December 31, 2015

| BOARD MEMBERS | TERM ENDS | COUNTRY | TECHNICAL ADVISOR |
|---|-----------|----------------|--------------------|
| Non-Practitioners | | | |
| Prof. Arnold Schilder, Chairman | 2017 | Netherlands | |
| Charles Landes, Deputy Chair ^(R) | 2018 | United States | Hiram Hasty |
| Marek Grabowski | 2016 | United Kingdom | Josephine Jackson |
| Jonas Hällström ^(P) | 2015 | Sweden | Aleksandra Popovic |
| Merran Kelsall ^(P) | 2016 | Australia | Richard Mifsud |
| Prof. Annette Köhler | 2017 | Germany | Wolfgang Böhm |
| Marc Pickeur ^(P) | 2017 | Belgium | Inge Vanbeveren |
| Ron Salole ^(R) | 2017 | Canada | Eric R. Turner |
| Ge Zhang | 2018 | China | Cindy Yang |
| Practitioners | | | |
| Jean Blascos | 2016 | France | Susan Jones |
| Fiona Campbell | 2017 | Australia | Denise J. Weber |
| Valdir Renato Coscodai | 2015 | Brazil | Alejandro Gonzalez |
| Robert Dohrer | 2017 | United States | Ahava Goldman |
| Karin French | 2016 | United States | Rick Wood |
| Brendan Murtagh | 2017 | Ireland | Chun Wee Chiew |
| Rich Sharko | 2017 | Russia | Jamie Shannon |
| Sayaka Sumida | 2017 | Japan | Sachiko Kai |
| Megan Zietsman | 2016 | United States | Jennifer Burns |



Seated from left to right: Sayaka Sumida, Marek Grabowski, Karin French, Prof. Arnold Schilder, Jonas Hällström, Rich Sharko, Merran Kelsall, Valdir Renato Coscodai

Standing from left to right: Prof. Annette Köhler, Marc Pickeur, Brendan Murtagh, Robert Dohrer, Jean Blascos, Charles Landes, Megan Zietsman, Fiona Campbell, Ron Salole, Ge Zhang

(R) This member was re-appointed in 2014 or 2015.

(P) Public Member

IAASB MEMBERS, TECHNICAL ADVISORS, OBSERVERS AND STAFF

As at December 31, 2014

| BOARD MEMBERS | TERM ENDS | COUNTRY | TECHNICAL ADVISOR |
|-------------------------------------|-----------|----------------|---------------------------|
| Non-Practitioners | | | |
| Prof. Arnold Schilder, Chairman | 2017 | Netherlands | |
| Marek Grabowski | 2016 | United Kingdom | Josephine Jackson |
| Jonas Hällström ^(P) | 2015 | Sweden | Aleksandra Popovic |
| Merran Kelsall | 2016 | Australia | Richard Mifsud |
| Prof. Annette Köhler ^(R) | 2017 | Germany | Wolfgang Böhm |
| Charles Landes | 2018 | United States | Hiram Hasty |
| Marc Pickeur ^{(P) (R)} | 2017 | Belgium | Jacques Vandernout |
| Tomokazu Sekiguchi ^(P) | 2014 | Japan | Sachiko Kai |
| John Wiersema ⁴ | 2015 | Canada | Greg Shields |
| Practitioners | | | |
| Dan Montgomery, Deputy Chair | 2014 | United States | Denise J. Weber |
| Jean Blascos | 2016 | France | Susan Jones |
| Jianhua Tang ⁵ | 2015 | China | Len Jui |
| Valdir Renato Coscodai | 2015 | Brazil | Alejandro Gonzalez |
| Karin French | 2016 | United States | Maria Manasses |
| Cédric Gélard | 2014 | France | Isabelle Tracq-Sengeissen |
| Brendan Murtagh ^(R) | 2017 | Ireland | Sue Almond |
| Bruce Winter | 2014 | Canada | Jon Rowden |
| Megan Zietsman | 2016 | United States | Jennifer Burns |



Seated from left to right: Prof. Annette Köhler, John Wiersema, Tomokazu Sekiguchi, Prof. Arnold Schilder, Dan Montgomery, Cédric Gélard, Bruce Winter

Standing from left to right: Marek Grabowski, Marc Pickeur, Valdir Renato Coscodai, Jean Blascos, Megan Zietsman, Charles Landes, Brendan Murtagh, Jonas Hällström, Karin French, Merran Kelsall

Not pictured: Jianhua Tang

⁴ Mr. Wiersema stepped down from the IAASB prior to the end of his term. The casual vacancy was filled by Ron Salole.

⁵ Mr. Tang stepped down from the IAASB prior to the end of his term. The casual vacancy was filled by Ge Zhang.

OBSERVERS

| | |
|--|--|
| IAASB Consultative Advisory Group Chairman | Prof. Linda de Beer (through March 2015) Matthew M. Waldron (present) |
| European Commission | Juan Maria Arteagoitia |
| Japanese Financial Services Agency | Prof. Norio Igarashi |

IAASB STAFF (AS AT DECEMBER 31, 2015)

| | |
|---------------------|---|
| James L. Gunn | Managing Director, Professional Standards |
| Kathleen Healy | Technical Director |
| Nancy Kamp-Roelands | Deputy Director |
| Beverley Bahlmann | Senior Technical Manager |
| Brett James | Senior Technical Manager |
| Diane L. Jules | Senior Technical Manager |
| Vijyata Kirpalani | Technical Manager |
| Jasper van den Hout | Technical Manager |
| Bradley Williams | Senior Technical Manager |
| Elaine German | Administrative Assistant |
| Michelle Harrison | Administrative Assistant |



Seated from left to right:
Jasper van den Hout,
Kathleen Healy,
James L. Gunn,
Vijyata Kirpalani

Standing from left to right:
Nancy Kamp-Roelands,
Bradley Williams,
Beverley Bahlmann,
Brett James,
Michelle Harrison,
Diane L. Jules,
Elaine German

IAASB CAG MEMBER ORGANIZATIONS AND OBSERVERS

| MEMBER ORGANIZATIONS | |
|--|--|
| Associação Brasileira de Instituições Financeiras de Desenvolvimento | International Association of Insurance Supervisors |
| Basel Committee on Banking Supervision | International Bar Association |
| BUSINESSEUROPE | International Corporate Governance Network |
| CFA Institute | International Organization of Securities Commissions |
| European Commission | International Organization of Supreme Audit Institutions |
| European Federation of Accountants and Auditors for SMEs | International Valuation Standards Council |
| Fédération des Experts Comptables Européens | Islamic Financial Services Board |
| Financial Executives Institutes International | Japan Securities Dealers Association |
| Gulf States Regulatory Authorities | National Association of State Boards of Accountancy |
| Information Systems Audit and Control Association | Organisation for Economic Cooperation and Development |
| Institute of Internal Auditors | Sri Lanka Accounting and Auditing Standards Monitoring Board |
| International Accounting Standards Board | United Nations Conference on Trade and Development |
| International Actuarial Association | World Bank |
| International Association of Financial Executives Institutes – Asian Region | World Federation of Exchanges |
| International Association of Financial Executives Institutes – Europe, Middle East and Africa Region | |
| OBSERVERS | |
| Financial Services Agency, Japan | |
| International Monetary Fund | |
| US Public Company Accounting Oversight Board | |

GOVERNANCE, ORGANIZATIONAL STRUCTURE AND OPERATING MODEL



The IAASB independently sets international standards under the arrangement that its standard-setting process is transparent, receives broad public input, and is subject to public interest oversight with such oversight receiving regulatory monitoring.³ The objective of this arrangement is to facilitate standard setting that is responsive to the public interest and produces high-quality international standards.

GOVERNANCE

The IAASB operates under the oversight of the **PIOB**.

The PIOB is an independent oversight body with members appointed by regulators and international organizations,⁴ which approves the terms of reference of the IAASB and the IAASB CAG (described in more detail in the *Organizational Structure* section of this Appendix). The PIOB also oversees the process of nominations to the IAASB and the IAASB CAG and approves the appointment of chairs and members. It also approves the due process to which the IAASB is required to adhere in its standard-setting, and conducts due process oversight of the standards as they are developed, with the aim of ensuring their public interest responsiveness. The PIOB also assesses whether the IAASB's strategy and work plans are complete, in addition to considering whether due process has been followed in their development.

³ This monitoring is provided by the Monitoring Group (MG), a group of international public interest and financial organizations. The MG is composed of representatives from the Basel Committee, the European Commission, the Financial Stability Board, IAIS, the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions and the World Bank.

⁴ See www.ipiob.org for further information about the PIOB, its activities and its Annual Reports.

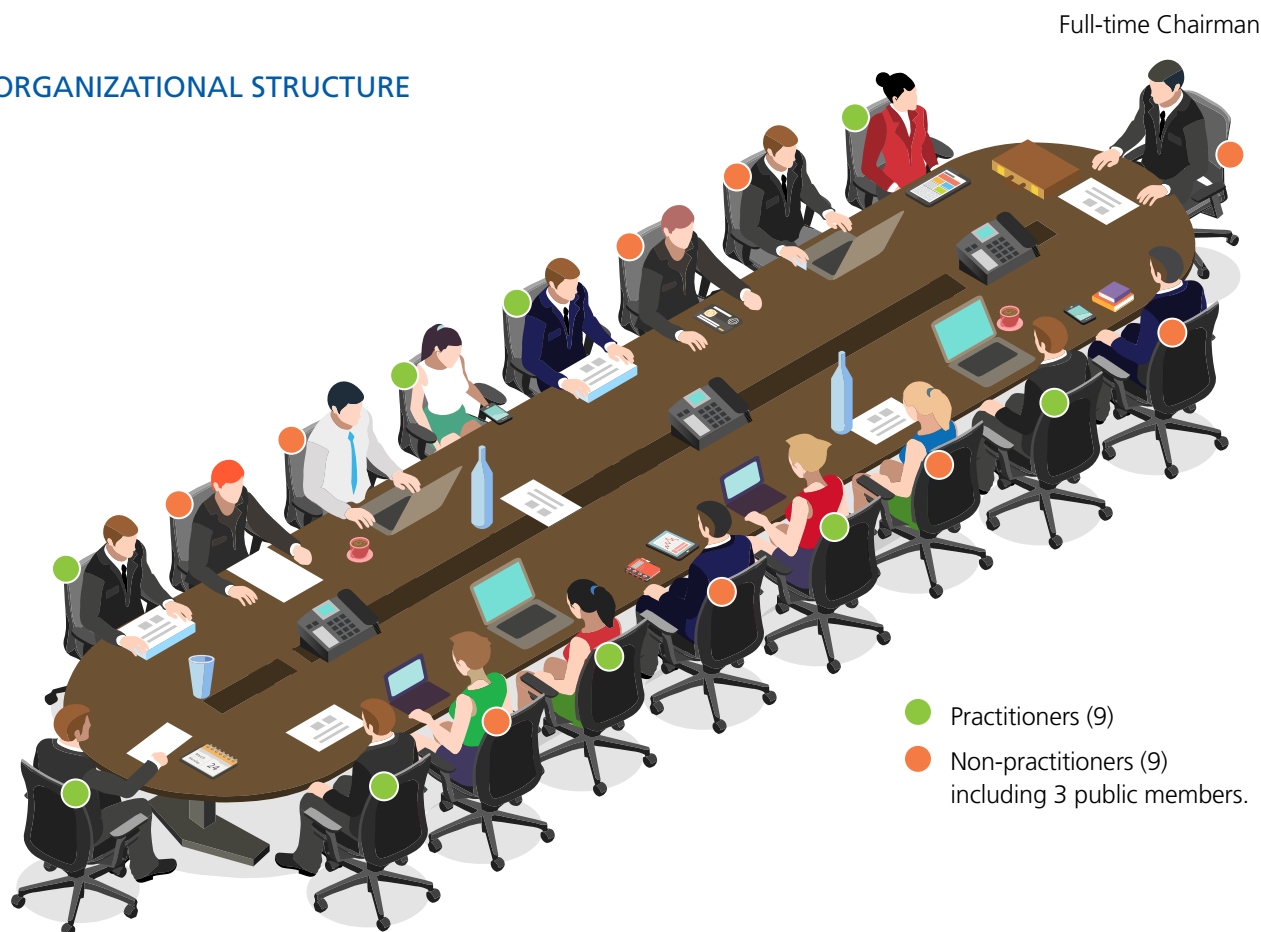
ORGANIZATIONAL STRUCTURE

The **Board** consists of 18 members, including a full-time independent Chairman, details of whom are set out in Appendix 1.

The Board's composition is an equal balance between practitioners and non-practitioners, the latter including no less than 3 public members. Generally board members are appointed for a three-year term that is renewable once, and annually sign a statement that they will act in the public interest.

Potential candidates for member or chair vacancies are identified through a public nominations process managed by IFAC's Nominating Committee and overseen by the PIOB. Following an initial selection by the Nominating Committee – which takes into account candidates' qualifications

ORGANIZATIONAL STRUCTURE



as well as broad representational and gender balance needs – interviews are carried out by the IAASB Chairman and a member of the Nominating Committee. The Nominating Committee recommends a final selection for endorsement by the IFAC Board and approval by the PIOB.

IAASB members may be accompanied at meetings by a technical advisor. A technical advisor has the privilege of the floor with the consent of the IAASB member, and may participate in projects. Technical advisors also annually sign a statement they will act in the public interest.

There are two **official observers** to the Board, the European Commission and the Japanese Financial Services Agency. These observers, as well as the IAASB CAG Chair and PIOB

representative, have speaking rights at the Board meetings.

The **IAASB Steering Committee** consists of the Chairman and five board members, and the IAASB CAG Chairman also attends Steering Committee meetings. The IAASB Steering Committee is a standing committee of the IAASB. The purpose of the Steering Committee is to formulate views and advise the IAASB on matters of strategic and operational importance to the IAASB, while also relieving the full Board of the need to address certain administrative matters that do not necessarily require our deliberation.

The IAASB sets its international standards with the benefit of advice and public interest input in an independent capacity from

the IAASB CAG. The IAASB CAG provides strategic and technical advice on IAASB's work plan as a whole and on individual projects at each key stage of development. The IAASB CAG consists of 29 Member Organizations representing global regulators, business and international organizations, and users and preparers of financial statements. A full overview of the organizations represented is included in Appendix 2 of this report. The IAASB CAG is led by an independent chair, which was held by Prof. Linda de Beer through March 2015; with Matthew M. Waldron elected to succeed her. Separate independent reports by the past and current IAASB CAG chairs are enclosed on pages 10–13 of this report.

The **IAASB staff team** is comprised of a Technical Director and seven technical Staff, as well as two administrative staff. Staff support the efforts of the Board and its task forces and working groups, conduct project research, prepare agenda materials for discussion with the Board and the IAASB CAG, and support the outreach program. Staff are seconded to the IAASB and report to the Managing Director, Professional Standards, who functionally reports to the IAASB Chairman

OPERATING MODEL

The IAASB ordinarily meets physically four times a year, resulting in approximately 20 days of available time for board deliberations. In addition, several Board teleconferences are held between the physical meetings.

The IAASB develops its standards principally through task forces. Task forces are ordinarily chaired by a Board member, and comprised of Board members, technical advisors and other participants, such as external experts, who are not members of the IAASB but have experience relevant to the subject matter. The outcome of task forces' deliberations are reported in the public agenda material of the IAASB.

With the exception of the full-time chairman, all of our members participate on a volunteer basis, contributing approximately 650-800 hours per year.

In developing its standards, the IAASB is dedicated to being transparent in its activities. Accordingly, the IAASB meetings are open to the public and related agenda material is publicly



available. Podcast (audio) summaries and meeting highlights of IAASB meetings are also accessible shortly after each meeting on the IAASB's website.

The IAASB also adheres to due process, as approved by the PIOB, which features extensive public consultation and public interest responsiveness to comments received from consultations. As part of this due process, all IAASB standard-setting projects are also discussed with the IAASB CAG at project inception, during the development of a proposed standard prior to exposure, and prior to finalization of the standard. The IAASB also formally reports back to the IAASB CAG on how its input has been considered. The IAASB CAG meets physically twice per year, supplemented by IAASB CAG teleconferences as needed, with its meetings open to the public and agenda material publicly available.

The structures and processes that support the operations of the IAASB are facilitated by IFAC. The IAASB

and IFAC operate in principle at arms-length in fulfilling their respective mandates. IFAC does not interfere with the independent decision-making process of the IAASB in carrying out its public interest function under its terms of reference. IFAC provides financial and staff resources necessary to implement the IAASB's strategy and work plans in the context of IFAC's overall financial position.



HOW WE DELIVER ON OUR STRATEGIC OBJECTIVES



THE IMPORTANCE OF STAKEHOLDER ENGAGEMENT IN OUR DUE PROCESS

The IAASB CAG forms an important role in representing our different stakeholder groups. In addition, the IAASB has continued liaison to further develop relationships with key stakeholders, including the International Accounting Standards Board (IASB), members of the Monitoring Group, other regulators and audit oversight bodies, practitioners (through the Forum of Firms, the GPPC and the IFAC Small and Medium Practices (SMP) Committee, and NSS.

While represented to a degree on the IAASB CAG, we continue to work to strengthen our interactions with investors, audit committees and preparers. Our work on the topics of auditor reporting and audit quality is particularly relevant to these stakeholders and this work often benefits from our existing relationships of a number of NSS around the world.

Our stakeholders bring their unique perspectives to our standard-setting activities as well as our information-gathering efforts on new topics. While many formally respond to our public consultations, we also benefit from direct interaction with these groups on a regular basis.

Frequent dialogue with regulators and audit inspection bodies, in particular IFIAR's Standards Coordination Working Group and IOSCO's Committee 1 and Auditing Subcommittee, give us feedback as to consistent themes that are emerging in inspections globally. This feedback may suggest areas where enhanced requirements or additional guidance in our ISAs may improve audit quality.

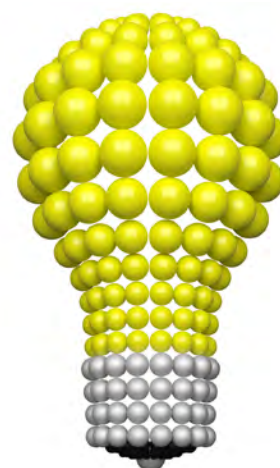


We engage with practitioners to understand how they are responding to these regulatory concerns, including how they may be improving their methodologies, and also seek to understand implementation challenges they may be facing. This is particularly important with respect to SMPs, who need us to be mindful of the ability of our standards to be scalable to audits of all sizes and complexity. We also include considerations specific to the public sector in our standards, which are informed by our interactions with the International Organization of Supreme Audit Institutions.

Annually we meet with our NSS Liaison Group to talk about topics of mutual interest. This dialogue helps us identify opportunities for collaboration and resource-sharing. As an example, representatives from a number of NSS have been discussing various approaches to agreed-upon procedures engagements. These discussions help inform how we might revise our international standard to meet the global demand and respond to an increasing trend towards multi-scope engagements.

IAASB NSS LIAISON GROUP

| JURISDICTION | ORGANIZATION |
|-----------------|---|
| Australia | Australian Auditing and Assurance Standards Board |
| Brazil | Ibracon – Instituto dos Auditores Independentes do Brasil |
| Canada | Canadian Auditing and Assurance Standards Board |
| China | Chinese Institute of Certified Public Accountants – Standards Setting Department |
| France | Compagnie Nationale des Commissaires aux Comptes |
| Germany | Institut der Wirtschaftsprüfer in Deutschland e.V.– Auditing and Accounting Board |
| Hong Kong | Hong Kong Institute of Certified Public Accountants |
| India | The Institute of Chartered Accountants of India |
| Japan | <ul style="list-style-type: none"> • The Japanese Institute of Certified Public Accountants – Auditing Standards • Japanese Financial Services Agency |
| Mexico | Mexican Institute of Public Accountants – Auditing and Assurance Standards Commission |
| The Netherlands | Koninklijke Nederlandse Beroepsorganisatie van Accountants |
| New Zealand | External Reporting Board – New Zealand Auditing and Assurance Standards Board |
| Nordic | Nordic Federation of Public Accountants |
| Russia | Department for Regulation of Public Financial Control – Auditing and Accounting |
| South Africa | Independent Regulatory Board for Auditors |
| United Kingdom | Financial Reporting Council – Audit and Assurance Council |
| United States | <ul style="list-style-type: none"> • American Institute of Certified Public Accountants Auditing Standards Board • US Public Company Accounting Oversight Board |



Academics provide valuable insight into our work. They explore user needs and emerging services, such as on the Auditor Reporting project, but also complex topics like the interaction between incentives and the application of professional skepticism. We interact with academics to understand the research they have undertaken, as well as support and commission academic work in coordination with the International Association for Accounting Education and Research.

Finally, we have forged a relationship with the IASB, with the goal of providing input on the auditability and verifiability of new and revised international financial reporting standards, thereby contributing to the quality of financial reporting.

We are also frequently invited to participate in events around the world by organizations such as the International Corporate Governance Network, the World Bank, the International Monetary Fund, IFAC member bodies and academic and other professional organizations. This allows us to expand our reach and benefit from these groups' relationships.

Each year we plan a number of country visits, which typically involve meetings with regulators, NSS and IFAC member bodies as well as auditors, users and preparers, together with one-on-one meetings with policymakers and investor groups.

SUMMARY OF OUTREACH ACTIVITY BY STAKEHOLDER GROUP

| STAKEHOLDER GROUP | Number of outreach activities | |
|---|-------------------------------|------------|
| | 2015 | 2014 |
| Accounting and Auditing Standard Setters | 22 | 15 |
| Regulators and Audit Oversight Bodies | 36 | 31 |
| Preparers, Investors, Governance Organizations, and Other | 35 | 12 |
| IFAC Member Bodies | 28 | 18 |
| Governments and Public Sector Organizations | 10 | 4 |
| Accounting Firms | 24 | 9 |
| Academic and Research Organizations | 13 | 11 |
| Regional Organizations and Events | 10 | 7 |
| Oversight and Consultation | 13 | 20 |
| TOTAL | 191 | 127 |

Finally, broad external communications are undertaken in the context of the board's overall activities. Communication channels include the IAASB's website, annual report, eNews and press releases; board meetings, including meeting highlights, minutes and podcasts; and individual projects, including "At a Glance" publications, press releases and project histories.

HOW OUR WORK PLANS ARE DEVELOPED

Our work is influenced by the international environment in which we operate. Developments in financial reporting frameworks, audit regulation and corporate governance regimes are particularly important to our work.

While there are calls from many stakeholders for IAASB efforts on a variety of important topics, the IAASB must prioritize its actions in light of its strategic objectives, available resources and its operating model.

In consultation with our stakeholders, we have identified specific criteria to support our decision-making process on what actions should be included in future work plans and how such actions can be prioritized. These criteria are set out in Appendix 1 of our Strategy for 2015–2019 and focus on:

- The urgency in the public interest of the need for change;
- The need for change to enhance audit quality or facilitate services other than audits that are being conducted internationally;
- The degree to which an identified issue would be addressed effectively through change to the standards or through other appropriate action; and
- The global applicability of the potential actions.

We consider how we can best fulfill our public mandate and whether we need to add initiatives to our Work Plan, recognizing the diverse needs of the wide range of its stakeholders, we take into account various sources. We consider feedback received from public consultation on the IAASB's strategy and work plans, outreach activities and discussions with the IAASB CAG and the PIOB.



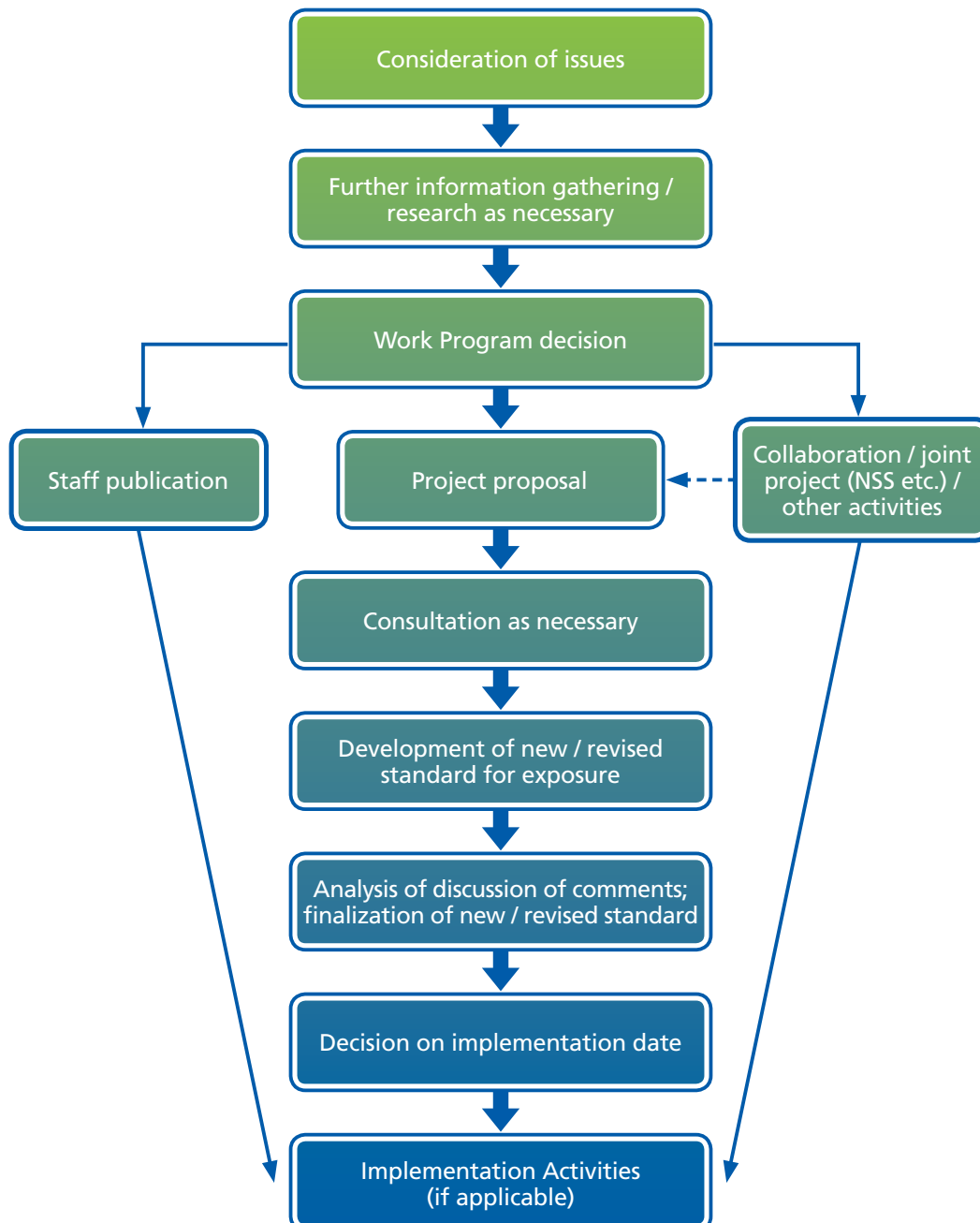
In a changing environment, there is a need to be flexible, both in the projects identified as a priority and in the approach to future work plans. Through ongoing discussions and outreach with stakeholders and monitoring national and international developments, we continually assess the prioritization of our future planned projects. We reallocate resources as appropriate or prioritize projects even though doing so may result in deferral of work on other projects. We also consider whether we can engage others, for example NSS or researchers, to assist us on specific projects, as well as other steps to enhance resources available to the IAASB.

OVERVIEW OF DUE PROCESS AND CONSIDERATION OF THE PUBLIC INTEREST

The following diagram indicates the typical process we follow in commencing work on individual projects that have been included in our Work Plan. While the process may vary, depending on the nature of the topic, the goal is always to obtain a wide range of stakeholder views to inform our work.

In the initial stage of a project, the issues are defined through input from different sources, such as the ISA Implementation Monitoring Project, outreach activities, interaction with the IAASB CAG, and work of others such as NSS. In addition further input may be obtained via surveys, consultation papers, information gathering, and specific outreach as necessary.

Once the issues are identified, we determine the most appropriate response(s) in light of the public interest issues identified. This includes not only standard-setting activities but also staff publications or other types of responses. We do this with the input and advice from the IAASB CAG. A PIOB observer is always present in our Board discussions and may intervene as appropriate.





When we determine that standard-setting is the most appropriate response to addressing a particular topic – whether through revision of an existing standard or the development of a new standard – our due process applies. This due process includes the necessary interactions with the IAASB CAG and PIOB, as well as public exposure of standard-setting proposals. During the development of a standard, we continuously seek input from different sources through outreach, including roundtables or targeted events.

There is also time embedded into our program for research activities,

education sessions to further inform our debates and decisions, external presentations, outreach and direct interaction with interested stakeholders, and development of communications relating to individual projects.

The overall time needed to address a particular topic is dependent on the complexity of the subject matter. The timing is affected by whether we issue consultation papers or conduct significant research or other outreach in advance of the issuance of an exposure draft, as well as the disparity of views among different stakeholders.





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