

IAASB's online Survey on Work Plan for 2017-2018 and Continuing Relevance of Its Strategic Objectives

Questions for Respondents:

1. Do you agree that the three strategic objectives for the strategy period 2015–2019 continue to remain relevant? Yes / No. Why or why not?

Three strategic objectives:

- (i) *Ensuring 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) *Ensuring the IAASB's Standards Evolve as Necessary to Adequately Address the Emerging Needs of Stakeholders for Services Other than Audits of Financial Statements*
- (iii) *Strengthening Outreach and Collaboration with Key Stakeholders in the Reporting Supply Chain on Public Interest Issues Relevant to Audit, Assurance and Related Services*

- (1) We agree that the three strategic objectives for the strategy period 2015-2019 continue to remain relevant.
- (2) By considering the first objective in particular, the IAASB addresses the need for change to enhance audit quality at a global level.
- (3) We recommend the IAASB to limit its requirements as far as possible so that the ISAs remain principles based. This will mitigate the risk of the ISAs becoming too "cluttered" with details, which can distract from the core principles. The tendency for complex rules-based requirements favoured by many regulators is a move away from what the profession believes and is a step in the wrong direction.
- (4) In addition, ensuring that the "IAASB's standards evolve as necessary" provides a clear understanding that additional standards should be developed only if they are absolutely required on a global level. It is also important for countries applying the ISAs to have sufficient time to adapt to the changes to these standards and translate them. Continual changes risk becoming counterproductive to the global acceptance of the ISAs. Therefore, caution needs to be taken against producing abstract or theoretical literature or making quick-fix changes to individual ISAs. The IAASB could adopt a systematic approach to changes instead of the piecemeal way in which changes have been issued in the more recent past.
- (5) We are also of the opinion that the auditor's role may evolve beyond his/her core function of auditing financial statements and extend to the audit of reports outside of the financial statements. Additional assurance might be obtained regarding areas of the annual report beyond the audited financial statements, for example the directors' report. However, the IAASB should not seek to require when such other reports ought to be subject to assurance - only how such an assurance engagement would be undertaken if required or requested.
- (6) The Federation also supports the IAASB in placing emphasis on dialogue with stakeholders in its strategy. For instance, the IAASB should have close coordination with IASB. It is also essential to have appropriate consideration of legislative initiatives i.e. EU Audit Reform. However, notwithstanding its effort to be responsive to stakeholders, care should be taken to maintain the right balance and variety of stakeholders, and not just the "key stakeholders in the reporting supply chain", thus helping ensure that the IAASB maintains its own independence. This is especially true in addressing the real needs of smaller entities and we acknowledge the IAASB's consideration of this matter. To this end, we note

that the ISAs are becoming more complex, with many requirements addressing the increasing complexity in the audit of large organisations in an international environment. The IAASB should not lose sight of the smaller entities which remains a significant part of the market, and the ISAs should not lose their ability to be effectively applied in these environments.

- (7) Lastly, we are pleased that the IAASB does not only consider the financial reporting supply chain but refers to the “reporting supply chain”. This will continue to grow in relevance, given that non-financial information reporting including the directors’ report and forward looking information, continues to grow in importance.

2. Do you agree with the IAASB’s view that the topics on pg.5-7 should continue to be prioritized? Yes / No. Why or why not? If you believe any project(s) or initiative(s) should not be prioritized, please provide your reasons for this view.

- (8) We agree with the IAASB’s view that these topics should continue to be prioritised.
- (9) The revision of **ISA 540** is essential to ensure the standard remains ‘fit for purpose’ in light of today’s evolving and complex business environment. There is need for concrete actionable requirements, and to leave room for professional judgment. In respect to the special audit considerations relevant to financial institutions, we are not supportive of such industry-specific audit guidance to be embedded within the suite of ISAs, rather we welcome individual industry specific International Auditing Practice Notes (IAPNs) where deemed necessary from a global viewpoint.
- (10) The Federation supports the IAASB’s effort to examine the quality control, and in particular the entire **ISQC 1** and **ISA 220** *Quality Control for an Audit of Financial Statements*. Any restructuring to ISQC 1 should also be reflected in ISA 220 as the latter is premised on the basis of the firm-wide quality control environment. We believe that the revision of ISQC 1 could potentially better address the issue of proportionality for SMPs; this is difficult with the current standard.
- (11) We are also supportive that the IAASB is addressing the issues in relation to **group audits** since this is an area that requires improvement, especially in topics such as the scoping and risk assessment, multi-location audits, the responsibilities of the component auditors, and adaptability in the face of changing business models and structures. This is also an area where the European Commission has noted a weakness.
- (12) The revision of the **ISA 315** is important. This standard can be difficult to apply in a number of areas, including the concept of significant risk and the extent of consideration of internal controls, particularly with regards to the audits of small less complex organisations. As part of this, the IAASB should focus also on the cost v benefit considerations. Separately, this standard, and perhaps ISA 330, could be more responsive to a number of the innovations that are starting to be deployed by audit firms. Many of these were highlighted in the IAASB’s recent Audit Quality consultation and include aspects such as shared service centres and outsourcing.
- (13) Moreover, we welcome the fact that **professional scepticism** was included in the ITC since this continues to be a focus area for stakeholders and the standards need to continue to emphasise the need for professional scepticism to be applied and provide principles-based guidance for the auditor, rather than for the application of strict rules. Many of the challenges regarding professional scepticism also manifest themselves in the context of accounting estimates and, as such, the revision of ISA 540 is very relevant to the topics discussed.

- (14) It is important for the IAASB to continue exploring how the **use of technology**, and in particular, **data analytics**, can enhance the effectiveness and quality of audits. This will enable the IAASB to ensure that future developments of standards and guidance will embrace the use of these technologies and enable the profession to innovate. One of the most critical factors for the future of audit and assurance is the effective use of information technology (IT) in carrying out the audit. IT has had, and will continue to have significant impact on the profession's work. The so-called 'Big Data technologies' have the potential to be revolutionary for the audit profession: the automation of data reconciliation, of audit sampling and testing, and complex recalculations etc., will be used more and more in the future. However, IT development, and the increased complexity of our society and businesses should be seen as development opportunities for auditors. There are also challenges in that if not addressed appropriately, these opportunities could very easily become a threat. The Federation supports the IAASB giving further consideration to issues, such as the impact on audit methodology and the level of evidence so as to reflect these developments in their standards. We would therefore suggest that the IAASB speeds up the project on data analytics considering the importance of the subject.
- (15) Furthermore, we agree with the IAASB's plan to continue monitoring the **implementation of its new and revised auditor reporting standards**. It is essential that the IAASB continues to consider how the new Audit Directive and Regulation, that came into force in June, impacts its own Strategy and Work Program in relation to the auditor reporting in the EU.
- (16) The topic of **integrated reporting** and other emerging developments in external reporting is a developing issue which continues to grow in importance. In the Federation's publication on the Future of Corporate reporting, a large number of respondents thought that the profession needed to respond to recent developments in narrative and non-financial reporting. Given the increasing importance that businesses give to non-financial drivers and Key Performance Indicators (KPIs), the auditing profession should strive to address these emerging market needs.
- (17) Moreover, we are in favour of revising **ISRS 4400**. This is especially an issue for SMEs and will certainly reflect the need for balance in addressing the stakeholder needs. There is also increasing relevance of agreed upon procedures for purposes such as funding and grants. This makes it increasingly important to have clarity about the uses and scope of these engagements, and how the work done needs to "match" the reporting. The fact that individuals not familiar with the audit procedures performed regularly devise the work programs, often leads to complications in practice.
- (18) Last but not least, we support the activities of the **Innovation Working Group** to monitor developments in corporate governance and cybersecurity. While, we recognise the impact of corporate governance on audit quality, it is also very important to consider the reliability and protection of data.

3. Please indicate the relative importance (Not important, Moderately important, Very Important) of a focus and share views, if any, on the following:

a. Consideration of matters related to SMPs and SMEs

b. Coordination with the IESBA

- (19) The consideration of matters related to SMPs and SMEs is very important. Standards should be developed in a way that facilitates proportionate application for the audit of the smallest entities. We are, therefore, very supportive of IAASB's intention to establish a Working Group in exploring the issues and implementation needs of SMPs as well as considering the international standards that address services for entities that do not necessarily required an audit. On a different note, we also

suggest that the factors guiding the identification of potential priorities and actions in future plans, as included in pg.5 of the “Supplement to the IAASBs Consultation on its Strategic Objectives and Work Plan for 2017-2018”, are rephrased in way to give due consideration on potential client’s changing needs, especially in the SME sector. We suggest that the criteria be more specific, since we are not convinced that the notion of the “perceived urgency in the public interest of the need for change [...] and the impact of business of all sizes” appropriately reflects these aspects.

- (20) Effective two-way communication and cooperation at an early stage between the IAASB and IESBA is vital considering the linkages between the International Standards on Auditing and the IESBA *Code of Ethics for Professional Accountants*. For instance, we encourage the fact that the issue of professional scepticism is considered jointly with the IAASB and the IESBA as it is essential to clarify the relationship of the ethical principles such as objectivity, independence of mind, professional competence, and professional due care to professional scepticism (i.e. the impact of these principles on professional scepticism). Professional scepticism’s relationship with the concepts such as reasonable assurance and sufficient appropriate evidence is also critical. It is important that audit considerations should only be included in auditing standards; they should not be driven by revisions to the ethical standards. The Federation would also suggest the IAASB be cautious about seeking to extend the concept of professional scepticism beyond assurance engagements, as this may lead to inappropriate work effort for professional accountants not performing assurance engagements.
- (21) However, we recognise that the IESBA Code of Ethics is not as widely adopted as the ISAs. Ethical requirements are mainly a national competence and it remains a difficult area to harmonize on a worldwide basis. Too much coordination, and thus far-reaching changes to copy the IESBA Code of Ethics into the IAASB Standards, might therefore lead to a reluctance to adopt these Standards too.

Please indicate the relative importance (Not important, Moderately important, Very Important) of a focus, and share views, if any, on the following:

- **Materiality and evaluating misstatements (ISA 320 and ISA 450)**- Very important. However, this depends on progress made at the IASB, therefore the IAASB could urge the IASB for action.
- **Going concern, including further actions related to auditor reporting** - Very important. However, as this depends on progress made at the IASB this is currently moderately important from an IAASB perspective.
- **Potential revision of the IAASB’s standard dealing with the use of the work of an auditor’s expert (ISA 620)**- Not important. ISA 620 remains sound, and there are no indications that it is substantially flawed.
- **Exploring issues related to audit evidence, and potential revision of the IAASB’s standard dealing with audit evidence (ISA 500)** - Moderately important, but this should be confined to changes resulting from developments in the professional scepticism and data analytics projects.
- **Analytical procedures and audit sampling** - Not important immediately as a separate project. However, the data analytics work may well indicate the necessity for changes to these standards.

- **Potential revision of the IAASB’s standard addressing the auditor’s responses to assessed risks (ISA 330)** - Moderately important, however changes should be limited to any conforming changes arising from the IAASB’s project on ISA 315.
- **Potential revisions to the IAASB’s standard dealing with the auditor’s responsibilities relating to fraud in the audit of financial statements (ISA 240)** - Moderately important. What is required over fraud is changing. It is important that the standard keeps up with current thinking. We have not classified this as ‘very important’ for the 2017-2018 timeline because we acknowledge that the IAASB might not have the capacity at this time to provide a proper revision. A “quick fix” would not suffice.
- **Further revision to the IAASB’s standard dealing with the auditor’s consideration of laws and regulations in an audit of financial statements (ISA 250)** - Moderately important. The standard should be looked at, as it needs to keep pace with current practice. We have not classified this as ‘very important’ for the 2017-2018 timeline because we acknowledge that the IAASB might not have the capacity at this time to provide a proper revision. A “quick fix” would not suffice.
- **Developing a process for post implementation reviews of other standards, including the IAASB’s standards on compilations (ISRS 4410 (Revised) and reviews (ISRE 2400 (Revised)))** - Not important.
- **Potential revision of the IAASB’s standard addressing external confirmations (ISA 505)** - Not important. The current priorities are such that the IAASB will not have the necessary time in 2017-2018 to address the issues for which ISA 505.A12 and A13 do not provide the answers needed in practice, i.e. the use of electronically sent confirmations is an issue, not only the responses received electronically but also sending out the confirmation requests.
- **Potential further revision of the IAASB’s standard dealing with using the work of internal auditors (ISA 610 (Revised 2013))** - Not important. This standard was recently revised.
- **Potential revision of the IAASB’s standard addressing the examination of prospective financial information (ISAE 3400)** - Moderately important. The standard is now too old, but is still needed for engagements dealing with prospective information.
- **Potential revision of the IAASB’s standard dealing with the review of interim financial information performed by the independent auditor of the entity (ISRE 2410)** - Moderately important. The standard is now too old, but is still needed, since ISRS 2400 does not apply to these reviews.
- **Auditor involvement with earnings releases / preliminary announcements** - Not important. This is a regulatory issue (varies from jurisdiction to jurisdiction) and so cannot be solved by the IAASB.
- **Exploring matters related to direct engagements (i.e., where the practitioner prepares the subject matter information in an assurance engagement)** - Not important.
- **Exploring matters relating to joint audits (i.e., where two or more auditors share responsibility for the audit and the auditor’s report)** - Moderately important. This is not a priority for the 2017-2018 work plan of the IAASB due to the already very busy agenda of the IAASB. However, it is an emerging issue. As part of the implementation of the European Union (EU) Audit Reform and the mandatory audit firm rotation, it should be

noted that a growing number of EU member states have or plan to use joint audit as an incentive to permit the extension of the duration of the audit engagement of the auditor(s). The position to explore or not matters related to joint audit should be reassessed in light of the number of countries that will or will not opt for joint audit in the near future.

- **Overarching considerations relevant to the International Framework for Assurance Engagements** - Not important. The current priorities are such that the IAASB will not have the necessary time in 2017-2018 for such a fundamental project.
- **Other – as identified by respondent** - Nothing to report.

4. You are invited to share any further views that you believe may be relevant to the IAASB as it seeks to finalize its Work Plan for 2017–2018

- (22) We take this opportunity to inform you on related work carried out by the Federation. Its discussion paper *Opening a Discussion: The Future of Audit and Assurance*, published in 2014, engages the accountancy profession in an open and dynamic debate with its stakeholders. The Federation’s paper *Pursuing a strategic debate: The future of audit and assurance* presents a summary of the responses received to the Federation discussion paper, as well as some of the topics highlighted in the debate at the Federation’s audit conference in June 2015: *Long Term Vision and Short Term Challenges*.
- (23) Audit quality was highlighted as an important overarching theme by a number of respondents to the discussion paper. There was also a consensus amongst respondent that professional judgement should be bedrock of quality audit work.
- (24) Furthermore, respondents and attendees at the conference emphasized that:
- Engagement with stakeholders needs to be enhanced – continuous and structured dialogue with regulators and the public can help the accountancy profession address issues relating to the credibility and performance of audit work.
 - Harnessing the benefits of technology and in particular on going innovations in IT is one of the key challenges ahead.
 - The way the future generation of auditors is educated and trained may need to be adapted to reflect a changing environment. This will ensure that smaller firms keep up with the pace of change. Ethics together with professional scepticism will still be important elements of the skillset in the future.
- (25) It is highly desirable that in the proposed Work Program the IAASB considers revising older standards relating to services beyond financial statement audits – e.g. ISRS 4400, ISRE 2410 or ISAE 3400. The Work Program has been ‘audit centric’ recently and so it is important that the IAASB now appears to accord the appropriate weight to these other IAASB standards. This reflects the need for balance in addressing stakeholder needs.
- (26) Moreover, the Federation encourages the IAASB to prioritise beyond the audit of the largest companies (public interest in capital market being a key driver) so as to serve the SMP communities needs in terms of standards.
- (27) We are pleased that the IAASB is engaged in these themes and also encourage the IAASB to continue supporting the constant adaptation of the profession to an ever rapidly changing environment, and to better serving new market needs.