



**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** September 9–10, 2013

## Agenda Item

# J

### IAASB Future Strategy 2015–2019 and Related Work Program

#### Objectives of Agenda Item

1. To provide a report back on the initial views of the Representatives on this project and other relevant initiatives as discussed at the April 2013 CAG Meeting.
2. To discuss a draft consultation paper (CP), *Proposed IAASB Strategy for 2015–2019 and Related Work Program* (“draft 2015–2019 SWP”)

#### Papers to Be Referred to during Discussion

3. The discussion on this topic will follow the structure of this CAG Paper. Within this paper, reference is made to **Agenda Item J.1**, the draft 2015–2019 SWP, to facilitate the discussion. **Agenda Item J.2** includes a report back on the April 2013 CAG meeting.

#### Project Status and Timeline

4. The IAASB’s formal strategy consultation process commenced with the Stakeholder Survey (“Strategy Survey”) released in February 2013 to seek views to help identify key issues for consideration by the IAASB in developing its future strategy. At the April CAG 2013 meeting, Representatives were asked to share initial views on the Board’s future strategy and discussed two important inputs into the Board’s future work program – the preliminary findings of the ISA Implementation Monitoring project and the Terms of Reference for the Innovation, Needs, and Future Opportunities (INFO) Working Group.
5. The IAASB will consider **Agenda Item J.1** at its September 2013 meeting, with plans to approve the CP for public consultation at the December 2013 IAASB meeting. While CAG Member Organizations will have the opportunity, and are strongly encouraged, to formally respond to the CP when it is issued, this session provides the opportunity for the CAG to provide initial views on the strategic themes identified in the CP, as well as priorities
6. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

## Matters for CAG Consideration

### *Process to Develop the Draft CP*

7. The Strategy Survey was open for comment through May 7, 2013, and seventy-six responses were received, which included responses from 5 CAG Member Organizations. Appendix 2 to this paper provides an overview for of the responses received and information on the respondents. In addition to the responses to the Strategy Survey, the Steering Committee (which serves as the Task Force for this project), considered a number of other inputs to identify the potential projects proposed.
8. Responding to the key implementation issues identified from the IAASB's [Clarified International Standards on Auditing—Findings from the Post-Implementation Review](#) (included as a CAG Reference Paper) will be a key area of strategic focus for the IAASB in its future strategy period, a point which was also echoed by respondents to the Stakeholder Survey. The ISA Implementation Monitoring Task Force provided the Steering Committee with views on strategic options for addressing the issues that had been identified for their further consideration, including steps to accelerate projects.
9. In addition to dialogue with key stakeholders and others, further inputs considered in determining the possible projects and their priorities included, among others:
  - (a) Letter from Basel Committee on Banking Supervision suggesting revisions to various ISAs relevant to banking, and possible guidance for auditing banks (see Appendix 3 to this paper).
  - (b) Letter from European Securities and Markets Authority (ESMA) to highlight various issues relating to materiality in ISA 320.<sup>1</sup>
  - (c) Input from national auditing standard setters (NSS) on their, and other, relevant initiatives, including, for example:
    - Japan – revision of *Standard to Address Risks of Fraud in an Audit*.
    - South Africa – development of assurance on integrated reporting.
    - Germany – revision of ISQC 1.<sup>2</sup>
    - Scotland – developments on levels of assurance.
    - Global – Updated COSO Framework.
  - (d) Other IAASB projects, for example ongoing monitoring by the INFO Working Group relating to developments in integrated reporting; revision of other standards as a result of the IAASB's

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<sup>1</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>2</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Auditor Reporting proposals (going concern and revision to ISA 800-series)<sup>3</sup> and the audit implications of auditing disclosures (materiality).<sup>4</sup>

### *Strategic Themes*

6. The Strategic themes are intended to illustrate how the IAASB intends to focus its efforts over the 2015–2019 strategy period. The Steering Committee supported the development of new strategic themes for 2015–2019 based on the various sources of input.
7. Section II of the draft Strategy CP (**Agenda Item J.1**) sets out the proposed strategic themes. The themes have been drafted to group key areas of focus by the IAASB by major category of standards (i.e., audit and quality control; assurance and related services) and by efforts relevant to all the standards (i.e., supporting and monitoring use of the standards, and collaboration and cooperation). A broad description of the potential projects in each theme follows.

### *Potential Actions and Priorities*

8. Section III of the draft Strategy CP (**Agenda Item J.1**) and the Table on pages 17–20 sets out the project priorities that broadly reflect key areas of priorities based on the views of the Steering Committee and respondents to the Stakeholder Survey, as well as consideration of the factors noted in paragraph 36 of the draft Strategy CP. The Steering Committee is of the view that these actions and priorities represent substantive areas of focus that would best serve to implement the strategic themes.
9. The Table in Appendix 3 of the draft Strategy CP (**Agenda Item J-1**) sets out the proposed 2015–2016 Work Program, and includes the IAASB’s expected work effort in 2014 for reference, in particular to illustrate those projects in the IAASB’s current Work Program that are expected to continue into the next strategy period.
10. While it is appropriate to set an ambitious program, there is a risk of setting unrealistic expectations in terms of what the Board can address, and therefore failing to deliver against plan. At this stage it is difficult to assess Board capacity until specific project proposals are developed. Further, there is also little room for reacting to unforeseen developments, other than through delaying activities on an initiative if and as necessary in the circumstance. As noted in the draft Strategy CP, additional capacity may also impact the projects that can be undertaken (see paragraphs 37–41 of **Agenda Item J.1**).
11. As indicated in the draft Strategy CP, responsiveness to the findings from the ISA Implementation Monitoring project can be evidenced by the priority attention and emphasis given to the projects identified by this initiative. The draft Strategy CP also indicates the IAASB’s approach to address specific aspects of particular standards as a matter of priority by undertaking “limited scope”

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<sup>3</sup> In the IAASB’s July 2013 Exposure Draft, [Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing \(ISAs\)](#), the IAASB acknowledged the need for due consideration to the potential effect on ISAs 800, 805 and 810 (the “ISA 800” series) of changes arising from the Proposed ISAs. As the revisions to the ISA 700 series are finalized in 2014, a separate project to revise the ISA 800 series is expected to commence

<sup>4</sup> The IAASB will continue to monitor developments arising from the work of the IASB to explore further guidance on materiality and whether there is a need for enhancement of ISA 320.

amendments as part of the broader considerations around certain projects. As the IAASB has not previously used such a mechanism, the draft Strategy CP seeks to explain the overall approach to be taken to such amendments. It notes that, within an overall project, the first area of focus by the IAASB will be to address certain specific aspects of the standards on a “limited scope” basis – namely, those issues identified by the ISA Implementation Monitoring project. These “limited scope amendments” would still be subject to the same due process requirements as applied to any changes or revision of a standard, but taking steps to address key issues on a more timely basis is likely to be necessary in light of the emphasis certain stakeholders, in particular regulators and audit oversight bodies, have placed on these topics. A fuller review of one or more standards (e.g., the quality control standards) may be undertaken following the completion of the development of the “limited scope” amendments. In regard to this fuller review, it is anticipated that the IAASB will have the benefit of observations related to those remaining aspects of the standards noted during the Board's deliberations on its “limited scope” efforts.<sup>5</sup>

#### *Other Possible Projects*

12. Based on the Stakeholder Survey and other inputs, there were a number of additional possible projects suggested for consideration but which have not been identified in the draft Strategy for action. These include, among others:

- Revision of ISAE 3400, *The Examination of Prospective Financial Information*;
- Revision of ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*;
- Development of assurance standard on Direct Engagements; and
- Development of assurance standards on reporting on internal controls, and sustainability reporting.

In addition, a minority of respondents variously noted topics such as joint audits and comfort letters.

13. The Steering Committee does not believe any of these potential topics should take higher priority than (or in light of the already ambitious program and resource constraints, replace) any of the projects listed in the draft Strategy CP. While there are calls from specific groups or regions for action in these areas, they do not meet many of the criteria noted in paragraph 36 of the CP (e.g., global relevance, urgency) to the same degree as do the projects identified in the draft Strategy. In addition, several of these may be further informed by the monitoring activities of the INFO Working Group, for which capacity for one or more projects arising therefrom has been provided for in the latter part of the strategy period.

#### *Modus Operandi*

14. In the October to December 2013 period, the Steering Committee expects to further consider whether the IAASB is operating in the most effective and efficient way—strategically and operationally. At this stage, the draft Strategy CP focuses on *what* the IAASB should be

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<sup>5</sup> The IAASB's experience with the use of “limited scope” amendments may also inform the IAASB's consideration of other “rapid response” mechanisms as appropriate.

addressing. Any changes in Board and Staff capacity (or arrangements for support by others) would likely initially be focused on accelerating the timing of projects.

#### **Matters for CAG Consideration**

1. Do Representatives believe the strategic themes identified are considered appropriate for the period 2015–2019? If not, please explain.
2. Do Representative believe the identified actions and projects for each strategic theme (summarized in the Table on pages 17–20 of **Agenda Item J.1**) are appropriate, and have been given appropriate prioritizations? If not, please explain. Representatives are particularly asked for their views on the initial two-year work program included in Appendix 3 of **Agenda Item J.1**.
3. Do Representatives believe there is an action(s) or project(s) that have not been identified which should be considered during 2015–2019? If so, which initiative identified in the Table on pages 17–20 of **Agenda Item J.1** do Representatives believe should be replaced by this action(s) or project(s)? Please provide an explanation of your views.
4. Do Representatives believe there is an action or project identified, that is of such urgency and importance that it warrants considering the need to devote a significant majority of its attention in the 2015–2016 period in order to achieve progress on an accelerated basis?
5. Representatives are asked to share views on whether there are any other relevant matters that should be considered in finalizing the draft Strategy CP.

#### **IAASB Interaction with the IAASB CAG**

15. The substantive issues raised on the project for the purposes of the September 2013 IAASB meeting have been included in this paper and **Agenda Item J.1**. The December 2013 IAASB meeting will serve as the final discussion of the CP prior to its anticipated approval by the IAASB.

#### **Material Presented – IAASB CAG PAPERS**

Agenda Item J.1	Draft of the Consultation Paper, <i>Proposed IAASB Strategy for 2015–2019 and Related Work Program</i>
Agenda Item J.2	ISA Implementation, INFO Working Group and Strategy – Report Back on the April 2013 CAG Meeting

#### **Material Presented – IAASB CAG REFERENCE PAPER**

Final Report on the ISA Implementation Monitoring Project	<a href="#"><u>Clarified International Standards on Auditing—Findings from the Post-Implementation Review</u></a>
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**Project History**

**Project: IAASB Future Strategy 2015–2019 and Related Work Program**

**Summary**

	<b>CAG Meeting</b>	<b>IAASB Meeting</b>
Project Commencement	April 2013	February 2013
Development of Proposed Strategy and Work Program (up to Consultation)	September 2013	September 2013
Consultation		
Report Back on Final Consultation Paper and Further Discussion		
Consideration of Respondents' Comments on Consultation		
Final approval of Strategy and Work Program		

**CAG Discussions: Detailed References**

<b>Project Commencement</b>	<p><u>April 2013</u>                      See IAASB CAG meeting material (in Agenda Items G, G.1, G.2, G.3, G.4):  <a href="http://www.ifac.org/meetings/new-york-usa-1">http://www.ifac.org/meetings/new-york-usa-1</a>                      See CAG meeting minutes (in Agenda Item G of the following material):                      See draft April 2013 meeting minutes in Agenda Item A.                      See report back on April 2013 CAG meeting:                      See Agenda Item J.2.</p>
<b>Development of Proposed Strategy and Work Program (Up to Consultation)</b>	
<b>Report Back on Final Consultation Paper and Further Discussion</b>	
<b>Consideration of Respondents' Comments on Consultation</b>	
<b>Final Approval of Strategy and Work Program</b>	

## Appendix 2

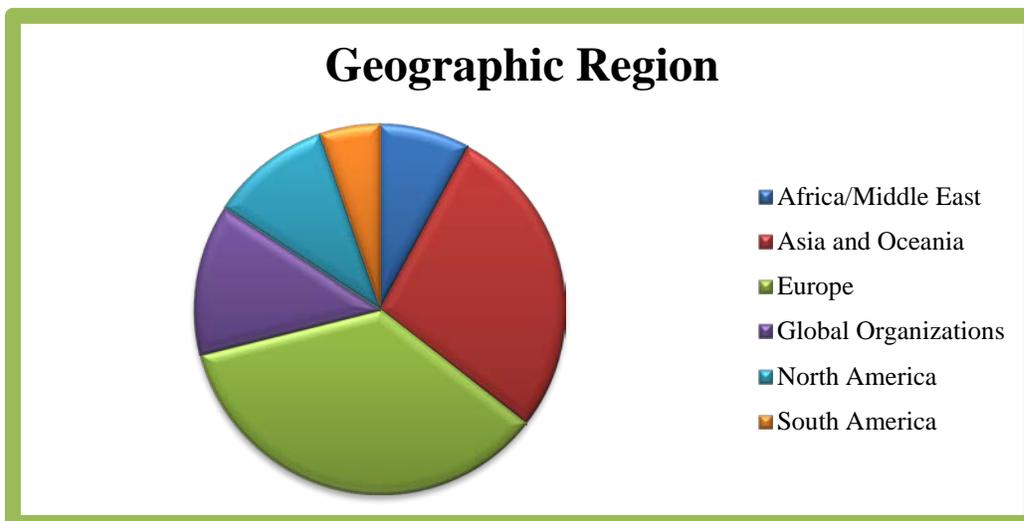
### Summary of Responses to the February 2013 Strategy Survey

#### Summary of Key Strategic Influences and Challenges from the Responses to the Stakeholder Survey

1. Seventy-six responses were received to the IAASB's online Stakeholder Survey. Appendix 1 lists all respondents to the Survey, for information purposes only.<sup>6</sup>
2. Responses were received from the following stakeholder groups:



3. The geographic coverage of responses is shown below:



<sup>6</sup> The survey indicated that individual responses would not be on public record, and would be summarized for discussion purposes. It also noted that the summary may be made public.

*Views on Key Issues, Trends or Developments to Influence the IAASB in Its Future Strategy*

4. The Stakeholder Survey asked respondents to identify key issues, trends or developments that, in their view, would be relevant to the IAASB's future strategy.
5. At a broad level, the key trends noted by respondents may be characterized as follows:
  - a. **Changing environment (and accordingly, are the standards “fit for the future”?)**

Developments noted include:

    - New and complex technologies; potential implications for audit/assurance engagements.
    - Evolving frameworks (e.g., COSO,<sup>7</sup> Integrated Reporting (<IR>)).
    - Demand for assurance on forward-looking or non-financial information.
  - b. **Increasing importance of SME market**

Views and observations noted include:

    - Standards/services need to be seen as valuable, relevant, cost-effective; increasingly, Small and Medium Practices (SMPs) now look to IAASB standards as a source for relevant services.
    - Small- and Medium-Sized Entities (SME)/SMP sector sensitive to regulatory/standards burden.
  - c. **Increasing role of regulation, with focus on consistency of application of standards**
    - Calls for guidance to support consistent interpretation and application of the standards.
    - Increasing need for effective interaction with regulators and oversight bodies.
  - d. **Continuing need to reinforce importance of professional skepticism**
6. Further influencing issues noted by respondents included:
  - Need to maintain trust in the profession, including considering the role of the auditor and the value of an audit.
  - Global focus on audit quality.
  - Increased demand for other types of assurance and related services.
  - Economic conditions and global stability.
  - The impact of local regulation on standards.

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<sup>7</sup> Committee of Sponsoring Organizations of the Treadway Commission

*Balance of Efforts between Standards*

7. In the current strategy, the IAASB has devoted /is devoting roughly equal time to audits, reviews, other assurance and related services engagements. Responses to the Stakeholder Survey indicated a shift in this balance would be appropriate.
8. At a broad level, the main messages in the responses may be characterized as follows:
  - a. **Overall priority effort: Audit**
    - Consistent view across significant majority of respondents, in particular regulators.
  - b. **Strong emerging interest as a priority area of focus: Quality Control**
    - Consistent view across majority of respondents, with notable interest from academia and investor respondents.
  - c. **Continued interest for IAASB effort: Other Assurance**
    - Significant interest by National Auditing Standard Setters (NSS) and public sector respondents as an area for continued development by IAASB.

Relatively less priority was assigned to developing standards for new review or related services, though some (in particular SMP constituents) noted continued focus by the IAASB would be relevant. Specific allocations, in summary, are as follows:

Developing new or revising existing standards for:	Directional Change from Current Balance of Effort
Audits	
Reviews	
Other Assurance (no change)	
Related Services	
Quality Control	

*Balance of Efforts between Standards Development vs. Facilitating Implementation*

9. Respondents also signaled their view on the balance between developing new or revising standards; or facilitating adoption, and monitoring and facilitating effective implementation.
10. At a broad level, the main messages in the responses may be characterized as follows:
  - a. **Audit and Quality Control**
    - Calls mainly for significant focus on **implementation support and guidance**, particularly for SMPs (A respondent characterized the sentiment as “The days of simply issuing standards are past.”)

- However, support also for **revision of standards as necessary in light of ISA Monitoring findings.**

**b. Reviews**

- Calls mainly for **monitoring, facilitating adoption and supporting effective implementation.**

**c. Other Assurance**

- Calls mainly for **development of new standards.**

**d. Related Services**

- Relatively more balanced calls for **equal effort**, as an area where IAASB has been recently active / plans to be active and representing an area of global growth particularly for SMPs.

11. Specific allocations, in summary, are as follows:

	<b>Facilitate adoption, and monitor and facilitate effective implementation</b>	<b>Develop new or revise standards</b>	<b>Equal efforts to both</b>
Audits	55%	9%	36%
Reviews	55%	10%	35%
Other Assurance	27%	45%	28%
Related Services	40%	20%	40%
Quality Control	48%	20%	32%

## List of Respondents to the Strategy Survey

#	Respondent	Region
<b>Investors and Users (5)</b>		
1.	Asian Corporate Governance Association	Hong Kong
2.	Hermes Equity Ownership Services	Global
3.	International Corporate Governance Network	Global
4.	KGJ Investments SA Sicav-SIF	Luxembourg
5.	Staff of Group of 100	Australia
<b>Regulators and Oversight Authorities (3)</b>		
6.	Basel Committee on Banking Supervision	Global
7.	Independent Regulatory Board for Auditors (South Africa)	South Africa
8.	The World Bank	Global
<b>National Auditing Standard Setters (6)</b>		
9.	Australian Auditing and Assurance Standards Board	Australia
10.	Canadian Auditing and Assurance Standards Board	Canada
11.	Hong Kong Institute of Certified Public Accountants	Hong Kong
12.	Institut der Wirtschaftsprüfer e.V.	Germany
13.	The Japanese Institute of Certified Public Accountants	Japan
14.	New Zealand Auditing and Assurance Standards Board	New Zealand
<b>Accounting Firms (18)</b>		
15.	BDO International	Global
16.	BBR Elma-Polaudit	Poland
17.	Deloitte & Touche (South Africa)	South Africa
18.	Ernst & Young Global Limited	Global
19.	Fiscal & Financial Consulting	Albania
20.	Grant Thornton International	Global
21.	JEZL Auditores Contadores Cia.Ltda	South America
22.	KPMG IFRG Limited	Global
23.	Mazars (France)	Global
24.	Prashant Verma & Associates	India
25.	PricewaterhouseCoopers International Limited	Global
26.	RSM International	Global
27.	SMS Latinamerica	Argentina

#	Respondent	Region
28.	SRA (Netherlands Network)	EU
29.	TAGI	Saudi Arabia
30.	UHY	UK
31.	Williams Adley	USA
32.	Anonymous	Hong Kong
<b>Public Sector Organizations (2)</b>		
33.	Office of the Auditor General of Canada	Canada
34.	Chartered Institute of Public Finance and Accountancy	Global
<b>Preparers of Financial Statements (1)</b>		
35.	SIMS	India
<b>Member Bodies and Other Professional Organizations (20)</b>		
36.	Association of Chartered Certified Accountants	Global
37.	Certified General Accountants Association of Canada	Canada
38.	Chamber of Financial Auditors of Romania	Romania
39.	Compagnie Nationale Des Commissaires Aux Comptes	France
40.	CPA Australia	Australia
41.	Denmark Institute of Public Accountants	Denmark
42.	European Federation of Accountants and Auditors for SMEs	EU
43.	Federation of European Accountants	EU
44.	Institute of Certified Public Accountants of Singapore	Singapore
45.	Institute of Certified Public Accountants of Uganda	Uganda
46.	Institute of Chartered Accountants of England and Wales	England
47.	Institute of Chartered Accountants of Scotland	Scotland
48.	Institute of Chartered Accountants of Zimbabwe	Zimbabwe
49.	Instituto dos Auditores Independentes do Brasil	Brazil
50.	The Korean Institute of Certified Public Accountants	Korea
51.	New Zealand Institute of Chartered Accountants	New Zealand
52.	Slovenian Institute of Auditors	Slovenia
53.	Small and Medium Practices Committee	Global
54.	Wirtschaftsprüferkammer (German Public Accountants MB)	Germany
55.	Anonymous	Norway
<b>Academics (14)</b>		
56.	AIT (Athlone Institute of Technology)	Ireland

#	Respondent	Region
57.	Burapha University	Thailand
58.	Dublin City University	Ireland
59.	Freie Universität Berlin	Germany
60.	Iowa State University	UK
61.	Massey University	New Zealand
62.	P.K. College	India
63.	PNU University	Iran
64.	UAE University	United Arab Emirates
65.	University of Liège	Belgium
66.	University of New South Wales (Roger Simnett)	Australia
67.	University of New South Wales	Australia
68.	University of São Paulo	Brazil
69.	Anonymous 7	Hong Kong
<b>Individuals and Others (7)</b>		
70.	Individual 1	Canada
71.	Individual 2	Brazil
72.	Individual 3	UK
73.	Individual 4	Ireland
74.	Individual 5	UK
75.	Individual 6	Malaysia
76.	Individual 7	Belgium

## Appendix 3

### Letter from Basel Committee on Banking Supervision

1. In March 2013, a letter was received from the Basel Committee on Banking Supervision (Basel Committee) urging the IAASB to enhance relevant ISAs, supported by guidance, for the external audit of banks.
2. The Committee noted that, while supportive of the ISAs, the Basel Committee do not believe that the ISAs sufficiently address significant issues faced by bank auditors, and have outlined those areas where they believe the ISAs could be enhanced. They have also suggested that the IAASB consider a dedicated International Auditing Practice Note (IAPN) for the audit of banks to fully capture all relationships when auditing a bank, which could be used in conjunction with the Committee's recently revised guidance. Areas for further consideration include:

ISA/Other	Description	Action
ISQC 1 / ISA 220 <sup>8</sup>	EQCR for all banks. More robust requirements for EQCR. Enhancing professional skepticism in ISQC 1. Requiring pre-issuance technical reviews for banks.	Revision
ISA 250 <sup>9</sup>	Incorporating the requirements to communicate certain matters to banking supervisors.	Revision
ISA 260 <sup>10</sup>	Requiring communication in writing to those charged with governance for all banks.	Revision
ISA 315 <sup>11</sup>	Expanding application material to include specific industry and regulatory factors relevant to financial institutions.	Revision
ISA 315	Expanding application material on internal control and related risks specific to financial institutions.	Revision
ISA 540 <sup>12</sup>	Robust audit guidance for loan loss provisioning.	Guidance

<sup>8</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>9</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>10</sup> ISA 260, *Communication with Those Charged with Governance*

<sup>11</sup> ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>12</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

Future Strategy 2015–2019 and Related Work Program  
IAASB CAG Public Session (September 2013)

ISA 540	Professional skepticism – challenging management's estimates.	Revision
ISA 570 <sup>13</sup>	Guidance on going concern for banks.	Revision
ISA 620 <sup>14</sup>	More robust considerations around using an auditor's expert.	Revision

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<sup>13</sup> ISA 570, *Going Concern*

<sup>14</sup> ISA 620, *Using the Work of an Auditor's Expert*