James Gunn
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IFAC
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28 March 2014

Dear Mr Gunn

Consultation on Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016

The Financial Reporting Council (FRC) welcomes the opportunity to comment on the IAASB's Proposed Strategy for 2015 -2019 and its Proposed Work Program for 2015-2016. In general we are supportive of much of what is proposed. However, we are concerned that the strategy and planned work program is not sufficiently ambitious to address identified issues on a timely basis.

With respect to the proposed strategic objectives, we believe these should be revised to present more clearly forward looking 'strategic' objectives rather than what appear to be on-going 'operational' objectives. We give recommendations below.

With respect to the proposed work program, we support the projects that have been identified as priorities but we are disappointed that the IAASB's analysis of its resources and its approach to possible projects has resulted in a relatively low number of projects being identified as addressable by mid-2017. We strongly encourage the IAASB to look for ways of increasing the number of projects it can undertake in the public interest to address matters that have been identified as giving rise to significant concerns. We comment further on this below and give recommendations as to how the IAASB may increase its output.

Responses to request for specific comments

Proposed Strategy for 2015-2019

(a) *Are the strategic objectives identified considered appropriate for the period 2015-2019?*

The three strategic objectives are appropriate in so far as they go. However, they resemble on-going operational objectives rather than forward looking, outcome based, strategic objectives. We recommend revising them as follows:

(i) Contribute to trust in financial statements and other corporate reporting by fostering high-quality audit and confidence in the value of audit.

(ii) Promote international harmonisation of auditing standards, including by developing and maintaining high-quality ISAs that are accepted globally as the basis for high-quality financial statement audits that serve the public interest.

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(iii) Ensure the IAASB's suite of audit and other standards continues to be relevant in a changing world by addressing issues that arise on a timely basis, including responding to stakeholder needs.

(iv) Increase collaboration and cooperation with contributors to the financial reporting supply chain and effective consultation with stakeholders, particularly investors, to ~~foster audit quality and~~ stay informed of, and respond to, their needs and concerns.

(v) Ensure decisions are based on sound evidence and analysis and that the IAASB is transparent in the way it operates and establishes requirements that are proportionate and justified.

In relation to collaboration with other parties, with respect to the IAASB's outreach activities we note that there is a relatively low representation of users, particularly investors, in the identified key stakeholders (including in the CAG membership); whereas there is a relatively high representation of regulatory bodies and national authorities. We recommend that the IAASB actively seeks direct engagement with more users - they are the primary intended beneficiaries of audited financial statements and it is particularly important that their needs and concerns are identified and addressed as appropriate to foster trust in financial statements and confidence in the value of audit.

In relation to establishing requirements that are proportionate and justified, we note that in the work program section on 'enhancing quality through collaboration and cooperation in 2015-2016' the IAASB notes that "recent discussions have indicated a possible need for the IAASB to consider what actions may be appropriate to respond to concerns from auditors about the amount of time incurred relating to audit documentation, in particular for small and medium sized entities (SMEs)". We have heard this concern raised by auditors of all sizes of entities as one factor which may give rise to a box ticking mentality, which suggests there is a need for action, at least to understand the issues better and whether there is any implication for the ISAs. More research through collaboration with auditors and regulators may be helpful to understand how the requirements in the ISAs, the firms' methodologies and the approach of audit regulators could be influencing auditors' approach to compliance with the standards.

(b) *Do the factors included in Appendix 2 represent a reasonable basis for the IAASB to use in developing its Work Programs beyond the 'Work Program for 2015-2016'?*

Yes, the factors represent a reasonable basis for developing the IAASB work programs. In applying these it is essential that actions necessary to serve the public interest and to enhance public confidence in corporate reporting are given high priority.

Proposed Work Program for 2015-2016

(a) *The approach taken to the development of the 'Work Program for 2015-2016', in particular the IAASB's decision to focus on fewer key projects towards the goal of their completion by 2017.*

Completing projects on a timely basis is essential where issues have been identified that are necessary to address to serve the public interest and enhance public confidence in corporate reporting. This is more important than seeking to address a wider range of issues that would as a consequence require a significant extension to the completion date of all them. However, we are disappointed that the IAASB's analysis of its resources and its approach to possible projects has resulted in such a relatively low number of projects being

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identified as addressable by mid-2017. By comparison, we note that during the six year period of the ISA Clarity Project, the IAASB managed to comprehensively review and clarify all the ISAs and ISQC 1 and that approximately half of the clarified ISAs included substantive changes aimed at improving practice in a variety of respects. In part, at least, we believe that this reflects a fundamental change in the nature of the projects being undertaken, which are less about codifying best practice and more about driving innovation. We believe this is likely to continue and that the current resource constraints are not likely to be a short term phenomenon.

We comment further below in (d) on how the IAASB may address the resource issue.

(b) *The appropriateness of the topics chosen as the focus of the 'Work Program for 2015-2016 in light of the objectives set out in the IAASB's 'Strategy for 2015-2019'.*

We agree with the appropriateness of the topics chosen; they include matters that our response to the IAASB's 'Clarified ISAs – Post-Implementation Review' identified as significant to address. However, as identified in our other comments in this response, we would like to see the IAASB able to commence more projects during this period to address other identified significant issues on a timely basis and believe that it needs to find a way to address more of them to serve the public interest (see our comments in (c) and (d) below).

(c) *Is there an action or project that has not been included in the 'Work Program for 2015-2016' that you believe the IAASB should address during that period? For example, should any of the topics in Appendix 1 be prioritised sooner? If so, which initiative(s) identified in Table A do you believe should be replaced by the is action or project?*

We believe that, as identified in the 'key themes' highlighted in the IAASB's 'Clarified ISAs – Post-Implementation Review', there are significant issues to address in relation to risk assessment (ISA 315) and for groups audits (ISA 600). The IAASB's 'Clarified ISAs – Post-Implementation Review' also identified that the issues relating to ISA 600 are important. While we appreciate that the IAASB is in effect commencing the projects on these two standards at a preliminary level by information gathering in 2015/16, not formally commencing the projects in earnest until 2017 means that the revised standards are unlikely to be finalised until 2020 at the earliest with implementation in 2021 or later. We do not believe that it serves the public interest if actions to address significant identified issues take more than seven years to implement.

One of the arguments presented by the IAASB for the later commencement of the project on ISA 600 is that it "would involve significant strategic and technical debates about the approach to a group audit, and is likely to take longer than 36 months to complete … [and the IAASB is of the view that the three projects that have been prioritised] could be addressed on a more accelerated basis than group audits." In our view, these difficulties underpin the significance of the project on ISA 600 and attempts should be made to find the resources to enable it to be commenced in earnest in 2015 if not sooner.

We acknowledge that these projects should not be prioritised over those the IAASB has already identified for action in 2015-2016, but we do believe that they should have equal priority and, as recommended above, that the IAASB look to ways to increase the number of projects it can undertake in the short term. We comment further on this below.

(d) *Are there alternative approaches for the IAASB to consider in order to enhance the IAASB's ability to address calls from stakeholders for IAASB efforts on a variety of important topics, in light of the available resources and the need for due process to be applied in the development or revision of standards?*

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We strongly support the IAASB doing whatever is needed to enable it to undertake more projects to address on a timely basis more of the significant issues that were identified in the Clarified ISAs – Post-Implementation Review. In the short term this may be possible through obtaining access to more resources and/or finding ways to make even more effective use of the resources it currently has access to.

The IAASB notes in the Consultation Paper that "consideration of additional projects or the acceleration of work on specific projects may be possible through additional support by others, e.g. national auditing standard setters (NSS) or researchers, or other steps to enhance resources available to the Board." We encourage the IAASB to pursue obtaining such support. Our former operating body, the Auditing Practices Board, formed joint Task Forces with the IAASB in 2002, and provided staff support, for projects to revise the standards on materiality (ISA 320) and accounting estimates (ISA 540), so we are aware that such collaboration can work. However, it is important when forming such collaborations to ensure that due process is followed, including transparency, and that the development process is seen to be conducted in the public interest.

We also recommend that the IAASB explores whether more effective use can be made of current staff and Board members' time. Task Forces typically involve a significant number of Board members and IAASB Technical Advisers who contribute significant amounts of their time on a volunteer basis. Consideration could be given to reducing the size of Task Forces, enabling more to be established. The limited number of IAASB meetings each year can also impose significant restrictions on how quickly projects are progressed - Task Forces may be able to address points raised at IAASB meetings relatively quickly, but will still need to wait a few months before going back to the IAASB. To some extent we think this can adversely interrupt the flow of the development process. We appreciate that it is likely to be difficult to increase the number of IAASB meetings, but suggest that consideration is given to how actions may be followed up more quickly after a meeting. There has been some successful use of Board teleconferences and it may be helpful to consider whether more can be done through this channel.

When allocating resources to projects, unless a clear public interest case can be made for a different prioritisation, priority should be given to the ISAs rather than standards for other types of assurance engagement.

In the longer term we believe that the IAASB and IFAC may need to look again at the way the IAASB is funded and operationalised to consider ways that its resources could be increased. Options may include a model similar to that of the IASB where funding is raised from levies on corporate bodies in countries where the standards have been adopted (the FRC also raises a significant proportion of its funding from corporate levies). In addition to increased funding, this would have the benefit of visibly increasing independence of the IAASB from the auditing profession. A broad review might also consider more fundamental questions, such as whether New York is the most appropriate location in which to be based.

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Alternative locations may have lower operational costs, be closer to jurisdictions in which the ISAs are actually used, and provide for an increased pool of potential candidates for staff positions who are familiar with the ISAs.

Yours sincerely

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Director of the FRC and Chairman of the FRC's Audit & Assurance Council

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About the FRC
The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We promote high standards of corporate governance through the UK Corporate Governance Code. We set standards for corporate reporting and actuarial practice and monitor and enforce accounting and auditing standards. We also oversee the regulatory activities of the actuarial profession and the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

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