



PROPOSED STRATEGY FOR 2020-2023 AND WORK PLAN FOR 2020-2021

Issued 4 June 2019

ICAEW welcomes the opportunity to comment on the Proposed Strategy for 2020-2023 and Work Plan for 2020-2021 published by the International Auditing and Assurance Standards Board on 4 February 2019, a copy of which is available from this [link](#).

We support IAASB's overall proposed strategy for 2020-2023 and work plan for 2020-2021. The strategy and work plan are challenging and ambitious, given the number of core ISAs which are scheduled for finalisation by the first quarter of 2021. These revisions have been extensive and represent significant change. We urge IAASB to allow sufficient time to produce and implement robust standards, rather than rushing to complete standards to set schedules.

Standards must be robust, capable of consistent application, and have longevity. We believe the current standards require further emphasis on technology and less complex entities to ensure ISAs remain relevant and useable.

IAASB is in the midst of a demanding programme and faced by potential uncertainty and significant change. This is likely to challenge the Board's ability to remain focused on the strategy laid out. To help support the Board on this, we strongly encourage IAASB to reach out as much as possible to professional bodies, including ICAEW, as well as National Standard Setters, to help achieve the collective objective of improving public trust in auditors and audits.

This response of 4 June 2019 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the Faculty is responsible for audit and assurance submissions on behalf of ICAEW. The Faculty has around 7,500 members drawn from practising firms and organisations of all sizes in the private and public sectors.

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regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

KEY POINTS

SUMMARY

1. We support IAASB's overall proposed strategy for 2020-2023 and work plan for 2020-2021. The document presents the strategy succinctly and clearly; this is a welcome enhancement to the format from previous documents.
2. IAASB's strategy and work plan are challenging and ambitious, given the number of core ISAs which are scheduled for finalisation by the first quarter of 2021. These revisions have been extensive and represent significant change. We believe for these revisions to be successful, the following actions are critical:
 - Ensure sufficient time is taken to reflect stakeholder feedback when finalising the revisions to the standards under review. Our preference is for the time necessary to be always taken to produce robust standards, rather than rushing to complete standards to set schedules.
 - Allow for adequate time to be taken to ensure implementation takes root. We have concerns that poor implementation of these changes would damage the credibility of standard-setters, perceptions of the effectiveness of audit regulation, and the wider value of audit, both perceived and real.
3. Standards must be robust, capable of consistent application, and have longevity. We believe the current standards require further discussion of and guidance on acceptable approaches in two areas to ensure ISAs remain relevant and useable:
 - Use of technology – auditors are facing a rapidly changing technological environment. Changes in technology are impacting how auditors work, allowing for more effective and efficient audits. New technology may open the audit and assurance market to non-accountants, such as IT technology firms, whose methodologies may allow for fully substantive reviews of electronic ledgers. Standards which fail to adequately take into account the reliance on and use of technology will lack relevance to users and may put at risk continued reliance on international standards. Indeed, concern has already been expressed by stakeholders about the failure of ED 315 to reflect the prevalence of analytics in risk assessments.
 - Less Complex Entities (LCEs) – LCEs play a crucial role in the world economy and their collective economic health is of key public interest. We note the Board's consultation on LCEs and support IAASB's efforts to address these issues. Current standards are proving unwieldy for LCE audits. Simply asserting a standard is scalable does not make it so; this must be backed by clarity on the standard's baseline and guidance explaining whether this means scaling down for LCEs or scaling up for more complex entities. Failure to address this issue could result in LCE audits slowing, stopping or even reversing adoption of international standards around the world.
4. We acknowledge that the Board has identified both technology and LCEs as significant environmental drivers in shaping this strategy and work plan. These words must be backed with actions; failure to address these points puts the future of international standards at risk.
5. The proposed framework for activities looks at topics or issues in isolation, without regard to technology or LCE issues. We believe these are not standalone issues and that technology and LCE issues cut across all standards. Due consideration of each should form part of IAASB's framework for all research and revision activities. We also believe the Board's framework should include plans to improve the accessibility and usability of standards more generally, including drafting standards using plain English.
6. IAASB is in the midst of a demanding work programme, and faced by potential uncertainty and significant change. This is likely to challenge the Board's ability to remain focused on the strategy it has laid out. To help support its work, we urge IAASB to reach out as much as

possible to professional bodies, including ourselves, as well as National Standard Setters (NSS) and audit regulators, to help achieve the collective objective of improving public trust in auditors and audits.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

Do you agree with Our Goal, Keys to Success and Stakeholder Value Proposition (see page 6), as well as the Environmental Drivers (see page 7)?

7. We support IAASB's overall goal for the period 2020-2023 of continuing to promote public trust through financial and other reporting. IAASB has a key role to play in promoting high quality audit and assurance through robust international standards. This is especially important given the heightened focus on audit and assurance in the UK and a number of other jurisdictions at present. There is a clear need for focusing on actions that improve public trust in audit quality.
8. We agree that the keys to success are engagement, listening and learning, and leading and adapting. We emphasise the need to learn from the issues raised by stakeholders during the recent consultation on ED 315. Engagement should be responsive, and include consideration of re-exposure if warranted. To promote high quality audits, standards must be relevant, scalable and capable of consistent implementation. Practitioners have raised concerns on the applicability of standards to LCE audits, as well as their relevance to a rapidly changing technological environment. We urge IAASB to continue to focus on how to ensure global standards reflect these two key issues: technology and LCEs.
9. We support the list of stakeholder value propositions. We believe collaboration with professional bodies as well as NSS will be key in helping IAASB achieve its challenging work plan.
10. We agree with the environmental drivers identified, and believe responding to these will be key for IAASB. However, we have two points of concern in relation to these.
11. Firstly, we note that not all of the drivers are well connected to the outputs of the work plan. Drivers relating to technology and small- and medium-sized entities are mapped to work plan objectives on audit evidence and the LCE audit work. However, the work plan does not include detail on how IAASB will be researching or addressing the drivers of complexities arising in financial reporting standards or corporate reporting requirements. We acknowledge the Board intends to engage with IASB; it would be useful to set out in further detail the topics and standards that IAASB will engage with IASB on.
12. In a similar vein, while public confidence is an item for potential research, we believe this will be a crucial focus area in the near future which would benefit from a more focused approach. In the UK, audit is currently subject to a number of high-profile reviews, including potential revisions to the UK application of ISA 570. We encourage IAASB to include in the plan working closely with NSS to understand the local implications of corporate failures and how lessons may be learned and shared internationally.
13. Secondly, research work IAASB intends to undertake would benefit from a focus on the collective impact of the drivers, rather than looking at them in isolation. These drivers are highly interrelated. Use of rapidly changing technology, as well as increasing complexity in financial and corporate reporting requirements, is leading to more complex auditing standards, which is exacerbating scalability issues. This in turn can lead to implementation problems, giving rise to issues with public confidence and trust. We encourage bold thinking on the future of audit and how it is impacted by these drivers.

Question 2

Do you agree with Our Strategy and Focus and Our Strategic Actions for 2020–2023 (see pages 8 to 13)?

14. The Board has organised the strategy into five key areas for action. We agree with these overall strategic foci, However, we have the following views on each strategic area and its respective actions.

Theme A: Complete our Major Audit Quality Enhancements and Enable them to ‘Take Root’

15. The significant revisions to core ISAs are scheduled in the work plan for finalisation by the first quarter of 2021. These revisions have been ambitious and represent significant change. We stress the need for adequate time to be taken to ensure implementation takes root. We have concerns that poor implementation of these changes would further damage the credibility of standard-setters, perceptions of the effectiveness of audit regulation, and the wider value of audit, both perceived and real.
16. We urge IAASB to take the time needed to reflect on stakeholder feedback when finalising the revisions to the standards under review. Our preference is for the time necessary to be taken to produce robust standards, rather than rushing to complete standards to set schedules.
17. Recent experience with ED 315 demonstrates the need to avoid premature exposure of standards. We note that ISA 315 is expected to be delayed and would support the delay if it allows for sufficient time to revise and enhance the quality and usability of this key ISA.

Theme B: Further Challenge and Enhance the Fundamentals of our International Standards

18. We support the need to complete the Extended External Reporting initiative. We also emphasise the need to consider technology further within the audit evidence project. We reiterate the concern we raised in our pre-consultation survey response, that a lack of reference in ISAs to data analytics techniques will inhibit their use in certain jurisdictions due to regulator wariness or fears that they are not appropriate on the grounds that they are not mentioned in the standards.
19. Changing technology has had, and will continue to have a significant impact on how audits are delivered. Technology can enhance an auditor’s scepticism by providing new tools to review transactions, while also potentially threaten scepticism, by overreliance on tools. These new tools auditors to review entire populations of transactions. These changes raise questions for example, how would the ability to review an entire population impact risk assessment under ISA 315 and the auditor’s response under ISA 330? What supporting evidence should be captured from such a review under ISA 500?
20. Standards which fail to take into account the reliance on and use of technology will lack relevance to users and may jeopardise the continued reliance on international standards. This is especially crucial given that technological changes may open the audit and assurance markets to non-accountants, such as IT technology firms, in the future. IAASB needs to take account of changes in methodologies in response to technological developments if international standards are to remain relevant to practice.
21. As noted in our response to Question 1 above, we believe issues relating to public confidence and trust in audit should be considered further by IAASB. In the UK, high profile corporate failures have resulted in calls to significantly rewrite ISA (UK) 570 *Going Concern*, and a number of reviews being undertaken on the nature, scope and expectation gaps of audits. We recommend that IAASB considers whether ISA 570 remains fit for purpose, and the potential wider impact of the UK changes on consistent adoption and application of ISAs internationally.

Theme C: Develop Ways to Address Complexity, While Maintaining Scalability and Proportionality

22. Addressing complexity, while maintaining scalability and proportionality, is a key concern. We strongly support the need to address issues identified in applying ISAs to audits of LCEs. Audit regulations and standards often focus on the larger Public Interest Entity (PIE) side of the audit market, however we believe that more work should be done on LCE audits. LCEs play a crucial role in the world economy and their collective health is of key public interest. We believe the LCE audit project is crucial to supporting high quality audits for these types of entities. An increased focus on LCE issues is necessary, as the status quo risks making ISAs irrelevant to this segment of audits internationally.
23. We have previously raised significant concerns relating to ISAs 315 and 540 to the effect that more needs to be done to ensure those standards are scalable. We believe that for standards to be more scalable, IAASB should explain what is the standard's baseline, and how it may be scaled, whether this means scaling down for LCEs or scaling up for more complex entities. We understand that providing examples in the standards can be difficult, both for regulators and practitioners. IAASB should use the LCE and quality management projects as an opportunity to experiment and innovate with non-authoritative guidance with examples of acceptable scaling against the standards' baseline requirements. This would provide regulators and auditors with a mutual basis of understanding of how to practically scale principles of the standards to account for both LCEs and more complex or risky entities.
24. We urge IAASB to be bold and to not delay in acting on this issue. We would recommend liaising with professional bodies throughout the process. Our membership includes many small- and medium-sized practitioner firms and we would be happy to facilitate discussions between them and IAASB.
25. We also stress the need for a continued focus on the digitisation project. This should promote the ease of use by rendering ISAs more easily navigable by auditors for implementation.

Theme D: Strengthen and Broaden Capability and Capacity to Respond by Innovating our Ways of Working

26. We believe the Board should strive to operate in a more strategic and timely manner, although we do appreciate that IAASB faces resource constraints in doing so. We believe IAASB should begin use of the mechanisms identified as a point of urgency, but would add a few points of caution. There is a risk that the process of identifying which mechanism is most appropriate for a particular issue becomes a long due process that could inadvertently slow down the response. For these mechanisms to be meaningful, IAASB needs to ensure that the consideration and classification of issues is timely. Likewise, limited scope revisions should be limited but also avoid knee-jerk reactions to political issues.
27. We support greater use of non-authoritative guidance. Non-authoritative guidance should not be limited to narrow technical areas but used to deal with issues in long and complex standards for core areas. Providing non-authoritative guidance on standards could also be part of a meaningful solution addressing the issue of scalability of standards. However, for this to be successful, it will require non-authoritative guidance to be enhanced beyond current guidance. Current non-authoritative guidance, such as staff publications, rarely develop the baseline understanding of the ISA requirements further for readers. We believe there is scope to enhance the explanatory value of these publications if they were to discuss the ISAs, rather than replicate requirements.

28. We also believe the ‘interpretations’ mechanism would be an innovative solution, by providing a significant element of high-quality examples. We would be happy to help the Board explore this option further, drawing upon our knowledge of the experience of accounting standard-setters.
29. We agree that a Framework for Activities (Framework) is useful – we discuss this further in our response to Question 3 below.

Theme E: Deepen our Connectivity and Collaboration Opportunities

30. IAASB has a complex stakeholder base and we support the need to engage and collaborate. We believe this will drive the creation and improvement of high-quality international standards. We are disappointed that IAASB’s strategy does not include collaborating with professional bodies, such as ICAEW. We believe engagement with professional bodies is crucial for meeting IAASB’s objectives, as these bodies represent the views of practitioners across the audit market spectrum. Our members apply IAASB standards daily and have first-hand experience and knowledge of emerging issues and risks that are critical to understand when updating and improving international standards. We welcome engagement with IAASB on behalf of our members and believe that collaboration with professional bodies should be a key part of the Board’s strategy.

Question 3

Do you agree with the IAASB’s proposed Framework for Activities, and the possible nature of such activities (see pages 11 and 12), as set out in Appendix 2 (see pages 19 and 20)?

31. We agree with the need for a Framework. We believe the approach the Board has set out is sensible. In particular, we think there is significant value in working with academics to understand the latest research outputs. As a professional body, we fund significant academic research into auditing and accounting issues; we would be happy to share access to this research and coordinate with IAASB on future research.
32. We believe the detailed activities could be improved by ensuring each phase of work includes a requirement to consider LCEs and technology. These are cross-cutting issues which require embedding in all the ISAs, and therefore should be considered in all of IAASB’s work, not relegated to one-off projects. We believe these should be proactively considered whether revising or developing a new standard or non-authoritative guidance. We would emphasise the importance of the technology driver by working to ensure that international standards reflect changing technology use. While specific technologies change rapidly, we believe ISAs should reflect the fact that practitioners can and will utilise advanced technology to complete audit and assurance engagements. This will ensure that the use of audit technology is accepted by regulators, as well as ensure the longevity and relevance of ISAs.
33. Lessons learned from recent consultations should also be factored into the Framework. For example, the Framework should consider the timing of release of exposure drafts, including criteria for when standards are developed sufficiently to release. This could prevent premature exposure, which can unnecessarily alarm stakeholders. The Framework should also consider accessibility and usability issues. Alongside efforts to digitise international standards to improve ease of use, IAASB should develop clearer drafting principles, which are enforced, using metrics for plain English (such as Flesch-Kincaid readability tests), against which all drafts should be measured generally. This would prevent excessively long and complex drafting, as well as improve international translations.

Question 4

Do you support the actions that have been identified in our detailed Work Plan for 2020–2021 (see pages 15 and 16). If not, what other actions do you believe the IAASB should prioritize?

34. We support the actions that have been identified. IAASB's work plan is challenging; we would prefer the Board focus only on those ISAs already on the agenda, with a moratorium on any other new or revised standards, to allow for implementation of the significant current changes. We reiterate our call for a moratorium for two years after the current ISA projects come into effect, during which no standards would become effective.
35. We note that it is likely there will be slippage on the timetable for ISA 315 and potentially for the other challenging projects, such as ISAs 500 and 600; combined with resource constraints, we would not propose additional actions beyond those detailed in the work plan and instead focus on successful implementation. We are concerned that the workload ahead results in a risk that IAASB will struggle to respond to any unexpected events. The risk of such events occurring is currently heightened in our view by the environmental drivers the Board has already identified.

Question 5

There are any other topics that should be considered by the IAASB when determining its 'information-gathering and research activities' in accordance with the new Framework for Activities? The IAASB has provided its views on tentative topics to be included in its 'information-gathering and research activities' (see page 10).

36. The topics the Board has listed are highly relevant both in the UK and internationally. These are high-profile issues that have been raised in a number of the current UK reviews, including the focus on fraud and the auditor expectation gap. We encourage IAASB to engage with professional bodies and the NSS on these areas. As noted in our response to Question 2 above, the UK is undertaking reviews and reforms on a number of topics which could have implications for the consistency of adoption and application of ISAs internationally.
37. As noted in our response to Question 4 above, we believe IAASB has a significant work load ahead and therefore we would not add further topics to the list, to keep the focus on the completion and implementation of the existing portfolio of revised ISAs.