



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

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Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2019/MS/C1/IAASB/30

IAASB: Proposed Future Strategy for 2020-2023 and Work Plan for 2020-2021

Dear Sir

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to provide input on the International Auditing and Assurance Standards Board's (IAASB's) *Proposed Future Strategy for 2020-2023 and Work Plan for 2020-2021* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing matters, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1. Our comments are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.



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Overall Comments

We support the IAASB in continuing with its active agenda for the setting of important projects to develop new and improved auditing standards. The timing of the transition to any changed standard setting arrangements as a result of the Monitoring Group’s current review is still to be finalized but any transition should minimize disruption to the standard setting activities and projects.

The IAASB should continue to work more closely with the IESBA. The IAASB should also ensure the timely development of standards but not to the detriment of appropriate due process.

The public interest is central to the proposed standard to development of quality auditing standards and is referred to on page 8 of the Paper. We recognize that the Monitoring Group (MG) is developing a public interest framework, which is key to public confidence in high quality auditing standards. The Board may wish to consider its approach to using and defining the term “public interest” in its plan and in pronouncements pending the release of the framework and whether it is possible to draw on the MG’s draft framework.

Workplan

Our review has focused on the workplan presented on pages 15 and 16 of the Paper. Our comments on the workplan are consistent with the comments in our letter dated 28 August 2018.

We believe that the workplan of the IAASB should give priority to improving the standards for audits of public interest entities.

We recognize and support the IAASB’s current commitment to important projects for developing revised standards on:

- Risk assessment - ISA 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*;
- Group audits - ISA 600 *The Audit of Group Financial Statements (including the Work of other Auditors)*; and
- Quality management - ISQM1 *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services*



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Engagements, ISQM2 Engagement Quality Reviews and ISA 220 Quality Management for an Audit of Financial Statements).

For convenience, the table below outlines the collective views of Committee 1 members on other appropriate priorities for the IAASB for the next few years in descending order:

No.	Item	Suggested priority	Examples of key areas to be addressed
1	ISA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	High	Key matters not addressed in the revised standard, including sampling, setting of thresholds for valuation differences, use of experts, and specific guidance for valuation of financial instruments (refer IOSCO C1 comments on exposure draft for further information).
2	ISA 530 Audit Sampling	High	Determining sample sizes, whether by a statistical sampling method or some other method. Also guidance on addressing exceptions identified when an attribute is tested for entire populations using data analytics. Other issues include: (i) whether to test all material items in tests of details; (ii) coverage of a population in dollar terms; (iii) combining substantive analytical procedures and tests of detail for the one population and assertion; (iv) setting sample sizes for substantive testing across group entities or collective investment schemes that have separate financial reports; (v) compliance test sample sizes; (vi) directions of testing for tests of detail; (vii) use of reliability factors; (viii) whether income statement testing can be reduced based on balance sheet testing; and (ix) when to use attribute sampling.
3	ISA 320 Materiality in Planning and Performing an Audit	High	Better guidance for: <ul style="list-style-type: none"> • Determining planning and performance materiality; and • Addressing qualitative factors as well as quantitative factors in determining whether a matter is material.
4	ISA 520 Analytical Procedures	High	Areas for improved guidance include: <ul style="list-style-type: none"> • Establishing relationships and developing expectations that make sense and are sufficiently precise; • Source data used to be reliable, tested, and produced independently from the population being tested; • Setting thresholds, including thresholds for disaggregated components of a population; and



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No.	Item	Suggested priority	Examples of key areas to be addressed
			<ul style="list-style-type: none"> Corroborating explanations for variances with sufficient appropriate audit evidence. <p>There should be a clear distinction between substantive and non-substantive analytical procedures in the requirements of the standard.</p>
5	<i>ISA 620 Using the Work of an Auditor's Expert</i>	High	Better guidance on engaging own expert where the auditor has insufficient skills and experience to review the work of the client's expert, including where the audited entity has engaged an external expert. The extent to which the auditor should determine the scope and extent of testing by their expert, and the nature and extent of supervision and review.
6	<i>Impact of new/evolving technologies on audit</i>	High	Guidance on the use of technology in the audit (e.g. data analytics and machine learning), particularly in projects on sampling and substantive analytical procedures. Possible guidance on auditing with new and evolving technologies (e.g. distributed ledgers and blockchain, cryptocurrencies, and financial reports in XBRL format).
7	<i>Internal control</i>	Medium	Better guidance on conducting internal control reviews, including when and how to review IT general controls and the control environment, the effectiveness of high level controls in relation to specific account assertions, and applying system rotation plans.
8	<i>ISA 402 Audit Considerations Relating to an Entity Using a Service Organisation</i>	Medium	Whether substantive testing by a service organisation auditor should be based on assets managed by the service organisation or assets of the customer being audited. Not relying on reports from the auditor of the service organisation that only cover the design of internal controls, other than for planning purposes.
9	<i>ISA 330 The Auditor's Response to Assessed Risks</i>	Medium	The need for substantive testing for a significant assertion for a material account or class of transactions where risk is assessed as low, particularly where it is possible to rely on internal controls.
10	<i>ISA 305 External Confirmations</i>	Medium	There should be guidance for auditors on how to assess the reliability of external confirmations received having regard to the possibility of fraud. There should also be more complete requirements on how auditors should respond where there is no reply to a confirmation request.
11	<i>ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>	Medium	There should be clear requirements and guidance in ISA 240 and throughout the standards regarding the exercise of professional skepticism by auditors.
12	<i>Sustainability, climate, integrated</i>	Low/Medium	The IAASB should monitor developments in the reporting of non-financial information and any demands for independent assurance on that information.



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No.	Item	Suggested priority	Examples of key areas to be addressed
	<i>reporting (current project)</i>		Currently there are no common reporting frameworks against which auditing requirements can be developed.
13	<i>Audits of less complex entities</i>	Low/suspend	The IAASB should focus its limited resources on developing the full ISAs for audits of listed entities and not on the audit of less complex entities. An audit is an audit and the standards are scalable. In particular, one set of standards should apply to all listed entities, irrespective of size and complexity.
14	<i>Agreed upon procedures (current project)</i>	Low/suspend	We do not see a significant need to revise the current pronouncement. Any work on agreed-upon-procedures should be given a low priority compared to the matters outlined earlier in this table that are particularly important to the quality of audits of financial reports of issuers in capital markets. The Board should suspend this project.
15	<i>Expectation gap</i>	Low	The IAASB should monitor any discussions on the expectation gap and the future of audit.

We recognise that the workplan includes a project on audit evidence that might include work on a number of the standards referred to in the table above (ISA 520, ISA 320 and ISA 530), albeit the scope of any such work is not yet specified.

Subject to high priority projects continuing to be adequately resourced and progressed, the work plan should allow some flexibility for resources to be reallocated to address important new issues as they arise.

Thank you for the opportunity to comment on the IAASB's work priorities. If you have any questions or would like to further discuss these matters, please contact Doug Niven on ph. +61 2 9911-2079 (email: douglas.niven@asic.gov.au) or Michael Porth at ph. + 49[0]228 4108-4013 (email: michael.porth@bafin.de).

Sincerely,

Makoto Sonoda
 Chair, Committee on Issuer Accounting, Audit and Disclosure
 International Organization of Securities Commissions