



International Organization of Securities Commissions  
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14 April 2011

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

Our Ref: 2011/JE/TCSC1/IAASB/51

**Subject: Consultation Paper on *Proposed IAASB Strategy and Work Program for 2012-2014***

Dear Sir:

The International Organization of Securities Commissions Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the IAASB Consultation Paper *Proposed IAASB Strategy and Work Program for 2012-2014* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing and professional standards, other pronouncements and statements.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns, and pursuit of improved global financial reporting. Our comments in this letter reflect those matters on which we have achieved a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

#### ***Proposed strategy***

We commend the IAASB for undertaking a project to map out the course for its work effort for the years 2012-2014 and for seeking input from a broad range of constituents. Careful due process that obtains and considers input from all stakeholders in financial reporting and auditing is very important in global standard setting and we appreciate the Board's efforts in this regard. With respect to those who should be consulted as part of the process, we believe the Board has appropriately identified the right stakeholders, as outlined on page 11. However, as securities regulators, we believe the



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importance of the global capital markets to the world economy make it imperative that the needs and views of investors should receive a high priority among stakeholders.

### *Highest Priority Projects*

In light of the recent financial crisis and its effect on the public's trust in the global capital markets, we believe that the IAASB's highest priority should focus on promoting high quality assurance on the financial statements of public companies. As such, we think the primary focus of the Strategic Plan and the impetus for the majority of the IAASB's work should be on the public interest in "audit quality" and that the Board's highest priorities should focus on work that will contribute to high quality audits. In this regard, we believe the allocation of the Board's resources, as illustrated in the chart on page 10, should be more heavily skewed toward "Develop/revise the ISAs" and "Monitor/facilitate adoption of standards". With respect to "Develop/revise the ISAs", we are particularly supportive of Board resources being allocated to work on current projects related to the auditor's reporting model (A.2), auditing disclosures (A.3) and the audit quality initiative (A.4). With respect to "Monitor/facilitate adoption of standards", we believe there should be an emphasis placed on working with independent oversight bodies that perform audit inspections to understand how the standards are working in practice. The purpose of this dialogue should be to determine consistency and completeness of application, and enforceability, and to identify any areas in standards that require improvement.

### *Additional priority projects*

Paragraph 16 states that,

"The IAASB intends to devote the majority of its efforts on the projects in Column A through 2011 and into 2012 and beyond to progress these projects on a timely basis. If respondents support commencing the majority of the anticipated projects (Column B), the IAASB currently anticipates it will have resources and time to commence 3 further new projects, although substantive activity for these new projects would not be expected to commence before 2013.

Respondents are therefore specifically asked to select the top three projects either from, or in addition to, the list of suggestions for additional projects (Column C) that they believe would best meet the IAASB's public interest mandate."

Our members agree that the top priority projects should come from both the list of "Suggestions for Additional Projects" (Column C) and the list of "Anticipated Projects Likely to Commence in 2012-2014" (Column B) as described below. Our members believe that these three projects should be elevated in priority above all other projects listed in Column B. SC 1 would rank the top three projects as follows:



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1. C.2 - Consider whether a new standard or guidance is necessary to address the auditor's responsibilities relating to preliminary announcements.
2. C.1 - In consultation with banking regulators and supervisors, consider undertaking a project with regard to IAPS 1004, The Relationship between Banking Supervisors and Banks' External Auditors, and IAPS 1006, Audits of the Financial Statements of Banks, for the audit of banks.
3. B.1 - Undertake new project(s) to respond to findings of the ISA Implementation Monitoring project, in consultation with the IAASB CAG- output in the form of a revised ISA(s), new ISA, IAPS, or other form, as deemed appropriate.

***C.2 – Consider whether a new standard or guidance is necessary to address the auditor's responsibilities relating to preliminary announcements.***

Due to the impact that preliminary announcements can have on a company's market value, the information in these announcements is always material and eagerly awaited by the markets. We believe that there may be pressure on auditors to agree information appearing in preliminary announcements to information in the audited financial statements if a completed audit would indicate a need for differences, or other difficulties may arise.

Because of both the significance of preliminary announcement information to the global capital markets and the actual or perceived pressures on the auditor surrounding the announcement, there is a need for consideration of current practices regarding auditor association and whether and what type of additional requirements and guidance might be needed for auditors or issuers or both. However, as this is a subject that cannot be addressed solely by amending the auditing standards themselves or providing auditing guidance because there is no accounting framework for this form of issuer reporting which the auditor can audit against, the IAASB should begin its work with research and consultation with regulators and other stakeholders. We welcome the opportunity to engage in dialogue and consultation as you consider and progress through the project.

***C.1 - In consultation with banking regulators and supervisors, consider undertaking a project with regard to IAPS 1004, The Relationship between Banking Supervisors and Banks' External Auditors, and IAPS 1006, Audits of the Financial Statements of Banks, for the audit of banks.***

In the aftermath of the recent financial crisis, banks and other financial institutions have come under increased scrutiny from regulators and other concerned parties. We welcome the Board's undertaking of a project with regard to IAPS 1004 and IAPS 1006 to address areas of concern. However, as the term "banks" may not capture all relevant institutions performing banking functions, our members encourage the IAASB to expand the scope of the project to include auditing of all deposit takers, not just banks. Separately, since certain other financial institutions such as insurance companies may be very different from banks and analogous deposit takers, the IAASB should consider developing separate guidance for the auditing of other financial institutions that may impact systemic risk and the stability of financial markets.



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***B.1 - Undertake new project(s) to respond to findings of the ISA Implementation Monitoring project, in consultation with the IAASB CAG - output in the form of a revised ISA(s), new ISA, IAPS, or other form, as deemed appropriate.***

Consistent with our earlier comment on the allocation of the Board's resources to "Develop/revise the ISAs" and "Monitor/facilitate adoption of standards", our members believe B.1 should be prioritized as one of the additional top three projects and ahead of other projects included in Column B. Further, as part of this activity, our members believe the Board should include a project to address the auditor's demonstration, or lack thereof, of professional skepticism, a topic recently raised in an IAASB CAG session.

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Thank you for the opportunity to comment on the Paper. If you have any questions or need additional information regarding this comment letter, you may contact me or Nigel James at 202-551-5300.

Yours sincerely,

Julie A. Erhardt  
Chair, Standing Committee No. 1  
International Organization of Securities Commissions