



4 June 2019

Mr Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, 10017
USA

Dear Willie

AUASB Submission on the IAASB Proposed Strategy for 2020-2023 and Work Plan for 2020-2021

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to comment on the IAASB's Proposed Strategy for 2020-2023 and Work Plan for 2020-2021.

The AUASB is a non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards. The AUASB's role and mandate extends to liaison with other standards setters and participation in global standard-setting initiatives, so we have a very strong interest in the IAASB's Proposed Strategy and Work Plan and welcome the opportunity to comment.

The AUASB is very supportive of the overall approach the IAASB has taken when developing its Proposed Strategy for 2020-2023 and Work Plan for 2020-2021. In particular, as the National Standards Setter (NSS) responsible for the adoption and implementation of IAASB standards in our jurisdiction, we strongly endorse the IAASB's new Framework for Activities as a means for the IAASB to broaden and strengthen its capacity and capability to implement the strategic actions proposed in the Proposed Strategy and Work Plan. The AUASB is particularly pleased to observe the IAASB has explicitly recognised the role that NSS representatives have in adopting and implementing IAASB standards across the world and the NSS's capacity and capability to contribute to the global standard setting process. We would encourage the IAASB to continue the work it has already commenced at recent NSS meetings and deepen collaborations with NSS representatives in order to deliver the strategic actions contained within the Proposed Strategy and Work Plan.

Generally we consider the Proposed Strategy and Work Plan supports the IAASB's objective to develop and maintain robust international standards that contributes to enhanced engagement quality and consistency of practice throughout the world, and strengthened public confidence in the global auditing and assurance profession. We commend the IAASB and its staff on the structure and content of the document, and note the strong alignment with many aspects of our current AUASB Strategy and Work Plan.

In formulating our responses the AUASB has considered feedback from a range of Australian stakeholders, including formal discussions and deliberations about the IAASB's Proposed Strategy and Work Plan with AUASB members at recent AUASB meetings.

Our replies to the specific questions that the IAASB has requested feedback on in the Proposed Strategy and Work Plan are contained in the attached Appendix. However there are a number of headline matters which the AUASB would highlight as worthy of consideration and potential change to the IAASB's Proposed Strategy and Work Plan in our response:

Reducing the complexity of IAASB Standards

The AUASB notes with concern that the auditing standards or exposure drafts recently issued or currently in development by the IAASB all contain greater complexity and detail than the extant standards they are replacing. This makes the implementation and application of these standards more challenging, and often results in increased costs for auditors of all types of entities.

Whilst we fully support the initiatives the IAASB has highlighted as potential responses to this issue in the recently released Discussion Paper on *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*, we consider that there is a need for the IAASB to immediately address the impact this issue has on all auditors, not just auditors from small and medium practices, as part of its current Work Plan. This will likely require a different approach to the development of new and revised auditing standards, such as the amendments currently being proposed to the revised version of ISA 315 *Identifying and Assessing the Risks of Material Misstatement* following feedback from stakeholders on the IAASB's Exposure Draft for this standard.

The AUASB considers that the increasingly prescriptive nature of the requirements and application guidance in recently released ISA's and Exposure Drafts has had a negative impact on the ability of practitioners to apply professional judgement and increased the level of documentation required, with arguably no commensurate increase in the level of audit quality. Whilst acknowledging the IAASB is required to develop standards in the public interest that address the needs of all stakeholders, as part of its Proposed Strategy we consider the IAASB should strive for an improved balance between developing sector-neutral, principles-based standards for practitioners and the needs of regulators who oversee the audit environment in each jurisdiction. Failure to achieve this balance impacts not only the complexity, implementation costs and workability of the auditing standards themselves, but diminishes the value and confidence in the audit product and profile of the auditing and assurance profession as a whole.

The AUASB is encouraged that the IAASB's new Framework for Activities includes a specific Research Phase which may draw these issues and the appropriate responses out as part of the standards setting process, and whilst deliberations are still on going, we are very supportive of the proposed restructuring of ISA 315 presented at recent IAASB meetings.

We would encourage the IAASB to address this matter as its highest priority by:

- Potentially re-exposing any agreed restructuring to ISA 315 for public comment to gather feedback and, if supported, applying this revised approach to the ISAs to other proposed standards current in development (e.g. the Quality Management Standards, ISA 600)
- Evaluating whether the 'Clarity' principles of the auditing standards need to be refreshed and demonstrated with more transparency in the standard setting process; and
- Ensuring the responses to the LCE Discussion Paper are analysed and responded to as part of the updated IAASB Work Plan as soon as possible.

Addressing gaps between opportunities and challenges and the strategic actions, especially when it comes to use of technology

The AUASB supports the 'environmental drivers' the IAASB has outlined in its Proposed Strategy and Work Plan on page 7, but in a number of areas believes the IAASB needs to more clearly articulate how these are going to be addressed in the proposed strategic actions contained in pages 10 – 13 of the publication.

In particular we believe the IAASB's response to consider the impact of the use of technology on an audit and the corresponding impact on the auditing standards requires greater consideration and a more granular response. We do not consider the current proposal to assess further implications on the IAASB's standards of evolving technologies used by entities and auditors under Theme B to be a sufficient response to this matter

considering its pervasive impact on the future of auditing and the potential for technology to revolutionise or disrupt the auditing profession.

Greater focus on thought leadership and the value of audit

The AUASB considers the strategic actions contained under Theme B of the Proposed Strategy require greater emphasis on what activities the IAASB intends to undertake to increase trust and confidence in auditing and assurance globally.

This could potentially be achieved through an increased focus on thought leadership highlighting the value of audit and assurance to the global economy by the IAASB as part of its global outreach activities. Also the IAASB should specifically address how the development of new and revised auditing and assurance standards enhances the value of auditing and assurance in further detail as part of the Research Phase of the IAASB's new Framework for Activities.

Increasing complexity of accounting requirements and the impact this has on IAASB standards

The IAASB's Proposed Strategy and Work Plan acknowledges that the increased complexity and detail of the auditing standards currently being observed is in response to a more complex business environment and more complex financial reporting requirements (for example, greater requirement for estimates and management judgments in accounting standards). Whilst the Proposed Strategy and Work Plan notes that there is a regular liaison with the International Accounting Standards Board (IASB) that provides input on auditability and verifiability of new and revised International Financial Reporting Standards, the AUASB considers that there should be greater focus by the IAASB on the impact this issue has on auditing requirements. In particular we would like the IAASB to consider what more could be done to clarify the evidentiary requirements and the responsibility of management and those charged with governance when it comes to the accounting requirements, with a view to making the auditing standards easier to understand and apply in those areas where complex accounting requirements are applicable.

To illustrate this point, accounting standards now more regularly require balances or transactions to be management's estimates that are based on complex calculations, external expert input or prospective financial information. Accordingly, stakeholders have requested auditing standards in turn require an auditor to source additional authoritative information or forecasts as evidence in order to be capable of obtaining reasonable assurance on these balances or transactions. These developments inevitably increase the cost and difficulty of the auditors' role at a time when the value and quality of auditors are subject to increased scrutiny. The AUASB would like the IAASB to assess ways in which they could work with the IASB to reduce the complexity of accounting requirements and thus make the requirements of the auditing standards easier for an auditor to comply with.

Should you have any queries regarding any aspect of the AUASB comments in response to the IAASB's Proposed Strategy and Work Plan, please do not hesitate to contact me or Matthew Zappulla at mzappulla@auasb.gov.au.

Yours sincerely,



Professor Roger Simnett AO
Chair

Appendix – AUASB Responses to the IAASB’s Specific Questions IAASB Proposed Strategy for 2020-2023 and Work Plan for 2020-2021

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)?

The AUASB agrees with the Goals, Keys to Success and Stakeholder Value Proposition outlined on page 6 of the IAASB’s Proposed Strategy for 2020-2023 and Work Plan for 2020-2021 publication (the Proposed Strategy). We are particularly pleased to observe the IAASB has explicitly recognised the role that NSS representatives have in its collaboration efforts and look forward to our continued cooperation and collaboration with the IAASB and its staff to support its mandate and the global standard-setting process.

When it comes to the opportunities and challenges faced by the IAASB, the AUASB supports the Environmental Drivers outlined on page 7 of the Proposed Strategy.

However as outlined in our covering letter and described in greater detail under our response to Question 2 below, in a number of areas the AUASB believes the Proposed Strategy has not clearly articulated how all of the Environmental Drivers are going to be addressed in the proposed strategic actions contained in pages 10 – 13 of the publication. In particular, we consider the layout of the Environmental Drivers should be updated to explicitly link to each relevant strategic action, as well as making it clear which of the Environmental Drivers each strategic action is intended to address.

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

As outlined in our covering letter, there are a number of areas the AUASB believes the Proposed Strategy has not clearly articulated how all of the Environmental Drivers on page 7 of the publication are going to be addressed in the Strategy, Focus and Strategic Actions on pages 8 to 13 of the document.

- The AUASB considers that the IAASB’s Proposed Strategy should, as a priority, undertake as part of the strategic actions in Themes A, B & C, activities to reduce the complexity and improve the understanding of IAASB Standards. Whilst we fully support the initiatives that the IAASB has highlighted as potential responses to this issue in the recently released *Discussion Paper on Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*, we consider there is a need for the IAASB to immediately address the impact the issues in this Discussion Paper is having on all audits and not just auditors from small and medium practices as part of its current Work Plan. This will likely require a different approach to the development of new and revised auditing standards, such as the amendments currently being proposed to the revised version of ISA 315 *Identifying and Assessing the Risks of Material Misstatement* as a result of feedback from stakeholders on the IAASB’s Exposure Draft for this proposed standard with regards issues of scalability and proportionality. Whilst acknowledging the need for the IAASB to develop standards that address the needs of all stakeholders, including those who have responsibility for enforcing the auditing standards in the public interest, the AUASB considers that the increasingly prescriptive nature of the requirements and application guidance in recently released ISA’s and Exposure Drafts has had a negative impact on the ability of practitioners to apply professional judgement and increased the level of documentation required, with arguably no commensurate increase in the level of audit quality. Failure to achieve the right balance between public interest considerations and the practicality of the standards impacts not only the complexity and workability of the auditing standards themselves, but the confidence in the audit product and profile of the auditing and assurance profession as a whole. We would encourage the IAASB to address this matter as its highest priority by:
 - Potentially re-exposing any agreed restructuring to ISA 315 for public comment to gather feedback and, if supported, applying this revised approach to the ISAs to other proposed standards current in development (e.g. the Quality Management Standards, ISA 600); and
 - Ensuring the responses to the LCE Discussion Paper are analysed and responded to as part of the updated IAASB Work Plan as soon as possible.

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- The IAASB’s response to consider the impact of the use of technology on an audit and the corresponding impact on the auditing standards requires greater consideration and a more granular response. The AUASB does not consider the current proposal to assess further implications on the IAASB’s standards of evolving technologies used by entities and auditors under Theme B to be a sufficient response to this matter, considering its pervasive impact on the future of auditing and the potential for technology to revolutionise or disrupt the auditing profession.
- The AUASB believes the strategic actions contained under Theme B of the Proposed Strategy require greater attention to be paid to activities that increase trust and confidence in the auditing and assurance profession globally. We consider the IAASB, in collaboration with other relevant parties, should increase its focus on enhancing not only the quality of audit and assurance standards, but also identify and implement measures that enhance and convey the value and benefits of audit and assurance in the current global environment. There should be a greater emphasis from the IAASB on developing guidance and tools that not only support implementation by practitioners, but also inform all stakeholders about the critical role audit and assurance has in the global environment. This could potentially be achieved through an increased focus on thought leadership and the value of audit and assurance by the IAASB as part of its global outreach activities, as well addressing these matters in further detail as part of the Research Phase of the IAASB’s new Framework for Activities.
- The IAASB’s Proposed Strategy and Work Plan acknowledges that the increased complexity and detail of the auditing standards currently being observed is in response to a more complex business environment and more complex financial reporting requirements (for example, greater requirement for estimates and management judgments in accounting standards). Whilst the Proposed Strategy notes that there is a regular liaison with the International Accounting Standards Board (IASB) that provides input on auditability and verifiability of new and revised International Financial Reporting Standards, the AUASB considers that there should be greater focus by the IAASB on the impact that this issue has on auditing requirements and audit quality. Improvements in the clarity of accounting requirements have a positive impact on the quality of preparation of financial reports and clarify the role of both preparers and their auditors. In particular, we would like the IAASB to consider what more could be done to clarify the evidentiary requirements and the responsibilities of management and those charged with governance when it comes to the accounting requirements, with a view to making the auditing standards in certain areas easier to understand and apply in those areas where complex accounting requirements are applicable.
- The broadening of assurance offerings and the trend for stakeholders to demand different forms of information, as well as have this information assured, means the IAASB should place a greater focus in its strategic actions on developing assurance standards and guidance that meet user needs for external reporting beyond historical financial reporting. This includes considering that the current IAASB Assurance Framework (which segments the standards between those addressing ‘traditional’ forms of assurance over historical financial information and other non-financial or non-historical information) may no longer be fit for purpose and is under threat. As the information needs and reporting information demanded by stakeholders evolves, often being a hybrid of different types of subject matter, the distinction between ISAs and ISAEs is being challenged. Whilst the current project on EER Assurance Guidance is a good start, the AUASB considers this issue needs to have a greater focus from the IAASB going forward.
- The AUASB fully supports the IAASB’s intention under Theme A to prioritise the completion of its existing major audit quality enhancement projects underway and the intention to expand its activities focusing on the effective and efficient implementation of the ISAs in development or finalised over the 2015–2019 strategy period. In particular we believe there is an urgent need to allocate greater priority to the development of implementation materials for ISA 540, including the requirements relating to the use of the work of Managements Experts in connection with this standard. We would also encourage the IAASB to undertake the Post Implementation Review of the Auditor Reporting standards that became effective in December 2016 as soon as possible.

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- As part of the strategic action under Theme B to assess the need for changes in the auditing and assurance standards to address issues and challenges related to audit evidence, we encourage the IAASB to look at this topic comprehensively and carefully scope the nature and extent of updates required to respond to this issue appropriately. Whilst welcomed and considered a good start, current efforts focusing predominately on the update of ISA 500 are not considered sufficient by the AUASB to address the breadth of issues impacting how evolving technologies and automated tools impact the audit, as well as how the consideration of how professional scepticism applies to alternative sources of audit evidence. In particular the AUASB would like to see the IAASB (perhaps through its Audit Evidence Working Group) evaluate what changes may be necessary to the whole suite of Audit Evidence Standards in the IAASB Framework (e.g. ISA 505, 520, 530). Work the AUASB has undertaken locally has already highlighted a number of areas where the current Audit Evidence standards are seen as a barrier to implementation or acceptance by practitioners, regulators and other stakeholders when it comes to innovative audit and assurance techniques which increase the efficiency and effectiveness of the audit.
- Additional considerations the AUASB requests the IAASB should include as part of its strategic actions are to:
 - Review and update its standards governing the conduct of review engagements. With so many competing pressures on what constitutes the requirements for an audit, perhaps one solution is for the IAASB to reconsider how the different needs of stakeholders could be met by positioning review engagements as a genuine alternative to an audit rather than just a poorer option, which is how they are sometimes currently perceived. Additionally, the reporting requirements within the suite of review engagement standards need to be updated as soon as possible to align them with the changes made to the ISAs in respect of the auditor reporting project in recent years. The AUASB already has in progress a project, being performed concurrently with the New Zealand Auditing and Assurance Standards Board, to update its local version of ISRE 2410 with this issue in mind and we would be happy to share our efforts on this standard with the IAASB.
 - Specifically consider how the IAASB could utilise technology to increase the usability and availability of its pronouncements. As we have seen with the development of IESBA’s ‘eCode’, producing its standards and guidance in alternative formats using different technologies we believe will make the IAASB’s pronouncements easier for practitioners to access and interpret, which in turn would hopefully have a positive impact on compliance, audit quality and the efficiency and effectiveness of implementation.

3. Do you agree with the IAASB’s *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)?

As described in our covering letter, as the National Standards Setter (NSS) responsible for the adoption and implementation of IAASB standards in our jurisdiction, we strongly endorse the IAASB’s new Framework for Activities as a means for the IAASB to broaden and strengthen its capacity and capability to implement the strategic actions proposed in the Proposed Strategy. We look forward to working, individually and collaboratively with the other NSS’s, with the IAASB on the different phases of the Framework. In particular we consider the IAASB should communicate in more detail how it wishes to engage with the NSS’s as part of the ‘Research Phase’ and working collaboratively with the IAASB on the ‘Implementation and Application of Standards’ described in Appendix 2. This would assist in determining where representatives from the NSS’s have the experience and capability to provide the greatest contribution.

In connection with Theme D of the strategic actions in the Proposed Strategy, the AUASB believes the IAASB’s Framework of Activities could be further enhanced by:

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- A reduction in the detail of meeting papers produced. This would assist in making the boards’ deliberations more accessible and transparent to interested stakeholders, particularly where English is not the native language; and
- The increased use of technology as part of the boards’ operations, such as the webcast of meetings and other standard-setting board events. This could improve efficiency, reduce costs, whilst also enabling greater collaboration with stakeholders across all parts of the world.

Additionally please refer to our additional comments in relation to the research activities phase of the framework in Question 5 below.

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?

As described in our response to Question 2 above, the AUASB fully supports the IAASB’s intention under Theme A to prioritise the completion of its existing major audit quality enhancement projects underway and the intention to expand its activities focusing on the effective and efficient implementation of the ISAs in development or finalised over the 2015–2019 strategy period. In particular we believe there is an urgent need to allocate greater priority to the development of implementation materials for ISA 540 and undertake the Post Implementation Review of the Auditor Reporting standards that became effective in December 2016.

Additionally the AUASB is pleased to see a continuing focus on Professional Scepticism in the 2020-2021 Work Plan. However the AUASB consider the actions relating to this need to be more clearly articulated rather than just being included as a generic project throughout the 2019, 2020 and 2021 years. In particular we do not support the activities of the Professional Scepticism Working Group being amalgamated into the Audit Evidence project as suggested in a footnote to Theme B on page 10 in the Proposed Strategy.

5. Are there 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)?

As described in our response to Question 2 above, the AUASB has identified a number of additional topics not already included in the Proposed Strategy we consider the IAASB could focus on as part of its information-gathering and research activities over the 2020 – 2023 period, specifically by undertaking dedicated activities designed to:

- Increase trust and confidence in the auditing and assurance profession globally;
- Work with the IASB to clarify the evidentiary requirements and the responsibilities of preparers when it comes to complex accounting standards, which in turn would assist in the implementation of auditing standards and improve audit quality;
- Review the IAASB’s Framework to ensure it is producing assurance standards and guidance that meet current and future user needs for external reporting beyond financial reporting;
- Review and update its standards governing the conduct of review engagements; and
- Specifically consider how the IAASB could utilise technology to increase the usability and availability of its pronouncements

The AUASB supports the specific initiatives the IAASB has highlighted as its intended information-gathering and research activities under Theme D of its strategic actions and as part of the new Framework of Activities described in detail in Appendix 2.

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As part of our recent activities, the AUASB has developed an evidence-informed standard setting (EISS) strategy that directs AUASB activities to ensure that standard-setting deliberations and decisions are informed by relevant and reliable evidence. We have made reference to the IAASB’s Proposed Strategy when finalising this EISS and would welcome the opportunity to share our efforts in this area with the IAASB and other National Standards Setters.

Additionally, as part of our AUASB International Strategy (available on the AUASB Website at <https://www.auasb.gov.au/admin/file/content102/c3/AUASBInternationalStrategy-April2019.pdf>) the AUASB has committed to identify and support the development of evidence that informs the AUASB’s responses to International Auditing and Assurance issues. We welcome the IAASB’s intention to increase the consideration of findings from academic research, post-implementation reviews and other work already undertaken by NSS as part of its new Framework of Activities, and welcome opportunities to collaborate with the IAASB further in this area.