

IAASB Mission Accomplished? Not Quite Yet

By Gundi Jeffrey



Gundi Jeffrey, Managing Editor of *ThinkTWENTY20*, is an award-winning business journalist specializing in writing about the accounting profession for various publications in Canada and England.

“I have tremendously enjoyed the challenges in leading the International Accounting and Auditing Standards Board in developing, in the public interest, high-quality standards for auditing and assurance for use across the world,” says

former IAASB chair Professor Arnold Schilder in a recently released report outlining the Board’s work over the past three and a half years. He added that “the innovations we have made in auditor reporting, quality management and assurance on non-financial information will benefit both users and practitioners. There is still much work to be done, and I am confident the IAASB has the foundation it needs as it enters its new strategy period in 2020.”

The work projects outlined in the report have been the subject of some criticism for not reacting quickly enough to

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perceived new needs, nor adequately addressing those new needs - such as the use of technology in auditing - but have also been lauded for completing several badly needed projects such as the enhanced auditor report and a new standard on auditing estimates.



“There is ample evidence that the IAASB’s process is too slow, both in fact and perception,” says Gregory Shields, CPA, CA, former director of auditing and assurance standards at CPA Canada and now member of the board of directors and the University of Waterloo’s Centre for Information Integrity and Information Systems Assurance as well as well as a member of CPA Canada’s Audit Analytics Committee. Further, he adds, “Many audits are

performed for entities that are not complex large public companies. Many auditors of these less-complex entities have expressed concerns that the IAASB is not meeting their needs.”

On the other hand, notes Cameron McInnis, CPA, CA, chief accountant at the Ontario Securities Committee, “the work the IAASB is doing on improving audit quality through topics such as professional skepticism and firm quality control is important, as improving these standards has the potential to improve audit quality and reduce the audit inspection findings of audit oversight bodies such as Canadian Public Accountability Board (CPAB).”

Improving Audits Takes Time

Schilder led the IAASB for more than a decade before handing over the job of chair last July to Tom Seidenstsein, who was the senior vice president for Strategy, Innovation and Capital Management at Fannie Mae, a leading source of US housing market liquidity.

The report, *IAASB Public Report, January 1, 2016 to June 30, 2019: Foundation For The Future*, covers what the board has been up to for the past three and a half years. In short:

- The IAASB approved five revised International Standards on Accounting (ISAs). Of those, three (ISAs 800, 805 and 810) are reporting standards that represent the tail end of the IAASB's project on auditor reporting. The revisions to these ISAs were approved in the fall and early winter of 2015 and became effective for audits of fiscal years beginning on or after December 15, 2016. This means that they apply largely to 2017 year ends for which year-end audit work would be done in 2018. The IAASB's initial information gathering for its auditor reporting project started in 2006, 12 years before these revised ISA likely would affect audit work.
- The IAASB also approved revisions to Canadian Auditing Standard 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* in June 2016. It became effective for audits of fiscal years beginning on or after December 15, 2017. This project originated with related information-gathering work done by the International Ethics Standards Board for Accountants (IESBA) that started way back in 2010.
- Finally, the IAASB approved revisions to ISA 540 *Audit of Accounting Estimates*. In comparison to the other projects, this was relatively quick. It started in early 2015, with revisions approved in June 2018 and effective for audits of fiscal years beginning on or after December 15, 2019. So, year-end work that would need to comply with this revised ISA would be done in early 2021, "only" six years after the start of the project.



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"Setting high-quality standards takes time, and we continually have competing calls for more, and quicker standard-setting activities," Schilder writes in the report. "My overall impressions are that we have substantially progressed our program to enhance audit quality since the clarified International Standards on Auditing became effective in particular over the past three and a half years. The progress includes addressing not only the challenges and issues identified by our ISA Implementation Monitoring Project, but also those arising from the continually changing environment, including significant revisions to international accounting standards and other external reporting frameworks."



Schilder notes that the IAASB efforts to enhance audit quality have taken a large proportion of the Board’s time over the period January 1, 2016 to June 30, 2019. “We have finalized a more robust standard for auditing accounting estimates, and we are now focusing on other foundational and core ISAs, including those to identify and assess risks of material misstatement and group audits. We are also currently innovating our way of drafting our standards to help make them capable of effective and consistent application to all sizes of entities.”

Climate change is also on the minds of Board members. Schilder points out that “we continue to be mindful of changes in the environment and how we can best respond, in particular in relation to broader quality objectives which are core to the engagements performed using our standards.” The IAASB recently consulted on a new approach to quality management for firms and engagements, and its new proposed quality management standards are likely to result in substantial changes from current practice. “We believe that enhanced quality management will lay a more solid foundation for the way that the engagements using our standards are carried out.” The IAASB expects to finalize the new quality management standards in 2020.

The IAASB has, for some time, recognized that stakeholder needs stretch beyond entities’ financial statements and is close to finalizing the revision of the standard on agreed-upon

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procedures (AUP) engagements. It has also, over the past two years, been developing guidance on how to apply the standard on other assurance engagements to extended external reporting (EER). “We already

published a first phase of draft guidance and hope to have a full draft approved for consultation by the end of 2019. Innovation and responsiveness to our stakeholders’ needs are critical as EER engagements continue to grow and evolve,” Schilder says.

As to what comes next, Schilder explains that “considerations relating to technology will form part of a possible new project related to audit evidence as issues in this regard are primarily driven by technology, professional skepticism and the sources of information available to auditors. Scoping activities for this new initiative commenced early in 2019. Furthermore, professional skepticism remains an ongoing initiative that affects all our projects currently underway.”

There has also been a recurring call to meet the needs of smaller stakeholders. “More needs to be done for those engagements where entities operate in less complex environments. In the last decade we have revised our standards on reviews, compilations and other assurance engagements, and are nearing completion of our revised AUP engagements.”

Working for the Public Interest

A key input to the development of the IAASB’s standards comes from the Consultative Advisory

Group (CAG). The CAG provides the IAASB with insights and inputs on proposals as the Board develops standards and sets strategy.

Jim Dalkin, who chairs the IAASB Consultative Advisory Group, lauds ISA 540 (Revised) *Auditing Accounting Estimates* for achieving the objectives performance relation to the expected 9 *Financial Instruments* importance of the professional skepticism estimates. “The CAG interested in this project given its public interest impact on all audits, but particularly on financial institutions.”

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of meeting more robust requirements, particularly in credit loss model set out in IFRS as well as emphasizing the appropriate application of when auditing accounting Representatives were keenly

He also is satisfied with ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*, which addresses several public interest issues the CAG raised, including in relation to the complexity and scalability of the standard. “The auditor’s ability to serve the public interest includes the ability to apply this, and other standards, to the audits of financial statements for all entities – ranging

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from small, simple, non-complex entities to large, complex, multinational entities.”

He notes that the CAG has been involved with the development of the new and fundamental suite of quality management standards, providing advice and input throughout the development process from a public interest perspective. “The proposed standards address the most relevant public interest issues raised by the CAG related to quality management at the firm and engagement levels The balance achieved in these proposed standards between regulatory needs for more robust quality management standards and those of small and medium-sized practices (SMPs) to avoid a ‘one size fits all’ approach was a key concern for the CAG as the revisions to the standards were developed.”

He adds that the IAASB is embarking on further exploration of how its standards can better address an audit of a less complex entity. “The CAG strongly supports this initiative and looks forward to providing further input as the IAASB consults and develops recommendations on more can be done.”



Carol Paradine, CPA, CA, the CEO of the Canadian Public Accountability Board, agrees that The work on quality management standards for audits is very important; CPAB is encouraged to see

many audit firms begin to work on implementation in advance of these standards being finalized in 2020. “

CPAB also supports the IAASB’s commitment to placing additional focus on two critical standards areas – going concern and fraud – as noted in a recent speech by the IAASB’s new chair, Tom Seidenstein. “CPAB has conducted a review in both these areas and expects to publish our perspectives later this year.”

Paradine noted in particular “the IAASB’s recognition of the need to better reflect the application of new technology in the standards, and to innovate processes to improve overall responsiveness and agility.”

Changes to Standard-Setting Process Essential

In his speech, delivered in London on October 4, 2019, Seidenstein acknowledged that “the due process of standard-setting has not evolved much in the last several decades. In my mind, standard-setting is marked by long duration projects and highly formalized procedures. This formality favors those with the time and resources to participate in the process – and likely means the barriers for entry for participation are high. What I envision, to borrow a term from the technology world, is a much more agile standards-development process.

“Standard-setters should be adopting new technology collaboration tools to engage stakeholders through all parts of the process. We need to meet people where they want to meet us—not where we want them to meet. In a more innovative world, we should move from paper and .pdf-based standards, to digital forms where we could track how practitioners are using them. At the IAASB, we should be willing to adopt more quick response mechanisms to address practice issues in shorter time periods. ...This agile approach will require experimentation and a willingness to fail. However, success could be measured in greater participation and trust in the process and more rapid standards development.”



The OSC’s McInnis says the IAASB proposed strategy and work plan for the next few years acknowledges technology as a key environmental driver and that he is “pleased to see that the IAASB has established an Innovation Working Group to look at technology issues in audit. We have seen recently that Canadian markets move quickly in new areas of technology such as crypto-assets and blockchain, and auditors need to have the right tools and guidance to audit these new areas. I’m pleased that organizations within the Canadian financial reporting ecosystem have been able to work together to develop domestic guidance and audit approaches to handle these situations.”

He also believes that “the IAASB has completed a number of good projects so far including the enhanced auditor report and new standard on auditing estimates. The enhanced auditor report gives investors information they didn’t previously have on difficult and important areas of the audit, and the new standard on auditing estimates ensures robust

audit procedures for new financial reporting areas (i.e., expected credit losses of financial institutions).”

And McInnis certainly supports the work of the IAASB’s Monitoring Group, which is looking at the board’s governance and standard-setting structure. “One of the objectives of that work is to develop a structure that will improve time to market for standards. Sometimes standards can take too long to develop. One example of this is the work being done on ISA 600 *Group Audits*. This was an area that we have been expressing concerns about for a long time and I’m pleased we are seeing significant progress recently on this project.”

For his part, Shields finds that IAASB’s response to the impact of technological change “has so far been inadequate. There are recent signs that the IAASB is finally starting to develop standards that more appropriately stress the fact that most audits are conducted in a high-tech environment. But the IAASB’s standard-setting process is far too slow. I don’t think that the IAASB will ever be capable of properly responding on a timely basis to the impact of technology unless it makes fundamental changes to its process.”

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He adds that none of the IAASB’s recently revised standards reflects use of technology by either auditees or auditors. “The reporting standards would not be significantly affected by technology – at least not for now. However, use of data analytics can be effective in auditing compliance with laws and regulators and accounting estimates. Such use might even be essential, for example, to performing high-quality audits of the allowance for credit losses of a financial institution. The absence of any reference to use of technology in ISAs 250 and 540 is, to me, evidence that the IAASB has not kept up with the impact of changes in technology.”

Hope for the Future

But Shields is hopeful, noting that there are recent signs of improved IAASB performance regarding technology. “Revised ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* was approved in September 2019. It now includes application and explanatory material explicitly stating that automated tools and techniques ‘may be used’ for aspects of assessing risks of material misstatement.

“Also, the IAASB is preparing non-authoritative guidance in the form of FAQs on the use of automated tools and techniques in assessing risks of material misstatement. However, the IAASB formed its IAASB Technology Working Group (formerly the Data Analytics Working Group) in the fall of 2014. Despite years of consultation and apparent widespread support for the use of data analytics in assessing risks, ISA 315 still does not contain a requirement to do so. To me, this is highly problematic. There is likely a significant number of auditors who will defer use of data analytics until such use is required. They will therefore forego any improvements in audit quality that are likely to result from use of technology in assessing risks.”

To demonstrate its commitment to addressing technology issues, he adds, “the IAASB would no doubt point to its current major initiative to revise ISA 500 *Audit Evidence* and make conforming changes to many other standards. This initiative likely would result in finally recognizing the importance of technology throughout the ISAs. Optimistically, an exposure draft of revised ISA 500 might be approved as early as March 2021. The exposure draft period could be the usual 90 days, but given the breadth of the project, could be much longer. Further, addressing comments could take another 18 months (based, for example, on the time taken to finalize revised ISA 540). Final approval, again optimistically, could take place in late 2022 and with the revised ISA being effective for years beginning on or after December 15, 2023. The revised standards would be applied in year-end audit work mostly starting in early 2025. By that time, many relevant aspects of technology could have changed significantly. “

In Shields’ view, “a key reason that the process is so slow is that information gathering is the easy part of making changes to standards. People are generally happy to be consulted. The only significant resistance to change (by auditors and audited entities) comes when new requirements are proposed that may increase audit costs. Consultation is definitely needed to help ensure that there is buy-in to any changes in requirements in standards. Otherwise, the standards will not be ‘generally accepted.’ However, information gathering is never complete (you can always obtain more). So, it is so easy for the IAASB to say yet more consultation is needed. The IAASB often seems like the proverbial cat that sees fish in the water but is very reluctant to experience the discomfort of actually getting its feet wet. Standard setting should not be a popularity contest. Ever more consultation should not be a substitute for biting the bullet and doing what is right to improve audit quality, in the public interest.”

Revisions Urgently Needed

There are two issues that Shields feels are particularly urgent and need addressing by the IAASB. “First, the IAASB has long known that there are significant issues about the nature, timing and extent of procedures auditors should perform to obtain evidence regarding the reliability of data. This includes data used by management in preparing the financial statements, and any additional data that might be used by the auditor in obtaining audit evidence to support the auditor’s opinion. This matter is particularly urgent because evolution in technology, including significant expansion in the nature and volumes of relevant data, presents significant new challenges for auditors. The IAASB will likely address this matter as part of its project to revise ISA 500 *Audit Evidence* but it will no doubt take a lot of time. CPA Canada is also initiating a project to develop non-authoritative guidance on this matter.”

He also thinks that revisions soon need to be made to ISA 570 *Going Concern*. “This is urgent because it is now the primary source of what is called the audit expectations gap. Users of financial statements and the auditors’ reports thereon feel that auditors should be doing a much better job of providing timely information on material uncertainties about an entity’s ability to continue as a going concern. This is not a new issue, but is now getting a lot of attention. It may not be an exaggeration to say that timely action on this matter is important to maintaining the relevance of audits.”

Shields does, however, believe that the IAASB is already taking useful initial steps in one area. Many audits are performed for entities that are not complex large public companies. Many auditors of these less-complex entities have expressed concerns that the IAASB is not meeting their needs. Revised ISAs often include a few paragraphs on what is called “scalability” (i.e., information on how to apply typically long and complex standards to audits of less complex (typically smaller) entities). However, in the view of many, this is far from adequate.

“This is a long-standing complaint,” he says. “The IAASB is now being a lot more proactive in trying to identify and address specific concerns. Earlier this year, it issued a consultant paper *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs* ([Audits of less complex entities](#)). The IAASB now has a project underway to address this matter. However, it is not clear that the IAASB will be able to take any meaningful actions in the near term, given the slowness of its process.”

Addressing Divergent Views

In his October Speech, Seidenstein said he plans to concentrate on fixing some of these problems. “We must confront weaknesses in audit standards when identified, come to grips with the increasing complexity of our standards, modernize standards to account for the impact of technology, and carefully consider the demand for the audit of non-financial information. Second, we need to balance the diversity of stakeholder views on a wide range of public interest issues. One of the hallmarks of standard setting is the need to confront diverging views. For example, I take the issue of developing the right type of standards for lesser complex entities (LCEs). This is a hot button issue for many of our stakeholders. Many from the securities regulatory community do not see this project as an urgent priority, while others see it as one of the most pressing needs.”

Seidenstein emphasized that the IAASB is in the process of completing a significant phase in its technical work. “Our current and most recent work comprise major standard-setting projects, aimed at improving the fundamentals of audit quality. I am committed to completing this work program. These projects will provide the foundation for future efforts. However, we also need to allow these projects to settle in and be prepared to support their effective implementation. Therefore, I do not see the IAASB replacing the completed projects one-for-one with projects aimed at major rewrites of existing standards. Instead, the IAASB will dedicate more capacity to support more rapid improvements and potentially interpretative activities, as we see the standards put to practice. We also need to turn more of our energies to dealing with the challenges facing audit and assurance standards, including the complexity of our standards, the impact of technology, and emerging issues of public interest, such as fraud and going concern.”

Will this be enough? Shields doesn’t think so. “There are recent signs that the IAASB is finally starting to develop standards that more appropriately stress the fact that most audits are conducted in a high-tech environment. But the IAASB’s standard-setting process is far too slow. I don’t think that the IAASB will ever be capable of properly responding on a timely basis to the impact of technology unless it makes fundamental changes to its process.”