



March 30, 2011

Via website posting: <http://www.iaasb.org/>

Re: Exposure Draft Comment: **Proposed IAASB Strategy and Work program for 2012-2014**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Consultation Paper: **Proposed IAASB Strategy and Work program for 2012-2014**. In addition to providing responses to specific questions, we have also provided additional comments on related matters.

### Question 1

*Do the IAASB's three areas of strategic focus noted in paragraphs 7–11 remain appropriate?*

### Comments

We consider the three stated focus areas to be within the natural and legitimate domain of the IAASB. However, as is commonly the case, the challenges may be in the details. As such, we have expressed below our views on some of the specific projects. At the same time, we would also caution the board against engendering excessively or disproportionately optimistic expectations regarding the role of assurance and auditing standards in the effective operation of the world's capital markets.

### Question 2

*Does the list of anticipated projects likely to commence in 2012–2014 (Column B) adequately address issues currently facing the accounting and auditing professions, in particular:*

- (i) Whether respondents support the IAASB undertaking work in these areas and, if not, the reasons why a particular project(s) would not be supported;*
- (ii) Whether respondents believe these projects are consistent with the IAASB's three areas of strategic focus; and*
- (iii) How these anticipated projects should be prioritized in light of the current projects (Column A).*

## Comments

We offer below comments on the anticipated projects likely to commence in 2012-2014.

### *(i) Support for undertaking work in these areas*

#### *Responding to the Findings of the ISA Implementation Monitoring Project (Ref: Project B.1)*

We note that no significant implementation challenges are identified as a result of the ISA Implementation Monitoring Project, except in the case of ISA 600. Also, a stable ISA regime is pre requisite to initiation of significant changes. Under the circumstances, it would conceivably be more efficient to deploy resources on such projects as audit evidence, professional judgement, reasonable assurance, and advancement of the conceptual development of ISAs.

#### *Revising the Standard Dealing with Agreed-upon Procedures Engagements (Ref: Project B.2)*

We strongly endorse a project to revise ISRS 4400 dealing with agreed-upon procedures engagements in view of the increasing importance of emerging accounting technology like XBRL in financial reporting. We believe that such a revision represents a logical sequel to the proposed revisions to ISRE 2400 and ISRS 4410.

#### *Revising or Withdrawing the Standard on Prospective Financial Information (Ref: Project B.3)*

We suggest that, before deciding on either the revision or withdrawal of ISAE 3400, the IAASB might revisit the conceptual basis of providing assurance on prospective financial information. We consider this as an important exercise because of the limited use of this standard by practitioners, and because of the gap between the expectations of users and regulators versus the level of assurance that practitioners are reasonably willing to provide.

#### *Identifying Implementation Challenges and Developing Materials to Address These Challenges (Ref: Project B.4)*

We welcome explicit acknowledgement by the IAASB of the importance of addressing the challenges of implementing the standards. We believe that these challenges are best addressed by establishing a broad-based discussion forum, encompassing all the stakeholders inclusive of regulators, practitioners and standards-setters. We are encouraged by IAASB plans to accelerate activities for formalizing such discourse and for facilitating the flow of information amongst stakeholders. We expect this initiative to enhance quality, credibility and acceptability of the standards and can serve also to facilitate a regime of globally-harmonized standards.

#### *Seeking Feedback on Implementation Experiences with ISAE 3402 (Ref: Project B.5)*

We consider ISAE 3402 to be a very important standard because of the growing trend of outsourcing non-core activities and the concerns arising from such a trend regarding the privacy and security of data. In our opinion, this project complements the project: *Responding to the Findings of the ISA Implementation Monitoring Project* (Ref: Project B.1).

*Communicating about the Benefits of Adopting the Clarified ISAs (Ref: Activity B.6)*

We believe that effective communication of the benefits of clarified ISAs will greatly add value and motivate stakeholders to more willingly and promptly adopt them. We believe that this project supplements the projects geared towards effective implementation of ISAs and ISAEs, and hence endorse its inclusion in the proposed work plan.

***(ii) Consistency with IAASB's three areas of strategic focus***

We believe that all the projects expected to commence in 2012-2014 are closely aligned to the three focus areas identified above and, if appropriately prioritized and implemented, would help in achieving the goals of the focus areas identified by the board.

***(iii) Priority of anticipated projects***

We suggest the following order of priority in light of the current projects (Column A). We have considered linkages to the current projects and continuity when assigning these priority ranks.

1. *Responding to the Findings of the ISA Implementation Monitoring Project (Ref: Project B.1)*
2. *Identifying Implementation Challenges and Developing Materials to Address These Challenges (Ref: Project B.4)*
3. *Seeking Feedback on Implementation Experiences with ISAE 3402 (Ref: Project B.5)*
4. *Revising the Standard Dealing with Agreed-upon Procedures Engagements (Ref: Project B.2)*
5. *Revising or Withdrawing the Standard on Prospective Financial Information (Ref: Project B.3)*
6. *Communicating about the Benefits of Adopting the Clarified ISAs (Ref: Activity B.6)*

**Question 3**

*With respect to the additional projects (Column C):*

*(i) Which of the suggestions, if any, should be considered for inclusion on the future work program, and how should these be prioritized in light of the current projects (Column A) and anticipated projects likely to commence in 2012–2014 (Column B); and*

*(ii) Whether any particular project(s) in Column C would not be supported*

## Comments

In the following paragraphs, we have ranked and commented upon the additional projects which are candidates for inclusion in the work program. We have not identified any specific project that should be excluded from the work program, subject to the availability of resources.

### *1. Developing Guidance for the Audits of Banks (Ref: Project C.1)*

We recommend including this additional project and note that this is a complex project which requires considerable resources. However, we consider this project to be a prime candidate for inclusion in the future work plan in view of the recent financial crisis.

### *2. Redrafting the Standard Dealing with Reviews of Interim Financial Information in the Clarity Format (Ref: Project C.7)*

We note the concerns expressed regarding the Clarity Project.<sup>1</sup> The referenced research paper examines the IAASB's policy proposals arising from their review of the drafting conventions in auditing standards. It is contended that one motivation for the Project was to ensure that auditing standards drafted by the IAASB are 'principles-based'. It can be argued that the failure to adequately articulate the meaning of 'principles-based standards' resulted in a lack of clear Project focus. This resulted in two main objectives for the Project. The first was a search for fundamental principles of auditing that was incompletely realized, officially abandoned and subsequently pursued in the revisions made to ISA 200. The second was a desire to promulgate standards that were 'objectives-based' or 'principles-based'. Unfortunately, there was inadequate enquiry into the idea of an objective and the related idea of 'objectives-based' standards. It is suggested that the Clarity Project may not have maximized the opportunity. The results are uncertain because there was a failure to exercise adequate conceptual enquiry into some of the concepts that directed its development.

In view of the ambiguity surrounding drafting conventions pronounced in the Clarity project, we suggest replacing this project with a project to clarify the conceptual keystones of the Clarity Project, and believe that it would be more efficient to do so before re-drafting of any other standard in accordance with these drafting conventions.

### *3. Considering Further Actions to Assist in the Implementation of ISQC 1 (Ref: Activity C.8)*

We strongly support this project in view of the importance of ISQC 1 in enhancing audit quality and the need to address the concerns of SMPs with respect to cost and technical resources. We expect this project to supplement the guidance material that is already developed by the SMP Committee.

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<sup>1</sup>Dennis, Ian David, 'Clarity' Begins at Home: An Examination of the Conceptual Underpinnings of the IAASB's Clarity Project. *International Journal of Auditing*, Vol. 14, No. 3, pp. 294-319, November 2010

4. *Evaluating Whether to Develop a New ISAE Addressing Assurance on Internal Control (Ref: Project C.6)*

We consider this to be a desirable project and suggest exploring the possibility of a joint project with other recognised entities in this area, such as the Institute of Internal Auditors.

5. *Evaluating Whether to Develop a New ISAE Addressing Sustainability Reporting (Ref: Project C.4)*

We believe that before undertaking a new IASE dealing with Sustainability Reporting, the board would be well served to first establish the suitability of professional accountants to provide assurance on this and other similar non-financial information. We note that questions have been raised whether such services are within the natural domain and competency of professional accountants.<sup>2</sup>

6. *Evaluating Whether to Develop a New ISAE Addressing Assurance on Corporate Governance Statements (Ref: Project C.5)*

We again suggest, as in the case of Project C.5, first establishing the suitability of professional accountants for this type of engagement before developing a new ISAE dealing with this issue.

7. *Monitoring the Impact of Developments in Integrated Reporting (Ref: Project C.3)*

We believe that conceptual development of integrated reporting by the International Integrated Reporting Committee is likely to extend beyond the IAASB work plan period 2012-2014. Hence, we do not expect deployment of significant IAASB resources during this period for this particular project.

8. *Considering Whether a New Standard or Guidance Is Necessary to Address the Auditor's Responsibilities Relating to Preliminary Announcements (Ref: Project C.2)*

We do not consider this a high priority project and do not visualise that the auditor's responsibility relating to preliminary announcement will be materially different from that relating to full year financial statements.

#### **Question 4**

*Are there additional actions or projects that respondents believe should be addressed, and, if so, how these should be prioritized in relation to the projects identified in Columns B and C?*

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<sup>2</sup>*Simnett, Roger, Huggins, Anna L. and Green, Wendy, Are Greenhouse Gas Assurance Engagements a Natural Domain of the Auditing Profession? Working Paper series (September 13, 2010).*

## Comments

We note the absence of comprehensive guidance on the audit of insurers similar to that available to the banking sector such as IAPS 1004 *The Relationship between Banking Supervisors and Bank's External Auditors* and IAPS 1006 *Audits of Financial Statements of Banks*. We also note that the International Accounting Standards Board (IASB) is expected to issue a final standard on Insurance Contracts by the middle of this year, and that the final standard will entail development of accounting estimates with the help of actuaries. Hence, an emerging key issue could be the relationship between the auditors and actuaries; either in the preparation of financial statements, or as members of audit teams.

We believe that the insurance sector is an important sector within the financial services industry and hence, from the public interest perspective, it is appropriate for the IAASB to develop guidance for the audit of insurers by developing an IAPS or a comprehensive guide. For this purpose, we suggest leveraging work already done by national standards-setters in some jurisdictions and industry association such as International Association of Insurance Supervisors.

## Question 5

*Respondents are 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.*

## Comments

We believe that the following three projects would best meet the IAASB's public interest mandate. For this purpose, we have considered the potential long term benefit flowing from the successful implementation of the project, the criticality of the project based on the immediate need of the auditing profession and its strategic importance for restoring and maintaining public confidence in the auditing profession.

1. *Developing Guidance for the Audits of Banks (Ref: Project C.1)*
2. *Developing Guidance for the Audits of Insurers (New Project)*
3. *Considering Further Actions to Assist in the Implementation of ISQC 1 (Ref: Activity C.8)*

## Question 6

*Which one project (either from Column B, Column C or an additional action not included in either column) respondents would identify as the IAASB's top priority, in order for the IAASB to consider how each of the three areas of strategic focus would be addressed in the future Work Program?*

## **Comments**

We consider *Responding to the Findings of the ISA Implementation Monitoring Project (Ref: Project B.1)* as the top priority project for IAASB in order for the IAASB to consider how each of the three areas of strategic focus would be addressed in the future Work Program. In our opinion, this project has the broadest coverage of the three areas of strategic focus, the greatest potential to further public interest, and a most favourable cost-benefit ratio.

## **Question 7**

*What types of publications or further implementation guidance may be of most use to facilitate the adoption and implementation of the IAASB's pronouncements?*

## **Comments**

We commend the initiatives that the IAASB has undertaken to date for this purpose and note that such initiatives are directed at the development of materials designed to support adoption and implementation of standards by member bodies. We believe that the IAASB should also consider providing a dedicated channel by which member bodies can consult with the IAASB on practical issues and matters of interpretation that they may encounter during adoption and implementation. This would help ensure that the IAASB pronouncements are properly and consistently interpreted by member bodies across different jurisdictions. We also suggest considering use of webinars and social media for facilitating the adoption and implementation of IAASB pronouncements.

## **Question 8**

*What opportunities may exist for the IAASB to partner with others to facilitate implementation of the clarified ISAs (for example, IFAC member bodies, NSS, training organizations, and others)?*

## **Comments**

We note that the IAASB has done an admirable job of partnering with obvious stakeholders to facilitate implementation of the clarified ISAs. We suggest expanding these efforts by engaging leading educational institutions in the field of accounting and finance. We also encourage the IAASB to explore the possibility of educating the preeminent global decision making bodies such as, the G20 and the IMF in relation to the importance of the IAASB's work in facilitating the effective operation of the world's capital markets.

## **Additional Comments**

We are encouraged to note that the proposed IAASB Strategy and Work program for 2012-2014 conforms to all of the elements of a good work plan, such as alignment with the mandate and

terms of reference, pragmatic goal oriented approach, clear identification of issues, and design of projects and activities for achieving the goals. However, we suggest building in a margin of safety while allocating resources so that a new project necessitated by unforeseen circumstances can be expeditiously undertaken. We also suggest that, while finalizing its work program, the IAASB should, to the extent possible, factor in the work plans of other standards-setting boards of the IFAC as well as the IASB. We look forward to finalization of a robust IAASB work program that will further the cause of global, high quality and consistent assurance and auditing standards.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at [kgosalia@cga-canada.org](mailto:kgosalia@cga-canada.org) or alternatively the undersigned at [rlefevre@cga-canada.org](mailto:rlefevre@cga-canada.org).

Sincerely,

[Original signed by:]

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Vice-President, Research & Standards