

For the attention of Jim Sylph
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY, 10017
USA

4 January 2008

Dear Sir

IAASB Consultation Paper – Proposed Strategy for 2009-2011

We appreciate the opportunity to comment on the IAASB's Proposed Strategy for 2009-2011

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Consultation Paper. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall Comments

We commend IAASB for starting now to focus on what the Board's strategy should be post-Clarity in 2009-2011. It is important for a standard-setting body, such as IAASB, to have clear sight of its vision and goals in order to guide its priorities and allocation of resources, and to provide a benchmark to measure its success.

Overall, we support the three broad focuses of the world's capital markets, the implementation of standards and the needs of SMEs. We note, however, that the first two are not entirely mutually exclusive – effective implementation of the Clarity standards is vital if the ISAs are to meet the needs of the world's capital markets. We also note that, unless auditing standards remain principles-based, there is potential for conflict between meeting the needs of the world's capital markets and the needs of SMEs. IAASB's strategy needs to explicitly address the tensions amongst these focuses and articulate how the Board intends to balance them.

From our perspective, facilitating the effective operation of the world's capital markets is of upmost importance and, therefore, maintaining high-quality auditing standards that strengthen public confidence in financial reporting should remain IAASB's primary focus.

Defining IAASB's vision

We were disappointed that the strategy doesn't articulate a vision or attempt to define what would represent success. Whilst we can appreciate that such a vision might be contingent on the plans and actions of others, we don't believe that should dissuade IAASB from setting out where it thinks international standards should be in, say, ten years time. Indeed, failure to do so could result in inefficient or ineffective use of resources. In the absence of identifying what the Board is ultimately trying to achieve, there is a very real risk of work expanding to fill the time and resources available rather than the Board's priorities driving the agenda. Indeed, we felt that there is some evidence of this in the proposed work programme (e.g. the proposal to "identify and develop implementation guidance for an "additional topic"").

We believe that the Board's vision should be the acceptance of ISAs as the generally accepted benchmark for auditing standards globally. This necessarily involves working with regulators and other national standard setters as that vision is likely only to be realised through the convergence of national standards around the world. Given the importance of this goal, we believe that the Board's primary focus should be the development of high quality auditing standards and that the ISAs should remain the Board's top priority. Resources should be allocated to the development of standards for assurance services other than financial statement audits only when there is a demonstrated public interest need for robust internationally accepted standards for a specific service, including evidence of the service's significant economic impact.

Priorities over the next few years

The Clarity project is key to achieving that vision and we strongly support the plan to devote the Board's attention in 2008 to completion of that initiative. We urge the Board to resist any pressures to take on initiatives that would detract from completing the Clarity project in the upcoming year.

Post-Clarity, we believe that ensuring a stable ISA platform will be vital to their effective implementation, which, in turn, is necessary for gaining broad-based acceptance of the ISAs as high quality global standards. Therefore, we strongly support the proposed moratorium. Equally, we believe that no new ISA revision projects should be undertaken unless there is demonstrable evidence that audit quality is being impaired. As we explain more fully in our comments on the proposed specific actions in the Appendix to this letter, we are not yet convinced that ISAs 610 and 720 fit that criterion.

The result of this may be that the Board may not need as many meetings as it currently has. The risk in maintaining the status quo is that work fills the time available and that the process drives the Board's output rather than the needs of stakeholders being the driver.

Facilitating implementation

In the past, the Board has issued new standards and left it to others to implement, awaiting feedback to filter back through to the Board over time. As effective implementation of Clarity is critical to achieving broad global acceptance of the ISAs, we believe that the "wait and see" strategy is not sufficient. We fully accept that it is not the role of the Board to engage in training directly, but we do believe that the Board can be more engaged in:

- gaining an understanding of experiences in implementing the Clarity ISAs and the revisions to a number of significant ISAs that are coming into effect at the same time, and analysing the feedback received;
- facilitating implementation through issuing interpretations and guidance when appropriate; and
- liaison with those who are influential in the acceptance of the ISAs and their adoption.

The focus of proposed activities in the Strategy are all output focussed – i.e., what the Board needs to *produce*. We are not convinced that this fully reflects the nature of the activities that the Board should be undertaking during Clarity implementation. We believe that Board time needs to be devoted to analysing how implementation is progressing. We recognise that the allocation of the Board's time for such activities will be different from that of the IAASB Chair, Deputy Chair, Technical Director and staff, for whom liaison and promotion are expected to constitute a significant portion of their time over the next few years. However, we also believe there ought to be a shift in the Board's agenda and time as well. For example, reports on feedback received ought to become an integral part of each of the Board's agendas at meetings. Indeed, we would suggest that this be considered as a project in and of itself and that thought be given now as to how the Board can be actively engaged.

In addition, we believe that IAASB should commit to standing back and assessing the success of the Clarity project at the end of the moratorium period. Given its significance, articulating now what would define success and measuring progress against those benchmarks would be invaluable. The redrafting of the standards was designed to make the ISAs more accessible and facilitate

implementation. It is important to assess whether those aims have been achieved. The result of such a review might be the identification of specific requirements or guidance that have proven difficult to implement and, therefore, reconsideration of their cost/benefit might be warranted. The review might also identify impediments to implementation that the Board might be able to alleviate.

Again, we recommend that this assessment or review be defined as a project in its own right so that appropriate consideration can be given to how best to design an effective assessment process.

Allocation of resources

We are strong proponents of a need for a stable platform as we believe this will allow member bodies, firms and others to devote attention to the implementation of the new Clarity ISAs. We believe that two years is the *minimum* amount of time that should be allowed and wonder whether a longer time might be needed. We believe that the moratorium should not be limited only to development of new ISAs. New pronouncements in other areas will equally demand time and resource to provide input as they are developed and to implement once promulgated. As explained in our comments on specific proposed activities, we question whether the case has been made in relation to all of them, at least in the shorter term.

That being said, we believe that the moratorium period provides an opportunity for IAASB to conduct research and thought leadership. IAASB has traditionally not been particularly forward looking. The moratorium provides an opportunity to do so in a more structured way than in the past. We accept that the Board itself is not a body best positioned to undertake the research, but it could commission appropriate research and deliberate on the implications of the results from a standards-setting perspective. Any academic research should be commissioned now so that it is available for consideration by IAASB in the post-Clarity period.

We suggest that a productive avenue of thought leadership would be looking at the long-term trends affecting the environment for audit and demand for audit services. For example, the Board could explore audit reporting and communications in a broad and comprehensive manner, reaching out to engage with stakeholders and fully exploring alternatives. Indeed, stakeholder engagement is vital if the standard setting process is to produce high quality auditing standards that meet the needs of the financial reporting supply chain. More could be done to reach out – not just through IAASB's own structures (e.g., the Consultative Advisory Group), but through robust survey methods.

Another area of thought leadership worthy of consideration is stakeholders' views of the relevance and cost of the financial statement audit for both listed companies and non-public interest entities. IAASB should be interested in the possible relationship of auditing standards with such perceptions. For example, is there a relationship between perceived relevance/value of the financial statement audit and the standardisation of the audit process and audit reporting? Could the more rules driven auditing standards now being released become a hindrance to innovation and the ability to individualise audit approaches to meet the needs of stakeholders, particularly of those outside of the capital markets? Will they also make attracting bright people into the profession more difficult in the future?

Proposed actions

We comment in more detail on each of the proposed actions in the Appendix to this letter.

Closing remarks

In closing, we would like to reiterate our support for IAASB in consulting on its future strategy. The current circumstances present both opportunities and challenges and we encourage IAASB to think beyond its current structures and approaches so that the Board's energy and resources can be applied in the most effective manner in pursuit of the ultimate aim – developing high quality auditing standards, and actively advocating the convergence of auditing standards around the world towards them, so that the ISAs are broadly recognised as the global auditing standards against which audit quality will be judged.



We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Roger Marshall (+44 20 7804 4866).

Yours faithfully,

PricewaterhouseCoopers

Comments on specific proposed actions

	PwC views
<p>A. World’s capital markets</p>	
<p>A.1 Enhancing public confidence in financial reporting through the development of high-quality ISAs</p>	
<p>Performance Standards</p>	
<p>A.1.1. Develop two ISAs – possibly ISA 610 and ISA 720</p>	<p>The successful implementation of the Clarity ISAs may well be contingent on IAASB providing a stable platform with no change for a reasonable period of time. There is a risk that identifying, and commencing, revision projects could have a destabilising effect by introducing uncertainty.</p> <p>Whilst recognising that standards need revision to keep relevant to current practice, in our view, standards should only be revised or amended if there is demonstrable need for change and clear evidence that doing so will improve audit quality. We are not convinced that any of the Clarified ISAs that were not subject to revision are so in need of revision that IAASB should commence revision project during the moratorium.</p> <p>The Strategy proposes that two new ISAs be developed during the period - <i>ISA 610: Considering the Work of Internal Audit</i> and <i>ISA 720: Other Information in Documents Containing Audited Financial Statements</i>. The basis for these recommendations is that there have been developments in the role of internal audit, and in the presentation of financial statements (for example their presentation on websites) that are likely to justify revision of those standards.</p> <p>We note that with respect to Internal Audit, the PCAOB’s recently published AS 5 has re-affirmed the validity of AU 322: <i>The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements</i>, which first became effective in 1991. Whilst internal audit’s role may evolve in many organisations, the need to alter the existing auditing standard related to the external auditor’s consideration of the work of internal audit may be less clear-cut. We question whether there is a burning platform necessitating revision of this ISA in the near term.</p> <p>ISA 720 addresses the auditor’s responsibilities with respect to other information included in an annual report. Its scope is well defined and relevant. Previous attempts to develop guidance that extend beyond this scope at an international level have found consensus elusive—perhaps in part due to differing legal and regulatory environments. We question whether IAASB should embark on a revision to ISA 720 until the scope of the project is well defined and a reasonable basis to believe that a globally supportable approach exists.</p>
<p>Reporting Standards</p>	
<p>A.1.2. Determine actions to be taken based on research to be conducted with regard to the auditor’s report</p>	<p>ISA 700 (Revised) has been in effect since 31 December 2006. At the time of that revision, the Board focussed on updating the current auditor’s report and related guidance in light of the anticipated increased use of ISAs around the world. Additional guidance was deemed important to ensure consistent application of the reporting principles in practice. The Board did not attempt, at that time, to explore whether different reporting models might better meet stakeholders needs.</p> <p>Many national standard setters have not adopted revised auditor’s</p>

Comments on specific proposed actions

	PwC views
<p>Other</p> <p>A.1.3. Develop guidance for the approach to be followed when XBRL financial statements are to be filed together with the auditor's report</p> <p>A.1.4. Monitor developments in continuous auditing and the continuous availability of information to assess whether to develop guidance</p>	<p>report. It is appropriate for IAASB to understand if there are impediments to its adoption. At the same time, dissatisfaction exists in many jurisdictions with the value of the standard auditor's report as the only communication to shareholders, investors and third parties resulting from an audit.</p> <p>We agree that engaging with both national standard setters and stakeholders on audit reporting is an imperative for the Board and that research is the appropriate first step to determine whether revisions are needed to ISA 700 to increase its acceptance, and/or whether more radical changes may be warranted in auditor communications in the longer term.</p> <p>XBRL is capable of enabling a transformation of the world of business information and reporting. It is important for IAASB to keep abreast of developments. All supply chain participants, including the accountancy profession, should be investing time to understand the real value of XBRL and to take action to realise its potential.</p> <p>A number of regulators around the world are either allowing—or even requiring—filers to submit their financial information in XBRL format. Although it is not entirely clear how a more fundamental transformation in financial reporting might affect the audit model, auditors can play a role in providing assurance on the translation of financial statements into XBRL format for regulatory filing, or other, purposes. We support IAASB developing guidance in this area.</p> <p>Although we agree that it is relevant for IAASB to monitor developments in this area, we do not, at the moment, see a need for guidance or standards.</p>
	<p>A.2 Developing assurance standards relevant to raising international capital</p>
<p>A.2.1 Revise ISAE 3400, <i>The Examination of Prospective Financial Information</i></p>	<p>We believe that ISAE 3400 is flawed and ought to be revised. Until that time, we recommend that IAASB to withdraw the extant ISAE.</p>
<p>A.2.2 Develop a new pronouncement addressing aspects of the auditor's involvement in prospectuses</p>	<p>We support the development of an international standard on auditor's involvement in prospectuses. With the Introduction of the EU Prospectus Directive, for example, there are a number of countries in Europe who use the ISAs that will be looking for guidance.</p> <p>We do believe, however, that it is important to be realistic about the aim. Given differing securities regulation and legal frameworks in different jurisdictions around the world, it may not be possible to achieve full global consistency. However, we believe that there is value in, at a minimum, filling gaps for those jurisdictions without guidance.</p>

Comments on specific proposed actions

	PwC views
A.3 Contributing to the development of sustainability reporting	
A.3.1 Develop a pronouncement addressing auditors' reports on information relating to tradable carbon credits	We support IAASB being involved in discussions on developments in this area. We understand that the Board recently agreed that it should be engaged in this area, but that it should proceed with caution. We agree that, at least the initial output, may not be an exposure draft of a standard, but perhaps a discussion paper about how the assurance standards might be applied in these engagements and where issues might exist in the context of creating an international standard.
A.3.2 Review Royal NIVRA's recently issued assurance standard on sustainability reporting to determine whether it provides an appropriate basis for an international pronouncement	<p>It is difficult to judge when it is the right time to introduce standards for emerging types of assurance engagements. On the one hand, establishing standards can help shape the market and introduce quality. On the other hand, setting standards too soon, and before the underlying market has determined the subject matter and criteria that are most relevant to its needs, could impede innovation and development. At least to a certain extent, that is why ISAE 3000 is so valuable, as it provides a framework to think through issues related to specific engagements in different circumstances. Setting specific standards, however, may be premature as it could impose limitations on the products that are offered in the marketplace. In addition, developments in one jurisdiction may precede those in others, hindering the development of an effective international standard if the starting bases are significantly different.</p> <p>We agree that it is important for IAASB to be engaged in the area of sustainability to provide the views of assurance providers in various forums. Whether the time is right to introduce an international standard on assurance for sustainability engagements is worthy of discussion. Reviewing Royal NIVRA's and other national standard setters standards in this area is a good starting point for such a discussion.</p> <p>At the moment, IAASB is limited to issuing its own authoritative pronouncements. One option we believe is worth exploring is whether there could be merit in having the option of IAASB reviewing guidance developed by others with the view to assessing whether that guidance is consistent, in IAASB's view, with its assurance standards. This solution might be particularly relevant when dealing with subject matters that are outside of the expertise of IAASB members.</p>
B. The Implementation of Standards	
B.1 Assisting with the implementation of ISAs	
B.1.1 At least a two year moratorium on new auditing standards, unless urgent need	As noted above, the successful implementation of the Clarity ISAs may well be contingent on IAASB providing a stable platform with no change for a reasonable period of time. For this reason, we strongly support the proposed moratorium. We believe that a two year moratorium is the <u>minimum</u> amount of time for which no new standards should be introduced. We also caution IAASB to treat the moratorium as a moratorium on not only new standards becoming effective, but also of the issuance of new standards and even project development. It will be far more important for IAASB to shift its focus on getting feedback and analysing the responses received on the Clarity ISAs and facilitating implementation during this period, as

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	PwC views
<p>B.1.2 Develop a process for assessing the effectiveness of implementation of new standards in order to determine whether there is any necessity for further refinement to achieve the intended effect</p>	<p>discussed further below. Continuing development during the period, particularly if the result is that there are a number of new standards released immediately after the moratorium, will simply create a second major implementation challenge two years hence.</p> <p>We note that the proposal is that there will be no new <i>auditing</i> standards during that period. We believe it would be in IAASB's interests to extend this to any new standards, unless there is a demonstrable need for standards in another area in the short term. The implementation of any new standard involves significant resource in terms of the methodology, supporting tools, training, etc. and the extent to which such resources can focus on the implementation of the Clarity ISAs – which include at least 16 new revisions – the more effective adoption of the new ISAs in practice will be.</p> <p>Although supportive of the proposal to develop a process for assessing the effectiveness of implementation of any new standard, we strongly encourage IAASB to place particular focus in the short term on the effective implementation of the Clarity ISAs and to develop a plan for how the Board can be most effectively actively engaged in that assessment in the first instance. There is a risk of diverting attention to the development of a model to be applied in all circumstances, which could take longer to develop and might not provide the specific feedback needed regarding Clarity implementation.</p> <p>Given the significance of the Clarity project, we strongly encourage IAASB to consider what would constitute the benchmarks for success and to commit to measuring and analysing the actual results against those benchmarks in two years time. That could involve researching/surveying countries, firms, oversight bodies/monitoring inspectors, investors and other stakeholders on their implementation experiences and the impact they believe the new standards have had in practice.</p> <p>In this regard, we believe that the question should be whether “further refinement to achieve the intended effect” is unduly limited and introduces bias into the assessment. IAASB needs to have the courage to fundamentally revise, or even pull a standard, if it proves not to contribute to audit quality or not to meet stakeholder needs.</p>
<p>B.1.3 Publish a short note of key changes introduced and the intended effect on the engagement</p>	<p>We support this proposal as we believe it will assist in implementation in practice.</p>
<p>B.1.4 Consider translation of eNews communications and the most important matters in press releases and the annual report</p>	<p>Although we agree that this is a worthy activity, we wonder whether it is more an issue for IFAC rather than IAASB.</p>
<p>B.2 Developing Implementation Guidance</p>	<p>We strongly agree that IAASB should support implementation. However, IAASB's current products – standards or practice statements – may not be the best vehicle for the guidance that is needed. What may be needed may be more along the lines of Q&A's</p>

Comments on specific proposed actions

	PwC views
<p>B.2.1 Review existing IAPs and determine whether they should be withdrawn or revised</p> <p>B.2.2 Develop guidance for auditors on the audit of complex valuation models</p> <p>B.2.3 Identify and develop implementation guidance for an additional topic</p>	<p>(Questions and Answers), and interpretations rather than the current forms of “guidance” (Application Material or Practice Statements).</p> <p>IAASB may also find that an Exposure Draft similar to the IASB “Improvements” Exposure Draft annually, or bi-annually, would enable the Board to make minor amendments that could address areas where there may be lack of clarity as to the Board’s intent.</p> <p>We support this action. We question the purpose and role of some of the extant IAPs – some of which are out of date as they have not been revised to reflect the new audit risk standards.</p> <p>We believe there is value in, at a minimum, IAASB participating in discussions on this topic and should the case be made for guidance, support its development. However, this is an accounting issue in the first instance. If the accounting models are clear and consistent, there may not be need for specific auditing guidance.</p> <p>We do not support an action that is as undefined as “identify and develop implementation guidance for an additional topic”. We certainly support developing implementation guidance when there is a demonstrable need for such guidance. However, aiming to simply find a topic on which to develop guidance suggests that it is the availability of resource that is influencing IAASB’s project plan rather than IAASB’s objectives driving its priorities.</p>
<p>B.3 Assessing the impact of new standards</p>	
<p>B.3.1 Determine how to implement any IFAC proposals for the assessment of the impact of proposed new standards</p>	<p>Assessing the impact of proposed new standards should be an integral consideration in the development process for any new standard. At present, this assessment is implicit and informal rather than explicit, being largely dependent on Board members and respondents informally weighing the cost/benefits of proposals. The relative merits of perceived costs and benefits are inevitably influenced by individuals’ different perspectives and values. However, the fact that it is difficult to assess the impact should not be seen as a reason not to try to evaluate the anticipated impact of new standards.</p> <p>The action, as worded, gives no indication of whether IFAC’s proposals are imminent or longer term. If the latter, we believe IAASB should be giving higher priority to considering how a more explicit consideration of the impact of proposed new standards could be embedded into the Board’s due process procedures.</p> <p>In this regard, we note that the IASB is being encouraged to amend its processes to:</p> <ul style="list-style-type: none"> ▪ Start with a Discussion Paper before commencing drafting the Exposure Draft ▪ Conduct field testing of radical ideas before implementing them ▪ Consider the costs and benefits explicitly. <p>Whilst it may be easier to adopt some of these processes for</p>

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<p>C. The needs of SMEs</p>	<p>proposed accounting standards than for proposed auditing standards (e.g., field testing), there is merit in IAASB giving them consideration too. If, for example, IAASB had started the Group Audits project with a Discussion Paper, it may not have been necessary to issue three Exposure Drafts in order to build the consensus necessary to finalise the standard.</p>
<p>C.1 Consider whether to review ISRE 2400</p>	<p>Although we are not encountering any significant problems in practice in using ISRE 2400, we believe it is appropriate for IAASB to consider a revision to it. ISRE 2400 has not been revised since the introduction of both ISAE 3000 and ISRE 2410 and there are inconsistencies amongst them which raises questions in practice.</p>
<p>C.2 Consider whether to revise ISRS 4410</p>	<p>Proposed actions C.2 and C.3 are interrelated in our view. We fully appreciate that there are a number of jurisdictions grappling with whether “one size fits all” is the best solution to meet the needs of stakeholders for assurance for the financial information of smaller entities. There is significant discussion about whether there should be a simplified, self-contained set of accounting principles for smaller, non-listed entities. In light of those discussions, it is understandable that there are also discussions about whether there should be simplified auditing standards, or whether different assurance products might be appropriate, for smaller entities.</p> <p>We support a single set of principles-based auditing standards that are scalable to all entities. Principles-based standards allow audit processes to be scaled appropriately for both small and large entities through the exercise of well-reasoned professional judgment by the auditor. A single set of auditing standards for all entities is also consistent with the concept that audits, no matter the size of the entity, are intended to provide a similar level of assurance to users of the audited financial statements. These users, whether they are reviewing financial statements of a large listed entity or financial statements of a small, non-listed entity, have the same expectation as to the level of assurance that the audit provides. A separate set of simplified auditing standards for smaller entities would only contribute to the gap that exists today between the expectations of users of audited financial statements regarding the level of assurance provided by an audit and the level of assurance actually provided under current auditing standards.</p> <p>We agree that it is appropriate to consider other assurance products that might meet the needs of stakeholders in different circumstances and support IAASB engaging in that debate.</p> <p>In this regard, if there is a demonstrable need to revise the international standard on compilations, we would not oppose the project. However, we are not convinced that a demonstrable case has yet been made.</p>
<p>C.3 Explore concept of an alternative assurance service for SMEs</p>	<p>See response to C.2 above.</p>