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Consultation Paper: *The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016*

Dear Mr Gunn

The European Banking Authority (EBA) welcomes the opportunity to comment on the IAASB's Consultation Paper: *The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016* (hereinafter referred to as CP).

The EBA has a strong interest in promoting sound and high quality auditing standards for the banking and financial industry which, together with high quality financial reporting by financial institutions are key elements of market confidence and discipline.

The EBA supports the IAASB's proposed strategy and the proposed work program, which focus on promoting sound and high quality audit practice. The EBA welcomes the identification of special audit considerations relating to financial institutions, as one of the key priorities in IAASB's work plan in the forthcoming years. Enhancing auditing standards in this area is very important, given the significant role of financial institutions for global financial stability and the need to consider the particular nature of the audit of financial institutions.

Our comments in the Appendix are based on our perspective as a prudential banking regulator and are structured according to the topics covered by the CP. However, they do not provide answers to every question raised in the CP.

If you have any questions regarding our comments, please feel free to contact Ms Patricia Sucher (+44 20 3461 8159), the Chair of the technical group that coordinated the response.

Yours sincerely

(signed)

Andrea Enria

CC: Patricia Sucher, Chair of the technical group

Appendix

Proposed Strategy for 2015–2019

(a) Whether the strategic objectives identified are considered appropriate for the period 2015–2019. If not, please explain.

The EBA considers it appropriate for the IAASB to focus on the three areas as laid out in the CP:

- (i) Develop and maintain high-quality ISAs that are accepted as the basis for high-quality financial statement audits;
- (ii) Ensure the IAASB's suite of Standards continues to be relevant in a changing world by responding to stakeholder needs; and
- (iii) Collaborate and cooperate with contributors to the financial reporting supply chain to foster audit quality and stay informed.

The EBA acknowledges the IAASB's recognition of its role in promoting effective implementation of new and revised standards (paragraph 24 of the *Proposed Strategy for 2015–2019*). We believe that the proposed IAASB's strategic objectives would be appropriate in addressing implementation issues relating to the revised ISAs, in order to increase consistency and effectiveness of their application and therefore ensure users' confidence in the audit of financial statements. Additionally, continuous and effective collaboration with stakeholders, such as regulators and audit inspectors could be important in order to address and respond appropriately to the underlying reasons for audit inspections findings. In light of the developments in other standards (such as accounting standards) and audit practices, it would be necessary to ensure that ISAs are relevant to the current environment and they sufficiently address current challenges.

(b) Whether the factors included in Appendix 2 on page 19 represent a reasonable basis for the IAASB to use in developing its Work Programs beyond the Work Program for 2015–2016.

The EBA believes that the factors outlined in Appendix 2 are a reasonable basis for the IAASB to use in its consideration of its work program. Any change must be timely (with regard to the perceived urgency factor), but also relevant to stakeholders' needs (in reference to the need for change factor) and practical (with regard to the options available to the IAASB in terms of how it addresses the issue at hand).

Proposed Work Program for 2015–2016

(a) The approach taken to the development of the Work Program for 2015–2016, in particular the IAASB's decision to focus on fewer key projects towards the goal of their completion by 2017.

The EBA supports the focus of IAASB on fewer key projects, with the objective of faster completion compared to the previous IAASB's work programs. This approach could allow the IAASB to sufficiently develop standards in the areas of higher priority and/ or public interest on a timely basis.

We also acknowledge that the focus on fewer key projects stems largely from the resource constraints that the IAASB faces. In general, we believe the IAASB agenda should remain flexible enough to react promptly to any future need for revision or additional guidance or issuance of new standards.

(b) The appropriateness of the topics chosen as the focus for the Work Program for 2015–2016 (see paragraph 4 of the Work Program and Table A on pages 26–29) in light of the strategic objectives set out in the IAASB’s Strategy for 2015–2019.

The EBA welcomes the proposed key topics of focus which include quality control, professional skepticism and special audit considerations relevant to financial institutions. Given the importance of having robust systems of quality control for an audit, the effect of the possible amendments and/ or new standard on quality control could be particularly important for enhancing the confidence of users in the audit of financial statements.

Moreover, the EBA believes that the appropriate application of an attitude of professional skepticism by auditors is of paramount importance to an audit, especially in the audit of the financial statements of financial institutions, which include not only areas of complexity, but also extensive use of accounting estimates. Therefore, we support the proposed key priority of amendments and/ or guidance with regards to the definition and the application of professional skepticism, which could contribute to more robust application by auditors and to enhanced audit quality.

The EBA supports the IAASB’s proposed key project on developing and/ or revising standards and guidance under the topic of special audit considerations relevant to financial institutions. As a prudential banking regulator, we concur with the IAASB that financial institutions play a crucial role in financial markets. The development of ISAs and sufficient guidance in areas which are of particular importance in the audit of financial institutions, such as fair value accounting and loan loss provisioning could enhance audit quality and therefore the confidence in the audit of financial statements by users, including prudential supervisors.

Moreover, the EBA welcomes the consideration by the IAASB of the recent developments in banking regulation and the development of the Basel Committee’s guidance on external audit of banks, with regards to the relationship between the banking supervisor and external auditors and the areas of potential improvement of ISAs which were identified by the Basel Committee. The relationship between banking supervisor and external auditor is of paramount importance to the EBA as a valuable input in the supervisory process as well as contributing to enhancing the quality of bank audits.

(c) Whether there is an action(s) or project(s) that has not been included in the Work Program for 2015–2016 that you believe the IAASB should address during that period. For example, should any of the topics in Appendix 1 (on pages 39–41) be prioritized sooner? If so, which initiative(s) identified in Table A (on pages 26–29) do you believe should be replaced by this action(s) or project(s). Please provide an explanation of your views.

The EBA supports the prioritisation proposed by the IAASB and acknowledges the IAASB’s recognition of the need to remain flexible and its commitment to continually assess the prioritisations of its future planned projects.