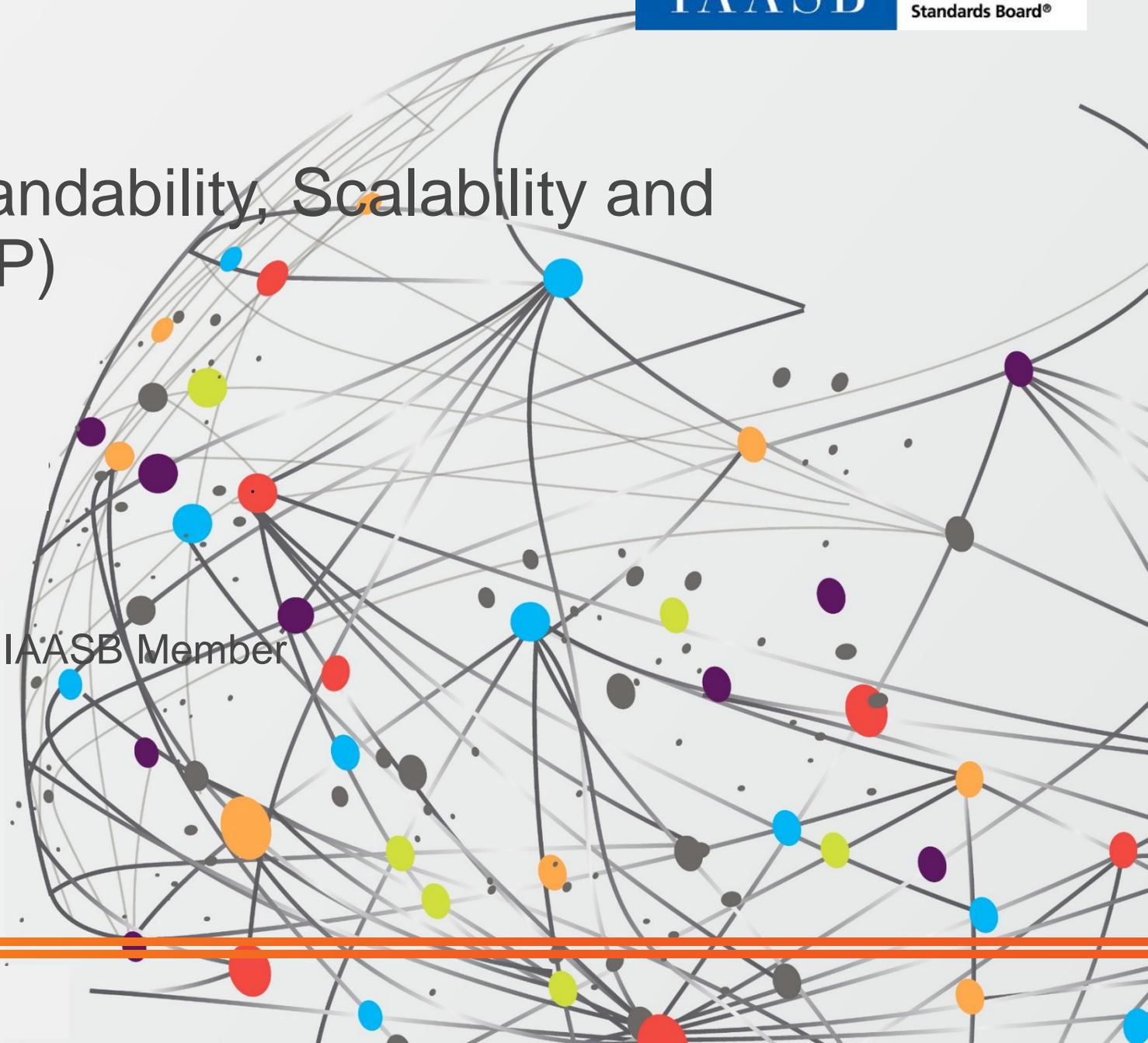


Complexity, Understandability, Scalability and Proportionality (CUSP)

Prof. Roger Simnett

CUSP Working Group Chairman and IAASB Member

April 21, 2021



Background

- December 2019 IAASB Meeting – feedback from Audits of LCEs Discussion Paper
 - Issues within ISAs have significance to all audits – not unique to audits of LCEs
- April 2020 IAASB Meeting – Board broadly supportive of two workstreams:
 - ISA Focused Workstream (now called “CUSP”)
 - Separate Standard Workstream

Respondents' Feedback Related to CUSP

Within ISAs

- Length and Volume of ISAs
- Complex language
- Prescription v principles
- Documentation implications

Other Areas

- Complexity of accounting standards
- Regulatory pressure

Proposed Actions to Address CUSP

- Primary action to address concerns raised by respondents – develop Drafting Principles and Guidelines
- Drafting principles and Guidelines aim to:
 - Provide common understanding about how ISAs are drafted
 - Promote consistency, clarity and uniformity while drafting ISAs
 - Encourage reflective mindset while drafting with respect to CUSP
 - Enable more consistent and effective application of ISAs – focus on how ISAs are written and presented
- Scalability and proportionality of ISAs particularly challenging

Drafting Principles and Guidelines Developed Under the CUSP Workstream

- Intended users of Drafting Principles and Guidelines
 - Staff as primary drafters, also Board, Task Forces and Working Groups
 - Useful to NSS, Translators
- What was taken into account when developing Drafting Principles and Guidelines:
 - Clarity drafting conventions
 - Staff training materials and internal thinking on drafting matters
 - Enhanced presentation tools used – ISA 315 (Revised 2019)
 - Scalability and proportionality changes – recently revised ISAs
 - Information provided by NSS

Drafting Principles and Guidelines Developed Under the CUSP Workstream

- Drafting Principles and Guidelines have been distinguished:
 - Principles – drafting instructions about what to adhere to when drafting an ISA and are expected to be followed
 - Guidelines – further explanations and help clarify how to apply Principles. Examples and other guidance also provided
- Scope – Applied in context of ISAs
- Non-authoritative – Staff expected to follow Principles, discuss deviations with Senior Staff
 - Board engagement when deviations from Principles via Issues Papers

Sections in the Drafting Principles and Guidelines

Section	Reference in Agenda Item 1-A
Introduction / Basic Structure of the ISAs	Pages 1-6
Clear, Simple and Concise Language, Formatting and Style	Pages 7-11
Scalability and Proportionality	Pages 12-14
Cross-Referencing	Pages 14-19
Terminology Used In and Across the ISAs	Pages 19-21, Appendix 1 (Probability/Likelihood terms)
Introduction Section of the ISAs	Pages 21-23

Sections in the Drafting Principles and Guidelines

Section	Reference in Agenda Item 1-A
Objective(s) of the Auditor in ISAs	Pages 23-25
Definitions in the ISAs	Pages 25-26
Requirements of an ISA	Pages 26-29, Appendix 2 (Work effort verbs)
Application and Other Explanatory Material of ISAs	Pages 29-33, Appendix 3 (Present tense)
Scalability Related to Smaller Entities/LCEs and Considerations Specific to Public Sector Entities	Pages 33-34
Addressing Specific Requirements in Individual Standards (ISA 260, ISA 580, ISA 230)	Pages 34-37
Conforming and Consequential Amendments to ISAs	Page 38

Drafting Principles and Guidelines Developed Under the CUSP Workstream

- Outreach program will include whether Drafting Principles and Guidelines should be applied to extant ISAs
 - Staff's initial assessment – not to be applied retrospectively
- Drafting Principles and Guidelines to be updated from time to time with revised / new content

Drafting Principles and Guidelines Developed Under the CUSP Workstream

Question 1:

The Board is asked for their high-level views if they support the proposed Drafting Principles and Guidelines presented in **Agenda Item 1-A**. In particular, are there any other elements relating to drafting of ISAs which should be considered? *(Please note: the Working Group is looking for overarching comments on Agenda Item 1-A. Detailed or editorial suggestions can be made offline).*

Drafting Principles and Guidelines Developed Under the CUSP Workstream

- Specific consideration sought:
 - Enhanced presentation approach in ISA 315 (Revised 2019)
 - Most incorporated into the Principles
 - Not incorporated: columnar approach to certain complex requirements (e.g. ISA 315 (Revised 2019) paragraph 21, boxes around examples (e.g. example box above ISA 315 (Revised 2019) paragraph A7)
 - Specificity of references to International Standards other than ISAs
 - Input sought on making specific references to paragraphs in the other standard
 - Specific paragraph references may be easier for users vs may mislead, maintenance burden

Drafting Principles and Guidelines Developed Under the CUSP Workstream

- Specific consideration sought:
 - Appendices
 - Drafting aid for ISA development and drafting going forward
 - Not exhaustive and not authoritative interpretations of terms or their implications
 - Documentation
 - Key matter highlighted by stakeholders – Separate focus area
 - Development of separate Drafting Principles and Guidelines to address documentation requirements in individual ISAs other than ISA 230

Drafting Principles and Guidelines Developed Under the CUSP Workstream

Question 2:

The Board is asked to provide views on the following matters:

- a) The exclusion of formatting techniques applied in the recently revised ISA 315 (Revised 2019)
- b) The references to specific paragraphs of international standards other than ISAs and if these should be retained
- c) The appendices dealing with likelihood of occurrence and work effort terms
- d) The principles and guidelines to address specific documentation requirements in individual standards other than ISA 230

Way Forward

- Drafting Principles and Guidelines:
 - Based on feedback during April 2021 Board meeting, CUSP Working Group will continue to develop Drafting Principles and Guidelines
 - Perform targeted outreach
 - Encourage broader views from all stakeholders
- Documentation:
 - CUSP Working Group will further consider any further actions with regards to documentation requirements in ISAs
 - Consider developing high-level non-authoritative material
- CUSP Working Group will continue coordinating with LCE Task Force and undertake further outreach with NSS

Way Forward

Question 3:

The Board is asked for views on the proposed way forward outlined by the CUSP Working Group in paragraphs 31-35 of the Issues Paper.

Question 4:

The Board is asked for views on any other matters that the CUSP Working Group should consider.

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