January 31, 2020

American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY, 10105

Via Email to Sherry.Hazel at CommentLetters@aicpa-cima.com

Re: ASB Strategy Consultation Paper: Proposed Strategy and Work Plan

Dear Auditing Standards Board and AICPA staff:

Grant Thornton LLP (“Grant Thornton”) appreciates the opportunity to comment on the AICPA Auditing Standard Board’s (ASB) Strategy Consultation Paper: Proposed Strategy and Work Plan (the “Consultation Paper”). Grant Thornton, overall, is supportive of the ASB’s proposals for its strategy and its detailed work plan for 2020-21.

We respectfully submit for the ASB’s consideration our comments, which include an accompanying appendix that contains responses to the questions posed in the Consultation Paper. The body of our letter focuses on the areas that we believe are most significant to the proposed Strategy and Work Plan with the appendix providing further detail.

Overall observations

We commend the ASB on the Consultation Paper, its accomplishments in general, and, in particular, its publication of the exposure draft of AU-C Section 500, Audit Evidence, in advance of the IAASB undertaking a similar project. We believe that this proactiveness reflects an important strategic initiative for the ASB and that identifying other similar projects in which the ASB could be at the forefront would facilitate fulfillment of the stated mission by enabling the ASB to provide important and jurisdictional relevant contributions to the international standards and guidance developed by the IAASB.

However, we note that the proposed strategy and work plan are heavily influenced by the IAASB’s current standard-setting agenda and by convergence with that agenda. We believe that convergence across standard-setters is important, but only when it meets the needs of our local jurisdiction. The needs of the ASB’s stakeholders may not always be congruent with the more diverse needs of the users of international standards, so it is important that the ASB identify and understand these needs before embarking on any convergence. We believe that the proposed strategic action in Initiative A of the strategic initiatives; to establish an advisory body that will provide more direct and timely input from stakeholders such as users, preparers, lenders, and
regulators, will be an appropriate means of identifying and understanding such needs. In order to develop high-quality standards in the public interest, we believe that it is crucial to seek and to consider the needs and opinions of all stakeholders to ensure that the way forward is not dominated by the interests of any particular stakeholder group, or by the IAASB and its desire for convergence.

As elaborated further in our detailed response, we suggest that the ASB consider revisiting the goals and objectives of convergence with the IAASB to ensure that the needs of our local stakeholders are adequately addressed. We believe that it would be more appropriate for the ASB to primarily align with PCAOB standards, and then with IAASB standards only as a secondary objective, to the extent such standards benefit the needs of non-issuers. Convergence with international standards would be appropriate when the differences between the local and international standards represent key matters that need to be or that it is beneficial to address locally. For example, as we elaborate in our detailed response below, convergence with the new concepts introduced in the IAASB’s recently issued ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, would result in local standards that are converged in principal, but would avoid unnecessary wording changes being made.

It’s useful to note that the AICPA’s Financial Reporting Center issued a publication, Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards, which highlights that only a few key differences between the IAASB’s standards and the ASB’s standards currently exist. The ASB could rely on this publication, updated as necessary, to highlight substantive differences between the ASB’s standards and the IAASB’s standards. This would continue to promote the performance of global engagements, allow more resources to be devoted to other ASB initiatives, and potentially reduce the time needed to develop high-quality updated standards.

In general, we believe that the ASB’s strategic actions and initiatives should include only matters that the ASB can direct or influence. As we elaborate further in our detailed responses, a number of the actions proposed in the strategy and work plan are outside of the control or influence of the ASB.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Bert Fox, National Managing Partner of Professional Standards, at (312) 602-9080 or Bert.Fox@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP
Appendix A

Responses to the Consultation Paper

Following please find our specific responses to the questions posed in the Request for Comments section of the Strategy Consultation Paper: Proposed Strategy and Work Plan (the “Consultation Paper”).

Question 1: Whether you agree with “Our mission and keys to our success”, as well as the “Factors driving our strategy”.

We agree with the mission and keys to success stated in the Consultation Paper. In relation to the first identified key to success of fulfilling that mission; “developing auditing, attestation and quality control standards that inspire public trust,” we believe that it is equally as important to maintain public trust and suggest expanding to read “inspire and sustain public trust.”

Overall, we also agree with the “factors driving our strategy” included in the Consultation Paper and believe that “changing information needs of users” is a critical factor. Many users of reports are looking for information beyond that provided by the financial statements and as such, we believe it is important that in this new and emerging market, the ASB take steps to increase and maintain the quality of attestation services over non-GAAP and non-financial reporting, including matters related to internal control. The ASB can achieve this, in part, by developing assurance standards governing the performance of these types of engagements, thereby allowing practitioners with appropriate competence and capabilities to perform the engagement and issue an appropriate engagement report.

One of the factors highlighted in driving the ASB’s strategy is the “advancement in, and use of, technology,” which seems to focus more on new technologies being embraced by both businesses and firms. We would suggest that consideration also be given to the increasing reliance on IT more generally, such as the reliance on IT processes and controls by businesses as part of the financial reporting process.
Question 2: Whether you agree with “Our strategic initiatives” and “Our strategic actions”.

Overall we are supportive of the strategic initiatives and strategic actions stated in the Consultation Paper and have the following more specific comments on these initiatives and actions, as outlined below.

Initiative A: Develop high-quality standards in the public interest

As noted in our overall comments, we are supportive of convergence with other assurance and attestation standard setters where appropriate. Alignment of the ASB’s standards with those of the IAASB is generally viewed as a benefit to global organizations. However, we question whether converging ASB standards with the IAASB standards should be a strategic initiative. We believe that the ASB should primarily focus on its own stakeholders. Many U.S. firms, that are stakeholders of the ASB, are required to perform engagements in accordance with the standards issued by the ASB and the standards issued by the PCAOB, due to the nature of the clients that they serve. For these firms, developing a cohesive methodology that fulfills the requirements of two standard-setters can lead to unnecessary cost and complexity when these standards contain significant differences. We therefore suggest that the ASB focus primarily on aligning its standards with those of the PCAOB and secondarily consider whether the standards are also capable of being converged with the standards issued by the IAASB.

In this respect, we highlight a key difference between the roles of the IAASB and the ASB: The IAASB is primarily a standard-setter and, historically, has provided little or no application guidance, other than guidance contained within the standard itself, whereas the ASB, in addition to setting standards, provides, amongst other services, additional guidance to its stakeholders through interpretive and other auditing publications. As a result of the additional levels of guidance, the ASB’s standards remain more principles-based, without requiring voluminous amounts of application material to explain why a requirement exists and how to apply that requirement.

For example, we note that the ASB’s proposed work plan includes a project to converge AU-C Section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, with the IAASB’s finalized ISA 315 (Revised 2019). This recently issued IAASB standard continues the trend of a shift from pure principles-based standards to standards that are more methodology-based, meaning that they incorporate detailed guidance that is capable of being transposed directly into a firm’s methodology. We believe that it is important for the ASB to keep its standards principles-based and to achieve convergence by incorporating the new concepts introduced in the IAASB’s standards into the ASB’s standards, such as the requirement to perform a separate assessment of inherent risk and of control risk, the concept of a spectrum of inherent risk, the introduction of inherent risk factors, the revised definition of “significant risk,” and the clarification of controls relevant to the audit. To the extent that the application material is considered necessary, we feel that it can be incorporated into a separate practical application guide. Further, we note
that the revised definition of “significant risk” in ISA 315 (Revised 2019) is an example of how convergence of the ASB standards with the IAASB’s standards would create a difference with the PCAOB’s standards.

Another strategic action proposed under this initiative focuses on the scalability and consistent application of the standards to audits of less complex entities. In addition to applying standards to less complex entities, we believe it is necessary for all firms, irrespective of their respective sizes, to comply with the requirements of the standards and to apply them in a similar manner. Standards that are truly principles-based are inherently more scalable, and can be more easily applied by all firms in a manner appropriate to the specific circumstances of the firm and its engagements. We agree that guidance on applying standards to less complex entities is important and believe that it would be preferable for this guidance to be developed and published through auditing or other interpretive publications, which would allow for future updates to such guidance without the burden of unnecessarily amending the standards.

The standard-setting process is a lengthy process that can take years from inception of a project to the publication, and effective date, of a final standard. While we understand and support the need for robust due diligence as part of the due process of setting standards, we believe that an important strategic action would be to explore innovative ways to accelerate this process while maintaining the quality achieved through robust due process. For example, focusing on converging the key concepts in the ASB’s standards with those of the IAASB’s rather than focusing on aligning the text could significantly reduce the time from project inception to the effective date of the standard, while allowing more time to be devoted to ensuring that a high-quality standard is issued rather than spending it on convergence efforts.

Another strategic driver in Initiative A is “determining drivers of our future standard-setting activities … including financial reporting developments and the use of emerging technologies.” We believe that this driver should more clearly include attestation developments in addition to financial reporting.

**Initiative B: Enhance communications with our stakeholders**

We agree with this initiative and recognize the importance of interacting with stakeholders; however, we believe the communications included in this initiative that will have a direct influence on the work plan should be given a higher priority than those communications that will influence the broader strategy in general.

**Initiative C: Think and operate more strategically**

We believe that securing the appropriate resources is key to this initiative. We are concerned that following a strategy of convergence with the IAASB will leave few, if any, resources available to pursue topics other than those listed on the IAASB’s agenda. As we have already noted, the needs of the ASB’s stakeholders should be the highest priority and, as such, resources should be allocated to convergence only when stakeholders identify convergence as a priority.
Further, when considering the structure and composition of the Board and its activities, including participation on task forces, we believe that it is important for the Board to strike an appropriate balance between the participation of members from large firms, members from smaller firms, and non-practitioners. We believe that such diversity in composition is necessary to enable the different needs and priorities of all stakeholders to be equally considered. For example, not all firms have national technical offices, but for those that do, the composition and remit of those technical offices may vary widely. Further, not all firms are part of a larger network, and the structure and benefits derived from each network may be very different. What’s more, the nature of the clients that firms serve will drive the needs and priorities of the firm itself.

Initiative D: Keep our standards relevant in a changing environment

We agree that it is important that for the ASB’s standards to remain “fit for purpose,” especially in relation to advances in technology and changing stakeholder information needs. In this respect, we refer to our comment above in response to “factors driving our strategy” concerning the development of a standard for the provision of attestation services over non-GAAP and non-financial information, including internal control.

Initiative E: Support the effective implementation and application of our standards

While we agree that it is important for the ASB to support the effective implementation of standards, it is unclear to us how the Board would be able to implement some of the actions proposed, as they appear to be outside of the responsibilities of the ASB itself. For example, the first strategic action, that is the consideration of alternative ways to provide and promote access to materials available on the AICPA website, seems to be the responsibility of the AICPA and not the ASB directly. The last strategic action is to determine the root cause of quality issues in conjunction with AICPA groups and resources; we question whether the ASB has a role in determining the root cause or whether its role is more to consider the effect of the identified root cause on its standards and guidance, thus driving the development of an appropriate future work plan.

Question 3: Whether you agree with the activities that have been identified in our detailed Work Plan for 2020-21. If you don’t agree with the work plan, what other activities do you believe the ASB should prioritize?

We note that the work plan presented in the Consultation Paper includes a large number of projects that focus on convergence with the IAASB’s standards. While it is important that the ASB understands the projects being undertaken by the IAASB, we believe that the ASB should perform its own post-implementation reviews to identify a jurisdictional need for changes to a standard, as well as the specific issues driving those changes, before proceeding to convergence through standard-setting. For example, the work plan identifies a proposed standard-setting project on group audits, with the goal of convergence with the final standard issued by the IAASB. But, it is not clear whether the Board will first consider whether this is an identified need for
stakeholders in the U.S., and whether convergence with the IAASB standard, which is still in development, will result in further divergence from PCAOB standards.

We also question whether the ASB’s proposed project on non-compliance with laws and regulations is actually, at this stage, a priority project. Although this project is included as a standards-setting project in the work plan, the description of this project in the appendix to the Consultation Paper indicates that it is currently in the outreach and research phase. If it is indeed proposed as a standard-setting project, it is not clear, from a jurisdictional perspective, whether there is an issue with the current requirements, which prompts us to question the importance of making amendments to standards that will not be operable in the current U.S. legal environment.

Further, we note that, while resources are devoted to following the IAASB’s agenda and to convergence with its international standards that it issues, there will be few resources to devote to the strategic action of seeking “ways to take the lead on standard setting projects that can be leveraged by the IAASB and others,” as written in Initiative B. It is not clear if, or how, this strategic action has been incorporated into the work plan.

We support the topics included in the outreach and research phase of the work plan and, in particular, as noted in our response to question 4, exploration of topic-specific sections on performing SOC engagements other than those performed under AT-C Section 320, Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting, and performing examinations of internal control under the attestation standards.

**Question 4: Whether there are any other topics that the ASB should consider in determining its strategy and work plan.**

The work plan includes research in relation to topic-specific AT-C Sections dealing with SOC engagements and internal control. We believe that this research needs to be actively pursued to determine if there is a need to develop a standard for engagements related to internal control and trust criteria in addition to engagements contemplated under AU-C Section 940, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements and AT-C Section 320. One of the key matters we would support being included in such a standard is guidance that allows for different levels of assurance to be available when performing these types of engagements. For example, AT-C Section 210, Review Engagements\(^1\) prohibits a review engagement from being performed on internal control, so the Board could research ways in which a review or limited assurance engagement might be capable of being applied to an internal control engagement. At a minimum, we recommend that such research results in guidance issued by means of an interpretive publication, if a standard is ultimately determined not to be appropriate.

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\(^1\) AT-C Section 210, paragraph 7