January 31, 2020

Ms. Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1345 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed strategy and work plan

Dear Ms. Hazel:

We appreciate the opportunity to comment on the ASB’s proposed strategy and work plan. We commend the ASB for undertaking a more formal process to set its strategic priorities and work plan, including seeking external feedback. In light of the evolving and changing landscape, including the ways in which companies transact business through technology, now is the right time for the ASB to reflect on where it should best spend its time to benefit the public interest.

The ASB’s mission and keys to its success (Question 1)

We support the ASB’s objective of establishing high-quality audit and attestation standards in the public interest, and doing so in a more efficient manner. We continue to believe convergence with international standards issued by the International Auditing and Assurance Standards Board (IAASB) can be an effective way to advance standard-setting for private companies in the US, provided those standards take into account viewpoints from the US, in particular the need for scalability.

Accordingly, it is essential the ASB consider how it can best contribute to the development of the IAASB’s standards and guidance. Ideally, the ASB should accumulate more timely feedback from the US stakeholder group – not only from the profession, but also from preparers and users in the US – so that this input can be used to inform the IAASB’s deliberations and influence the direction of the international standards. Currently, public input from the US stakeholder group is only obtained when the ASB issues its own proposed standards based on the international standards that have already been finalized. This creates a risk that being responsive to US feedback results in the ASB departing from provisions in the ISAs, jeopardizing its convergence strategy.

We suggest the following actions for the ASB’s consideration:

● Develop a project proposal concurrent with the IAASB’s undertaking of a project so that any unique jurisdictional issues and potential practical challenges can be identified in a timely manner and communicated to the IAASB, and underpin the ASB's outreach activities.

● Plan for ASB discussion contemporaneous with the IAASB’s deliberations – for example, by having the ASB meeting immediately prior to the IAASB meeting and using the IAASB’s materials as the basis for the ASB’s discussion. The ASB discussion could focus specifically on matters that may be particularly relevant in the US environment (including considering how the PCAOB may deal with the topic).
- Develop a process to obtain public feedback from the US to inform the ASB’s formal responses to IAASB exposure drafts and other public consultations – for example, by exposing the IAASB’s document with a wrap document targeting key issues that would impact the US profession, in particular smaller firms and those who audit less complex entities.

Given the significant overlap between topics in the IAASB, ASB, and PCAOB agenda, the ASB can play an important role in strengthening the dialogue and interactions among these groups. This becomes particularly important in light of the ASB’s other goal of minimizing unnecessary differences with the PCAOB’s auditing standards.

**The ASB’s strategic initiatives and strategic actions (Question 2)**

We support the proposed strategic initiatives and strategic actions and make the following observations.

*Develop high-quality standards in the public interest*

High-quality standards need to be, and be perceived by the profession to be, relevant, scalable, forward-looking, and practicable. This premise should guide the ASB’s efforts to monitor and provide input into the IAASB’s activities, as well as any additional activities the ASB might undertake.

Research and information gathering in advance of undertaking a new standard-setting project is essential, in particular when the ASB is considering undertaking a project independently of IAASB. Such efforts can inform the development of a project proposal for the ASB’s approval that clearly articulates the rationale for the project, how it serves the public interest, the potential alternatives to standard setting, the timeline and relative prioritization, and where input from constituents will be most needed (e.g., from other AICPA committees like the Assurance Services Executive Committee (ASEC), as well as management, users and other stakeholders). We believe the key guiding considerations underpinning the work plan for 2020-2021 are useful in this regard.

*Enhance communications with the ASB’s stakeholders*

We support the ASB’s consideration of additional mechanisms, such as an advisory body, to provide input on the ASB agenda and current projects. It can be difficult to get input from users, preparers, lenders, investors, and regulators on the narrow topic of auditing standards. However, a wider dialogue with stakeholders about what is expected from CPAs performing audit and attest services and the future of the CPA profession could help the ASB keep its standards relevant in a changing environment. For example, users are increasingly relying on financial information beyond the financial statements and looking for CPAs to bring credibility to that information on a timely basis – leading to opportunities for the ASB to consider how best to equip CPAs to meet evolving demands.

We appreciate recent efforts to provide At a Glance summary documents that highlight what has changed in the auditing standards, and encourage the ASB to continue to consider whether these and other communications may be necessary for specific audiences to enable them to understand how new and revised standards will affect them.

*Think and operate more strategically*
The suggested actions outlined in our response to Question 1 could help the ASB better utilize its resources, including time available for Board deliberation. At the same time they will help minimize the inefficiencies that can arise from not adequately scoping out projects or not fully understanding the issues to be addressed, which is necessary to develop effective responses to those issues.

It is important to the credibility of the Board and its standards that sufficient time be taken to ensure proposed new or revised standards are understandable, scalable, and have benefited from robust consideration of practical implications.

*Keep the standards relevant in a changing environment*

Developing principles-based standards founded on key public interest concepts are, in our view, the best way to keep them relevant in a changing environment. We believe the attestation standards as currently structured are capable of being applied across a wide range of subject matters in a manner that results in high-quality engagements. However, it is likely the ASB will continue to find it necessary to issue additional guidance to explain how those principles are to be applied in specific circumstances to address emerging market demands (e.g., in relation to cybersecurity).

As a result, continued dialogue and close linkage with the work of ASEC is essential. Before undertaking efforts to develop subject matter-specific Accounting and Auditing guides, the ASB and ASEC should jointly deliberate (1) the intended purpose of the guidance, (2) how key principles of assurance engagements may need to be addressed in the circumstances, and (3) whether there is sufficient market demand to invest ASB and ASEC resources in their development. While a formal cost-benefit analysis is likely impracticable, it is important the Board’s resources (and the time of its Board and Task Force volunteers) are dedicated to those topics that are most pressing from a public interest perspective.

As the IAASB has a similar strategic initiative, the ASB should work closely to understand the actions the IAASB intends to take and determine their potential impact on the ASB’s ongoing work, for example related to efforts to strengthen auditing standards that address fundamental concepts like audit evidence by incorporating, among others, developments in relation to data auditing.

*Effective application of the ASB’s standards*

The development of high-quality audit and attestation standards and the ability to effectively implement them go hand in hand. Principles-based standards need to be sufficiently high level to apply in most circumstances, but provide sufficient detail to enable them to be consistently implemented across a wide variety of engagements and industries. In practice, we often see differing interpretations or uncertainty about the intent of the standards, and the nature and extent of what is expected to comply with them. This can result from a lack of clarity in how the standards are drafted – both from an IAASB and ASB perspective - as well as insufficient training or a focus on documentation of compliance rather than thoughtful execution. The ASB should also address challenges that can arise in applying its auditing standards as well as ISAs, such as the complexity and clarity of language used, understandability, and length of the standards.

Consideration should be given to how best to make auditors aware of why revisions to standards were made, what alternatives were considered, and how the ASB expects practice will need to change. The Technical Issues Committee can assist in not only providing input during standard-
setting activities, but also promoting awareness and preparing practice for the coming changes once the standards are finalized.

To facilitate this engagement with auditors, it may be helpful for the ASB to publish a Basis for Conclusions explaining its decisions in issuing a new or revised standard, including how the Board considered the related IAASB and PCAOB standards in its development and where there may be differences. Similarly, creating documents that provide a roadmap from the extant standards to the new or revised standards and making them publicly available in a timely manner helps firms incorporate the changes into their respective methodologies. Engagement with third-party providers of audit software tools that are widely used can help ensure that the objectives of the ASB’s standard-setting activities are achieved and the standards are implemented consistently. Finally, the ASB could work with the AICPA to develop specific training (including continuing professional education) on the changes to the professional standards to provide insight as to how they are expected to be applied in practice.

As acknowledged in the proposed strategy, peer review also has an important role to play in the effective application of the standards. The peer review process can help reinforce how the standards are intended to be implemented. Understanding the root cause of findings in the peer review process can also help the ASB determine whether changes to the standards or additional guidance is warranted to promote consistent and effective implementation. For example, risk assessment continues to be an area of concern in peer review – feedback from peer review about the reasons why auditors are not performing and documenting effective risk assessment should be factored into the ASB’s planned work on risk assessment. Analyzing the outcome of the peer review process may suggest the need for other actions by the ASB or AICPA more broadly, including training or other tools. Accordingly, close coordination, including more direct interaction, between the ASB and the Peer Review Board could be beneficial.

**Work Plan for 2020-2021 (Question 3)**

We generally support the topics included on the work plan for 2020-2021, with the following observations for the ASB to consider in finalizing its work plan and commencing specific projects.

*Technology, including risk assessment and audit evidence*

Technology is changing how audits are performed and evidence obtained. We acknowledge that the Board has technology as a key consideration in many of its current standard setting projects. However, we believe efforts in this area need to be further reinforced within the overall strategy and work plan. Increasingly, businesses are operating in a digital environment, with information only available in electronic form. The ASB’s ongoing work on risk assessment is appropriately aimed at focusing auditors on taking a deeper look at how companies are using technology, and considering the risks arising from IT-related matters (such as IT interdependencies and general IT controls). A greater consideration of internal control may help improve audit quality, but there can be challenges in promoting a mindset shift away from the more substantive approach to auditing.

At the same time, advances in tools and techniques, including artificial intelligence, are giving rise to questions about how such tools affect or change risk assessment and the auditor’s approach to obtaining evidence. For example, the use of automated tools and techniques has changed how auditors perform risk assessments and other audit procedures. This leads to questions about how
audit evidence from the use of these tools and techniques is to be evaluated and how the nature, timing, and extent of the auditor’s procedures are affected when the auditor is able to perform a more robust risk assessment at a transactional level (e.g., analyzing 100% of the population of transactions). The ASB’s ongoing work to revise AU-C section 500, Audit Evidence, is an important first step in recognizing how the use of technology (both by management and auditors) affects the auditor’s ability to obtain sufficient appropriate audit evidence.

Both the PCAOB and IAASB continue to evaluate how best to modernize their respective standards that address obtaining and evaluating evidence throughout the audit. In our view, there is a need for the auditing standards to take a more holistic approach to how the auditor designs and performs procedures and evaluates the totality of audit evidence that has been obtained from their performance in light of the growing use of automated tools and techniques. For example, the standards may need to shift from requirements based on a discrete classification of procedures (e.g., risk assessment, substantive analytical procedures, tests of details, tests of controls) to a broader consideration of what evidence in totality is needed to respond to assessed risks and how the outcome of applying automated tools and techniques is to be considered in determining whether the totality of evidence that has been obtained is sufficient and appropriate. It would not be in the public interest for the auditing standards to diverge in this area, so close coordination and consideration of whether further changes to AU-C section 500 and other standards as the PCAOB and IAASB efforts continue will be necessary.

**Group audits**

The changing way in which companies are structured and the way in which they do business, including internationally, can lead to challenges in performing a group audit. For example, cross-border challenges can arise if the company’s accounting records and transactions are maintained in a location other than the company’s primary place of business. Additionally, how a company uses shared service centers can have a significant effect on how an audit is planned and performed. We encourage the ASB to reflect on whether there are specific practice issues being encountered in the US environment that should be conveyed to the IAASB as it moves towards its exposure draft of ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors). Consideration should also be given to the PCAOB’s project on other auditors. The ASB should consider how best to update its standard for group audits to take into account both IAASB and PCAOB developments.

**Non-compliance with laws and regulations (NOCLAR)**

We are concerned with the possibility that the ASB would seek to converge with international provisions related to communications about NOCLAR in the absence of the resolution of issues raised during the Professional Ethics Executive Committee’s public exposure of potential revisions to the AICPA Code of Ethics. While we understand the importance of robust auditor considerations with respect to NOCLAR from a public interest perspective, it is essential that the potential effects of relevant state law and regulation (including from the state Boards of Accountancy) and the linkage to the AICPA Code of Ethics are considered before issuing auditing standard-setting proposals.
Compliance frameworks

We do not believe the ASB should invest further time in considering whether to introduce a compliance framework into the ASB’s suite of standards. As indicated in prior debates, we believe there is a risk that allowing practitioners to issue reports in accordance with a compliance framework could have unintended consequences, particularly in circumstances when the framework is based on but is not the same as GAAP. In our view, given the other priorities in the ASB’s agenda, revisiting the prior discussions that were undertaken during the ASB’s Clarity project and more recently its proposed updates to the auditor reporting standards is not warranted.

Attestation standards – SOC engagements and internal control

We acknowledge the need may arise for the ASB and ASEC to consider how various services that are evolving fit within the ASB’s suite of attestation standards. For example, there have been recent discussions about whether additional topic-specific sections to the attestation standards may be necessary to accommodate controls-based attestation engagements as they evolve, including whether there is a need in the standards for an explicit framework to address examinations related to internal control. We believe the ASB and ASEC should consider a range of options, rather than presume standard-setting is necessary, which could include developing subject matter-specific Accounting and Auditing guides or adapting AT-C section 320, Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting. Where the requested services are continuing to evolve, using the mechanism of a guide may be preferable in terms of flexibility in issuing such guidance and having the ability to update the guidance in a timely manner as the demand for such services emerges.

We are also aware of similar efforts to explore whether new standards are needed to address various types of engagements when CPAs are asked to certify or verify different subject matters. Again, we encourage the ASB and ASEC to fully consider (1) the market need and engage with the organizations that require the certifications and verifications and use the CPA’s report, (2) whether and, if so, how the current attestation standards could address such services, and (3) the potential unintended consequences of promulgating new services that could be seen as undermining attestation engagements.

Other topics to be considered in determining the ASB’s strategy and work plan (Question 4)

Impact of IAASB next steps to address challenges in audits of less complex entities

The IAASB’s ongoing work to address challenges in audits of less complex entities could have a fundamental impact on how the international auditing standards are drafted, including the potential that the IAASB develop a separate standard for these audits. The potential impact on the ASB’s convergence strategy could be significant. We therefore encourage the ASB to continue to actively participate in the IAASB’s outreach activities and debates, and consider whether a broader dialogue within the US profession and more broadly with US regulators is warranted.
Stakeholders’ expectations in relation to fraud and going concern

In light of the changing environment, jurisdictional developments, and changing public expectations, we encourage the ASB to closely follow the IAASB’s information gathering and research to understand the issues and challenges related to applying AU-C section 240, Consideration of Fraud in a Financial Statement Audit, and AU-C section 570, Going Concern. In our view, robust information gathering and research, as well as timely coordination amongst the IAASB, ASB, and PCAOB, is necessary before moving to any standard setting in these areas.

Effective dates

We encourage the ASB to continue to be mindful of both the time needed for effective implementation, as well as the potential interaction between the standards, when setting effective dates. In this regard, closer alignment with the IAASB’s timing on topics will be helpful for the network firms that base their methodologies on ISAs and issue reports in accordance with AICPA standards.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. Please contact Heidi Schuetze at (973) 236-5000 regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP