February 3, 2020

Ms. Sherry Hazel
American Institute of Certified Public Accountants (AICPA)

By e-mail: CommentLetters@aicpa-cima.com

Re: Auditing Standards Board’s Proposed Strategy and Work Plan

Dear Ms. Hazel:

As a former member of the Auditing Standards Board (the ASB or the Board), I am pleased to have this opportunity to communicate my views (which are highly critical and likely to be seen as controversial) for consideration by the Board about its Proposal entitled Proposed Strategy and Work Plan.

General Comments

Globalization and Convergence. In the opening message from the ASB chair and AICPA chief auditor accompanying the Board’s Proposal, I take issue primarily with three statements made about globalization and convergence, among others, that are the subject of many of my comments that follow.

The first statement that I challenge is in the first paragraph in the opening message, i.e., that “The economic environment has become more global...” While this may have been true in the past, some observers believe the importance of globalization is diminishing, at least for the foreseeable future, and minimal with respect to auditing and reporting under US GAAS. As asserted by Michael O'Sullivan, author of “The Levelling: What's Next After Globalisation,” “Globalisation [sic] is already behind us. We should say goodbye to it and set our minds on the emerging multipolar world.” as more and more countries seek to advance their own economic interests. Boris Johnson's overwhelming and crushing defeat of the globalist, Jeremy Corbyn, in the recent UK elections, the UK's popular support of “BREXIT” and the death of the World Trade Organization all serve as evidence to support this belief.

The second statement that I challenge is in the opening message’s third paragraph, i.e., that “Over the past several years, the ASB has been very successful in implementing a standard-setting strategy largely focused on convergence with international standards issued by the International Audit and Assurance Standards Board (IAASB)...,” which paragraph also includes the third

statement I take exception to, i.e., that “Convergence and alignment of auditing standards around the world are of critical global importance.” As you will see from my comments that follow, I question the use of the word, “successful,” in the first quoted passage because I question the value of the standard-setting strategy implemented, and I seriously take issue with the second because of its use of the term, “of critical global importance.”

The ASB operates under the auspices of the American Institute of Certified Public Accountants (emphasis added) and is funded primarily by CPAs who practice in the United States, mainly serving privately-held entities whose audit reports are rarely used internationally. Whether convergence is of critical global importance or not, the real question is whether convergence is of sufficient importance to the US economy and to American auditors, their clients and users of their clients’ financial statements to warrant the Board’s commitment to international convergence that has been the trend over many years and continues to be. I do not believe it is; rather, I believe the benefits of convergence accrue to only the largest of the firms, whose reports are relied upon by investors worldwide and whose audit work is governed generally by the standards of the PCAOB since its formation in 2003, not those of the ASB. I believe it is unlikely that the majority of the audit firms have more than a handful, say, one or two, or no audits where users could benefit, albeit marginally, from convergence. Yet all auditors must invest time and efforts to converge the standards, update audit programs with a myriad of steps that are not applicable, and train personnel for situations that almost none will ever see and hope to recover the costs in client fees.

Convergence contributes substantially and directly to what has come to be called “standards overload,” a term we rarely hear any more but is more prevalent than ever, and more convergence translates into more overload, a condition that exacerbates its twin evil, audit fee pressure. The more standards there are, and the more frequent are the changes, coupled with audit fees that, due to client resistance, are often already below cost, means that auditors have less time to complete additional audit procedures that any new standards require and may be tempted to take shortcuts that impair audit quality. I have objected consistently to convergence for its own sake in in comment letters issued in response to proposed auditing standards in recent years. Regarding convergence, I now say it is time international convergence be taken off the table and cease to be a primary focus of the Board.

On the subject of convergence, because of its significance, I wish to call the Board’s particular attention here to my comments regarding its Quality Management project described in the Appendix on p. 15 of the Proposal Initiative B on p. 8 of the Proposal presented below under section 2 of Strategic Initiatives and Strategic Actions. Opportunities and Challenges: Factors Driving the ASB’s Strategy, Responses to Specific ASB Requests for Comments. For reasons set forth in those comments, I request that the Board converge the content and to coordinate the timing of development and effective date, of its new quality control standards more closely, as deemed necessary for US private company audit practice to those of the PCAOB rather than the IAASB. Overall, I recommend that the Board consider when “less is more,” and focus on addressing standards overload.

Principles-based vs. Rules-based Standards. I have also spoken out consistently in prior comment letters in favor of more principles-based standards that both allow for and encourage
greater use of sound professional judgment than rules-based standards do. Nevertheless, despite what appears to be extensive “lip service” given by the ASB and others over the years to the perceived benefits of principles-based vs. rules-based standards, US GAAS remains primarily rules-based, and the proliferation of new rules in the standard-setting process is troublesome and counterproductive. As a result, audits have necessarily become more cookbook-like, i.e., checklist-driven, and auditors are more focused on compliance with the myriad of rules and less focused on substance, i.e., thinking their way through the vast array of risks and considerations that make each audit unique and professionally challenging. Coupled with the economic pressures from clients to minimize fees that is inherent in audit practice, the resultant focus on the trees rather than the forest is a prescription for audit failure rather than a path to audit quality and professionalism.

Accordingly, I believe the Board should begin reducing the number of rules, i.e., “musts,” “shoulds” and even “should considers” (that unfortunately require unproductive, defensive documentation that adds cost but not value to the audits), and move towards principles-based standards.

Most CPAs are honest and given the chance, use good judgment in most cases. I believe most audit failures that are not caused by unethical CPAs are likely caused by blind adherence to unduly lengthy and detailed checklists necessarily used by auditors to assure compliance with the myriad of requirements and inadequate attention to appropriate issues due to time and fee pressures. And it is clear to us that neither layering on more rules and longer checklists nor mandating more ethics training will not turn an unethical CPA into an ethical one. It is also apparent to us that more requirements and frequent changes in them have the undesirable effects of providing more opportunities for noncompliance and more significantly, for diverting auditors attention from what really matters in an audit while increasing time and fee pressures on them and, accordingly, the risk of audit failures.

Responses to Specific ASB Requests for Comments

1. **Mission and Keys to Success.** I do not agree with the Board’s Mission as stated on p. 4 of the Proposal. To us, the term, “comprehensive standards,” as used in the mission statement, translates into more standards, and more rules or requirements. As the ASB focuses on fulfilling its appropriate mission, I believe retaining the word “comprehensive,” in its mission statement will have the probable unintended adverse consequence of increasing standards overload and make it more difficult, unnecessarily costly, and less likely to perform truly high quality and professional audits. Conversely, moving to “principles-based” standards will not make audit and attestation services any less effective but will likely make them more effective and more efficient since auditors would not get lost in endless checklists that tend to stifle thought and professional judgment.

I do not believe that “contributing to the development of high-quality international auditing and assurance standards and guidance issued by the IAASB, i.e. convergence, is a key to success in auditing financial statements intended solely for US users. On the contrary, I believe it provides no benefit for either the auditors or users of the financial statements of
2. **Strategic Initiatives and Strategic Actions.** Opportunities and Challenges: Factors Driving the ASB’s Strategy

**Advancement in, and use of, technology.** I believe the US auditing standards, as they now exist, if well planned and structured, should be sufficient with respect to transactions processed with modern technologies such as artificial intelligence, robotics, blockchain, cloud computing, social networks and new digital payment platforms; however, they could be improved by reducing their length and reducing the number of rules without a sacrifice in audit effectiveness.

**Increasing Complexity and Its Implications.** As I have stated, I believe the assertion in the Proposal that states that the “business environment is becoming increasingly complex because of, for example, ongoing globalization...” is a falsely exaggerated premise and inappropriate on which to base a strategy. The key concern should be for “the scalability of my auditing and attestation standards to engagements for less complex entities” because the overwhelming majority of GAAS audits are less complex, and the extent, one-size-fits-all auditing and attestation standards are not easily or efficiently scalable downwardly despite the Board’s historical claims otherwise.

I believe that adding more standards (or more content in the extant standards) to address convergence and evolving technology will only result in obscuring relevant audit standards with largely irrelevant and superfluous ones, less time for the auditor to consider issues that need to be addressed, and an incentive for auditors to take inappropriate shortcuts sacrificing true audit quality to achieve the appearance of technical compliance with the standards.

**Changing Information Needs and Expectations of Users.** I challenge the veracity of the statement that “...many users of reports are increasingly looking for information beyond financial statements (for example, ... sustainability, cybersecurity....)” On the contrary, as to sustainability, I believe that the overwhelming majority of auditors do not have many clients whose financial statement users are asking for assurance in this area.

Cybersecurity, however, is somewhat of another issue. Although, many clients are asking for cybersecurity assurance; even those with less complex environments; most clients are unwilling to pay the fees for such assurance that come close to covering the effort. Even if clients were willing to pay reasonable fees, cyber is almost impossible to secure, a breach is more than a remote possibility, and the exposure to liability is too great for almost all but the largest of firms to take on such engagements.

I see most users of the financial statements of privately held U.S. commercial entities as lenders and other creditors who are interested primarily in the client’s ability to pay its obligations when due, *i.e.*, liquidity and cash flows and the viability (existence, value and accessibility) of collateral assets. For the few that are interested in assurance as to either sustainability or cybersecurity, it should not be part of a traditional financial audit, but rather
I believe a separate engagement under the existing attestation standards; which, would be more appropriate and generally should meet such demands, at least for the foreseeable future (although they could be improved if reduced in length and made principles-based rather than rules-based).

I likewise take issue with the statements on p. 5 of the Proposal, *i.e.*, “Peer review and other inspection results, including repeat findings in certain areas, have raised questions about whether changes to standards or additional implementation guidance are needed” and “Stakeholders’ expectations are increasing about what the auditor does and should do, for example, in relation to the detection and reporting of fraud....”

I also question (a) whether so-called “stakeholders” (presumably referring in this context primarily to users of financial statement issued by non-publicly-held entities) likely pay any significant attention to the peer review process or its findings (except, perhaps, at the proposal stage of an engagement) and (b) whether auditing to satisfy peer reviewers has the potential to contribute anything of value as to achieving the legitimate objectives of financial auditing.

In my view, stakeholder expectations for non-publicly held entities have not changed in 100 years. No matter what the auditing standards and related audit reports on financial statements say, in addition to the typical primary concerns of creditors cited above, users of audit reports continue to expect auditors unreasonably to detect fraud, generally without regard to materiality. The Board and the accounting profession have done much to change those expectations over the years and limit them to material frauds but to no avail. Consequently, I believe continuing efforts to meet the challenge of limiting and making more realistic user expectations in this regard should be undertaken by the ASB and included among the its stated strategies and work plan.

The foregoing notwithstanding, I believe US auditing standards that address the detection of fraud should be shortened, that the presumption that all fraud risks are significant risks and the rebuttable presumption that fraud risk is always present with regard to revenues should be eliminated, and that auditor judgment should prevail. Rather than being held to a set of inflexible, one-size-fits-all rules, auditors should rightfully be held responsible for the soundness and reasonableness of their professional judgments. As mentioned repeatedly in comments herein regarding standards in general, I believe the fraud standard should be made more principles-based and less rules-based.

My view is that the large majority of the so-called “failed” or “deficient” audits that are observed and reported by peer reviewers are, in fact, merely failures to comply with the often excessive requirements of the standards and are largely non-substantive in nature. In fact, the peer review process itself, is excessively checklist-driven and frequently incapable of identifying substantive audit failures, largely as a result of time and fee pressures that inherently fall upon peer reviewers. Accordingly, I believe that instances of reportedly “failed” or “deficient” audits or audit documentation could be reduced substantially if both the standards and the peer review process were changed to make them shorter and more
principles-based reducing the number of requirements and the length of, and extent of detail in, the checklists in use by peer reviewers.

I also believe that clear and well-written, principles-based auditing standards generally should not require or include any so-called “implementation guidance,” because they generally have the effect of additional rules and inappropriately (a) getting incorporated into audit programs and other practice aids (i.e., checklists), (b) resulting in irrelevant and superfluous audit procedures, (c) narrowing the opportunity and necessity for auditors to apply sound judgment, and (d) reducing audit effectiveness and efficiency. Accordingly, I believe implementation guidance should not be part of the standards but rather should be left to CPE providers and other nonauthoritative sources to be applied only subject to an individual auditor’s professional judgment.

The Proposal rightfully asserts that “Our focus on quality and our ability to be nimble and react timely to emerging developments are key to our success.” However, as I state elsewhere in this paper, I see the current standards development process, itself, as too slow and unwieldy; it resembles the now obsolete legacy “software development life cycle” (SDLC) methodology. Companies that still cling to it cannot compete. Currently, standards development relies on too much on documentation, deliberation, review, and approval and a long drawn out timeframe from conceptualization to go live. I believe the Board should follow the lead of Silicon Valley where their use of the modern “agile” methodology has played no small part in their indisputable success. I recommend that the ASB completely overhaul the standards development process and replace it with agile methodology. If this were done, the Board would be leading the world, and not following the IAASB. Agile methodology would bring standards to market faster and with better results. The US economy and capital markets are still the strongest in the world and a direct result of high-quality auditing. Adopting a methodology using agile methodology for standards development would increase audit quality and strengthen the economy.

As indicated among the foregoing comments, I disagree that the statement on p. 7 of the Proposal relative to Initiative A, which says to remain “committed to its strategic objective of converging its standards with those of the IAASB...” because I believe convergence should not be considered a significant strategic objective. I think the more appropriate strategic objective should be to reduce auditing standards overload by shifting to a clearly principles-based; rather than a rules-based approach.

I agree, however, with the statements on p. 7 of the Proposal relative to Initiative B except that again, for reasons set forth elsewhere in this paper, I object to the inclusion of the word “internationally.” Because I believe the standard-setting process has grown to be too long and unwieldy and, thus, insufficiently responsive to any identified, real needs for improvement, I also agree particularly with the following statements on p. 7 relative to Initiative C that “to provide opportunities to improve the ‘time to market’ for new or revised

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2 “Agile” methodology is a type of project management process, mainly used for software development, where demands and solutions evolve through the collaborative effort of self-organizing and cross-functional teams and users.
standards and guidance. Working faster and smarter — including using available technologies to the fullest extent possible…” As suggested above, I believe improving “time to market” can best be achieved by replacing the existing audit standards development methodology with the use of agile methodology.

And I agree with the statement made on p. 7 relative to Initiative D that reads as follows:

“The increasing use of new and innovative technologies by companies, and by practitioners in performing engagements, has increased the need for the ASB to monitor the development and use of such technologies and consider whether our standards remain ‘fit for purpose’ in supporting their use.”

Currently, the new and innovative technologies are artificial intelligence/machine learning, blockchain, data analytics, and robotic process automation. The audit and attest standards as they exist today are sufficient to audit the controls around these systems and the financial information they process. I caution the Board against specifying or endorsing any particular class of information or technology in the standards when there are almost always alternative ways to achieve the same objectives. Auditors should continue to be free to select and adopt new technology when in their professional judgment, they have the resources and are ready to do so based on their own cost-benefit analysis.

I disagree with the statement made on p. 7 relative to Initiative E that “Identifying areas where guidance is needed, such as applying our standards on engagements for less complex entities, is fundamental to our success” because I believe any new guidance embodied in GAAS contributes to standards overload.

I also disagree with certain language among the strategic action presented under Initiative A on p. 8 of the Proposal, “...the use of emerging technologies” because I believe the word, “emerging,” as used here, implies use by only a few early adopters and since, in addition to my view stated above, that the standards should be technology neutral and not codified for any specific technology. I don’t think it is wise to devote substantial resources to the consideration of the effect of any technology before it becomes mainstream and in use by most preparers and auditors of financial statements of nonpublic entities.

My previously stated view that the Board should consider the best ways to make the ASB’s standards scalable and capable of consistent application for audits of less complex entities,” relates to the last bullet under Initiative A on p. 8 (i.e., to find ways to obtain “further input from small- and medium-sized practices (SMPs), but I believe it falls short of a strategic action but rather is merely is an objective.

A review of the biographies of the current members of the Board indicate that it is skewed towards the Big 4, other large CPA firms, and industry, which I believe should not even be represented at all on a deliberative body that sets standards for independent auditors. Rather, any participation by financial statement issuers in the auditing standard-setting process should be limited to the ability to issue comment letters.
I believe small- and medium-sized audit firms are woefully underrepresented, so it is no wonder that many consider the standards not scalable and not consistently applied for audits of less complex entities. The best way to alleviate this situation is to increase the number of Board members that represent small- and medium-sized audit firms to better reflect the actual percentage of audits done by these firms, perhaps by raising the limit on annual compensation available for service by small firm participants.

I agree with most of the strategic actions under Initiative B on p. 8 of the Proposal, except because of my views on convergence, I disagree with the last bullet, which reads as follows:

“Continue our active role and ongoing liaison with other standard-setters in the United States and around the world,”

Although I agree that the Board should continue an active role with other standard-setters in the United States, most particularly, the PCAOB, because many smaller US audit firms conduct audits in accordance with PCAOB standards, and, as a practical matter, seek to minimize the differences in the audit procedures applied in these circumstances. But this does not apply nearly equally to international standards so I disagree that the ASB should continue to take an active role with standard setters—outside the United States such as the IAASB.

With that in mind, I am particularly concerned that the Quality Management project described in the Appendix on p. 15 of the Proposal is misdirected, ill-advised and insensitive to the needs of the AICPA’s constituent membership and the clients and users it serves. It should focus on closely monitoring the PCAOB’s project on updating its quality control standards, not the IAASB’s. I believe the Board should articulate in its work plan its intent to monitor the PCAOB project closely, rather than the IAASB’s, so as to position itself to adopt a new standard (even if it differs in several respects that are deemed to be appropriate) so its effective date coincides with that of the PCAOB’s new standards. This would facilitate convergence with the IAASB standard only as deemed necessary to the extent the PCAOB standard does and would enable the many who practice in both the public and private arenas to make changes to their quality control systems, and the required extensive documentation thereof (in the form of a “Quality Control Document”), only once, rather than twice. It would be a great disservice to US practitioners to burden them with the need to do this twice over a short period.

I agree with the strategic actions under Initiative C on p. 8. (See also my comment about the composition of the Board under Initiative A on p.8.)

I disagree with the strategic action in Initiative D on p. 8. to continue to “identify and monitor emerging technologies.” As noted above “emerging technologies” are implemented by early adopters. What may appear to be emerging today is not mainstream and may never be. Even when an innovative technology becomes mainstream it should not be specified in the standards; rather, I believe the standards should be technology neutral, principles-based and capable of being applied to any technology, thus, reducing the likelihood of their becoming obsolete. While identifying and monitoring emerging technologies may be
interesting, that activity does not benefit the overwhelming majority of CPAs, and the Board should devote minimal time to it.

In part, because of the fact that few audits are affected by “emerging technologies,” I don’t believe the ASB should devote its time and energy to determining “whether guidance is needed to promote or support the use of emerging technologies by practitioners and …the best methods to provide such guidance.” Accordingly, I don’t believe the ASB should publish any guidance on their use that would translate into more standards overload and results in more rules and longer checklists covering largely irrelevant and superfluous issues that increase the cost of an audit and reduce the potential for profitability. The Board should not be in the business of promoting any technologies. That should be left to the market, as should be any training in their use and how to audit them.

I agree with the strategic actions under Initiative E on p. 9 of the Proposal except that, in my opinion, “... to determine the root cause of quality issues” is an objective rather than a strategic action.

I believe that the root cause of most quality issues is quite obvious. As I have said, it is the twin evils of standards overload coupled with fee pressures that result in the furtherance of a checklist-driven, cookbook-like mentality among auditors that stifles reliance on sound professional judgment. Revisions in the standards that increase their length and add more requirements, more interpretations and more guidance only exasperate the issues I have discussed.


I disagree with what I see as an overemphasis in ASB’s work plan for 2020-21 on consideration of the agendas of international standard-setters, which I believe should be considered largely irrelevant to the mainstream of US auditing practice. As I have set forth above, I believe the Board should focus primarily on the agendas of other standard-setters only in the United States (such as the PCAOB and the GAO), with minimal attention paid to those of the IAASB or other international audit standard-setters.

Also, I believe the three bullet points describing what the work plan seeks to do omits the most important two things, i.e., (as stated above) to completely overhaul the audit standards to make them principles-based and not rules-based and significantly shorter in length. This effort should begin with the five exposure drafts planned for July 2020 through March 2021.

I hope the Board will give serious consideration to my concerns and revise its proposed strategy and work plan accordingly in the best interests of the vast majority of the AICPA constituent members, their clients and users of their reports.

Very truly yours,

Howard B. Levy, CPA