



Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

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

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Via email: CommentLetters@aicpa-cima.com

RE: ASB's proposed strategy and work plan

Dear Ms. Hazel,

Ernst & Young LLP (EY) is pleased to submit these comments to the Auditing Standards Board (ASB or Board) on its proposed standard-setting strategy through 2022 and work plan for 2020-2021. We commend the ASB for seeking input from all its stakeholders.

Overall, we agree with the Board's mission and the keys to its success, as well as the factors driving its strategy. It is critical for the profession to remain focused on how evolving technologies are affecting businesses and economies and how the increasing use of automated tools and techniques (e.g., data analytics) is changing the way we structure and perform our audit and assurance engagements.

Being mindful of the evolving needs of users related to information beyond financial statements, such as sustainability and cybersecurity, and evaluating whether the existing standards are sufficient for performing such engagements are also important to help maintain the relevance of the certified public accountant.

Summary of significant comments:

- ▶ We continue to support the Board's strategic objective of converging its standards with those of the International Auditing and Assurance Standards Board (IAASB), as long as the IAASB remains committed to developing principles-based standards and guidance that can be applied to a wide variety of circumstances. While we also support the ASB's objective of minimizing unnecessary differences with the standards of the Public Company Accounting Oversight Board (PCAOB), it's important that the ASB's auditing standards maintain their scalability for audits of nonpublic entities, especially less complex entities.
- ▶ Given the Board's strategic objective of convergence with IAASB standards, we strongly encourage the ASB to explore ways of reducing the time lag between the issuance of IAASB standards and the issuance of equivalent ASB standards. Doing so will reduce the need for certain audit firms to maintain multiple audit methodologies, which would also decrease the related costs and efforts associated with training and compliance. In our response to the Board's request for feedback (see attachment) we offer suggestions for narrowing the gap.

- ▶ We also support the Board's focus on the increasing use of new and innovative technologies by companies and by practitioners to perform engagements and the need to continually evaluate whether the standards remain fit for purpose in supporting their use. In this regard, we recommend that the Board add another project to its work plan to explore what other standards, beyond AU-C 500, *Audit Evidence*, may require revisions or further guidance and encourage the continued development of practice aids and other enablers to help practitioners in this area. The pace and nature of change and auditors' increasing ability to review and use significant amounts of data present new risks as well as tremendous opportunities to enhance the value of the audit to investors and others.
- ▶ Lastly, we encourage the ASB to implement more formal post-implementation reviews of its standards to determine whether they meet the intended objectives.

The attachment provides responses to the ASB's requests for comment, along with additional recommendations for your consideration. We would be pleased to discuss our comments with members of the ASB or its staff.

Sincerely yours,



Attachment – Our responses to questions on which the ASB is seeking feedback

Question 1 – Do you agree with “Our mission and keys to our success” (see page 4), as well as the “Factors driving our strategy” (see page 5)?

While we overall agree with the Board’s mission and the keys to its success, as well as the factors driving the ASB’s strategy, we would like to offer the following suggestions to enhance the descriptions on page 4 of the proposal:

Excerpt from proposal with suggested edit	Explanation for proposed edit
<p>Our mission</p> <p>Serve the public interest by developing, updating and communicating comprehensive standards and guidance that enable practitioners to provide high-quality, objective audit and attestation services to nonissuers effectively and efficiently</p>	<p>The ASB’s mission calls out nonissuers. However, a significant amount of attestation services provided to issuers, ranging from sustainability, compliance and SOC reporting, are performed following the standards of the ASB. As a result, we suggest deleting the word “nonissuers” from the Board’s mission statement.</p>
<p>Keys to our success</p> <p>Fulfilling our mission by:</p> <ul style="list-style-type: none"> ▶ Developing high-quality auditing, attestation and quality control standards that inspire public trust ▶ contributing to the development of high-quality international auditing and assurance standards and guidance issued by the IAASB ▶ responding timely to the need for clear guidance for the profession and users 	<p>Inserting the words “high-quality” to the first bullet would more accurately describe the attributes of the standards the Board aspires to develop. We believe that from the ASB’s perspective it’s more important to use that term in describing the Board’s standards than those of the IAASB referred to in the second bullet.</p>

We believe that, in addition to acknowledging the advancement in and use of technology (one of the factors that helped shape the Board’s strategy as described on page 5 of the proposal) the ASB should also acknowledge the growing accumulation and use of data, both by preparers and practitioners. This growing trend presents both opportunities and risks that should be considered in the ASB’s standard-setting activities, including among others, risk assessment and non-compliance with laws and regulations.

Question 2 – Do you agree with “Our strategic initiatives” and “Our strategic actions” (see pages 6 to 8?)

We agree with the Board’s strategic initiatives. With respect to the ASB’s strategic actions, we have the following comments related to initiatives A, *Develop high-quality standards in the public interest*, C, *Think and operate more strategically* and D, *Keep our standards relevant in a changing environment*:

- ▶ Given the Board’s strategic objective to converge its standards with those of the IAASB, we encourage the ASB to work towards narrowing the gap between the time the IAASB finalizes its standard-setting projects and when the ASB approves conforming changes to its standards. This can be accomplished by:
 - ▶ Dedicating more ASB meeting time to evaluate IAASB projects, particularly during the deliberation phase of the IAASB projects
 - ▶ Increasing the frequency of board meetings / teleconferences, as necessary, to more closely correspond with the activities of the IAASB
 - ▶ Committing to issue an exposure document with conforming amendments to GAAS within three months of the IAASB issuing any new or amended standard
- ▶ As noted in the Board’s proposal, the evolving needs of users for information beyond financial statements, such as sustainability, cybersecurity, governance and internal control, and evaluating whether the existing standards are sufficient for performing such engagements are important to help maintain the relevance of the certified public accountant. We agree that monitoring emerging service offerings related to these user needs and evaluating whether existing ASB standards sufficiently address such services are important to advance the Board’s related strategic initiative. We believe any monitoring activities in this area should involve more frequent joint meetings with the AICPA’s Assurance Services Executive Committee (ASEC), including more formalized and timely monitoring of ASEC’s related initiatives.
- ▶ To better manage its priorities and operate more effectively and efficiently, the ASB should consider the following:
 - ▶ We agree the ASB should reconsider the Board’s size and composition, which could include considering making one or more individuals full-time Board members. These members could assume the primary responsibility for direct involvement in outreach and communicating with stakeholders. These members could also increase the ASB’s monitoring of ASEC’s activities so that the Board is better aware of initiatives and issues that could affect future standard setting. Additionally, by limiting the term of these full-time members to periods ranging from three to four years, the ASB would also make sure the industry and subject matter expertise they bring to the Board remains relevant and reflective of current practices.

- ▶ In addition to reconsidering the optimal size and composition of the Board, the ASB should give equal consideration to the capabilities of the current staff supporting its initiatives. We recognize that it is not realistic to have in-house expertise related to all projects on the Board's agenda, particularly to the use of automated tools and techniques and other innovative or emerging areas in audit and assurance services. Instead, this may be accomplished by more effectively obtaining the expertise from project advisory panels or working groups, so the staff would be properly enabled to analyze and distill the issues for the Board's consideration and dialogue timely with its stakeholders, or possibly by introducing a practice fellowship program, similar to the one offered by the Financial Accounting Standards Board, to enhance the capabilities of the existing supporting staff.
- ▶ We support the development of formal project proposals for each ASB project as discussed in the Board's proposed strategy, which would keep the Board deliberations more focused and help improve communications with key stakeholders. We also support the ASB exploring the formation of an advisory body to provide the Board with more direct and timely input from stakeholders. A body comprised of practitioners, users and other stakeholders could further inform the ASB's agenda and work plan and assist with the post-implementation review of the Board's standards.

Question 3 – Do you agree with the activities that have been identified in our detailed Work Plan for 2020-21 (see pages 10 and 11). If you don't agree with the work plan, what other activities do you believe the ASB should prioritize?

In general, we agree with the work plan, but have the following recommendations:

- ▶ We recognize the importance of the audit evidence project but question the pace of deliberations compared with that of other standard setters and the extent of proposed changes. In our 18 September 2019 letter to the ASB, we stated that we believe the ASB's proposed Statement on Auditing Standards (SAS) on audit evidence is clearer and easier to understand than AU-C section 500, *Audit Evidence*, and we support the use of a framework that provides attributes and factors for auditors to consider when assessing whether they have obtained sufficient appropriate audit evidence. We also believe that the proposal to move away from the traditional hierarchy of audit evidence and the measurement of the quantity of audit evidence would appropriately address the new types of audit technologies and tools the auditor uses to obtain evidence.

However, because audit evidence is foundational to an audit, we recommend that the Board work with the IAASB to develop a converged standard on evaluating audit evidence before issuing a final SAS. We are concerned that getting too far ahead of the other standard setters may result in further amendments to GAAS in the near term.

- ▶ We think the risk assessment project should be accelerated, which could be accomplished if the Board meets more frequently (as recommended in our response to Question 2 above) and/or reprioritizes the completion of this project over other outstanding projects.

Question 4 – Are there are any other topics that the ASB should consider in determining its strategy and work plan?

As noted in the Board’s proposal, businesses and economies are increasingly affected by rapidly changing and evolving technologies (e.g., artificial intelligence, robotics, blockchain, cloud computing, social networks, new digital payment platforms). Developments in the use of advancing technologies are having a significant effect on audit and assurance engagements, including how automated tools (including automated data analytics) are used to perform work on such engagements, and the way that engagement teams are structured and interact.

The pace and nature of change and auditors’ increasing ability to review and use significant amounts of data present new risks as well as tremendous opportunities to enhance the value of the audit to investors and others. We agree that there are the standard-setting challenges as identified by the IAASB’s Data Analytics Working Group in its September 2016 consultation paper, *Exploring the growing use of technology in the audit, with a focus on data analytics*. We confirm that these are relevant challenges encountered by the auditor when making use of data analytics in a financial statement audit. The ASB should address these challenges, as well as others identified in comment letters submitted in response to the consultation paper, by working together with the IAASB and other standard setters.

To respond to those challenges and help auditors more effectively use other emerging automated tools and techniques as requested by stakeholders in response to the ASB’s audit evidence proposal, we recommend that the Board add a separate research project to its work plan to assess and prioritize other standards that may need to be updated or enhanced (e.g., AU-C 520, *Analytical Procedures*, and AU-C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*). This would be in addition to specifically considering data analytics and the use of other automated tools and techniques in the context of the Board’s existing standard-setting projects.