



January 29, 2020

Ms. Sherry Hazel
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: ASB Proposed Strategy and Work Plan

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC appreciates the effort of the Auditing Standards Board (ASB) to obtain input, advice, and feedback in setting the ASB's strategy and upcoming work plan. The quote "The pace of change will never be as slow as it is today" has become widely used lately, and that reigns true with the accounting and auditing standards as well. TIC asks the ASB to continue to consider other factors while working to set new standards, such as new regulations and other standards being developed (whether it be by ARSC, PEEC, FASB, GASB, etc.) to try to ensure the auditing standards keep up with the pace of change which, in turn, will help all firms, especially smaller firms, keep up with the pace of change and perform high quality audits in accordance with the standards.

TIC believes it is critical that the ASB consider smaller firm issues in all aspects related to the issuance of and subsequent adoption and implementation of the auditing standards. To put this into perspective, as of November 30, 2019, only 8 percent of the total registered PCPS firms have more than 21 CPAs on staff (out of a total population of 6,416 registered firms), and 84 percent of PCPS firms have 10 or less CPAs on staff. Most of these firms do not have the same resources as larger firms when it comes to technology, tools, and resources to adopt these increasingly complex standards. In addition, most often, these firms do not have the resources to respond to requests to comment from the standards-setters. Therefore, we believe that TIC input is critical when it comes to understanding the views and challenges of smaller firms.

TIC also believes there might be ways to solicit feedback from those smaller firms in new and innovative ways which we outline later in this letter.

ASB's Mission and Keys to Our Success

The ASB may want to consider addressing scalability of its standards as part of its mission, perhaps by adding something like the following: "...that enable practitioners to provide high-quality, objective, audit and attestation services **that are also scalable.**" TIC believes that scalability has become a key factor in ensuring that smaller firms can apply the standards appropriately. The IAASB risk assessment project has brought some of these issues to light and TIC has been involved with the risk assessment task force to ensure that these issues are adequately considered by the standards-setters.

In 2019, the IAASB took an initial step to explore ways to address this concern at the international level by issuing a discussion paper titled *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*. TIC assisted the ASB in drafting a comment letter and believes that the ASB should consider a similar project here in the United States. One suggestion provided in that comment letter was for the IAASB to consider developing a decision-making framework, similar to what the FASB did for private companies with its Private Company Decision-Making Framework (PCDMF). Perhaps the ASB might consider taking on a similar project here in the United States.

TIC also is aware that the ASB has committed to convergence with the IAASB standards. TIC asks that the ASB consider whether convergence is always the right path given the environment here in the United States. One example where the environment is different is regulatory and legal systems. In some cases, the IAASB has developed very robust and lengthy standards that include a lot of implementation guidance. However, here in the U.S., perhaps some of that implementation guidance could be included in non-authoritative practice aids as to ensure the standards are as succinct and easy to follow as possible. In the United States, detailed wording in standards also may present some unique legal challenges that are not as prevalent in other parts of the world.

TIC also is aware that the IAASB has to address standards for Public Interest Entities (PIEs) as well as non-PIEs whereas the ASB develops standards for all audits in the United States except for those subject to PCAOB auditing standards. TIC believes that this can present some unique challenges when converging with IAASB standards and is one major reason that scalability of the standards is key here in the United States.

ASB's Strategic Initiatives

TIC believes that establishing an Advisory Board comprised of audit practitioners, users, and other stakeholders to not only provide input on the ASB agenda and public interest, but to assist in establishing an ongoing mechanism to obtain firm feedback and make standards scalable would be beneficial to the profession. The Advisory Board could then serve multiple purposes. They might advise the ASB on which projects to consider and timing, how to address implementation issues, assist with post implementation reviews of the standards, as well as help to assess whether certain projects would be scalable for smaller firms. TIC recommends the ASB

consider adding the word “diverse” to the composition of the Advisory Board to ensure that firms of all sizes, areas of focus, and geography are represented.

TIC understands and appreciates the number of hours required to be an ASB Board member. The Board meets in-person four times a year and has many other phone meetings and research hours that are done outside of those in-person meetings. As such, it can be very challenging to attract smaller firm representatives. Many times, smaller firms do not have the bandwidth to have a partner give more than 700 hours a year which is typically required to serve on the Board. Unfortunately, TIC believes this can result in a loss of smaller firm perspective. TIC believes that by creating an Advisory Board without the same annual hours commitment as required for ASB would attract more small firm representation. Given the current representation on the Board, TIC suggests the ASB consider whether smaller firms might even represent the majority on an Advisory Board, to help ensure that these perspectives are considered and the smaller firm voices are heard.

TIC believes that innovative technology should be utilized to obtain input and feedback, and generally, to better communicate with stakeholders. Asking stakeholders to complete long and detailed surveys via email is not an effective and efficient way to gather information. Some ideas for soliciting feedback might include holding live meetings that can be attended electronically, podcasts, use of infographics, and social media to introduce concepts and ask targeted questions. The ASB might even consider adding a polling option to their pages on the AICPA website whereby they can solicit instant feedback on key issues. The CPEA could also be a way to get members more engaged where perhaps polling questions could be added to CPEA webcasts when the ASB is looking for targeted feedback. TIC is aware that CPEA members are typically more engaged than some firms and their focus is on audit quality so that audience might be a better audience when the ASB is looking for specific, targeted, technical feedback.

Perhaps one way to get constituents more engaged would be to offer digital badges to those who participate and provide feedback. These badges could even be used to offer rewards to those members who participate the most, whereby perhaps they get a discount on AICPA products or an upcoming conference or webcast based on a high level of participation.

Also, as noted earlier, many smaller firms do not have the resources to respond to every Exposure Draft issued by the ASB. Therefore, the ASB may want to consider ways of soliciting more targeted, informal feedback from stakeholders. For example, for many firms, written comments submitted to a standards-setter require an extensive review process and agreement by a certain number or percentage of partners before the comment can be sent to the standards-setters. However, if the ASB had specific feedback they wanted to obtain (especially related to smaller firm perspective), perhaps there is a way they could work with the AICPA staff or PCPS to solicit specific feedback on issues in a more informal way.

In addition, the ASB may consider implementing an easy way to submit questions and comments via its website on exposure drafts. Perhaps even a polling feature would be helpful when the ASB

wants to poll CPAs on specific issues. If possible, adding built in logic to the questions asked might be helpful to ensure that respondents have a full understanding of the issues.

TIC believes the ASB should consider an action item surrounding collaboration with other AICPA Senior Leadership Committees as well as other standards-setters (FASB and GASB for example), vendors, and peer reviewers, including identifying areas where joint projects can take place. One area TIC has noticed that has started to come up more in practice is the interplay between the accounting and auditing standards. In TIC's October 2019 meeting in Norwalk with the FASB, Russ Golden (FASB Chairman), noted that he would like to see more interaction between the FASB and the ASB on a regular basis. With increasingly complex accounting standards, including revenue under ASC 606 and leases under ASC 842, TIC believes it will become even more critical that the ASB is looking at any potential implications on the audit side as companies are adopting these new standards. The same is true of a proposed private company practical expedient related to employee share-based payment. The ASB should consider reaching out to the PCC to ensure there are no misconceptions related to whether or not this expedient would save audit costs if adopted by a private company.

The FASB typically performs a detailed post implementation review when more significant standards are issued. TIC would encourage the ASB to consider more formal post implementation reviews of the standards to ensure that firms are applying the standards as intended and any implementation issues can be addressed, perhaps in non-authoritative guidance such as Audit and Accounting Guides or Technical Practice Aid Q&As.

TIC appreciates the desire to ensure the standards remain relevant in an ever-changing environment. We too want the standards to be flexible enough to encourage the innovative use of current and future technology in the audit process. However, TIC cautions the Board to resist focusing so much on technology that a perception is created that engagements that do not utilize these technologies are subpar or otherwise deficient in quality. Instead, we believe the Board should encourage the use of an ever-evolving spectrum of tools and techniques for addressing audit risk. This spectrum should span from traditional procedures to the use of advanced data analytic procedures and should remain flexible enough to allow for the adoption of future technologies in the audit process.

TIC believes the ASB should consider including the concept of "consistency" into the "Initiative" section. The ASB could perhaps change the Initiative to "support effective and **consistent** application of our standards," with an action item to provide widespread access to implementation guidance.

TIC believes an additional action item could be to work directly with peer reviewers, third party vendors, regulators, and other constituents to ensure that evaluation of applicable standards is performed on a consistent basis when reviews are conducted. Where issues are identified, the ASB could communicate and work with those groups or firms to determine the best way to help firms remedy any issues accordingly. Engaging the CPEA, peer review team, and PCPS team could be a good way to enhance communications to smaller firms.

Work Plan for 2020-2021

As noted earlier, TIC is aware that the IAASB recently issued a discussion paper related to audits of less complex entities. TIC understands the ASB will closely monitor the IAASB's response to this paper and consider adding a similar project to their agenda, which we agree with.

TIC also wanted to express appreciation for how the ASB recently handled some conforming amendments related to special purpose frameworks. TIC believes that as the accounting standards become more complex in the United States, some private companies may look to other frameworks and the FRF for SMEs offers a good solution for those smaller private companies that are not required to prepare U.S. GAAP financial statements. Many times, auditors are asked to prepare the audit report as a general use report rather than a restricted use report. TIC has asked the ARSC to look at how the FRF for SMEs is presented in the SSARs and to perhaps consider adding a project to address special purpose frameworks in light of the FRF for SMEs becoming more widely used over the past few years. TIC also asks the ASB to consider adding a similar project once the ARSC is further along with their project.

TIC has some concerns about the feasibility of certain aspects of the IAASB quality control projects in the United States, especially for smaller firms. TIC urges the ASB to ensure that there is proper smaller firm representation on any task forces or working groups related to this project. TIC also asks the ASB to consider whether the proposed timeline is feasible given the concerns that have already been raised as to how this standard would be operable in the United States. While TIC appreciates that having two different sets of standards for a period of time is not ideal, we ask that the timing issue be weighed along with the importance of releasing a standard in the United States that would be practicable for all firms, including the smaller ones. Another issue that TIC discussed with the ASB in our liaison meeting is effective date and transition and when the design and effectiveness aspect of this standard would have to be in place in order to be in compliance with the standard.

TIC would like to thank the ASB for developing this strategy and work plan and reaching out to stakeholders for feedback. TIC stands ready to assist the ASB in any way possible in this initiative, including being considered as candidates as any task forces or other working groups are developed as a result of this feedback.

TIC appreciates the opportunity to present these comments on behalf of PCPS Member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek", with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee