

Adapt. Assist. Collaborate. The IAASB's Approach to Standard Setting in the COVID-19 Environment

The COVID-19 pandemic is a devastating global challenge. It has taken and will take far too many lives and put extraordinary pressure on society in general. It has also greatly affected markets, business and organizations, and the financial and external reporting ecosystem. Now more than ever, we need confidence to return to enable capital to flow freely again and the economy to grow. Where we sit, it is sometimes easy to get lost in the technicalities of accounting and standard setting. However, at its best, audit and assurance professionals can play a critical role in ensuring trust and confidence in markets. Read on...

Tom Seidenstein

The author is Chair of the International Audit and Assurance Standards Board. He can be reached at tomseidenstein@iaasb.org and eboard@icai.in



When I joined the International Audit and Assurance Standards Board (IAASB) as Chair last year, I accepted the role with a core belief that setting standards at the international level is the most effective way to respond to the relentless globalization of business and avoid the economic costs and regulatory arbitrage that come with a fragmentation in rules. Global approaches are needed to solve global challenges.

The IAASB's work developing and maintaining high-quality standards consistent with the public interest is vital to ensuring confidence in that

architecture, and therefore in the global economy.

There is widespread acceptance of the need for the IAASB's high-quality, global audit and assurance standards. This is illustrated by the fact that they are adopted in more than 130 countries in some form. That's a great foundation to build from. We believe our principles-based standards are robust enough to be adapted to the current environment, where there is a focus on uncertainty and judgment.

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our COVID-19 response and other leading public interest issues on our work plan, including our quality management work, going concern and fraud, and efforts aimed at reducing complexity for less complex entities. We are adjusting to account for COVID-19's impact on our capacity to deliver, and the capacity of our stakeholders to absorb what we deliver.

A core element of our COVID-19 response is to develop staff alerts on key topics to support the application of our standards under current circumstances. Our goal is to support the public interest and the role auditors must play in sustaining trust in financial and other external reporting. We are coordinating with others, such as National Standard Setters (NSS) and the International Federation of Accountants (IFAC) and its Professional Accountancy Organization (PAO) members, as well as engaging with regulators and oversight bodies.

In addition to the IAASB Staff Alert, we are drafting, or have drafted staff alerts on auditor reporting, going concern, subsequent events, auditing accounting estimates and public sector audit considerations. These are all freely available on the IAASB Website.



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At the same time that we are offering COVID-19 guidance and support, we continue to focus on our strategy and the challenges facing audit and assurance standards. In this regard, one of our key workstreams is Audits of Less Complex Entities (LCEs). Through our work in this area, we wish to highlight the public interest importance of audits of LCEs, which make up the majority of businesses in jurisdictions across the globe. We are aware of how this pandemic has had a brutal impact on the functioning of these LCEs.

In addition to two global roundtables on this topic in Paris in 2017 and 2019 (which were each attended by over 80 individuals representing over 25 jurisdictions), we consulted on the LCE topic through an IAASB Discussion Paper, and benefited from a parallel survey that was undertaken by the International Federation of Accountants. The unprecedented response we received, with more than 90 comment letters and over 1,700 survey responses, demonstrated

the importance of, and interest in, this initiative. The response is also indicative of a high level of engagement and application of the International Standards on Auditing (ISAs) across various global jurisdictions and different stakeholder constituencies. There is strong support for our work in this area, although, we noted, diverse views regarding possible actions to address challenges in using the ISAs in Audits of LCEs.

At our June 2020 Board meeting, the IAASB set a clear path forward for addressing complexity, scalability and proportionality in our standard-setting process and the challenges facing the Audits of LCEs. First, we agreed to a work stream aimed at reducing the complexity and improving understandability of our standards through the way we draft and present standards. We are also embracing technology to improve the navigability of our standards and aim to have a searchable digital handbook of the standards by next year. These steps taken together should improve access to our work.

Second, and maybe more importantly, we agreed to initiate a work stream aimed at drafting a separate standard for LCEs. This separate standard will be based on the same concepts as the ISAs, will be a risk-based approach to an audit and will enable a reasonable assurance opinion. The aim is to develop a standard that is short, principles based (focusing on the auditor's professional judgment) and written in an understandable way. The standard will also maintain the same robustness of an ISA audit through objectives for the auditor's work, which will help with nature and extent of the work to be undertaken, but there will be limited application material. Support for the implementation and use of the



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standard will be considered as the standard is developed.

As we adapt to the challenges brought on by COVID-19, we will continue to adapt our ways of working. The IAASB appreciates the immense constraints and pressure experienced by all. Our thinking about how we can best contribute to the broader financial reporting ecosystem at this time is evolving and we will continue to post updates on the IAASB Website.

The financial reporting world works in a highly connected ecosystem. Preparers of financial information, standard-setters, and regulators also need to each perform their role for the system to work. A weakness in any one part of the reporting ecosystem will have reverberations throughout.

We are coordinating with national audit standard-setters, securities regulators, independent audit regulators, the International Accounting Standards Board, and professional bodies, particularly via IFAC. Our aim is to share information and discuss how we are individually responding to the crisis. We are successfully identifying areas where more work is needed and hoping to avoid redundant or confusing efforts.

We are conducting all of this work with the recognition that we are operating in a period of enormous uncertainty, and that all judgments, even if appropriately reasoned, documented, and communicated, will not always be right in hindsight.



We must constantly reinforce confidence in our work. Working transparently, in a manner consistent with due process, and in a way that captures the best thinking from around the world allows us to build a stronger standard.

However, we can do our best to provide greater guidance, when possible, to those trying their best to comply with our standards and rules. Standard setters need to exhibit a sense of flexibility in terms of our work program priorities and imposing additional requirements on our stakeholders.

I place a priority on engaging a broad and diverse range of stakeholders. As a global standard setter, we must constantly reinforce confidence in our work. Working transparently, in a manner consistent with due process, and in a way that captures the best thinking from around the world allows us to build a stronger standard.

If we succeed in doing so, we should help inspire a new generation of auditors and reaffirm to our public interest stakeholders that audits and assurance, driven by high-quality standards, have real value.