

How the IAASB has become more agile during the COVID-19 crisis



Tom Seidenstein, Chair of the International Auditing and Assurance Standards Board, tells Andy Davis how its response to the COVID-19 pandemic has addressed the needs of stakeholders and staff alike.

The COVID-19 pandemic has forced every organization – even global standard-setters – to think flexibly and be prepared to change the way they work.

“The most important thing is to recognize that we’re serving a public interest where many people are negatively affected, and we want to be as helpful as possible at a time when the market needs confidence,” says Tom Seidenstein, Chair of the International Auditing and Assurance Standards Board (IAASB).

The New York-based standard-setting body for the global audit and assurance profession is revising its work plan to respond to issues that have come to the fore during COVID-19, including starting projects to update its standards on going concern, fraud and audit evidence. It is also engaging extensively with hard-pressed stakeholders who are looking to the IAASB for assistance and using those discussions to help frame up-to-the-minute guidance; it has published six staff alerts since the crisis began, with a seventh on the way.

Seidenstein has a relaxed, urbane presence, and his easy manner has clearly served him well as

he guides the IAASB through these extraordinary times – an important part of his role is to “keep things light and have a sense of humor,” he says.

COVID-19 has taught his organization a lot and prompted changes in the way it operates that will persist once the pandemic is over. In particular, he says, it has shifted to more iterative ways of developing standards: “a continuous feedback loop and cycle of work and response” that should make the IAASB more agile in future.

But the biggest lesson has been not to forget the impact this crisis has had on everyone. “One thing I’ve learned is that the human dimension can’t be overestimated,” says Seidenstein. “You have to allow people to balance all the pressures in their lives.”

Q: How has the IAASB had to change its own operations because of the pandemic?

A: I would describe our response as “assist, adapt, coordinate.” First, I had a sense that we needed to be a little bit bolder than standard-setters tend to be, in terms of trying to help those who are adopting and executing our standards. We needed to provide

guidance, and that has resulted in six staff audit practice alerts. We've also been pointing people to other useful guidance in the marketplace.

From the "adapt" perspective, we had already adopted a video-calling platform before the crisis began, so we were able to transition quickly and continue to hold board meetings.

Third, it was about coordinating. We established a close dialogue with national standard-setters and we're speaking frequently with all key stakeholders, including our Public Interest Oversight Board (PIOB), the International Organization of Securities Commissions and the International Accounting Standards Board (IASB), to make sure there are no surprises, and that we're sharing best practices and learning from each other.

Q: How have you changed the way your staff and volunteers work with you, and the way you engage with stakeholders?

A: Like everyone, we're confronting the challenge of keeping people motivated and maintaining the cohesion of the team. Our staff have been extremely flexible and adaptable. Of course, we depend heavily on the volunteers who make up our board and working groups, and we've been very conscious of the balance between their work lives and our work program. We quickly realized that we couldn't keep going at the same pace as before, so we had to figure out ways to adapt.

As for our stakeholders, we had a board discussion in June about how standards should be implemented and executed so that it's not overwhelming for the people involved. People can only absorb so much at a time and they have to prioritize, so we stretched the timeline on Quality Management slightly and delayed the comment period on Group Audits to accommodate that.

Q: What are stakeholders asking the IAASB about at the moment?

A: The major thing we've heard is that people need help to understand how our standards can address the current environment. We've had 16 formal meetings on COVID-19 with key stakeholders where we've shared information on how different regions are rising to the challenge of implementing our standards.

Q: What are the main auditing issues that have been impacted by COVID-19?

A: Clearly, professional skepticism is key at this time. Other topics that have been highlighted by events include auditor reporting, in terms of key audit matters and other related issues such as going concern that auditors have confronted. Auditing accounting estimates is a big issue as well.

The one that's been popping up recently is reviews of interim financial statements, because this may be the first reporting period where entities need to

reflect the effect of COVID-19. This wasn't really on our radar, but more and more people have raised it with us and we've started to adapt our thinking; it will probably have a long-term impact on our agenda. These engagements entail more limited procedures, which gives rise to various issues, particularly with regard to how much work needs to be done. It has shown that our International Standard on Review Engagement, ISRE 2410, probably needs an update.

Q: How can audit quality be maintained during COVID-19?

A: The biggest issue in terms of audit quality is that if people think they're going to use the same procedures and approaches as last year, we're at some risk. Firms will need to adapt their quality control policies and procedures to the new environment; for example, how the work of the engagement team is directed, supervised and reviewed.

We also need heightened awareness of the possibility of fraud or error right now. At the moment there are increased opportunities, incentives and rationalizations for management



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or staff to commit fraud. There is also an increased risk of error, given that there have been many changes in the entity's controls to adjust to working virtually. So it's important for auditors to push hard on things that have changed in the entity, particularly around controls.

More than ever, communication with those charged with governance is an important factor. But paying proper attention to those issues could lead, I hope, to increased rigor and confidence in the world of audit.

Q: Which projects or items in the IAASB work plan for 2020/2021 had to move up (or down) in terms of priority as a result of COVID-19?

A: By the end of the year, we'll have a very different work plan that includes going concern, fraud, audit evidence and the role of technology in that space.

We have a project aimed at reducing complexity in the general standards and, potentially, creating a separate standard for audits of less complex entities. Then there may be something on interim reporting and the completion of Extended External Reporting.

One item that has been pushed back, from June to September, is the Quality Management approvals. The idea was to be less rushed in a virtual setting and ensure that all board members have adequate time to reflect on and discuss the final drafting. We've also pushed the approval of ISA 600 (Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)) back by at least six months. The effective date, if things go to plan, will most likely be periods beginning after December 2023, assuming the feedback is generally supportive.

Q: How important will these projects on going concern, fraud and audit evidence be, given the impact of COVID-19?

A: These topics have come up in every conversation I've had since I joined the Board. The crisis has highlighted their relevance, particularly technology in the context of audit evidence. I hope we'll approve a project proposal in December for a revised audit evidence standard. Going concern and fraud are at the top of the political agenda and our fraud standard probably needs updating. We will put out a discussion paper in the third quarter asking what the expectations are in terms of fraud and going concern for the purpose of audits, and we'll hold a series of virtual round tables later this year.

Q: What have you changed during the COVID-19 lockdown period that the IAASB could consider keeping in place?

A: The crisis is making us more attuned to how we create a team that is spread around the world and how we vary the kinds of interactions we have, to ensure we retain a sense of humor. We're trying to spread out the Board's work more rather than always building up to a big quarterly meeting, and to use digital more when engaging with stakeholders. There are also things we can do in terms of agile techniques to get regular user interaction and feedback on small segments of a project, instead of waiting until we get to the exposure draft phase.

Q: What is your view on the progress that the Monitoring Group has been making with regards to changing the governance model for standard-setting?

A: The Monitoring Group recommendations are now out, after a long period of consultations and deliberations. I am pleased that the recommendations preserve the principle that standards are best set by an independent,



**Tom Seidenstein:
resumé in brief**

- Graduates from Princeton School of Public and International Affairs in 1995
- Special Assistant to the Managing Director at the Center for Strategic and International Studies in Washington, DC, 1995-1997
- Studies for a Master's degree in public policy, international trade and economics at the Harvard Kennedy School of Government, 1997-1999
- Works as Executive Director at CCS Fundraising, 1999-2000
- Joins the IFRS Foundation in 2000 as Executive Officer to Paul Volcker, Chairman of the Trustees
- Promoted to Chief Operating Officer in 2001
- Joins Fannie Mae as VP, Strategy and Policy Research in 2012
- Promoted to Senior VP, Strategy, Innovation and Capital Management in 2018
- Becomes Chair of the IAASB in July 2019

technically expert body, free of undue influence, but cognizant of stakeholder viewpoints and responsive to them. Such a system also requires public accountability, building off the existing PIOB and Monitoring Group efforts.

I'm encouraged about the direction of travel, though there remain key issues that need to be ironed out in terms of transition. But ending this period of uncertainty is really important and reform that preserves two separate boards – an ethics board and an audit and assurance standards board – is, to me, the key to it all. ■

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