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September 10, 2018

By email: comments@pcaobus.org

PCAOB Office of the Secretary
1666 K Street NW
Washington, DC 20006-2803

Re: No. 2018-001, PCAOB Draft Strategic Plan 2018-2022

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs. This letter represents the perspectives of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ appreciates the opportunity to share our views and provide input on the Draft Strategic Plan 2018-2022 (Draft Strategic Plan) of the Public Company Accounting Oversight Board (Board or PCAOB). We commend the Board for inviting public comment for the first time on its Draft Strategic Plan and an overall commitment to broaden outreach to stakeholders.

We agree the key factors identified in the Board's Draft Strategic Plan are likely to impact the Board's ability to achieve its goals. The CAQ supports the strategic goals outlined in the Draft Strategic Plan. Our observations below are intended to provide considerations for the Board as it works to achieve the following three goals: (i) Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation; (ii) Anticipate and respond to the changing

environment, including emerging technologies and related risks and opportunities; and (iii) Enhance transparency and accessibility through proactive stakeholder engagement.

Goal One - Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation

The PCAOB inspection process has driven significant improvement in quality across the auditing profession and has evolved over time. The CAQ supports the Draft Strategic Plan's emphasis on promoting "continuous improvement in the quality of audit services,"¹ as well as the focus "not only on detecting audit deficiencies, but also preventing them from occurring in the first place."²

Inspection reporting

Inspection reports provide the PCAOB an opportunity to deliver valuable audit quality information to the marketplace and drive positive change in firm audit quality. We encourage the Board to consider opportunities to help readers better understand the inspection process and overall inspection results and trends across the profession, including important takeaways and actions audit firms should take to address deficiencies identified. It also may be helpful for the Board to provide perspectives on where the profession has advanced audit quality and where improvements are still needed, as well as offer views on best practices based on the unique knowledge and information gained through its oversight activities. The Executive Highlights of the recent PCAOB [Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers](#) is a good example of providing useful, consumable information for inspection report users.

We also encourage the Board to consider opportunities to enhance individual firm reports by providing timely reports that include contextual information explaining the relative implication of findings. It would be beneficial to provide a more balanced report to help readers understand improvements the firm has made (as it relates to Part 1 findings) since the previous inspection, as well as areas needing improvement.

Inspection process

We agree that prevention is a key component of driving improvement in audit quality. We support the Board's current research related to "exploring whether there is a need for changes to PCAOB quality control standards."³ Further, the Board may wish to enhance the inspection focus on key elements of a firm's system of quality control that are likely to have the most impact on improving audit quality in the near term. The inspections program could be adjusted to align with new or amended quality control standards.

The multi-pronged approach to improving audit quality laid out in Goal One likely will require a multi-disciplinary effort within the PCAOB, as suggested in the objectives laid out to accomplish this goal.

¹ Draft Strategic Plan, page 7.

² Ibid page 7.

³ PCAOB [Standard-Setting Update as of June 30, 2018](#), page 5.

The inspection process could identify areas where auditing standards might need to be clarified, or where additional implementation guidance might improve effectiveness and consistency of application. The collaborative mindset laid out in the Draft Strategic Plan will be critical to improving audit quality across the profession. It also will be critical to include accounting firms in a timely dialogue to improve sharing and understanding of information, including implementation challenges that may affect the entire profession or a subset of firms within the profession.

Audit quality indicators

The CAQ believes that the use of audit quality indicators (AQIs) by audit committees, auditors, and other stakeholders helps to promote and enhance their dialogue and focus on audit quality. As shared with the PCAOB previously,⁴ the CAQ has been actively engaged in developing and seeking perspectives on the use of AQIs. We view the use of AQIs as an evolutionary process that will be further informed by experience including exploring their correlation to audit quality outcomes. We encourage the Board to engage with the profession on this important matter as data is analyzed to further “identify and communicate factors that correlate with the quality of audit services.”⁵

Goal Two - Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities

We agree that “[i]nnovations in data analytics and technology have great potential to improve the efficiency and effectiveness of financial reporting and the audit process.”⁶ We support the Board’s efforts to “ensure that...oversight activities do not impede innovations that support informative, accurate, and independent audit reports.”⁷

In order to achieve the objective of Goal Two, it will be important for the Board to keep informed on emerging technologies and dynamic market conditions in order for it to be agile in determining how developments may affect the audit and thus the PCAOB’s oversight of audit firms. As technology emerges and the Board researches the potential impact of those changes on audits and audit quality, it may be necessary to consider changes to or guidance on existing auditing standards, which may promote the use of innovative audit techniques. We encourage the Board to work closely with stakeholders and other auditing standard setters, including the US Auditing Standards Board and the International Auditing and Assurance Standards Board.

⁴ See [CAQ comment letter dated September 28, 2015](#) and [comment letter dated May 13, 2013](#), respectively. See also the following CAQ publications: [Audit Quality Indicators: Journey and Path Ahead](#) (January 2016), available at <https://www.thecaq.org/audit-quality-indicators-journey-and-path-ahead>. The [CAQ Approach to Audit Quality Indicators](#) (April 2014), available at <https://www.thecaq.org/caq-approach-audit-quality-indicators>, and [Resource on Audit Quality Reporting](#) (August 2013), available at <https://www.thecaq.org/resource-audit-quality-reporting>.

⁵ Draft Strategic Plan, page 8.

⁶ Draft Strategic Plan, page 9.

⁷ Ibid page 9.

Goal Three - Enhance transparency and accessibility through proactive stakeholder engagement

We support the PCAOB's proposed focus on enhancing transparency and stakeholder engagement. With respect to this goal, the CAQ urges the Board to engage regularly in dialogue with key external stakeholders including foreign audit regulators, audit committees, audit firms, preparers, and investors regarding regulatory initiatives, as quality financial reporting is a shared responsibility. We commend the Board for its efforts to date in this regard.

We believe that engagement and collaboration with external stakeholders can help inform regulatory initiatives, help coordination among regulatory bodies both domestically and internationally, and help planned PCAOB initiatives meet the needs of stakeholders.

Engagement related to interpretation of auditing standards

The PCAOB has provided additional transparency into its standard-setting process in recent years through the development of its research agenda. We encourage the Board to continue to evolve its standard-setting process by actively and routinely engaging with stakeholders before, during, and after the standard-setting process to facilitate a dynamic exchange of views. For example, the PCAOB could increase the exchange of feedback with stakeholders and seek specific input regarding particular aspects of draft standards and rules, as well as potential alternatives that are being considered during the standard-setting process. In addition to the public notice-and-comment period, engaging in robust dialogue could yield final standards that more effectively achieve the Board's intent and expose unintended or unforeseen consequences. Such dialogue may identify certain language in draft or final auditing standards that may not be well understood by auditors such that implementation may not be consistent with the Board's intent and could cause ineffectiveness or inefficiencies once implemented.

In addition, once a standard is issued, auditors, preparers, and audit committees could benefit from a mechanism to support timely elevation and resolution of technical auditing matters and interpretation of auditing standards. We also encourage the PCAOB to consider ways to broadly share relevant information gained during the PCAOB's oversight activities and interactions with auditors in a timely manner.

Engagement with advisory groups

We agree it is important for the Board to obtain input from a variety of stakeholders. It is also prudent for the Board to "reassess our use of advisory groups to ensure that we are receiving timely, relevant, and useful advice."⁸ The Board may want to consider how the agenda-setting process and output of advisory group meetings is obtained, disseminated, and utilized, as well as the impact that the size of an advisory group may have on facilitating contributions by all stakeholders. In addition, we

⁸ Draft Strategic Plan, page 10.

encourage the Board to continue to create and utilize task forces, working groups, or subcommittees that can focus on detailed aspects of issues.

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We appreciate the opportunity to comment on the Draft Strategic Plan. As the Board and Staff gather feedback from other interested parties, we would be pleased to discuss our comments or answer any questions that the Board or Staff may have regarding the views expressed in this letter.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

PCAOB

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