

# NASBA

National Association of State Boards of Accountancy

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September 7, 2018

William D. Duhnke III  
Chairman  
Public Company Accounting Oversight Board  
1666 K Street NW  
Washington, DC 20006-2803

Via e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

## **Strategic Plan 2018-2022**

Dear Chairman Duhnke:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Public Company Accounting Oversight Board's (PCAOB) Draft for Comment, *Strategic Plan 2018-22*. NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (state boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State boards are charged by law with protecting the public.

In furtherance of these objectives, NASBA offers the following comments and responses to the *Strategic Plan 2018-22*.

NASBA commends the current board in its effort to refresh its strategy. Many registered public accounting firms have acknowledged the observations of the PCAOB's inspections, regardless of whether the observation is directly related to their firm and have taken steps to improve audit quality.

As a general comment, NASBA recommends the PCAOB give additional consideration to the following in completing its strategic plan:

- The accounting profession is changing at a rapid pace. Audit firms are embracing new technology as part of their efforts to enhance audit quality.
- The types of information utilized by the public in making their investment decisions have moved beyond the information currently subjected to audit.
- As the PCAOB moves forward with its strategic plan, NASBA encourages the PCAOB to look for ways to utilize the resources of NASBA and its member state boards in oversight of the public accounting profession.

## **Request for Specific Comments**

### ***GOAL ONE***

***Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation.***

#### ***OBJECTIVE ONE***

***Conduct inspection activities to facilitate more timely and relevant feedback to our stakeholders.***

##### **Comments**

- Efforts should be made to make inspection reports timelier. As the audit profession is moving towards a “continuous audit” process, the method and timeliness of inspections may also need to evolve.
- Consideration should be given to how the inspection reports could be more relevant for stakeholders, including audit committees. Currently, comparisons are commonly made based on the number of Part 1 comments to the number of issuers reviewed for a firm. We acknowledge that the PCAOB has stated that this is not the primary purpose of the inspection reports.
- In addition, the inspection reports should include any positive comments on audit quality that may have been observed.

#### ***OBJECTIVE THREE***

***Enforce accountability and deter improper conduct by addressing violations of PCAOB standards and rules, and related federal securities laws.***

##### **Comments**

- NASBA encourages the PCAOB to adopt ways that state regulators can work with the PCAOB to protect the public interest. We hope that the PCAOB will reaffirm its commitment to cooperate with state regulators as expressly called for in the laws which established the PCAOB. We suggest that the PCAOB notify state boards when a licensee is under enforcement action for violation of professional standards. Several years ago the US Department of Labor (DOL) determined that there were deficiencies in audits of employee benefit plans. NASBA coordinated with the DOL and state boards to make sure that investigations could be started on a timely basis. This type of coordination could be done with the PCAOB as well.

***GOAL TWO***

***Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.***

***OBJECTIVE TWO***

***Understand and consider investors' audit expectations.***

**Comments**

- In today's environment significant market activity occurs well before historical financial statements are ever filed. Perhaps, the PCAOB should clarify the auditors' responsibilities. These areas would include reporting responsibilities as they relate to preliminary earnings announcements, press releases, non-GAAP measures, other information contained in SEC filings and the like. The role of the auditor in these areas is not clear and varies in practice.

***OBJECTIVE THREE***

***Assess the changing information security environment and understand the related risks.***

**Comments**

- The PCAOB plan discusses cybersecurity and information-security risks. It is unclear what the PCAOB might do in this area. We note, however, that the changing environment includes not only the impact of newly implemented foreign data protection regulations such as the GDPR. In addition, a broad array of protections has been adopted in each state, many with notification requirements, civil penalties, private rights of action, and even potential criminal sanctions.

***GOAL THREE***

***Enhance transparency and accessibility through proactive stakeholder engagement.***

**Comments**

- Many small investors do not have the time to consider and respond to requests for comment. These smaller investors should be represented in the proposals the PCAOB considers. The state boards are very familiar with this segment of the audit practice, especially since nonissuers later become regulated issuers. In addition, the applicable standards must still be adopted by State Boards.
- NASBA could assist state boards with their ability to address PCAOB matters by having a "permanent observer status" with the PCAOB Standing Advisory Group (SAG).

***OBJECTIVE ONE***

*Improve the timeliness, usefulness, and clarity of PCAOB information.*

**Comments**

- The PCAOB should continue its outreach particularly with audit committees and their national representatives such as the National Association of Corporate Directors.
- The PCAOB should provide periodic communications that are more useful to audit committees and the public. Presently, comparison of the results of inspection reports are the most widely used barometer of audit quality between registered public accounting firms by the public. During its inspection process, the PCAOB gathers many different forms of data. Audit committees and others in the public may also find value in some of this data when considering audit quality

***OBJECTIVE TWO***

*Cultivate effective and dynamic dialogue with stakeholders.*

**Comments**

- Suggest the plan include greater specificity, e.g.:
  - NASBA would welcome the opportunity to continue the historical dialogue with the Board Members of the PCAOB and key staff. The Sarbanes-Oxley Act, as adopted, expressly provided for State Boards as active beneficiaries and even participants in the PCAOB's public protection work. In the past, PCAOB/NASBA meetings have been very productive and have identified opportunities for increased protection of the public interest. We note, that it is not apparent from the PCAOB comments how state regulators may continue as a necessary part of public accounting oversight. State regulation is not mentioned even though there is close interplay of the licensing function with federal regulation of issuers (only licensed CPAs or their foreign equivalents can issue audit reports and registrants must disclose their accounting professionals' states of licensure).
  - The PCAOB should further the collaboration plans with worldwide regulators and standard setters such as the International Organization of Securities Commissions and International Auditing and Assurance Standards Board and the extent of that linkage. However, also take into account the State Boards' roles in standard setting as established in SOX 209.
  - In the U.S. we have a revolving door where private companies go public -- and then sometimes become private. As a result, auditors must perform audits under differing standards between the PCAOB and US Generally Accepted Auditing Standards, and in some cases also under International Auditing Standards. NASBA acknowledges the ability of the PCAOB to set independent standards but would encourage the PCAOB and the Auditing Standards Board to have substantive and regular outreach to minimize the number of differences in Standards.

- The Plan includes a comment that the PCAOB “will reassess our use of advisory groups.” NASBA applauds the PCAOB’s willingness to seek state boards’ unique perspectives in appointments to the SAG, but agrees that both the size and the role of the SAG should be reexamined. The SAG has grown in size to the point that it is hard to manage, with some members having little opportunity for input and others delivering lengthy speeches.

## ***GOAL FOUR***

***Pursue operational excellence through efficient and effective use of our resources, information, and technology.***

### ***OBJECTIVE FOUR***

***Strengthen protection of our sensitive and proprietary data.***

#### **Comments**

The PCAOB should reinforce the integrity of the inspection process by implementing reasonable "revolving door" constraints for PCAOB staff comparable to the limits placed on employment of audit professionals by their clients.

#### **Other Comments**

NASBA notes that 10 years ago the US Treasury Department’s Advisory Committee on the Auditing Profession (ACAP) made several strategic recommendations that were never acted upon by the PCAOB. Among them were:

- Establish a transnational center dedicated to the study of fraud and its prevention and detection.
- Promote opportunities for personnel from smaller audit firms to be appointed to PCAOB committees.
- Greater regulatory cooperation among the PCAOB, SEC, DOJ, state boards and attorneys general with regular and formal roundtable meetings.

This might be a good time to reconsider the ACAP’s suggestions given the PCAOB’s newly refreshed leadership.

Public Company Accounting Oversight Board

William D. Duhnke III, Chairman

September 7, 2018

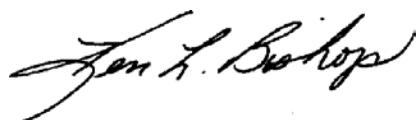
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Again, NASBA appreciates the opportunity to comment on the *Strategic Plan 2018-2022*, and stands ready to assist the PCAOB in developing more effective and efficient public protection through cooperation.

Very truly yours,



Theodore W. Long, Jr., CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO