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July 1, 2016

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW,
Washington, DC 20006-2803

Re: Post-Implementation Review No. 2016-01 *Engagement Quality Review*

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 requiring 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 (AICPA).

The CAQ welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Post-Implementation Review No. 2016-01 *Engagement Quality Review* (the Post-Implementation Review No. 2016-01). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

General Views

The CAQ supports the establishment of the PCAOB's program under which the staff of the PCAOB Center for Economic Analysis (the PCAOB Center) conducts post-implementation reviews of the PCAOB rules and standards. We believe this will be a valuable addition to the Board's due process for standard setting, as it could allow the Board to determine if any clarifications, implementation or more general guidance are needed to supplement its standards. Our letter is focused broadly on the post-implementation review process rather than providing specific comments related to the implementation of Auditing Standard 1220, currently Auditing Standard No. 7, *Engagement Quality Review* (AS 7).

Overall, we support a post-implementation review process that includes: evaluating whether a rule or standard is accomplishing its intended purpose; understanding costs and benefits; identifying unanticipated consequences; obtaining and evaluating input from all stakeholders affected by the standard; and allowing the auditing profession and other stakeholders either engaged in or

benefitting from the financial reporting process an opportunity to inform the PCAOB staff whether rules and standards achieve stated objectives.

We believe that a post-implementation review approach that includes not just public comment feedback but also “analysis of data collected through the PCAOB inspection and enforcement programs, review of relevant academic literature, and focus group meetings to obtain input from interested parties and experts including audit firms, investors, public companies, academics, and other interested groups”¹ could provide a comprehensive feedback mechanism for continuous improvement in the standard-setting and assessment process with respect to AS 7 and other standards in the future. It could also enable the standard-setting process to utilize information gathered through inspection and enforcement to determine if the implementation of the standards has resulted in the advances to audit quality for which the standards were originally issued.

The information on the PCAOB post-implementation review program available on the PCAOB website does not describe subsequent actions the Board intends to take as a result of the process, so it is not clear how the information obtained from the questions raised in the Post-Implementation Review No. 2016-01 are going to be used or what potential resulting actions the Board expects to take. If the goal is to provide clarifying guidance, implementation assistance or supplemental information through Practice Alerts or other forms of guidance (and we would be supportive of this goal), it may be helpful to include more specific questions in future post-implementation reviews.

We appreciate the ongoing commitment of the PCAOB Center’s staff to identify rules and standards that represent candidates for post-implementation review. We also encourage the staff of the PCAOB Center to establish and publish a post-implementation review agenda, similar to the Office of the Chief Auditor’s standard-setting agenda, to alert all relevant parties to Board’s rules and standards identified as potential candidates for future post-implementation reviews. This process would raise the awareness for all participants of the need to collect supporting data and relevant information, and to evaluate their experience with the Board’s rules and standards, in order to be well-positioned to provide meaningful feedback to the PCAOB Center’s staff.

Timing of Post-Implementation Reviews

Recognizing the importance of the post-implementation review program and the need for timely feedback, as well as the fact that the PCAOB Center has only recently been created, we recommend that the Board and the PCAOB Center consider the appropriate timing for conducting its post-implementation review of a standard. For example, the International Auditing and Assurance Standards Board (IAASB) began conducting its post-implementation review of the clarified International Standards on Auditing (ISAs) in 2012, approximately two years after they became effective for audits of financial statements for periods beginning on or after December 15, 2009.² This may be a useful guideline for the Board to consider, recognizing more complex standards may need more time between effective date and post implementation review. This intervening period would also allow the Board to gain inspection experience which is a useful input to a post implementation review.

Economic Analysis

Prior to formation of the PCAOB Center in 2014, the Board’s rules and standards, including AS 7, have not benefitted from an economic analysis undertaken contemporaneously with the standard-setting process. The

¹ Post-Implementation Review No. 2016-01 *Engagement Quality Review*, page 1

² See, IAASB *Plan for a Post-Implementation Review of the Clarified International Standards on Auditing* at http://www.ifac.org/system/files/publications/files/20110926-IAASB-ISA_Implementation_Phase_II%20Plan-FINAL.pdf

economic analysis performed currently includes: a baseline assessment of auditing practices that exist today; an assessment of the need or benefits of a proposal; the envisioned economic impacts of the proposal, including costs and potential unintended consequences; and alternatives considered. Since AS 7 was developed prior to this process, we support a post-implementation analysis of AS 7.

We are also supportive of conducting a post-implementation review of standards subject to a contemporaneous economic analysis, described above. The retrospective review would further inform economic analyses undertaken as part of future rulemaking.³

The CAQ appreciates the opportunity to comment on the Post-Implementation Review No. 2016-01 and would be pleased to discuss our comments or answer any questions that the Board or the staff of the PCAOB Center may have regarding the views expressed in this letter.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

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³ <https://pcaobus.org/EconomicAndRiskAnalysis/CEA/Pages/post-implementation-review.aspx>