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September 15, 2022

By email: comments@pcaobus.org

Office of the Secretary

Public Company Accounting Oversight Board

1666 K Street, NW

Washington, DC 20006-2803

Re: PCAOB Release No. 2022-003, *Draft 2022-2026 PCAOB Strategic Plan*

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs (AICPA). This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ commends the Public Company Accounting Oversight Board (Board or PCAOB) for inviting public comment on its Draft Strategic Plan 2022-2026 (Draft Strategic Plan). We appreciate the opportunity to comment as we have unique insight to the U.S. public company audit profession as a whole. We observe firsthand our member firms' commitment to audit quality and protecting investors.



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Overall Support

We are very supportive of the Board's Draft Strategic Plan. The four goals to: 1) Modernize Standards, 2) Enhance Inspections, 3) Strengthen Enforcement, and 4) Improve Operational Effectiveness are important and will support the Board's mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. We are especially pleased to see the emphasis on stakeholder engagement as an organizational priority and as objectives for certain goals.

We believe the PCAOB is a strong, independent regulator established by the Sarbanes-Oxley Act of 2002. We agree with Chair Williams that since the PCAOB has been in existence, audit quality unquestionably has improved.¹ Establishing the role of Investor Advocate in 2022 is an important step to maintain and expand the PCAOB's engagement with the investor community – a key stakeholder for the Board and audit firms. We also believe that while maintaining the Board's independence from the auditing profession, engaging with practitioners who perform audits is equally important. The Board has a strong history of thoughtful engagement with the CAQ and members of the profession to understand concerns and opportunities for staff guidance or revision to existing standards to improve audit quality. We look forward to continuing this engagement.

Goal 1: Modernize Standards

We strongly support the PCAOB's objective to adopt standards that meaningfully improve audit quality. While we commend the Board for its ambitious standard-setting agenda, we do believe it is of utmost importance to be focused on those projects and standards with a real opportunity to improve audit quality. As such, we are pleased to see that the Draft Strategic Plan acknowledges that the standard-setting agenda is, "...dynamic and will be updated in response to our regulatory activities and engagement with our external stakeholders. We plan to continue to focus on emerging risks and trends, updating our standards as practices in financial reporting and the audit profession evolve."²

We applaud the Board for completing the [Other Auditors project](#), which was approved by the SEC on August 12, 2022. We welcome the opportunity to engage with the Board related to its other standard-setting projects. In particular, we believe the [Quality Control project](#) is of the utmost importance. The Board's thoughtful [2019 Concept Release](#), *Potential Approach to Revisions to PCAOB Quality Control Standards*, was an important first step in modernizing the PCAOB's quality control standards. Significant improvements have been made by other auditing standard setters in relation to requiring firms to establish a more proactive system of quality management. Modernizing PCAOB quality control standards will have a significant and positive impact on audit quality. Many firms, as applicable, are currently implementing the robust requirements of the International Auditing and Assurance Standard Board's (IAASB) quality management standards by their effective date of December 15, 2022. Further, the AICPA has released four new quality management standards, based on the IAASB's quality management standards that are effective December 15, 2025. Therefore, we are very pleased to see the Quality Control project on the short-term standard-setting agenda with a proposal anticipated to be released in 2022. We encourage the Board to continue prioritizing this project.

¹ [A Conversation with PCAOB Chair Erica Williams](#), by Soyoung Ho, Senior Editor, Accounting and Compliance Alert, Thomson Reuters, August 17, 2022.

² Page 8 of the Draft Strategic Plan.



As noted above, we appreciate the Board’s commitment to stakeholder engagement across its goals. As it relates to standard-setting, we believe it is important for stakeholder engagement to be continuous. This is because there is a need for engagement throughout the standard-setting process as well as a standard’s entire lifecycle, not just in the proposal stage when a proposal is subject to the notice-and-comment period. We have found that being able to engage with the Board after a standard is final but before it is effective is helpful for successful implementation. For example, in a previous comment letter to the PCAOB we shared, “The CAQ applauds the PCAOB’s approach in working with the members of the profession, including meeting with CAQ task forces, as doing so allows for an ongoing dialogue on implementation. This dialogue was instrumental in permitting the profession to share specific feedback on unique implementation challenges and enabling the PCAOB staff to provide helpful clarification through guidance about the intent of the standards after they were finalized and before the effective date.”³ In addition, the Board’s post-implementation review aids in evaluating a standard’s effectiveness and the potential need for revision or guidance. While we appreciate the value of the recently re-established advisory groups, given the Board’s ambitious standard-setting agenda, we welcome and encourage continuous engagement at various stages of a project’s life in addition to discussions and recommendations from the PCAOB’s advisory groups.

We agree with the Board’s objective to evaluate developments in data and technology and to continue to assess whether there is a need for guidance, changes to PCAOB standards, or other action. The CAQ has been at the forefront of facilitating the exchange of profession views on how these developments are affecting how audits are carried out, and specific ways auditing standards could be revised to maximize the benefits of technological developments that enhance audit quality. These constantly evolving developments at times raise more questions than answers and guidance or updates to standards could address technology-related matters that could not have been contemplated previously. We welcome future opportunities to share our views with the Board on this topic.

As the Board makes progress on this goal, we encourage consideration of developments in other jurisdictions. While there are unique qualities related to the U.S. capital markets and the audits of U.S. public companies, collaboration among standard setters contributes to audit quality. This is because some commonality among key standards allows for more consistent application of auditing standards by auditors globally.

Goal 2: Enhance Inspections

The PCAOB inspections process is widely and consistently viewed by audit firms and other U.S. capital markets stakeholders as robust. Such inspections have over time enhanced audit quality. We are supportive of the objectives in Goal 2 to enhance inspections. Among the objectives included in this goal, we believe improving the timeliness of inspection reports is the most important. Given the value of the inspections process and the depth of expertise of inspectors, the timely issuance of inspection reports will benefit investors and other stakeholders. Recent changes to the Board’s [inspection reports](#) to include Parts I.A and I.B, which differentiate the nature of findings included in the reports, enhance the readability

³ CAQ [comment letter](#) to the PCAOB in response to Interim Analysis No. 2022-001, Estimates and Specialists Audit Requirements. We shared a similar perspective in this [comment letter](#) to the PCAOB in response to Interim Analysis No. 2020-01, Critical Audit Matter Requirements.



of the reports for stakeholders.⁴ We recognize that such changes take time to implement in a consistent, high-quality manner.

As the Board gains a better understanding of how it can provide meaningful investor protection through the interim inspection program related to audits of brokers and dealers, while avoiding unnecessary burdens on smaller auditors and broker-dealers, we welcome transparency as to the Board's considerations of the scope and other elements of a permanent inspection program.

We are very encouraged by recent developments for the PCAOB to provide guidance of “good practices” in summarizing its inspection findings. Audit procedures often vary based on numerous factors and developing effective audit procedures specific to the company being audited takes time and expertise. Sharing good practices based on inspection experience and data is extremely beneficial as another way of promoting audit quality beyond changes to standards or issuance of guidance.

Goal 3: Strengthen Enforcement

One of the key elements of the PCAOB's effectiveness as a regulator is its authority to enforce its rules and standards. Bringing accountability to bad actors in certain circumstances is important for investor protection and helps distinguish those persons from all the auditors who embrace their professional responsibilities in doing their job every day. Therefore, although it is only one tool in the PCAOB's toolbox, an enforcement program that focuses on those instances where actions warrant enforcement consequences is vitally important for the PCAOB's mission. We believe that the best way for the PCAOB to achieve its enforcement objectives is to take a balanced approach to enforcement, focusing most on actions that truly harm investors or are clear, significant violations of Board rules and standards. To complement such a program, the PCAOB should provide guidance to the profession – in the form of rulemaking, policy, staff guidance and other tools – where the root cause of an enforcement action suggests current rules and standards are not clear or more could be done to help promote more consistent compliance. This balance will protect investors by deterring bad actors while helping to sustain a strong audit profession.

Goal 4: Improve Operational Effectiveness

This is an important goal as people are a crucial resource. It is commendable to consider all the PCAOB has accomplished in its relatively short history. In particular, we observe and appreciate – as part of the objective to Radically Improve the Employee Experience – the Board's intent to “foster a diverse and inclusive workplace culture” among other ways to enhance its employees' experience.

The CAQ and the profession are also committed to fostering a diverse and inclusive workplace culture for accountants and auditors. Talent and the attractiveness of the profession are key to audit quality. In research commissioned by the CAQ to understand the student mindset and perceptions about accounting, we found that 81% of Black and Hispanic students are open to majoring in accounting, yet we continue to

⁴ Part I.A – Deficiencies that were of such significance that the Board believes the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B. - Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.



see fewer students of color pursuing accounting degrees. This year, the CAQ and numerous firms embarked on a [Bold Ambition campaign](#). We are committed to making change and taking action. Through education and action from policymakers, academia, the media, stakeholders, and the public company audit profession itself, Bold Ambition is paving the way for our collective vision of diversity and inclusion to drive better business outcomes. As part of this campaign, we have launched an initiative, [Accounting+](#), as a resource to educate, encourage, and facilitate the adoption of accounting as a career path. Achieving progress on diversity, equity, and inclusion throughout the accounting profession will take the collective efforts of the entire accounting profession. We point this out to the Board to express our support for this goal broadly, and especially as it relates to diversity and inclusion.

The CAQ appreciates the opportunity to comment on the Draft Strategic Plan. We would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter. Please address questions to Vanessa Teitelbaum (vteitelbaum@thecaq.org) or Dennis McGowan (dmcgowan@thecaq.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Vanessa J.", is positioned above the typed name.

Vanessa Teitelbaum, CPA
Senior Director, Professional Practice
Center for Audit Quality

cc:

PCAOB

Erica Y. Williams, Chair
Duane M. DesParte, Board member
Christina Ho, Board member
Kara M. Stein, Board member
Anthony C. Thompson, Board member
Barbara Vanich, Acting Chief Auditor

SEC

Paul Munter, Acting Chief Accountant
Diana Stoltzfus, Deputy Chief Accountant