



PCAOB CONSULTATION 5-YEAR STRATEGIC PLAN 2022-2026

Issued 15 September 2022

ICAEW welcomes the opportunity to comment on the PCAOB's consultation on its Draft 5-year Strategic Plan 2022-2026, published by the PCAOB on 16 August 2022, a copy of which is available from this [link](#).

For questions on this response, please contact our Audit and Assurance Faculty at tdaf@icaew.com quoting REP 70/22.

This response of 15 September 2022 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has around 7,500 members drawn from practising firms and organisations of all sizes in the private and public sectors.

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ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

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Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

MAIN POINTS

1. We welcome this consultation and congratulate the PCAOB on a set of straightforward and coherent goals supported by clear goal objectives. We support wholeheartedly the PCAOB's mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. We also support its vision of leadership, promoting quality auditing through forward-looking, responsive, and innovative oversight. Implemented properly, the PCAOB's strategy will support its mission and vision.

Measuring the achievement of clear objectives to protect investors

2. A lot has happened since the publication of the PCAOB's last strategic plan (2018-2021) but our final comment on the draft of that plan is as relevant now as it was then:
Finally, the PCAOB might consider how it might assess its own performance against this plan....and we encourage the PCAOB to develop a framework for such an assessment, which could and should include asking stakeholders to evaluate the achievement of its goals.
3. For the PCAOB's well thought-out plan to be effective, it needs to consider and demonstrate publicly, how and to what extent it achieves its goals and objectives. It must first set out the evidence it needs to do this, which includes measurable objectives. Technology and data already facilitate the measurement of detailed metrics for operational and other internal purposes. They can also be used to support external reporting of the PCAOB's performance, and to inform investor feedback on the PCAOB's accountability and transparency.
4. The PCAOB's stakeholders understand that any assessment of the achievement of objectives and goals necessarily spans several reporting periods.

Linking inspection, enforcement and the standard-setting agenda

5. Auditing standards do not exist in isolation and the standard-setting agenda must be explicitly grounded in and driven by data from inspection and enforcement to ensure that to the extent possible, auditing standards actually change auditor behaviour.
6. The PCAOB needs to prioritise. Comments made by SEC Chair Gensler at an online event hosted by the Centre for Audit Quality on the occasion of the PCAOB's 20th anniversary, emphasised the need to accelerate work on interim standards. In that context, we emphasise the need for a strong sense of prioritisation. It is always possible to justify spending time on revisiting guidance, but we encourage the PCAOB to exercise discrimination in this area.
7. Standard-setting is a time-consuming and expensive activity. The PCAOB needs to focus on those areas with the maximum payback for the effort involved in selecting projects. Labelling all existing standards that have not been revised as 'interim' standards may be interpreted as meaning they are not fully fit for purpose, or at the very least all in need of updating, neither of which may be true. They are standards adopted by the PCAOB and not yet revised for sound reasons in many cases, and they may not necessarily be out of date, irrelevant or deficient simply because they have not been revised.

SPECIFIC QUESTIONS ON ADDITIONAL OPPORTUNITIES FROM THE REQUEST FOR PUBLIC COMMENT DOCUMENT ACCOMPANYING THE DRAFT STRATEGIC PLAN

1. *Enhancing the PCAOB's role in protecting investors*

Acknowledging the impact of the global reach of US markets on the PCAOB

8. We re-iterate the following point made in our response to the PCAOB on its last strategic plan:

...The PCAOB need not compromise its independence by working with other standard-setters and the profession, as well as investors and the capital markets, to achieve high quality and consistent auditing standards across the world.

9. The PCAOB is a *de facto* global auditing standard setter. Companies listed on the US markets have global operations and it is critical that the auditing standards applied globally protect investors in those companies. The PCAOB rightly exercises a leading role in setting the international auditing standard-setting agenda. A first step towards publicly acknowledging that leadership role involves making reference to the impact of its international engagement globally in its strategic plan.
10. Investors and others represented on the PCAOB's new advisory groups have an important role to play in directing the standard-setting agenda but its investor protection mandate will be even better served with the support of other stakeholders and interested parties, including other audit regulators, standard-setters and professional bodies.
11. Among the specific objectives supporting the PCAOB's first goal of modernizing standards, is robust engagement in dialogue with stakeholders. The PCAOB's stakeholders include other standard-setters. Many standard-setters lack the data and technology available to the PCAOB to ground a prioritised standard-setting agenda in inspection and enforcement, and the PCAOB can and should help shape other standard-setters' agendas.

2. *Anticipating and responding to emerging trends in the auditing profession*

Responding to developments in audit quality indicators (AQIs)

12. A great deal of work is currently being conducted by audit regulators globally on AQIs, with a view to enhancing audit quality through transparency and improving the focus and quality of regulatory inspections. The extent of this work belies a lack of confidence in many constituencies in the capacity of AQIs to deliver these outcomes. Given that work on AQIs commenced in many respects with the PCAOB's ground-breaking work on the subject in 2015, it would be helpful for the PCAOB to explain why this project, and in particular the Concept Release dated 1 July 2015, to which we and many other responded, has not been progressed. It is important that other audit regulators understand the reasons for this and they would benefit from the PCAOB's learnings in this area.
13. The PCAOB has the potential to act as an important centre of gravity in this area. National and regional initiatives may result in unnecessary, unhelpful and misleading reporting of AQIs as well as inconsistency, which cannot be in the interests of auditor or audit regulator efficiency, still less US investors.

Improving standards of auditing

14. Enforcement activities and penalties have a role in improving standards of auditing but only if they are used judiciously, as part of a wider package of measures as a last resort, to avoid perverse and unintended outcomes.
15. There is no demonstrable direct and inverse relationship between audit quality and sanctions. While sanctions hurt auditors, we believe that behavioural change is more directly related to the reputational damage associated with adverse regulatory findings, litigation risk and securities regulation.
16. Under the PCAOB's third goal of strengthening enforcement, one objective is simply to, 'Impose more significant penalties and other relief'. The supporting text notes that:

...The penalties, bars, suspensions, and other relief that the PCAOB pursues through its enforcement actions must protect investors and the public from wrongdoers and incentivize audit firms and professionals to perform their roles with the utmost quality and integrity.
17. We fear that these penalties will not, of themselves, truly protect investors by incentivising auditors to do better, but rather risk driving good auditors out of the profession.
18. To stem a long-term decline in the availability of good quality public company auditors, we believe that the PCAOB and other audit regulators should shift the focus to prevention and remediation, including 'what good looks like'. Sanctions have their place, but that place is not centre-stage, and they must be proportionate.
19. Compliance with auditing standards and other regulatory requirements is important, but non-compliance should not automatically be conflated with more serious misconduct which is less common. Adverse regulatory findings should clearly distinguish between egregious misconduct and non-compliance.

3. Improving the effectiveness of the PCAOB's interaction with external stakeholders

20. The SEC and the PCAOB have complementary roles and it is important for auditors and preparers to understand who is responsible for what. Work currently being undertaken by the SEC on climate disclosures will involve work on internal controls and it will be critical for preparers to understand what is required of them before auditors get involved. Both preparers and auditors need to know what good looks like before the proposals are implemented, to avoid the costs associated with a lack of appropriate guidance on a timely basis.