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September 15, 2022

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

Via Email to comments@pcaobus.org

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

Dear Office of the Secretary:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB's or Board's) Draft 2022-2026 Strategic Plan. We commend the Board for issuing the draft plan for public comment and for the outreach efforts undertaken with many stakeholders during the plan's development. We respectfully submit our comments for the Board's consideration.

Goal one: modernize standards

Standard-setting activities

We support the Board's objective to adopt standards that meaningfully improve audit quality. We note that the Office of the Chief Auditor (OCA) recently published robust standard-setting and research agendas, and we support updating the interim standards to modernize and streamline them. We look forward to the Board's progress and enhancements in this area and encourage the Board to accomplish this objective on a timeline that enables firms to adopt changes in an effective manner. Adequate lead time between adoption and implementation would allow firms to apply the appropriate care and attention to their methodology updates. It would also allow the profession to conduct productive, pre-implementation interactions with the PCAOB staff, similar to those that occurred with the implementation of the auditor reporting standards, to identify implementation questions or challenges. We believe it is essential that the Board remain principles-based in its approach to standard setting in order to continue to allow for flexibility and scalability.

We also encourage the Board to continue to evaluate the work of other standard-setting bodies, such as the International Auditing and Assurance Standards Board (IAASB) and the American Institute of Certified Public Accountants (AICPA), and to look for opportunities to enhance harmonization. We believe the profession would benefit greatly from increased disclosure in rulemaking release documents regarding requirements that are incremental to existing requirements in standards promulgated by the IAASB and AICPA. More detailed discussion where new or revised PCAOB standards deviate from existing standards of other standard setting bodies will enable firms to more efficiently and effectively refine their global methodologies leading to higher audit quality overall.

Finally, we believe the post-implementation review process is an important component to ensuring that new and revised standards have a lasting, positive impact on audit quality. Because the interpretation and application of requirements often evolves over time, we encourage the Board to consider adding longer term post-implementation reviews to its process. We also believe that greater clarity and transparency into the post-implementation review process could help firms improve audit quality, since lessons learned or observations gleaned from post-implementation reviews could be published by the Board.

Stakeholder dialogue

We commend the Board's recent efforts to enhance stakeholder engagement, such as the creation of both the Investor Advisory Group and the Standards and Emerging Issues Advisory Group, as well as the appointment of an Investor Advocate. We look forward to the Board's interactions with these advisory groups and how the insights gained will shape future actions.

Nevertheless, we believe an opportunity exists to further enhance the dialogue between the Board and audit firms to address practical application matters. By fostering direct dialogue with audit firms outside the inspections process, the Board can better evaluate which areas of its standards and rules are either working well or could benefit from enhanced guidance. With this real-time interaction and firm collaboration, coupled with inspection observations, the PCAOB would be positioned to respond timely to practice challenges by issuing interpretative guidance, including examples, or amendments to the standards.

We also ask the Board to consider engaging with audit firms or with the Center for Audit Quality during the exposure period of a proposal to give audit firms the opportunity to provide additional context, such as practical examples, to comments already provided in the comment letters.

Data and technology

We encourage the Board to continue to monitor this evolving topic closely and to be agile in responding to the needs of the profession. We believe that the PCAOB's Data and Technology Task Force will continue to be an excellent resource to the Board. We believe it is important to consider this topic from two perspectives: (a) a client's use of technology and related considerations in an audit, and (b) an auditor's use of technology to perform the audit and obtain audit evidence. We believe addressing

both topics will greatly enhance auditors' understanding and use of technology while keeping them focused on audit quality and the objectives of an audit.

Goal two: enhance inspections

Performing quality inspections

Given the complexities in the current audit environment, we feel that a continued focus on the depth and breadth of the PCAOB staff's experience will help the Board achieve this goal. As discussed further under "Goal four: improve organizational effectiveness" below, the market for talented accounting and auditing professionals remains challenging, as the pipeline of qualified accounting professionals (that is, accounting graduates that are eligible to sit for the CPA exam) continues to decline.¹ Therefore, we believe the Board has appropriately focused on goal four given the connection of that goal to the success of goal two for performing quality inspections.

In recent years, the Board added an element of random selections to its inspections process. We believe this is a positive component of the inspection program, as it adds an element of unpredictability into the inspection process. There is, however, an opportunity to consider whether there are any unintended consequences if there is no flexibility in the engagement selections that are chosen randomly, such as situations in which a randomly selected engagement was inspected recently (for example, the preceding year). In such situations, consideration could be given as to whether an alternative selection may be made.

Transparency in reporting inspection results

We commend the Board for its efforts to date to make inspection reports more relevant and user-friendly. It has been our experience that audit committees and preparers responded positively to the most recent updates. We encourage the Board, when considering whether to include additional data in inspection reports, to contemplate how that data would be used or viewed in the marketplace and whether it is consistent with the Board's objectives in providing such information.

Timeliness of inspection reports

We appreciate and fully support the Board's efforts to provide more timely inspection reports, which would allow for more real-time improvements by audit firms. The environment in which audit firms operate changes quickly, and we believe timing is even more critical in light of certain firms' adoption of International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. ISQM 1 requires a firm to make an assessment about the effectiveness of its system of quality control, and feedback from the inspections process is an important input in the totality of information that firms will use in making their assessments under ISQM 1, the equivalent AICPA quality management standards that will soon be effective, and future PCAOB standards.

¹ The AICPA's ["2021 Trends: A report on accounting education, the CPA exam and public accounting firms' hiring of recent graduates."](#)

Guidance to the audit profession

We support the continued use and timeliness of the PCAOB's "Spotlight" publications. We believe the Board can make such publications even more effective by providing interpretive guidance that gives guiding principles on auditor actions or expected documentation in key audit areas, similar to guidance provided by the Securities and Exchange Commission (SEC) to financial statement preparers. Providing more example-based interpretative guidance and expected audit documentation will help firms enhance their guidance and expectations and promote consistency across the profession.

Firms' remediation efforts

We note that the confidential Part II of the inspection report has not evolved for many years in the same manner as the public portion (Part I) of the inspection report. We believe there is an opportunity to reassess Part II of the inspection report to determine whether it is most effective at communicating current inspection results to firms and facilitating improvements in audit quality.

Similarly, staff guidance publicly available to firms regarding remediation has not been updated in several years. While that guidance may have continuing applicability and relevance, staff evaluations have evolved over time. For example, the profession could benefit from interpretive guidance on the staff's evaluation of firm actions, such as how it considers the strength of actions and examples of different types of actions, as well as how those actions are considered when a criticism may repeat between periods. Further, firms could benefit by understanding the staff's evaluation process so that they have an opportunity to adapt their remediation processes.

Finally, during the 12-month remediation period, firms have the opportunity to engage in significant dialogue with the inspection staff, which is an excellent mechanism for firms to obtain feedback from the PCAOB on its remediation plans. Concurrent evaluation by the PCAOB staff during the 12-month remediation period, with a remediation determination shortly thereafter, could more closely align the remediation determination with the period in which the audits were executed, which would allow audit firms to understand whether their remedial actions were sufficient before another audit cycle is executed, thereby enhancing audit quality.

Goal three: strengthen enforcement

We support the PCAOB's mission to deter improper conduct by addressing violations of PCAOB standards and rules and its coordination with other regulators. We believe an important element of the Board's draft strategic plan should be to continually evaluate the efficiency and effectiveness of the enforcement process. We also believe it is important for the Board to hold professionals accountable, appropriately balancing the enforcement action based on the nature of the misconduct.

We understand the Board's objective of increasing transparency; however, we caution against more frequently naming the issuers or broker-dealers whose audits are implicated in enforcement actions. Unless there is a related SEC action, we are concerned that pulling an entity into the public domain in a negative light could have

unintended consequences when the issue may rest solely with the sufficiency of the audit work and not with the accuracy of the financial statements.

Goal four: improve organizational effectiveness

Employee experience

We fully agree that the recruitment and retention of high-performing individuals is essential to the Board achieving its mission. In the current job market, it is proving difficult to attract and retain qualified individuals. In light of this challenge and in the spirit of innovation, we suggest that the Board consider a rotation program for the OCA, similar to fellowship programs undertaken by the SEC and the Financial Accounting Standards Board (FASB). While we recognize the critical need for the PCAOB's independence from audit firms, we believe the program could be structured in a manner that maintains that independence. Not only could OCA benefit from the insights of individuals with current practice experience, but those individuals would in turn benefit their firms and the profession with the standard-setting knowledge and experience they take back after they complete the fellowship.

Process improvement

As audit firms strive for continuous improvement, we are encouraged that the Board has a similar goal of improving its internal processes. We believe that innovative processes or thinking is critical in enhancing the Board's effectiveness and agility. This goal is also key to successfully achieving the other goals set forth in the draft strategic plan.

Stakeholder engagement

As noted earlier in our letter, we appreciate the progress the Board has made on stakeholder engagement and look forward to seeing the Board continue on that trajectory. We encourage the Board to identify opportunities to expand its interactions with audit committee chairs outside of the inspection process, for example conducting roundtable discussions. While we recognize the inspection process is an efficient way to gain access to these individuals, we believe the Board would benefit from interactions that take place outside the inspection environment.

We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at (404) 475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP