



September 15, 2022

Public Company Accounting Oversight Board
comments@pcaobus.org

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

PCAOB,

CohnReznick appreciates the opportunity to comment on the above-mentioned matter. CohnReznick is the 14th largest accounting firm in the U.S., with its origins dating back to 1919.

We support the PCAOB in its overall mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our response to the exposure draft will give you perspective into the unique impact these changes might have on small and medium size entities and their ability to attract capital.

Our responses to the specific questions the PCAOB is seeking comment are included in the attachment to this letter.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Steven Morrison, Partner, National Director of Audit, at 646-601-7740 or steven.morrison@cohnreznick.com.

Yours truly,

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

OVERALL RESPONSE

We support the development of the proposed PCAOB Strategic Plan 2022-2026 (“Strategic Plan”) and believe that, overall, subject to our comments below, may serve the public interest.

SPECIFIC RESPONSES

Goal 1: Modernize Standards

- **Adopt Standards That Meaningfully Improve Audit Quality and Enhance Our Ability to Enforce the Standards and Inspect for Compliance**

Overall

We concur with the Strategic Plan regarding the PCAOB adopting standards that meaningfully improve audit quality and enhance the PCAOB’s ability to enforce the standards and inspect for compliance.

- **Avoiding a checklist mindset in auditors**
We believe the emphasis on the PCAOB’s overall efforts should be on audit quality and not purely focused on standard setting geared towards enforceability and compliance. Standards that are focused on facilitating enforceability and compliance may have the unintentional effect of creating a purely “checklist” and “inspection readiness” focus, distracting auditors from focusing on quality. Such would not be in the public interest.
- **Focus on areas where there is not as much PCAOB-only**
We believe the PCAOB should first focus its standard setting-related efforts on the areas of greatest risk, with the lowest amount of specific guidance in existence.

We do have concerns around the standard setting agenda’s focus on audit evidence, going concern, the interim standards, and the interim ethical standards as these have already been updated by other standard setters.

Cost-benefit consideration should be given to the PCAOB rewriting already-implemented, and updated, US GAAS. For example, the PCAOB could write a new standard on going concern and not adopt the updates to

AU-C 570 made by SAS 132. However, would the public interest be served by:

- the PCAOB diverting resources from its other functions to write a slightly different standard, and
- Firms expending resources to maintain a separate methodology rather than focusing those resources directly on high-quality audits?

Given the above concerns, we propose an alternative path forward as articulated below.

ALTERNATIVE PATH FORWARD

Consideration

We recommend the PCAOB consider that the dual standard setter structure in the United States creates two issues that could erode audit quality:

- The difficulties encountered and resources used by firms in complying with PCAOB standards, AICPA AU-Cs, and IAASB ISAs. All are high quality standards and are widely accepted (US GAAS audits of financial statements, for example, are accepted by the SEC for filings required by Regulation S-X, Rule 3-05). By having to maintain different or overlapping methodologies, the resources of firms, from staff through partner level, both at the engagement team and in national office level, are pulled away from the pure concept of performing high quality audits.
- The lack of robust collaboration between standard setters (the PCAOB and the AICPA Auditing Standards Board (ASB)) prevents brainstorming and information sharing that would benefit audit quality. Many of the same risks of material misstatement in private companies affect public companies and vice versa.

In order to serve the public interest, we recommend the PCAOB consider:

- (1) converging PCAOB standards with ISA/US GAAS, or even reimplementing updated US GAAS as promulgated by the ASB for the audits of public companies, and
- (2) seeking a board seat on the ASB to maintain appropriate continuing involvement in standard setting and continue serving the public interest by contributing its knowledge and observations to standard setting

Benefits of a Reimplementation of US GAAS for Public Company Audits

Audit quality and the public interest are served by the reimplementation of US GAAS for public company audits for multiple reasons:

- **Robust and focused PCAOB involvement**
The PCAOB would be able to focus its efforts on facilitating audit quality (1) as a board member of the ASB, and (2) having additional resources to use for research, analysis, and other quality-oriented matters, as opposed to the drain on time and resources that occurs by drafting and maintaining standards, many of which are similar to US GAAS in spirit.
- **Updated and fit-for-purpose standards**
Public company audits would gain the benefit of a robust set of updated standards geared for both a US and international environment at a time of growing globalization and cross border financial reporting. Much of US GAAS is fit-for-purpose to audit public entities (and did so for many decades). As such, extensive conforming updates to US GAAS would not be anticipated and SEC independence standards could easily still continue to be applied.
- **Increasing quality time**
Removing time spent by firms of all sizes that expend extensive amounts of time and effort addressing nuanced differences between PCAOB and US GAAS that ultimately are not core to audit quality, thus freeing more resources to facilitate high-quality audits.
- **Increase in talent mobility**
With convergence, or a reimplementation of updated US GAAS, there would be more opportunities for inter-firm mobility and firms serving issuers would be able to recruit talented auditors and train and deploy them more readily. Such would contribute to audit quality, particularly in this era of declining numbers of CPAs.

Additional consideration

- **Quality Management Standards.**
Both the IAASB and ASB have adopted mostly converged quality management standards that are resulting in a robust “fresh look” at, and updates to, many firms’ systems of quality management. This will enable a robust focus on quality management by the firms and others, which is in the public interest. In 2019, the PCOAB issued a Concept Release of a very similar system of “quality management” versus the extant “quality control.” We encourage the PCAOB to continue in the same spirit as in 2019 and adopt a converged quality management model similar to the ASB.

Overall

We believe convergence of PCAOB standards with ISA/US GAAS, or a reimplementation of updated US GAAS, with continuing involvement of the PCAOB as a member of the ASB will improve audit quality and be in the public interest.

- **Engage in Robust Dialogue With Stakeholders**

We concur with the Strategic Plan on the importance of robust dialogue with stakeholders. We encourage the PCAOB to engage in open robust dialogue with the auditing oversight functions of the AICPA and IAASB to gain and share insight into developments in audit quality. An open “two-way street” would serve the public interest overall related to both public and nonpublic entities.

- **Evaluate Developments in Data and Technology**

We concur with the Strategic Plan on the importance of continuing to assess whether there is need for guidance, changes to PCAOB standards, or other action in light of the increased use of technology-based tools by auditors and financial statement preparers. We recommend the PCAOB monitor developments in technology and proactively provide guidance about potential audit risks from the use of technology by auditors and/or financial statement preparers. While detection of audit quality matters in the inspection process is important, we believe proactive advisories will help auditors avoid audit quality deficiencies before they occur, which would be in the public interest.

Goal 2: Enhance Inspections

- **Perform Quality Inspections**

We concur with the Strategic Plan’s intent that the Inspections Quality Group should continue to drive excellence across the PCAOB’s inspections function by assessing the quality, consistency, and efficacy of PCAOB inspections. We emphasize the importance of continuous learning amongst inspectors and also encourage the PCAOB to engage in formal and informal dialogue with the auditing oversight functions of the AICPA and IAASB to gain and share insight into developments in audit quality, all in the interest of serving the public interest.

- **Increase Transparency in Reporting Inspection Results**

We read what is indicated in the Strategic Plan, “Subject to our statutory limitations, we will continue our efforts to make publicly available relevant and reliable information that is useful to our stakeholders. This includes increasing the transparency of our inspection reports.” We note the wording is not especially clear as to what would be more transparent.

We note the PCAOB has made useful revisions to the layout and communication of findings in its inspection reports and find this serves the public interest. We recommend the PCAOB continue to evaluate its report formats and also consider how PCAOB findings are discussed by newspapers and other media. If the context of the PCAOB's findings are not fairly stated, we recommend the PCAOB consider revising its reporting to encourage fair presentation and limit the opportunity for misperception among the public.

- **Improve the Timeliness of Inspection Reports**

We concur with the PCAOB taking additional steps to streamline internal processes to enable more timely issuance of inspection reports. More timely reports will work to serve the public interest by allowing firms to make relevant changes sooner. Also, more timely reports will also free up firm resources sooner to address other evolving elements of audit quality in a timely manner.

- **Deliver Useful Guidance to the Audit Profession**

We concur with the PCAOB plan to publish staff Spotlight reports and other materials that describe observations from its inspection activities, including areas where the PCAOB finds common deficiencies. We also concur with the plan to continue to highlight “good practices” implemented by firms.

We also emphasize the importance of:

- Upfront guidance, particularly with new standards

For example, related to the introduction of critical audit matters in AS 3101, a number of firms have received Part 1b comments as a result of not documenting consideration of “...matters that were communicated to the issuer’s audit committee and that related to accounts or disclosures that were material to the financial statements.” We believe such a widespread finding is indicative of the need of additional upfront guidance. With upfront guidance, including illustrative examples, many of these findings likely would have been avoided as firms could have implemented the granularity of documentation expected by PCAOB inspectors upfront. Such would also free up PCAOB inspectors and firm personnel to address other issues affecting audit quality.

- Additional application guidance

We believe additional application guidance focusing on small and medium size firms working on lesser complex entities will be helpful for all firms in navigating implementation of the proposed standards, particularly in regard to tangential issues that were not the main focus in standard setting.

- **Place Greater Focus on Firms' Remediation Efforts**

We believe the PCAOB should focus on ensuring its focus on firms' remediation efforts is appropriate in the facts and circumstances, as opposed to being a "greater" focus. Not all inspection findings are of equal severity, thus, the focus on remediation efforts should be commensurate with the findings.

Goal 3: Strengthen Enforcement

- **Rigorously Enforce PCAOB and Other Applicable Standards, Laws, and Rules**
- **Impose More Significant Penalties and Other Relief**

We believe the PCAOB should focus on ensuring that enforcement, penalties, and other relief are appropriate in the circumstances, as opposed to being "rigorous" or "significant." Disproportional enforcement, penalties, and other relief may drain resources at the PCAOB and the firms from overall audit quality, which would not be in the public interest.

- **Increase Transparency in Enforcement Actions**

We believe if the PCAOB more frequently names the issuers or broker-dealers whose audits are implicated, there may be unintended consequences and a negative effect on capital markets disproportionate to what is appropriate. We believe the PCAOB should focus on the appropriateness of the level of transparency as opposed to just increasing transparency.

- **Collaborate With Other Regulators to Bring Concurrent Actions**

In the interest of keeping resources at the PCAOB and firms appropriately focused on the public interest and having the capacity to do so, we concur with the Strategic Plan's indication that the PCAOB will continue to coordinate enforcement work with other regulators, both domestic and international, as appropriate.

Goal 4: Improve Organizational Effectiveness

- **Radically Improve the Employee Experience**

We concur with the Strategic Plan that the PCAOB cannot achieve its mission without a talented, experienced, and engaged staff. We also concur that the PCAOB relies on its staff's expertise, skills, and experience to write standards, inspect audit firms, bring enforcement actions, and support the PCAOB's efforts.

We concur with the Strategic Plan that the PCAOB will strive to retain current staff members and attract future employees by increasing employee engagement. We encourage these initiatives to be periodically reevaluated and adjusted to maintain an effective workforce to serve the public interest.

- **Enhance Stakeholder Engagement**

We concur with the Strategic Plan in regard to enhancing stakeholder engagement. We also encourage the PCAOB to engage in open dialogue with the auditing oversight functions of the AICPA and IAASB to gain and share insight into developments in audit quality. Such would serve the public interest.

- **Improve Internal Processes to Make it Easier for PCAOB Staff to Advance the PCAOB's Mission**

We concur with the Strategic Plan in regard to making it easier for the PCAOB staff to advance the PCAOB's mission. We recognize the operability of this will require periodic reassessment and adjustment as markets and the needs of personnel evolve.