



Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Request for Public Comment, Public Company Accounting Oversight Board; Draft 2022-2026 PCAOB Strategic Plan; PCAOB Release No. 2022-003 (August 16, 2022)

Dear Ms. Brown:

The U.S. Chamber's Center for Capital Markets Competitiveness (CCMC) appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") *Draft 2022-2026 PCAOB Strategic Plan* (the "Draft").¹ CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role that external audits play in capital formation, efficient capital markets, and investor protection.

The Draft identifies four goals of the PCAOB for the five-year period 2022-2026: to modernize standards, enhance inspections, strengthen enforcement, and improve organizational effectiveness. Our comments and recommendations relate to each of these goals, but we must first provide background on the PCAOB's long-standing core values and regulatory approach that interplay with the ability of the Board to achieve those goals. In addition to more detailed comments outlined later in this letter, we have two overarching concerns with the Draft of the PCAOB's strategic plans for the next five years: first, the lack of clarity about the PCAOB's core values; and second, the elevation of PCAOB enforcement contravening the supervisory model.

Discussion

Core Values

Core values are the essential principles that define an organization for both employees and stakeholders. The PCAOB's initial five-year strategic plan (2007-2012) identified eight core values: public interest, integrity, excellence, effectiveness and efficiency, fairness, flexibility and innovation, accountability, and teamwork. The PCAOB's initial Strategic Plan defined fairness as:

¹ The CCMC commented on the *PCAOB Draft Strategic Plan for 2018-2022* (PCAOB Release No. 2018-001, August 10, 2018) in a letter to the PCAOB dated September 10, 2018 from the U.S. Chamber of Commerce Center for Capital Markets Competitiveness.

In exercising its regulatory and enforcement authority, the PCAOB is committed to treating registered public accounting firms and associated persons in a fair, impartial and consistent manner.²

The PCAOB has refined these core values over time. For example, the PCAOB's most recent five-year plan (2020-2024) identified the following values: integrity, excellence, effectiveness, collaboration, and accountability.³ In describing integrity in this Strategic Plan, the PCAOB emphasized that:

We engage internally and externally in a manner that is consistent, honest, and fair.⁴

The Board's initial five-year plan, along with all subsequent strategic plans through the most recent one (2020-2024) – 14 five-year strategic plans in all – explicitly identified and described the PCAOB's core values. This has been an important means of communicating to all stakeholders the thinking of the Board. Unfortunately, the current draft fails to articulate a clear statement of core values.

The draft does briefly mention in a section entitled on "Our Vision:"

At all times we will act with integrity; pursue excellence; operate with effectiveness; embrace collaboration, inclusiveness, and respect; and demand accountability.⁵

However, the Draft does not identify any of these attributes as core values or otherwise describe them in further detail. Accordingly, their meaning and significance is unclear. This is important as it has a bearing upon the development and execution of standards, inspection, enforcement, and supervision. For example, the lack of any articulation around integrity may raise questions on the continued treatment of registered public accounting firms and associated persons in a fair, impartial (honest), and consistent manner. With the recent changes in leadership, we respectfully suggest that it is particularly important to communicate to the audit profession and public companies how the PCAOB's core values are defined.

Supervisory Model

The PCAOB was organized and operated under a supervisory model for oversight of registered public accounting firms (and associated persons). For example, the first goal in the PCAOB's initial five-year strategic plan (2007-2012) emphasized this approach, as follows:

*Goal 1: Promote investor confidence in audited financial statements of public companies through an effective use of a **supervisory model of oversight** of registered public accounting firms.⁶ (emphasis added)*

² See *PCAOB Strategic Plan 2007-2012* (May 1, 2017), page 5.

³ See *PCAOB Strategic Plan 2020-2024*, page 5.

⁴ See *PCAOB Strategic Plan 2020-2024*, page 5.

⁵ See *Draft 2022-2026 PCAOB Strategic Plan (August 16, 2022)*, page 3.

⁶ See *PCAOB Strategic Plan (2007-2012)* May 1, 2007, page 8.

The supervisory model gives primacy to the PCAOB’s inspection and standard-setting processes, while not ignoring the role of enforcement.⁷ To illustrate, as founding Board member Kayla Gillan articulated:

*I believe that many of the auditing problems the Board identifies will be dealt with through a combination of inspection reports and standard-setting. However, inevitably, situations will arise in which those tools are inadequate. There will be cases in which there are **serious** violations of Board standards or the securities laws by auditors under our jurisdiction. In those cases, the Board has the power to conduct investigations and to impose disciplinary sanctions, which can include fines, suspensions, and bars from auditing public companies.⁸ (emphasis added)*

CCMC strongly supports a supervisory approach to regulatory oversight of registered public accounting firms. In the twenty years since the passage of the Sarbanes-Oxley Act (“SOX”), this approach, when applied consistently, has improved audit quality. We are concerned that the Board’s plans for a “more assertive approach to bringing enforcement actions,”⁹ in conjunction with other enforcement-related goals and objectives described in the Draft, may indicate an abandonment of the supervisory model. Without any data or public observation by the PCAOB, it is unclear how such a shift can be justified.

These concerns about the elevation of enforcement also intersect with the absence of discussion in the Draft of the PCAOB’s core values, including those related to fairness.

In considering the Draft versus previous PCAOB strategic plans to-date, we hope that this background provides context for our subsequent discussion of the PCAOB’s goals and objectives to modernize standards, enhance inspections, strengthen enforcement, and improve organizational effectiveness.

Modernize Standards

CCMC has and continues to strongly support the PCAOB’s desire to update its standards. This goal is consistent with CCMC recommendations previously made to the Board.¹⁰ As the Draft recognizes, a number of the PCAOB’s existing auditor performance standards, along with its quality control standards, were promulgated by the American Institute of Certified Public Accountants (“AICPA”) before SOX.¹¹

Leverage the Work of Others

⁷ It is worth noting that the Securities and Exchange Commission (“SEC”) has a major role in enforcement with respect to PCAOB registered public accounting firms and associated persons.

⁸ See *PCAOB 2004 Annual Report*, page 17.

⁹ See *Draft 2022-2026 PCAOB Strategic Plan (August 16, 2022)*, page 10.

¹⁰ For example, see letter to the PCAOB dated February 28, 2022 from the U.S. Chamber of Commerce Center for Capital Markets Competitiveness on the PCAOB Request for Comment on *Advisory Groups – Draft Governance Frameworks (PCAOB Release No. 2022-001, January 31, 2022)*.

¹¹ The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”) added broker-dealer audits to the PCAOB’s oversight responsibilities.

The Draft highlights the Board’s May 2022 announcement of its most ambitious standard-setting agendas in the organization’s history.¹² However, since 2002, both the International Auditing and Assurance Standards Board (“IAASB”) and the AICPA’s Auditing Standards Board (“ASB”) have each revised many of their standards or have proposals outstanding to do so. To help the Board achieve this goal, we encourage the PCAOB to leverage the work of the IAASB and ASB as it updates its auditing standards.

To illustrate the importance of this point, one of the PCAOB’s short-term standard-setting projects is on revising its Quality Control standards. Both the IAASB and ASB have already updated their respective quality control standards (known as quality management standards).¹³ Moreover, given an objective of the ASB is to converge its standards with those of the IAASB, the ASB’s quality management standards align with the IAASB’s.

The IAASB (ASB) standards require audit firms to have their systems of quality management designed, tested, and implemented by December 15, 2022 (December 15, 2025). Many PCAOB registered audit firms, particularly global network firms, have already invested substantial time and resources to do so, in order to achieve consistent, compliant, and effective implementation of the IAASB standards world-wide.

We wish to reiterate our continued support for the convergence of auditing standards, particularly for audit firm quality controls. Audit quality will not be well served by inconsistencies or discontinuities in PCAOB quality control standards from the quality management standards of the IAASB and ASB.

Due Process

As the Board attempts to achieve the goal of modernizing its standards and meet its ambitious agenda in support of this goal, CCMC is encouraged that the Board has due process and the need for broad public input top of mind. For example, the Draft describes the Board’s objective to engage in robust dialogue with stakeholders, including through the notice-and-comment process.¹⁴ Below we suggest additional mechanisms for public input as PCAOB standards are reconsidered and proposed, including using roundtables and forming a Business Advisory Group.

Rules versus Principles and Audit Judgment

While expressing our strong support for the PCAOB’s goal of updating its performance standards, CCMC does have concerns. We are particularly concerned about portions of the first objective in the Draft under this goal, which is to:

¹² See *Draft 2022-2026 PCAOB Strategic Plan (August 16, 2022)*, page 7.

¹³ See the Fact Sheets on the *International Standards on Quality Management (ISQM 1 and ISQM 2)*, issued December 2020, on the IAASB website and “New Quality Management Standards Approved by AICPA Auditing Standards Board” in the *Journal of Accountancy* (on-line) (May 12, 2022).

¹⁴ See *Draft 2022-2026 PCAOB Strategic Plan (August 16, 2022)*, page 8.

*Adopt standards that meaningfully improve audit quality and enhance our ability to enforce the standards and inspect for compliance.*¹⁵ (emphasis added)

The PCAOB has failed to articulate *why* it needs to *enhance* the PCAOB’s ability to enforce standards and inspect for compliance. The Board has failed to identify a problem, or problems it is trying to solve. Furthermore, the Draft does not specify how the Board intends to accomplish any such enhancements via standard-setting. For example, is the Board planning on a more prescriptive, rules-based approach to standards that would diminish the role of audit judgment? If so, such an approach seems unlikely to improve audit quality and would likely have unintended consequences.¹⁶ We raise this as an area of concern as previous efforts to escalate inspections lead to a large increase in costs for public companies, without any improvement in audit quality.

Rather, audit quality would seem better served by the PCAOB focusing on other actions. For example, the CCMC has recommended that the PCAOB issue a policy statement on audit judgment and how it evaluates (e.g., in inspections and enforcement) the reasonableness of auditor judgments on both integrated and financial statement-only audits.¹⁷ Further, the PCAOB could develop a consultation process to address practice issues that arise on the application of PCAOB auditing standards, such as the process available through the SEC Office of the Chief Accountant (“OCA”) on accounting and auditor independence matters.¹⁸

In light of these concerns and the Board’s embarkation on an ambitious standard-setting agenda, we believe that it is imperative for the PCAOB to solicit and engage in broad public input to appropriately develop an updated standards regime.

Technology and Transformation

Otherwise, changes have occurred in both the environment and practice of auditing. For example, technology has transformed the audit process, as well as the systems and processes of companies and broker-dealers. Moreover, during the last two years, the pandemic has transformed the nature of work for businesses and auditors alike. CCMC appreciates that the Draft includes an objective that indicates the PCAOB intends to evaluate these developments in data and technology as it modernizes its standards.¹⁹

In this regard, it is also important that the PCAOB engage in activities to ensure that it is on the cutting edge of issue identification and solution development. Accordingly, we reiterate our recommendation that the PCAOB hold a roundtable on audit transformation.²⁰

¹⁵ See the *Draft 2022-2026 PCAOB Strategic Plan (August 16, 2022)*, page 7.

¹⁶ For example, the experiences with the implementation of PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements* (March 9, 2004), come to mind.

¹⁷ For example, see letter to the PCAOB dated September 10, 2018 from the U.S. Chamber of Commerce Center for Capital Markets Competitiveness on the *PCAOB Draft Strategic Plan for 2018-2022 (PCAOB Release No. 2018-001, August 10, 2018)*.

¹⁸ The SEC website, in the section on OCA, describes the OCA consultation process and provides guidance on how the staff evaluates the reasonableness of judgments on accounting and auditor independence matters.

¹⁹ See the *Draft 2022-2026 PCAOB Strategic Plan (August 16, 2022)*, page 8.

²⁰ For example, see letter to the PCAOB dated September 10, 2018 from the U.S. Chamber of Commerce Center for Capital Markets Competitiveness on the *PCAOB Draft Strategic Plan for 2018-2022 (PCAOB Release No. 2018-001, August 10, 2018)*.

This roundtable will allow the PCAOB to better understand how technology is shaping developments in audit practice and the future of work. Such a roundtable and its aftermath will aid the PCAOB in better positioning itself on technology matters in an appropriate and productive manner.

Enhance Inspections

CCMC supports the Board's goal of enhancing inspections by performing quality inspections, increasing transparency in reporting inspection results, improving the timeliness of inspection reports, and delivering useful guidance to the audit profession (including by highlighting "good practices" implemented by some audit firms where deficiencies are not observed). However, we suggest that the objective of placing greater focus on firms' remediation efforts needs additional consideration. Specifically, improving the timeliness of inspection results, as well as improving the Board's determinations of the efficacy of inspected firms' remediation efforts, seem necessary preconditions for placing greater focus on firms' remediation efforts.

Also, CCMC is surprised that the Draft does not include any plans to finalize a regular (permanent) broker-dealer inspection program over the next five years. Since 2011 (after Dodd-Frank extended the PCAOB's inspection authority to certain broker-dealer auditors), the PCAOB has been inspecting broker-dealer audits under an interim program.

Under the interim program, the PCAOB does not issue individual audit firm inspection reports or disclose the names of the inspected audit firms. Rather, the PCAOB provides an annual overall (summary) report. Thus, it is not clear whether the PCAOB has inspected, even once since 2011, all registered accounting firms that only audit broker-dealers (and firms that only audited broker-dealers before deregistering).

Considering more than a decade under an interim inspection program, it would seem that in the next five years, the PCAOB would be adequately informed to develop a regular (permanent) broker-dealer inspection program. CCMC respectfully suggests that the Board add this objective to its strategic plans for 2022-2026.

Strengthen Enforcement

CCMC appreciates that enforcement plays a role in the PCAOB's oversight of registered public accounting firms and associated persons. However, why it needs strengthening with a more assertive approach to bringing enforcement actions, using new (novel) legal theories, and imposing more significant penalties eludes.²¹ These goals and objectives are inconsistent with a supervisory approach to oversight (as previously discussed) and create uncertainty around the standards of conduct for auditors in an already challenging environment. Additionally, elevating PCAOB enforcement in this environment seems akin to a solution in search of a problem with the potential for unintended consequences.

²¹ See *Draft 2022-2026 PCAOB Strategic Plan (August 16, 2022)*, page 10.

For example, excluding the special case of SPAC's,²² the total number of restatements declined by 10 percent in 2021 and the number of unique companies that disclosed a restatement declined by 15 percent.²³ Further, based on the latest (2020) PCAOB inspection reports (released November 1, 2021) for the U.S. affiliates of the six global network firms, the overall percentage of these firms' inspected audits that the PCAOB found deficient declined from 2019 to 2020. Indeed, Part IA inspection deficiencies were record lows for two firms.²⁴

Moreover, attracting and retaining talent, including diverse talent, is a major challenge for the accounting profession, PCAOB registered audit firms, businesses, organizations, and regulators alike. Across the country, many university accounting programs continue to face declining enrollments. As all stakeholders work to enhance the attractiveness of the accounting profession, including public company auditing, it seems antithetical for the PCAOB to be focused on elevating enforcement with a more assertive approach and harsh messaging. CCMC respectfully suggests the PCAOB reconsider this goal.

Improve Organizational Effectiveness

Improving organizational effectiveness seems a reasonable goal for the PCAOB. CCMC is particularly supportive of enhancing stakeholder engagement as part of this goal. In furtherance of this goal and in addition to using roundtables, CCMC encourages the PCAOB to form a Business Advisory Group to understand the role of companies as investors, their use of investments, and the potential impact of PCAOB activities on businesses.²⁵

Public companies (issuers) and broker-dealers are important stakeholders in audit regulation and oversight. Dialogue with a Business Advisory Group would help the PCAOB better appreciate business operations and emerging issues, as well as enhance the development and implementation of PCAOB audit standards and rules and avoid the unintended consequences of PCAOB inspections on businesses.

An example of this recommendation is the dialogue held in 2015 and 2016, that was facilitated between SEC Chief Accountant Jim Schnurr, PCAOB Chair Jim Doty, and the business community. These discussions allowed all parties to address unintended consequences of inspections on matters related to internal control over financial reporting. That process was productive for all parties involved and made the PCAOB a better informed and more effective regulator. We believe that such a permanent dialogue, through a Business Advisory Group, will give the PCAOB a better grasp of issues and help develop PCAOB standards and rules that are targeted to solve real-world problems.

²² To the PCAOB's credit and consistent with the supervisory model, in 2021, the PCAOB used target inspection teams for interim reviews of SPACs and de-SPACs. The PCAOB *Spotlight Observations From the Target Team's 2021 Inspections* (August 2022) includes highlights of good practices observed during these inspections.

²³ See *Audit Analytics 2021 Financial Restatements a Twenty-One-Year Review* (May 2022), page 5.

²⁴ See article on "2020 PCAOB Large Firm Inspection Reports" on auditupdate.com (November 11, 2021).

²⁵ The CCMC has previously suggested the formation of a Business Advisory Group. For example, see letter to the PCAOB dated September 10, 2018 from the U.S. Chamber of Commerce Center for Capital Markets Competitiveness on the *PCAOB Draft Strategic Plan for 2018-2022* (PCAOB Release No. 2018-001, August 10, 2018).

In addition, CCMC suggests that the objectives on enhancing stakeholder engagement be extended to PCAOB collaboration with other regulators and standard-setters, including internationally, to provide perspective on audit-related matters in our U.S. markets. For example, as rule-making and standard-setting proceed on reporting and assurance for climate and other ESG-related matters, audit issues will arise, including on the auditability of the information proposed to be disclosed. We note that the Draft includes plans for the PCAOB to collaborate with other regulators on enforcement,²⁶ and suggest enhancing the scope of the PCAOB's plans for collaboration to other audit-related matters.

Concluding Remarks

In conclusion, CCMC believes that audited financial information is critical for an efficient public capital marketplace that benefits investors, businesses, and other participants. We hope to continue our engagement with the Board to achieve those ends.

Thank you for your consideration. We stand ready to discuss these matters with you further.

Sincerely,

A handwritten signature in black ink, appearing to read 'TK' followed by a long horizontal flourish.

Tom Quadman
Executive Vice President
Center for Capital Markets Competitiveness
U.S. Chamber of Commerce

²⁶ See *Draft 2022-2026 PCAOB Strategic Plan (August 16, 2022)*, page 10.