



CENTER FOR CAPITAL MARKETS
C O M P E T I T I V E N E S S

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September 10, 2018

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

**Re: *PCAOB Draft Strategic Plan 2018-2022* (PCAOB Release No. 2018-001,
August 10, 2018)**

Dear Ms. Brown:

The U. S. Chamber of Commerce (the “Chamber”) created the Center for Capital Markets Competitiveness (“the CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.¹ The 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 CCMC appreciates the opportunity to comment on the Public Company Accounting Oversight Board (“PCAOB” or “Board”) Draft Strategic Plan 2018-2022 (the “Strategic Plan” or “Plan”).

The CCMC is very supportive of the Board’s direction as reflected in the Strategic Plan. Over the past few years, the CCMC has provided perspective on a number of issues related to the Board’s areas of strategic focus.² This letter discusses our perspectives in the context of the PCAOB’s Strategic Plan for 2018-2022.

¹ The Chamber is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information.

² For example, see the attached letters from the CCMC to the Securities and Exchange Commission (“SEC”) dated October 9, 2013 on modernization of financial reporting policies and to the SEC and PCAOB dated May 29, 2015 on issues impacting internal control over financial reporting and audits.

It is important to note that the audit profession is undergoing radical transformation driven by technological changes such as big data, artificial intelligence, machine learning, and blockchain. This technological transformation is making the process of developing and presenting the audit radically different than it has been for the past 120 years. As we have stated in other fora, the PCAOB needs to acquire the expertise and technological capabilities to keep pace with change in the profession. Furthermore, the PCAOB should better understand and modify its approaches to deal with audit transformation.

We also suggest ways to facilitate timely identification and resolution of issues from PCAOB inspections and related matters that are aligned with the PCAOB's strategic focus on strengthening its processes, including economic analysis, and enhancing transparency and accessibility through proactive engagement with stakeholders, and coordination and communication with regulators and standard setters. Specifically, we recommend that the PCAOB:

- 1. Hold a Roundtable on Audit Transformation;**
- 2. Issue a Policy Statement on Audit Judgments;**
- 3. Consider the Impact of Inspections on Businesses;**
- 4. Form a Business Advisory Group and an Audit Advisory Group;**
- 5. Establish a Financial Reporting Forum ("FRF");**
- 6. Work with the SEC and FASB to Consider the Auditability of GAAP;**
- 7. Conduct Both Pre and Post-Implementation Reviews;**
- 8. Continue to Evolve the PCAOB's Approach to Economic Analysis;**
and
- 9. Share Information to Assist in the Deterrence or Detection of Financial Statement Fraud.**

As discussed more fully below, these recommendations will help create dialogue on a continuous basis and promote audit effectiveness, including the appropriate exercise of auditor judgment, to enhance investor protection, capital formation, and competition.

Background

This is the first time the PCAOB has invited public comment on its areas of strategic focus. This invitation is consistent with the Board's commitment to

transparency, collaboration, and stakeholder engagement and communication.³ The CCMC applauds this commitment.

The Strategic Plan articulates the PCAOB's mission, vision, and values; broadly describes the key factors affecting the PCAOB's strategic outlook; identifies the PCAOB's overarching goals; and outlines the objectives the PCAOB will seek to accomplish in support of each goal. The Plan calls for the PCAOB to:

- Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation.
- Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.
- Enhance transparency and accessibility through proactive stakeholder engagement.
- Pursue operational excellence through efficient and effective use of [the PCAOB's] resources, information, and technology.
- Develop, empower, and reward [the PCAOB's] people to achieve our shared goals.

The CCMC believes these are reasonable goals for framing actions by the PCAOB to enhance audit quality. For example, increased transparency should result in the PCAOB sharing more information, including inspection trends and best practices. The Plan also recognizes the importance of audit quality from a global perspective. For example, the Plan indicates that the Board intends to expand the PCAOB's engagement with other audit regulators around the world.⁴ In this regard, the CCMC encourages the PCAOB to enhance coordination with foreign regulators and standard setters to help reduce regulatory discrepancies and friction for multinational public companies.

Recommendations

1. Hold a Roundtable on Audit Transformation

As mentioned earlier, the audit profession is undergoing radical transformation driven by technological changes. This technological evolution is changing the tools and talent used by the profession in developing and executing the audit. Accordingly,

³ See the Strategic Plan, pages 4, 6, and 10 and the May 17, 2018 speech by Chairman William D. Duhnke, "PCAOB Transitions for the Future," at the 2018 Deloitte/University of Kansas Auditing Symposium.

⁴ See Strategic Plan, page 10.

the PCAOB must undergo a similar transformation to be an effective regulator during 2018-2022 and beyond.

Accordingly, we respectfully request that the PCAOB convene a roundtable of all stakeholders to discuss those issues. That discussion will help the PCAOB chart a course in a challenging environment.

2. Issue a Policy Statement on Audit Judgments

The CCMC continues to support the recommendation of the Securities and Exchange Commission (“SEC” or “Commission”) Advisory Committee on Improvements to Financial Reporting (“CIFiR”) that the PCAOB should issue a policy statement on how it evaluates the reasonableness of auditor judgments on both integrated and financial statement-only audits. Specifically, CIFiR recommended that:

[T]he PCAOB develop and articulate guidance related to how the PCAOB, including its inspections and enforcement divisions, would evaluate the reasonableness of judgments made based on PCAOB auditing standards.⁵

CIFiR also stressed that the PCAOB should look to SEC policy in evaluating the appropriateness of accounting judgments as part of an auditor’s compliance with PCAOB auditing standards.⁶

3. Consider the Impact of Inspections on Businesses

The Plan states that the PCAOB will conduct inspection activities to facilitate more timely and relevant feedback to stakeholders, including regularly assessing its inspections approach and the supporting processes and technology.⁷ As part of this assessment, the CCMC urges the PCAOB to consider issues from inspections that impact businesses. The impact of PCAOB inspections on businesses involves both internal control over financial reporting (“ICFR”) and financial reporting.

While ICFR is a recent focus for the CCMC,⁸ financial reporting issues will likewise arise in the future as the PCAOB inspects audit engagements of companies implementing new Generally Accepted Accounting Principles (“GAAP”), including new GAAP for revenue recognition, leases, and credit losses. Addressing issues that arise in the context of ICFR and financial reporting requires that the PCAOB

⁵ See the attached letter from the CCMC to the SEC dated October 9, 2013, page 5.

⁶ See the attached letter from the CCMC to the SEC dated October 9, 2013, page 5.

⁷ See the Strategic Plan, page 7.

⁸ See the attached letter from the CCMC to the SEC and PCAOB dated May 29, 2015.

communicate and coordinate with the SEC and Financial Accounting Standards Board (“FASB”), along with other stakeholders, including companies, auditors, and investors.

4. Form a Business Advisory Group and an Audit Advisory Group

The Strategic Plan affirms the Board will reassess the use of advisory groups to ensure that the PCAOB is receiving timely, relevant, and useful advice.⁹ As part of this reassessment, the 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.

Dialogue with a Business Advisory Group would help the PCAOB better appreciate business operations and the unintended consequences of inspections on businesses, as well as the development and implementation of audit standards.¹⁰ Further, an Audit Advisory Group would more substantively allow the expertise and experience of practicing auditors to inform the PCAOB’s activities and initiatives.¹¹

Consistent with the Board’s strategic commitment to transparency, collaboration, and stakeholder engagement and communication, PCAOB advisory groups should abide by the same rules of procedures as required of regulatory agencies by the Administrative Procedures Act and Federal Advisory Committee Act – and be balanced in presentation and open in process.¹²

As part of the Board’s reassessment of advisory groups, including their structure and membership, the CCMC also suggests the Board address the disconnect between the actual functioning of the Standing Advisory Group (“SAG”) and what is indicated in the PCAOB’s June 30, 2003 Release on *Compliance with Auditing and Related Professional Practice Standards and Advisory Groups* (the “Release”).¹³ For example, the Release calls for the SAG to make written recommendations to the Board (based on a majority voting of SAG members present in person or by video or teleconferencing) in an efficient and speedy manner and present the recommendations, including

⁹ See the Strategic Plan, page 10.

¹⁰ For example, see the attached letters from the CCMC to the SEC dated October 9, 2013 (pages 9 and 10) and to the SEC and PCAOB dated May 29, 2015.

¹¹ See the attached letter from the CCMC to the SEC dated October 9, 2013, page 9. Currently practicing auditors and corporate executives are included among the many members of the PCAOB’s Standing Advisory Group. Representatives from business and practicing auditors with specific expertise have also been included on the two task forces that the PCAOB has formed to date. Neither practicing auditors nor business executives (other than executives from investment funds and investment advisors) are included on the PCAOB’s Investor Advisory Group.

¹² See the attached letter from the CCMC to the SEC dated October 9, 2013, page 9.

¹³ PCAOB Release No. 2003-009 (PCAOB Rulemaking Docket Matter No. 004).

dissenting opinions, to the Board at an open meeting of the Board. This has not occurred. In addition, while the Board determined the first SAG Chair would be the Chief Auditor (a non-voting member of SAG); the Release does not specify whether the Chief Auditor would always serve as the SAG Chair.¹⁴

Finally, the CCMC encourages the Board to include task forces in its reassessment of advisory groups. The CCMC recommends the Board integrate task forces more fully in audit standard setting. This recommendation is consistent with the Release, which contemplates the Board will establish ad hoc task forces (which may or may not consist of SAG members) to assist PCAOB staff with the drafting of technical language.¹⁵ The PCAOB has formed only two task forces, but not to assist in the drafting of auditing standards. This is a missed opportunity for bringing necessary topic-specific expertise to PCAOB audit standard setting.

5. Establish a Financial Reporting Forum (“FRF”)

Another CIFIIR recommendation (that the CCMC supports) was to create an FRF with a mission to identify and propose solutions to problems before they reach the crisis stage.¹⁶ This FRF would consist of the SEC, FASB, PCAOB, financial regulators, investors, and businesses. A FRF would provide a more formal and transparent forum for communication and coordination among the relevant parties to supplement the current approach of informal meetings. The FRF could also address issues involving those that arise from the PCAOB inspection process with an impact on financial reporting and ICFR.

6. Work with the SEC and FASB to Consider the Auditability of GAAP

The Strategic Plan recognizes that the PCAOB’s oversight activities – and inspections in particular – yield a significant amount of data. The Plan calls for the PCAOB to more effectively analyze and communicate these data.¹⁷ As part of this commitment, the CCMC encourages the PCAOB to coordinate and communicate with the SEC and FASB to provide input on the auditability of GAAP in the development of accounting standards and disclosure requirements and provide transparency on this process.¹⁸ Further, formal pre and post-implementation PCAOB reviews can provide an additional source of data to facilitate input on the auditability of GAAP.

¹⁴ See the Release, pages 11 and 12.

¹⁵ See the Release, pages 6 and 7.

¹⁶ See the attached letter from the CCMC to the SEC dated October 9, 2013, page 7.

¹⁷ See the Strategic Plan, page 8.

¹⁸ See the attached letter from the CCMC to the SEC dated October 9, 2013, pages 6 and 7.

7. Conduct Both Pre and Post-Implementation Reviews

One Strategic Plan objective is for the PCAOB to better leverage economic and risk analysis to more effectively set standards, rules, and guidance, including post-implementation reviews of new or amended standards.¹⁹ While the CCMC supports this objective, we are concerned that the Plan does not mention field-testing or other forms of pre-implementation reviews that may identify unintended consequences.²⁰

The CCMC strongly encourages the Board to engage in appropriate and reasonable field-testing before promulgating standards, rules, and guidance, in addition to post-implementation reviews. The SEC's CIFIIR similarly recommended that the PCAOB, as a participant in the financial reporting system, conduct fieldwork, formalize post-adoption review of each significant new standard, and formalize periodic assessments of existing standards to keep them current.²¹

The CCMC appreciates that the PCAOB's inspection process can be a source of evidence supporting new or revised auditing standards, rules, and guidance. However, inspection data are not a substitute for field-testing. We encourage the PCAOB to better tether inspection data to the specifics of each proposal in a transparent way.

The CCMC strongly encourages the PCAOB to develop a timely and robust post-implementation review plan for the PCAOB's new standard on auditor reporting (AS 3101: *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*). This standard represents the most significant change to auditor reporting in the U.S. in 70 years and its implementation merits close monitoring by the PCAOB, as the SEC requires.

For example, the Commission expects the PCAOB to closely monitor the implementation of the auditor reporting standard, issue incremental implementation guidance as needed, provide PCAOB staff to respond to questions and challenges as

¹⁹ See the Strategic Plan, page 7. On April 6, 2016, the PCAOB requested comment on its first post-implementation review. The CCMC provided comments in its letter to the PCAOB dated June 30, 2016 in response to the PCAOB Request for Comment on Post-Implementation Review of Auditing Standard No. 7, *Engagement Quality Review* (April 6, 2016) (Post-Implementation Review No. 2016-01). The results of this post-implementation review are not yet publicly available.

²⁰ While due process through comment letters and other forms of input may provide some insight into unintended consequences of proposed PCAOB standards and rules, these do not substitute for field testing. Further, based on the PCAOB's rules, staff guidance is not required to be subject to the due process of public comment.

²¹ See the attached letter from the CCMC to the SEC dated October 9, 2013, page 6.

they arise, and complete a post-implementation review as soon as reasonably possible, including some analysis between effective dates for critical audit matters (“CAMs”).²² The PCAOB’s near-term monitoring should also consider any unintended consequences from the new standard as part of assessing the costs and benefits of this change.

8. Continue to Evolve the PCAOB’s Approach to Economic Analysis

Related to the PCAOB’s objective to better leverage economic and risk analysis to more effectively set standards, rules, and guidance,²³ the CCMC encourages the PCAOB to strengthen its approach to economic analysis. The CCMC strongly believes in the importance of robust economic analysis before and after promulgating and implementing any standard or rule, to ensure the benefits outweigh the costs and to mitigate any unintended consequences.

The CCMC appreciates that the PCAOB has made progress on economic analysis since the Jumpstart Our Business Startups Act (“JOBS Act”) made it a necessary pre-condition for applying new PCAOB auditing standards and rules to an audit of any emerging growth company (“EGC”).²⁴ However, the PCAOB needs to continue to evolve its approach to economic analysis.²⁵

9. Share Information to Assist in the Deterrence or Detection of Financial Statement Fraud

As previously discussed, the Strategic Plan commits the Board and staff to more effectively analyzing and communicating the significant amount of data PCAOB possesses. The CCMC recommends that the PCAOB do more with the information it has accumulated to identify needs, best practices, and specific actions that it could share with auditors and preparers to assist in the deterrence or detection of financial

²² See SEC Order dated October 23, 2017 *Granting Approval of Proposed Rules on the Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Departures from Unqualified Opinions and Other Reporting Circumstances, and Related Amendments to Auditing Standards* (Release No. 34-81916; File No. PCAOB-2017-01), page 46. The requirements related to CAMs are effective for audits of fiscal years ending on or after June 30, 2019 for large accelerated filers, and for fiscal years ending on or after December 15, 2020 for all other companies to which the requirements apply.

²³ See the Strategic Plan, page 7.

²⁴ For example, see the letter dated March 20, 2014 from the CCMC to the PCAOB on the PCAOB Exposure Draft on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor’s Report of Certain Participants in the Audit* (PCAOB Release No. 2013-009, December 4, 2013; PCAOB Rulemaking Docket Matter No. 029).

²⁵ For example, see the letter dated November 15, 2017 from the CCMC to the PCAOB on the PCAOB Supplemental Request for Comment on *Proposed Amendments Related to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard on Dividing Responsibility for the Audit with Another Accounting Firm* (PCAOB Release No. 2017-005, September 26, 2017) (PCAOB Rulemaking Docket Matter No. 042).

Ms. Phoebe W. Brown
September 10, 2018
Page 9

statement fraud. This recommendation is consistent with the CCMC's belief that all participants in the financial reporting supply chain – particularly the PCAOB – have important roles to play in combating threats to investor confidence in the U.S. capital markets from financial report fraud.²⁶

Conclusion

We believe that the strategic plan comes at an important inflection point for the PCAOB and the audit profession. We believe that the adoptions of these recommendations would make the PCAOB a more effective regulator. These recommendations also seek to improve financial reporting coordination amongst the PCAOB, SEC, and FASB.

Thank you for your consideration of the CCMC's comments and suggestions.

Sincerely,

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

Tom Quaadman

²⁶ See the attached letter from the CCMC to the SEC dated October 9, 2013, page 9. Also, see the recommendation by the Department of the Treasury Advisory Committee on the Auditing Profession urging the SEC (and Congress as appropriate) to provide for the creation by the PCAOB of a national center to facilitate auditing firms' and other market participants' sharing of fraud prevention and detection experiences, practices, and data and innovation in fraud prevention and detection methodologies and technologies, and commission research and other fact-finding regarding fraud prevention and detection, and further the development of best practices regarding fraud prevention and detection (Final Report dated October 6, 2008; page VII:1).