

September 15, 2022

Via email

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

**Reference: PCAOB No. 2022-003, Request for Public Comment – PCAOB Draft Plan 2022-2026**

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB):

The Investor Advisory Group appreciates the opportunity to comment upon the PCAOB's Plan (hereafter "the Plan").<sup>1</sup> We applaud the PCAOB for its process in developing the Plan including its direct consultation with key stakeholders and providing for a period of public comment on the Plan.

While the Plan harmonizes with the overall mission of the PCAOB, it lacks specificity. Its goals are laudable but the document lacks a plan of action for attaining those stated goals, including accountability for achieving them. We view this as the overarching weakness of the entire Plan and urge the Board to increase the Plan's specificity. We recommend the Board consider remaking the Plan into a two-part effort: a broad description of goals, and a plan of action for accomplishing stated goals.

Prior to 2018, the Board had issued more granular plans for comment, and has since moved to a higher-level approach. We understand that the Board is imbuing the Plan with its organizational priorities of investor protection, engagement, and adaptability - but we believe these are overly broad priorities. We do not see an explicit prioritization of the goals that have been set.

Furthermore, while the Plan delineates worthy goals and sets objectives for achieving them, we do not see timelines or milestones within those objectives, and once again, no prioritization of the objectives. To enhance the Board's credibility, and the credibility of the Plan, we believe that establishing milestones and deliverables for both the goals and objectives is essential to achieving measurability and organizational success.

We also note that the Plan mentions the establishment of two advisory groups in connection with engagement, yet the Plan does not mention either of them by name – nor do they appear anywhere in the organization chart. We hope this is an oversight and that both advisory groups have a clear and direct line of engagement with the Board.

**We strongly recommend adding a goal to the Plan: "Increase Total Transparency of the PCAOB's Activities." The Plan mentions transparency only in connection with reporting inspection results and enforcement actions. In many regards, we believe the Board itself needs to be more transparent to investors, the constituency for whom the Board owes its existence. Because of the Board's unique legal stature, it is allowed to operate with relative opaqueness compared to the SEC and the Financial Accounting Standards Board. It is not, however, *required* to operate with such opacity. The actions we hold necessary to increase the Board's transparency are discussed later in our comments. Within our comments, we also recommend another discrete goal: the addition of "Audit Quality Indicators."**

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<sup>1</sup> This letter represents the views of Investor Advisory Group (IAG) and does not necessarily represent the views of its individual members, or the organizations by which they are employed. IAG views are developed by the members of the group independent of the views of the Public Company Accounting Oversight Board and its staff. For more information about the IAG, including a listing of the current member, their bios, and the IAG charter, see <https://pcaobus.org/about/advisory-groups/investor-advisory-group>.

We have reviewed the four stated goals and their associated objectives as described in the Plan:

**Goal 1: Modernize Standards** - Adopt Standards That Meaningfully Improve Audit Quality and Enhance Our Ability to Enforce the Standards and Inspect for Compliance; Engage in Robust Dialogue With Stakeholders; Evaluate Developments in Data and Technology

**Goal 2: Enhance Inspections** - Perform Quality Inspections; Increase Transparency in Reporting Inspection Results; Improve the Timeliness of Inspection Reports; Deliver Useful Guidance to the Audit Profession; Place Greater Focus on Firms' Remediation Efforts

**Goal 3: Strengthen Enforcement** - Rigorously Enforce PCAOB and Other Applicable Standards, Laws, and Rules; Impose More Significant Penalties and Other Relief; Increase Transparency in Enforcement Actions; Collaborate With Other Regulators to Bring Concurrent Actions

**Goal 4: Improve Organizational Effectiveness** - Radically Improve the Employee Experience; Enhance Stakeholder Engagement; Improve Internal Processes to Make It Easier for PCAOB Staff to Advance the PCAOB's Mission

We support the improvements sought in the goals of the Plan and offer the following observations.

#### **Goal 1: Modernize Standards**

***Adopt Standards That Meaningfully Improve Audit Quality and Enhance Our Ability to Enforce the Standards and Inspect for Compliance.*** While it isn't explicitly stated as the Board's top priority, we believe it should be. We know that auditors have been working with long-standing "interim" standards since the PCAOB's inception and their modernization is long overdue – yet there is no timeline or date goal set for their replacement, or even various stages of replacement. Setting dates for completion – and achieving them – establishes accountability for the PCAOB.

We are most curious about the stated objective of improving "audit quality by adopting standards that are clear and scalable, to account for differences in the complexities and sizes of audit firms." We can only infer what is meant by that statement. We harbor concern that instead of issuing effective, robust auditing standards and leaving well-reasoned and supportable judgment to the auditors affected by them, the Board could go down a path of trying to satisfy the most vocal commenting firms by issuing overly prescriptive standards based on audit firm or auditee size.

**Recommendation:** We are concerned that if this scenario develops, it will delay real progress in the swift replacement of interim standards. We recommend that the Board prioritize modernization of interim auditing standards in this five-year plan, with the scalability of standards as a secondary priority.

***Engage in Robust Dialogue With Stakeholders.*** There is little in this objective that is new; in fact, it appears to be only a reiteration of the notice-and-comment process, plus input from the anonymous advisory groups.

**Recommendation:** As mentioned above, we would like to see where our advisory group and the Standards and Emerging Issues Advisory Group fit into the organizational ecosystem. To qualify as "robust dialogue with stakeholders," we believe more planned activities are needed than the Plan presents. Most notably, engagement should include direct Board member engagement with investors, including institutional investors who are participants in the corporate governance process through proxy voting.

***Evaluate Developments in Data and Technology.*** Again, we support the objective, but there is no way for this advisory group or investors in general to evaluate the evaluation. There is no reporting of these developments and evaluations to investors, and it appears that the work will be done by "internal teams and external experts when developing thought leadership on the impact of emerging technologies on audit quality."

**Recommendation:** We find this to be a vague and amorphous objective, and we recommend that a working group be established, including investors and auditors, to assess data and technology developments affecting audit quality. The work of this group should be publicly available, as it should be for all PCAOB working groups and advisory committees.

**Goal 2: Enhance Inspections**

***Perform Quality Inspections.*** We certainly support this objective and find that it is not different from the PCAOB's past mission or efforts.

***Increase Transparency in Reporting Inspection Results.*** We welcome this objective; investors have expected more details in the reporting of inspection results for years. Once again, however, there is no timeline outlined for this objective, nor an anticipated date upon which increased transparency can be expected.

**Recommendation:** We recommend that the discipline of setting milestone timelines for increasing transparency of reporting inspection results be embedded in the Plan.

***Improve the Timeliness of Inspection Reports.*** This is another aspect of increasing transparency in reporting inspection results, and we support it.

**Recommendation:** While we would not expect the improvement in timeliness to be explicitly stated in the Plan, we recommend that the discipline of setting milestone timelines for achieving the improvement should be a part of the Plan.

***Deliver Useful Guidance to the Audit Profession.*** We commend the Board on its objective of including the delivery of useful guidance to the audit profession in the Plan through its Spotlight reports and other materials, we understand that highlighting "good practices" is a valid offset to the criticisms the Board frequently receives as being an overly negative regulator.

**Recommendation:** We suggest another way to deliver guidance to the audit profession that would be useful, objective, and unbiased: the development and establishment of audit quality indicators (AQI), at the audited company level, audit firm office level, and the audit firm level. AQIs would provide important feedback to auditing firms on how well they are managing their duties to their true clients: investors. It would provide the same information and feedback to investors so they can make more informed decisions about the continuation of auditors' services. We strongly urge the Board to include the development of AQIs as a dedicated goal within the Plan. AQI development has been percolating within the PCAOB for the better part of a decade, and risks becoming the kick-the-can companion project to replacement of interim auditing standards. If the budgetary constraints or lack of funding are impediments to completing the project, the PCAOB should petition for a budget increase, or at least for a project-specific allotment.

***Place Greater Focus on Firms' Remediation Efforts.*** We commend the Board on this objective, particularly in the last sentence of the objective: "Consistent with the requirements of the Sarbanes-Oxley Act, we will publish all quality control criticisms that the firms have not remediated to the Board's satisfaction within the required time period." Investors need to know how seriously auditors view the PCAOB's findings, and they need to know them as soon as possible before the next audit is completed – or the next proxy vote on approval of the auditor takes place.

**Recommendation:** The objective does not state any intended acceleration of the transparency surrounding the remediation process, and we recommend setting one - and making it happen. This is our most consistently pervasive problem with the Plan: there's no goal set for the timing of the improvement. When does the Board expect to implement this focus? Investors would benefit from this information and would like the Board to be accountable for the goal they have set for themselves.

**Goal 3: Strengthen Enforcement**

***Rigorously Enforce PCAOB and Other Applicable Standards, Laws, and Rules.***

***Impose More Significant Penalties and Other Relief.***

***Increase Transparency in Enforcement Actions.***

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

We support the Board's inclusion of all four of these objectives, as stated. In fact, these objectives are the most granular steps outlined in the Plan, though they are still vague and general – and without milestones or timelines.

**Goal 4: Improve Organizational Effectiveness**

**Radically Improve the Employee Experience.** We realize that talent is a scarce commodity these days, and the competition for accounting and auditing talent can be fierce. We commend the Board for recognizing that their greatest asset walks out the door every night (or turns off their computer, if working from home) and that effort is needed to retain those assets.

**Recommendation:** As has been the case for the entire Plan, the goal is laudable, but the steps to achieve it are lacking. How does the Board “radically improve” the employee experience – is it done with additional compensation? Training? Flexible working hours? Employee swap programs with other regulators like the SEC? Does the Board intend to engage human resource consultants to develop plans for improving the employee experience and retaining the best people? Our recommendation is not specific in itself – it is to devise a coherent plan for achieving the stated goal.

**Enhance Stakeholder Engagement.** We also laud the Board for re-establishing the PCAOB advisory groups, and the establishment of an Investor Advocate. As a group, we are eager to be playing a part in the PCAOB’s renaissance and are most interested in the Board’s “plan to consider new ways to provide investors with user-friendly data and information regarding our regulatory activities.” We find this objective to be vague, however.

**Recommendation:** We recommend making stakeholder engagement measurable and reportable. This can be done, at the very least, by increasing the transparency of the meetings with stakeholders. The accounting for the number of such engagements could be monitored by the Board to see if they are increasing stakeholder engagement. Otherwise, it would be hard to measure progress in that effort. We stand ready to supply the Board with ideas for user-friendly data and information to provide investors. For one example, see our comments above on audit quality indicators.

**Improve Internal Processes to Make It Easier for PCAOB Staff to Advance the PCAOB’s Mission.** We commend the Board in recognizing that it needs to implement changes to better utilize its staff. We support the Board’s inclusion of this objective, but we question how progress towards its execution can be measured or monitored.

**Recommendation:** We suggest that the Board engage outside consultants to objectively evaluate the PCAOB’s internal processes. Engaging outsiders would free up the PCAOB resources that might be used for such a project and would also be more likely to assure its timely completion.

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Apart from the above observations about the Plan, we recommend the Board establish a separate goal for increasing the transparency of its own activities. Transparency matters towards accountability; as we have observed throughout our comments, there is a lack of transparency regarding the timetables for achieving goals and the steps required to meet them. Aside from recommending establishment of these timetables and holding the Board accountable for achieving them, we urge the Board to adopt these recommendations for achieving transparency:

**1. Issuance of an annual survey on the standard setting priorities of the PCAOB, open to the public, and including a ranking by priority of open projects.** Annually, we recommend that the PCAOB solicit from the public, including auditors and investors, their views on the work and projects of the PCAOB. The findings should be made public after their compilation. This feedback would help the Board in setting priorities and would be a form of outreach to all its stakeholders. It is an approach which has worked successfully for other standard-setters in the past.

**2. Annual ranking/prioritization of open projects by individual PCAOB members and the Chief Auditor.** The survey above should also be completed by the Board and the Chief Auditor to help focus members on priorities and allocation of its resources. It would also make clear the priorities of the individual members to the public. Requiring these parties to focus on, identify, and justify their top standard setting priorities publicly creates a level of transparency about individual board member views that has generally been absent throughout the entire history of the PCAOB.

**3. Annual ranking/prioritization of open projects by IAG and the Standards and Emerging Issues Advisory Group (SEIAG).** Coming from the IAG and the SEIAG, a comparison of their response to the same ranking done by the Board members could highlight crucial differences and views on how the PCAOB should be allocating resources.

**4. The IAG should deliver an Annual Performance Review on the activities of the PCAOB.** We support the establishment of a PCAOB Task Force to assist the IAG in the implementation and public disclosure of an annual performance review from the IAG that evaluates, based on established criteria, the Board’s performance and accomplishments on each of its statutorily mandated duties.

**5. Delivery of the annual budget and financials to the public.** Without knowledge of the Board’s total available resources, it is not effective to simply look at its output or progress. The IAG would like to assess the Board’s effectiveness, but it needs to assess its effectiveness in terms of the PCAOB’s available resources. The Board is committed to transparency; this is one way to increase it.

**6. Publish the calendar of the each of the Board members and the Chief Auditor on the PCAOB website.** Again, the Board is committed to increasing transparency. Past problems might have been avoided if there had been more sunlight on the activities of certain Board members, yet there has not been any movement to prevent recurrences of bad behavior. The SEC displays the calendars of its commissioners on the SEC website. Incongruously, the members of the PCAOB, overseen by the SEC, do not have the same level of sunshine on their activities.

**7. Make all advisory group meetings public, including minutes.** The recommendation is self-explanatory. How can organizational transparency be achieved if there’s no record of the activities? Making these meetings public and keeping records of their activities would make the work of the PCAOB more widely known.

**8. Make public all third-party communications, including concerns, requests and comments sent to PCAOB members and staff.** There is no requirement for the PCAOB to make such communications available, as it does not operate under the rules of the Sunshine Act, the Freedom of Information Act or the Administrative Procedure Act. That doesn’t mean they *cannot* publish this information, and it would provide assurance that the Board is engaging with all stakeholders properly.

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We remind the Board that the views expressed in this letter are solely those of the Investor Advisory Group members who prepared them and do not necessarily reflect the views of the PCAOB, the PCAOB staff, the members of the Board, or the Board’s staff. Those views do not necessarily represent the views of its individual members, or the organizations by which they are employed.

If you, any members of the Board, or your staff have questions or seek further elaboration of our views, please contact Amy McGarrity at [amcgarrity@copera.org](mailto:amcgarrity@copera.org).

Sincerely,

*Members of the IAG*