



September 10, 2018

Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666K Street NW,
Washington, D.C. 20006-2803

Subject: No. 2018-001, PCAOB Draft Strategic Plan 2018-2022

Submitted via comments@pcaobus.org

Dear Ms. Brown:

This letter is being submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Public Company Accounting Oversight Board's (PCAOB) request for comment on their *PCAOB Draft Strategic Plan 2018-2022*.

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI that reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CCR member companies represent approximately \$8.6 trillion in market capitalization and actively monitor the regulatory activities of the PCAOB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

CCR commends the PCAOB for its thoughtful approach in developing its 2018-2022 strategic plan. We believe the Board's divergence from a historically inward-facing approach to one that relies heavily on feedback from external stakeholders is a meaningful step forward in continuing to improve the Board's oversight activities and operations. By incorporating external feedback into the process, we believe the PCAOB will be better positioned to address the most relevant issues and challenges auditors and the recipients of their services face. We believe this will also help achieve better alignment with the matters most relevant to protecting investors and the public interest.

CCR as a committee, as well as many of its individual member companies, participated in the PCAOB's public survey process conducted by the National Academy of Public Administration earlier this year to



provide feedback on the Board's strategic priorities. We appreciate the opportunity to be a part of the feedback process and are prepared to engage with the Board as it continues to advance its oversight activities.

CCR appreciates the opportunity to comment and believes the Board's first request for comment on its strategic plan is a significant step toward building greater trust and transparency among the PCAOB and its many stakeholders. We are overall supportive of the strategic plan, and offer additional considerations, as described below.

Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence and remediation (*Goal One*)

Reassessing the inspections approach and suggested improvements

As recipients of audit services, we indirectly experience the effects of the inspections process on the audit profession. It is our experience that the degree to which this process impacts issuers has continued to increase over the years, causing some companies to change their internal operations, incur additional compliance costs and to deploy resources beyond what management may ordinarily deem necessary in order to satisfy auditor requests. Thus it is our observation that the audit and the inspection process have lost focus, expending more effort on compliance-based issues and less effort on the greatest risks to financial misstatement. We believe there is a significant need to refocus on the objectives of specific auditing standards and the objectives of the inspection process. Therefore CCR is supportive of the PCAOB's first strategic goal and its objective to regularly assess the PCAOB's inspections approach and to leverage more robust economic, risk and data analysis to help drive the scoping and execution of inspections. To this end, we recommend the Board reassess the nature and level of understanding its inspectors obtain of the issuer's business that is the subject of the audit being inspected. This knowledge is imperative to identifying the risks that should be at the center of the inspection process. It seems there is a disproportionate number of inspections findings related to the documentation and extent of audit procedures, compared to the number of findings related to the misstatement of the financial statements. Therefore by placing greater emphasis on the areas of greatest risk, specific to the business, we would expect the extent of inspection efforts to become more commensurate with the risk of material misstatement to the financial statements.

Additionally, though we are not involved in the inspection process, we observe the significant pressure that is placed on the audit partner and the engagement team during an inspection and the tensions that rise between the auditors and the inspector. We would like to see the inspection process move to a more balanced tone that focuses on the over-arching objectives versus exacting technical compliance. One way to achieve this would be to adopt an approach that promotes open dialogue around areas involving significant judgment, allowing more room for consideration of reasoned judgments.



Communicating inspection results

The Board's first strategic goal also addresses the importance of providing timely and relevant feedback from its inspection activities. We fully support any efforts to continue to improve communication around the inspection findings, particularly because we experience the effect of those findings via changes in our auditors' approach, questions, requests for documentation, etc. While we recognize inspection results are made publically available, inspection results may vary by firm and are often communicated to the issuer at the engagement level. This often results in inconsistent and delayed communication. Further, the inspection results often yield additional audit effort, yet there is no communication of the implications the findings may have on issuers and what, if anything, issuers should be considering around these areas. For example, management review controls and the data relied upon to perform a control are two areas over which auditors' expectations continue to compound in response to the inspections process. Meanwhile issuers have little to no guidance on these areas within the SEC management guidance or within the COSO 2013 Internal Control Framework. Though it would not address the lack of guidance available to issuers, we do believe that both auditors, and subsequently issuers, would benefit from an approach in which the PCAOB proactively engages in more direct discussions with the firms on areas of improvement to enhance audit quality. Similarly, given the current disparity in how auditor requirements evolve and the lack of guidance available to issuers, the Board may also wish to consider whether a mechanism (which could be modeled after other standard setters, e.g. the Financial Accounting Standards Board's Emerging Issues Task Force) is needed by which resulting issues could be more directly evaluated.

Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities (Goal Two)

CCR is supportive of the PCAOB's second strategic goal to be a regulator that is responsive to the changing audit environment. The accounting and finance function, and our world at large, is inundated with emerging technologies and innovative solutions that continue to change the nature of our day-to-day roles and responsibilities and how we execute them. Therefore we commend the Board for including an emphasis on emerging technology and its implication on the quality of audit services. Audit firms have already made significant investments and progress to incorporate the use of smart technologies into the audit, often resulting in more efficient audits and in some cases, a change from sample-based testing to testing one hundred percent coverage. It is clear to us how technologies such as robotics and AI can lead to efficiencies, but we believe the purpose of using these technologies must also be to improve the effectiveness of the audit. Technology should not be used for technology's sake; it should be used in a value-added way. Further, it is critical to consider not only the auditor's use of technology, but also how the information prepared by the issuer may be changing as a result of technology and any resulting impact on the auditor's approach, including its risk assessment. Thus we



believe there are pertinent considerations to monitor as the audit continues to evolve through the use of emerging technologies. While we do not believe these changes necessitate significant additional standard setting, we do recognize it may be needed in some cases. We also believe that current audit standards should enable auditors to flex to the changing environment, as appropriate and that the impact of technology is an additional consideration in the inspection process.

We also agree with the PCAOB's objective to better understand investors' expectations of an audit, particularly in light of the evolving forms by which investors are requesting information, and issuers are providing it. Though the PCAOB's mission is to oversee the audits of public companies and SEC-registered brokers and dealers in order to protect investors and the public interest, we believe this objective should also include an emphasis on understanding issuers' expectations for the audit. The investor is reliant on the reports prepared by issuers and therefore excluding specific reference to the issuer community excludes a significant party in the process. As issuers, we understand and appreciate the importance of a high quality audits and we have insights and feedback to offer that can contribute to the Board's goals.

Enhance transparency and accessibility through proactive stakeholder engagement (Goal Three)

We appreciate the importance of sharing relevant information in a clear and timely manner and applaud the Board's commitment to improving the process of how, when and what is communicated to its stakeholders. A component of these efforts is considering engagement with advisory groups. Many of us either currently serve, or have served in the past, on the Board's Standing Advisory Group (SAG). Therefore we know firsthand the value this group and others like it can have in building transparency and providing accessibility to stakeholders. As a best practice to ensure the continuing quality of the group and its purpose, we recommend the Board continue performing effectiveness reviews of the SAG and include public input in the process. This should include ensuring that SAG members represent a variety of stakeholders and perspectives, with an emphasis on seeking objective feedback.

The U.S. has the most developed regulatory system in the world and our thorough and exacting regulatory philosophy which demands absolute compliance with standards is not broadly shared in all jurisdictions. Thus as the Board engages with international regulators and standard setters as part of its efforts to cultivate effective and dynamic dialogue, it is pertinent that the Board appropriately consider this key difference and the potential impact it may have when drawing any comparisons between, or conclusions from, experiences in other jurisdictions. How standards and/or regulations are implemented in other jurisdictions may not be representative of how they would be implemented in the U.S. Further, it is our experience that in some circumstances, such as with standards related to the auditor's reporting model, international engagement has injected competition into the standard setting process. The result of which was insufficient due process to assess whether a solution is fully fit-for-use in the U.S. environment. Therefore while we do support the suggested expanded outreach and



appreciate the potential added perspectives, insights and consistencies that can be gained as a result, we believe that any expanded outreach should be grounded in an understanding of the different regulatory environments that exist in the U.S. and abroad and we urge the Board to proceed with these considerations in mind.

Pursue operational excellence through efficient and effective use of our resources, information and technology (Goal Four) / Develop, empower, and reward our people to achieve our shared goals (Goal Five)

We also commend the Board for its final goals that focus on improving the PCAOB's internal processes and the development of its people. We fully support and acknowledge the importance of such priorities in promoting an internal culture that is aligned to the strategic initiatives of the organization.

Conclusion

We applaud the PCAOB for seeking external feedback and for acknowledging the benefits of doing so. We support the goals outlined in the plan and their accompanying objectives and believe they are conducive to continuing to improve and enhance the activities of the PCAOB. We hope that you consider our additional recommendations. We stand ready to assist in continued dialogue on this topic.

Sincerely,

Mick Homan

Mick Homan
Chairman, Committee on Corporate Reporting
Financial Executives International