



September 7, 2018

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

RSM US LLP

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

Dear Office of the Secretary:

RSM US LLP appreciates the opportunity to offer our comments on the *PCAOB Draft Strategic Plan 2018-2022*. RSM US LLP is a registered public accounting firm serving middle-market issuers, brokers and dealers.

We are pleased that the PCAOB elected to seek feedback from outside the organization during the strategic planning process. This clearly demonstrates your commitment to working with those who seek to continuously improve the state of audit quality. The input received from your stakeholders was essential in identifying the key factors affecting your strategic outlook, which, in our view, are important considerations in the strategic planning process.

Given the changes and advancements in the audit profession, we appreciate that you are willing to reassess your approach to oversight and to seek the most efficient and effective means to accomplish your mission. We are supportive of the goals expressed in the draft strategic plan as we believe, when accomplished, they will help to advance the PCAOB's mission to protect investors and further the public interest in the preparation of informative, accurate and independent audit reports that are supported by well-designed and well-executed audits. Our letter further comments on each of the first three goals identified in the draft strategic plan.

**Goal one: Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence and remediation**

*Inspection activities to facilitate more timely and relevant feedback*

We agree that driving continuous improvement in the quality of audit services will require PCAOB oversight that is focused on both detecting audit deficiencies and preventing them from occurring. While still holding auditors accountable to protect the interests of investors, it would be helpful if the PCAOB would work with auditors in a more proactive and educational manner (e.g., to achieve a common interpretation of the standards through responses to questions, training, etc.). By being more proactive and through outreach, the PCAOB could help narrow expectation gaps that exist between inspectors and auditors.

We also agree with the objective of conducting inspection activities to facilitate more timely feedback. Public PCAOB inspection reports often have been released more than two years after the beginning of the calendar year-end under inspection, which is indicative of the lengthy process for communication and resolution of findings with audit firms internally.

Additionally, it would be beneficial if inspection-related communications provided best practices to enable improvements in audit quality. The current inspection focuses on reporting or stating areas for

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improvement, without also providing feedback on what would be an acceptable approach. Providing best practices on what is observed through inspection as high audit quality or how challenging areas are well addressed would be beneficial in (a) reducing expectations gaps between the inspectors and the auditors and (b) providing clarity to the preparer and investor community regarding the meaning of the published inspection results.

#### *Indicators of audit quality*

With respect to the development of audit quality indicators, we are encouraged that the PCAOB plans to work collaboratively with those who conduct research on the quality of audit services. As you analyze data to further identify factors that correlate with the quality of audit services, we encourage flexibility in audit quality indicators so as to accommodate the size of the audit firm and the unique needs of data users. Prior to communicating indicators of audit quality, we encourage further engagement and dialogue with stakeholders, including audit committee members of both large multinational corporations and smaller reporting companies.

In addition, it would be beneficial if the PCAOB could define audit quality more clearly. This could be especially helpful to investors and others when reading about PCAOB inspection results. Part I of the PCAOB inspection report does not differentiate between (a) a failed audit with numerous problems and (b) an audit that was well executed, but had one area that was not.

#### **Goal two: Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities**

We are pleased that the PCAOB's objectives include assessing and addressing the impact of emerging technologies on the quality of audit services. Innovation and data analytics provide a significant opportunity for both the preparer community and audits of the future (e.g., the ability to analyze data and evaluate exceptions). However, the use of many of these tools and techniques both in the preparation and auditing of financial information does not currently align neatly within the existing audit standards related to audit evidence and further audit procedures, including audit sampling and substantive analytical procedures. There also may be challenges with the reperformance standard due to the electronic nature of both entity information and audit evidence.

We encourage the PCAOB to dialogue with the preparer community and the profession about standard setting related to these matters in a transparent manner. We also encourage the PCAOB to work collaboratively across the Office of the Chief Auditor and the Division of Inspections to explore and clarify expectations around audit evidence and documentation. The sharing of key learning from PCAOB research would allow auditors to build that knowledge into their response to audit risks and better protect investors through the audit process.

#### **Goal three: Enhance transparency and accessibility through proactive stakeholder engagement**

##### *Timeliness, usefulness and clarity of PCAOB information*

The PCAOB has raised the bar on audit quality for the profession. There is no doubt that every inspected firm has improved its training, systems of quality inspection, policies and procedures and internal guidance in response to findings from PCAOB inspections. However, it can be argued that the inspection process and reporting make it difficult for the capital markets and financial statement users to accurately assess audit quality.

The most promising opportunities to enhance the PCAOB's relevance are rooted in the provision of meaningful inspection reports that are representative of audit quality. We urge the PCAOB to consider more outreach to determine inspection reporting that is useful to both Wall Street and Main Street

investors. We also encourage the PCAOB to evaluate its inspection reporting in relation to audit regulators in other jurisdictions to ensure investors are able to fairly assess the strength of audit quality in U.S. capital markets relative to other capital markets in the world.

*Effective dialogue with stakeholders*

With respect to the establishment of auditing and related standards, we believe it would be helpful to involve current audit practitioners in the drafting of standards as auditors have experience in implementing standards and can identify areas where additional guidance would be helpful before a new standard is issued. We also encourage targeted timely outreach to those impacted by the implementation of a new standard, including both preparers and auditors, about whether a standard is operational (i.e., is it understandable and are auditors able to apply the standard as intended or is more guidance necessary). Further, auditors would benefit from the PCAOB publicly articulating its views on interpretations and implementation of standards through thoughtful, expanded thought leadership.

Because of its mandate, the focus of the PCAOB has been on the auditor. While this is good, we believe more focus could be placed on the audit committee and tone at the top of the issuer as it is helpful for auditors, and ultimately for investors, when the issuer cares as much about quality as we do. The PCAOB could interact with and educate audit committee members as to how they can most effectively discharge their responsibilities for the best interests of the investors. Consideration could be given to partnering with other external organizations, such as the National Association of Corporate Directors, to provide value in this area.

We would be pleased to respond to any questions the Board or its staff may have about our comments. Please direct any questions to Joe Adams, Managing Partner and CEO, at 847.413.6215.

Sincerely,

*RSM US LLP*

RSM US LLP