



## PCAOB DRAFT STRATEGIC PLAN 2018 - 2022

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ICAEW welcomes the opportunity to comment on the Draft Strategic Plan published by PCAOB on 10 August 2018, a copy of which is available from this [link](#).

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## KEY POINTS

### Overarching points

1. ICAEW welcomes the opportunity to comment on the PCAOB's strategic plan. ICAEW is actively engaged in all of the areas covered by the PCAOB's goals. Audit quality, technology, stakeholder engagement, operational excellence and people issues are key strategic areas of relevance to professional accountancy organisations, as well as oversight and inspection bodies and audit standard-setters, globally. The challenges we all face are similar, and we are keen to continue our engagement with the PCAOB as it develops its thinking in these areas. The PCAOB need not compromise its independence by working with other standard-setters and the profession, as well as investors and the capital markets, to achieve high quality and consistent auditing standards across the world.
2. The PCAOB faces significant risks. Recent experience in the UK and South Africa, for example, reminds us that even highly respected audit regimes can suddenly find themselves subject to intense critical scrutiny and so need to be able to demonstrate that they really have been focussed on the key issues. The separate and combined effectiveness of the PCAOB's various roles and, its processes and funding, can all be called into question. All audit regulators are vulnerable, particularly in the current climate, to political pressure, and to events outside their control. For these reasons alone, strategic direction matters. A robust strategy is more than a PR exercise, it is critical to the PCAOB's sustainability. The current changes in senior PCAOB staff and Board members provide the PCAOB with an unparalleled opportunity to review its strengths and weaknesses, and to reinforce its defences.

### Key factors affecting the PCAOB's strategic outlook

3. We urge the PCAOB to consider the ordering of the three key factors affecting its strategic outlook and what matters more in the long run. Is it the detail of its activities and operations, or is it its engagement with its stakeholders, including its allies and sponsors? The PCAOB is justified in looking well beyond 2022 in determining its direction before then and engagement with stakeholders must be more important than operational matters. This issue also manifests itself in the ordering of the proposed goals: is the relevant goal (stakeholder engagement) really number 3 of 5?
4. Engagement with stakeholders is a necessary pre-condition to all of the other goals, including improvements to audit quality. Engagement determines those aspects of audit quality most in need of remediation. In our response to the PCAOB on its strategy questionnaire that preceded this consultation, we emphasised our belief in the importance of the PCAOB taking on more of a leadership role – the PCAOB is after all coming of age – and we believe that there should be more emphasis on leadership in the PCAOB's goals. We are therefore disappointed by the lack of reference to global engagement. The PCAOB interacts closely with audit inspectorates, oversight bodies, standard-setters and other regulators across the globe, with global investors in companies listed on the US markets, and with US investors who invest outside the US. Clearer acknowledgement of this important aspect of the PCAOB's work – the PCAOB engages globally of necessity in fulfilling its mandate – is justified and warranted.

### Getting to the heart of what the PCAOB does: prioritisation and alignment

5. The PCAOB has an opportunity in the development of this plan, at a time of significant changes to the Board and staff, to get to the heart of what it does. Which of the goals, and which of the objectives are those that the PCAOB really needs to achieve now? Which can

wait? All of the goals and objectives it has identified have value, but there is little sense of priority in the plan as it stands, and little in the way of a clear link between goals and objectives, and the PCAOB's mission and values. The goals and objectives read somewhat narrowly as discrete items and lack overall cohesion. They could and should have more of a focus on what needs to change, on what the PCAOB really needs to do differently. At the moment, there are only allusions to this in the plan, in the form of subtle hints. Goals and objectives need to be clearly, robustly and publicly connected to the PCAOB's mission, vision and values, and to the key factors the PCAOB says affect its strategic outlook.

6. The proposed strategy as it stands is not incomplete. It appears to cover everything the PCAOB should be thinking about and we do not doubt that the mapping process the PCAOB has engaged in to develop this plan has been thorough. The five goals and the related objectives as they stand are high level and worthy, but they read like a list of the PCAOB's long term activities, developed on a narrow, bottom-up and somewhat technical basis. We therefore urge the PCAOB to seriously consider one further stage, which would be to condense or distil what it has on the table and to infuse it with a real sense of energy and purpose.
7. The one area in which the PCAOB does allude to the need for real change is in its commitment to earlier publication of findings ('publishing responsive and timely information regarding our oversight activities'). We strongly support the PCAOB in this. At present, publication of findings takes almost three years. We urge the PCAOB to set itself specific targets in this area. We also urge the PCAOB to summarise its findings periodically (as it has done in the past) and to publish those findings. All of this is important not only because remediation requires co-operation (i.e. firms need to know what they have done wrong, and what they can do better) but because findings should, and should be seen, to drive standard-setting. The PCAOB's evidence-based standard-setting agenda is important in this context and could have a higher profile.

### **Improvements to audit quality (goal 1)**

8. The current lack of alignment between mission, vision and values, and the five goals, is most evident in the language used to express them, and in the ordering. The former speak of leadership, innovation, integrity, excellence, effectiveness and collaboration. The latter, particularly the first two goals, speak in terms of prevention, deterrence, and risk. We do not question the legitimacy, relevance and importance of these terms but we do question the emphasis thereon. This is particularly evident in ordering: in goal 1, the PCAOB lists remediation last behind prevention, detection and deterrence. It is clear from responses to the Kingman review of the FRC in the UK that the roles of a regulator in sanctioning and remediation can pull in different directions, and that regulators need to be clear about the role of sanctioning in the broader context of remediation. Might it also be better to have remediation, prevention, detection and deterrence as specific objectives supporting the overall goal of improvement in the quality of audit, rather than as goals in their own right?
9. Sanctioning is an end in itself but in the long run, it is pointless if it does not result in improvement. The PCAOB's mission is to protect investors: we believe that the most effective way to do that is to improve the quality of audits through remediation. Sanctions should encourage remediation. We therefore suggest that the PCAOB thinks carefully about the ordering of the various activities within its first goal and in particular, whether remediation and audit quality indicators should be last on the list.

### **Technology (goal 2)**

10. With regard to technology, there needs to be more of sense of where the real risks lie, and of where the PCAOB might consider innovation. Technology is redefining expectations of the

audit and there are legitimate calls for a fundamental reassessment of whether standards remain fit for purpose. Looking forward, it should be evident from this plan that the PCAOB is not only working with auditors to see where data analytics and AI are currently being used and where they will be used in the future, but where the PCAOB itself might use them in its inspections. It might also be clearer how the PCAOB itself is seeking to manage the risks associated with a data breach on its own servers, as well as those associated with a breach at an audit firm.

11. We do not believe that people and the technology they use can or should be separated. The use of technology and the manner in which it drives change in the way we work has a significant effect on the morale and well-being of staff. The PCAOB would be more focussed with four goals rather than five and should consider rationalising goals 4 and 5.

### **Stakeholder engagement (goal 3)**

12. With regard to stakeholder engagement, what are the PCAOB's priorities? Is it really enough to say 'we must improve'? As a global leader, which stakeholders does the PCAOB need to engage with more? Does it need a framework for its strategic interactions?

### **Operational and people issues (goals 4 and 5)**

13. The PCAOB would be more focussed with four goals rather than five and should consider rationalising goals 4 and 5. In goal 5 (as merged with goal 4), there might be more on emphasis on the recruitment and retention of people with the right technological skills. Similarly, there might be more emphasis on the reference in goal 2 to rewarding teamwork, particularly where teams work across disciplines. The skills set required for those coming into the profession, and the skills set the profession develops, is changing. The changes are being driven by technology.
14. Finally, the PCAOB might consider how it might assess its own performance against this plan. The absence of specific, objectively verifiable metrics to measure performance should not be a bar to this, and we encourage the PCAOB to develop a framework for such an assessment, which could and should include asking stakeholders to evaluate the achievement of its goals.