



The Association of
Accountants and
Financial Professionals
in Business

Via email

To: comments@pcaobus.org

September 7, 2022

Office of the Secretary
PCAOB
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Release No. 2022-003

Dear Secretary Brown and PCAOB Board Members:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Public Company Accounting Oversight Board's (PCAOB or Board) Request for Public Comment, Draft 2022-2026 PCAOB Strategic Plan (Draft), PCAOB Release No. 2022-003.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

We note that the Draft is written in largely general terms, which may reflect the strategic nature of the plan as well as the fact that most of the Board members are relatively new in their positions. The Draft appropriately focuses on the PCAOB's primary responsibilities of audit standards setting, inspection, and enforcement and we support the overall direction of the Draft. However, as discussed below, we believe a final strategic plan needs to include much more discussion of the important role of corporate preparers in providing financial information to investors and how that affects the Board's work. Also, we have a couple of specific suggestions that we think the Board should include in a final version.

Provide more recognition of the important role of preparers

The Draft cites the PCAOB’s Mission: “The PCAOB regulates the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.” This language is consistent with Section 101 of the Sarbanes-Oxley Act of 2002 that established the Board. Additionally, in stating the Organizational Priorities, the Draft begins with Investor Protection: “The PCAOB must continue to boldly pursue our investor-protection mission through our standard-setting, inspections, and enforcement programs.” While the Mission Statement and the first Organizational Priority are appropriate, we believe the Draft does not give enough attention to the role of corporate preparers in providing useful information to investors.

As we are sure the Board appreciates, audits are largely invisible to investors. In general, all investors see is the final audit report stating whether the registrant’s financial statements are “fairly presented.” The relatively new requirement for audit reports to include descriptions of critical audit matters provides investors with more information, but that has been largely repetitive of what is already provided by registrants in financial statement footnotes or otherwise in SEC reports. Independent audits, of course, enhance the credibility of financial reporting and give investors greater assurance that the information they receive is accurate, but it is the corporate accounting and finance team that is primarily responsible for developing and reporting the information investors use in their decisions about a company.

Recent actions taken by the Board, as noted in the Draft and otherwise, add to our concern about an apparent laser focus on investors. For example, the Draft notes the recent appointment of an Investor Advocate with what seems to be a lesser position stated for a Stakeholder Relations Associate Director, who would presumably consider the interests of many parties, including preparers. Also, the Board has given much more prominence to the views of investors in its work through the establishment of and charters for its Investor Advisory Group and Standards and Emerging Issues Advisory Group (SEIAG). Our views on the imbalance between the roles of those groups were included in our comment letter to the Board dated February 16, 2022. Investors’ needs for financial and related information are very important but should be met by the FASB and SEC.

The Board allows for the participation in its standards-setting process by all interested parties, including preparers (and ultimately stockholders) who directly bear the cost of any new audit requirements. This is acknowledged in the Draft through the mention of comment letters, etc., and at least some preparers (as well as audit committee members) participate in the SEIAG. We certainly appreciate this and our Committee plans to continue to respond to proposed standards as appropriate. This may well become even more important in the near future given the plan to reconsider and reissue the original AICPA auditing standards that have not yet been superseded by PCAOB pronouncements. Those standards have been in place for decades and replacements with new language could lead to implementation issues for auditors and friction with corporate preparers even if no or little change in substance is intended. Close cooperation with preparers is even more critical than usual during such a large-scale revision of the auditing literature.

We do not suggest that a final Strategic Plan should deemphasize investor protection. However, we do believe that the Draft can be significantly improved by including more discussion of corporate preparers' primary responsibility for dissemination of information to investors. We are pleased that the Draft currently recognizes financial statement preparers as one of the Board's key stakeholders (along with audit committee members, who represent stockholders, but aren't directly involved in the preparation of registrant SEC reports). The Draft also notes (page 6) that emerging trends are transforming financial statement preparation and (page 8) that the Board will continue to assess whether there is a need for action relative to increased use of technology-based tools by financial statement preparers. However, those references to preparers fall short of acknowledging their primary role in serving investors. We urge more discussion of this in the final version of the strategic plan. Even more importantly, we urge a more balanced consideration of the views of all interested parties in the implementation of the strategic plan in the coming years.

Specific suggestions

Increased transparency in enforcement actions We do not support more frequently naming the issuer whose audits are implicated in a PCAOB enforcement action. If the registrant has done something incorrectly, this should already have been reported by it or through an SEC enforcement release. If a PCAOB enforcement action applies only to the auditor, naming the registrant may inappropriately imply bad behavior by the company and could cause investors to negatively react in error.

Engage in robust dialogue with stakeholders – We certainly support robust dialogue and believe the Board can do a better job of keeping its constituents informed about progress on its standards-setting projects. We note that Chair Williams recently stated in an interview, "Transparency is definitely a goal of this board" (Thomson Reuters Accounting and Compliance Alert, August 17, 2022). Yet we and other constituents often learn about the direction of major projects only when an exposure draft is issued or perhaps when certain possibilities are floated in an advisory group meeting. Even Board members and staff often are reluctant to give details of projects in speeches until they emerge fully developed at a public Board meeting for what appears to be an automatic approval at that time.

Ideally, the PCAOB should hold regular deliberative meetings open to the public like the FASB's approach. We believe this would enhance the credibility of the Board's decision-making process and would improve the input that the Board receives from its constituents. At a minimum, "robust dialogue" and "transparency" would be greatly improved via regular status reports on the direction of projects or other means of providing feedback to constituents during the life cycle of projects. More public enumeration of the problems the PCAOB are trying to solve, solutions under consideration, complementary action that may be needed by others in the financial reporting supply chain (e.g., FASB, SEC), etc., would help keep interested parties better informed. It should also result in enhancing the feedback from auditors, preparers, and investors. We hope that the SEIAG could discuss this possibility at a near-term meeting or perhaps it could be on the action list for the new Stakeholder Relations Associate Director.

As a somewhat related matter, we suggest the Board start a practice fellow program. Such programs have worked exceptionally well for the FASB and SEC for many years (some FRC members are former fellows). A fellowship program brings in experienced auditors and preparers for a two-year assignment to work on auditing standards projects or other PCAOB activities. These fellows are highly capable and bring very recent practice experience to the organization.

We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Josh D. Paul". The signature is fluid and cursive, with the first name "Josh" and last name "Paul" being more prominent than the middle initial "D".

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants
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