



KPMG LLP  
345 Park Avenue  
New York, N.Y. 10154-0102

Telephone +1 212 758 9700  
Fax +1 212 758 9819  
Internet www.us.kpmg.com

September 14, 2022

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

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

Dear Office of the Secretary:

KPMG LLP is pleased to respond to the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2022-003, *Request for Public Comment: Draft 2022-2026 PCAOB Strategic Plan* (Draft Strategic Plan). We commend the Board's enhanced strategic planning process, including the transparency and inclusiveness in seeking public comment on the Draft Strategic Plan. We value the opportunity to engage with the PCAOB as part of the diverse group of stakeholders in providing our observations.

Overall, we support the Draft Strategic Plan that will serve as a robust yet agile roadmap for the PCAOB in the next five years. We agree with the organizational priorities of Investor Protection, Engagement and Adaptability. In particular, adaptability will be crucial given the dynamic nature of today's business environment and continued technological disruption. The goals and objectives are clear. The alignment of goals to standard setting, inspections and enforcement programs, respectively, will direct focus and facilitate execution. We applaud the Board's actions to date that already contribute toward the Draft Strategic Plan, including but not limited to the formation of the two new advisory groups that have already held their first meetings, the appointment of the PCAOB's first Investor Advocate and the updated standard-setting and research agendas.

Since its creation twenty years ago, the PCAOB has been steadfast in its mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. KPMG shares the Board's goals to protect investors and improve audit quality. We are committed to continually enhancing audit quality, which is fundamental to maintaining public trust in the capital markets. As we look to the future, we encourage the PCAOB to continue to maintain a collaborative mindset and deploy a combination of preventive and detective measures to effectively fulfill its mission.

We offer the following comments for consideration as the Board finalizes the Draft Strategic Plan.

**Goal 1: Modernize Standards**

**Objective: Adopt Standards That Meaningfully Improve Audit Quality and Enhance Our Ability to Enforce the Standards and Inspect for Compliance**

High-quality auditing standards are the foundation of high-quality audits. We agree with the Draft Strategic Plan that *'standards must adapt to keep up with developments in auditing and the capital markets'*. This can be challenging given the fast pace of change in the current environment but necessary to further public interest. As a result, we fully support the Board's goal to modernize and streamline existing standards and to issue new standards where necessary to meet today's needs. We have strong appreciation for the May 2022 announcement as one of the most ambitious standard-setting agendas in the PCAOB's history that is directly aligned with this goal.



Office of the Secretary  
Public Company Accounting Oversight Board  
September 14, 2022  
Page 2 of 5

In the Draft Strategic Plan, the first objective under Goal 1 states the PCAOB *'will improve audit quality by adopting standards that are clear and scalable'*. In addition to clear and scalable, we observe that PCAOB standards have also demonstrated key characteristics such as principle-based, risk-based, fit for purpose, ability to withstand the test of time and emphasis on professional skepticism. We are in favor of the PCAOB's efforts in continuing to develop high-quality auditing standards that incorporate all these important qualities. In this regard, we encourage the PCAOB to consider the Monitoring Group's recommendations in July 2020 to 'Strengthen the International Audit and Ethics Standard-Setting System'<sup>1</sup>, which outlines relevant qualitative characteristics in high-quality auditing standards.

Further, we support the PCAOB's plan to *'continue to focus on emerging risks and trends, updating our standards as practices in financial reporting and the audit profession evolve'*. This calls for the PCAOB to remain nimble and adaptable, balancing the need for timely action and critical importance and rigor by following due process in standard setting. In today's rapidly evolving financial reporting landscape, it is perhaps more important than ever for high-quality standards to be 'future-proof', by being principle-based and not overly prescriptive, to minimize the risk of becoming outmoded. In addition to standard setting, we recommend the PCAOB continue to utilize staff publications to address interpretive issues related to emerging risks and trends. For example, we find recent spotlights<sup>2</sup> that share PCAOB's staff views and observations helpful. Staff publications are an important mechanism to supplement standard setting and provide timely information to the audit profession and other stakeholders.

**Goal 1: Modernize Standards**  
**Objective: Engage in Robust Dialogue With Stakeholders**

Stakeholder engagement offers diverse viewpoints that are vital inputs for setting high-quality auditing standards. The formation of the Investor Advisory Group and the Standards and Emerging Issues Advisory Group enables the PCAOB to collect valuable feedback related to standard setting and other matters. We encourage the Board to continue the collaborative mindset and to engage in effective and dynamic dialogue with all stakeholders, including standard setters, regulators, issuers and the audit profession.

Two-way communication with other auditing standard setters, such as the Auditing Standards Board and the International Auditing and Assurance Standards Board, can help inform the PCAOB in its own standard setting. In addition, it can provide opportunities for the Board to influence both domestic and international auditing standard setting and contribute toward enhanced audit quality globally for the benefit and protection of US investors. Similarly, engagement with international organizations can allow the PCAOB to share insights and perspectives affecting auditing standards and audit quality internationally. For example, we appreciate the PCAOB being a member of the International Forum of Independent Audit Regulators (IFIAR) and taking a leadership role as a member of the IFIAR Board<sup>3</sup>.

Investors' needs evolve over time and the PCAOB can best serve investors' interests by engaging in dialogue with the SEC as well as accounting and sustainability standard setters. This will advise the PCAOB of broader developments, including areas where investors may benefit from a collaborative and holistic approach to planned regulatory enhancements.

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<sup>1</sup> See [https://www.iosco.org/about/monitoring\\_group/pdf/2020-07-MG-Paper-Strengthening-The-International-Audit-And-Ethics-Standard-Setting-System.pdf](https://www.iosco.org/about/monitoring_group/pdf/2020-07-MG-Paper-Strengthening-The-International-Audit-And-Ethics-Standard-Setting-System.pdf), pages 22-23, Section D Public Interest Framework for Development of International Audit-Related Standards, 'What qualitative characteristic should the standards exhibit?'

<sup>2</sup> For example, PCAOB Spotlight: Observations and Reminders on the Use of a Service Provider in the Confirmation Process, March 2022.

<sup>3</sup> See [The International Forum of Independent Audit Regulators and Other International Organizations | PCAOB \(pcaobus.org\)](https://www.pcaobus.org/IFIAR).



Office of the Secretary  
Public Company Accounting Oversight Board  
September 14, 2022  
Page 3 of 5

The audit profession, as user of the PCAOB's professional standards, is in a unique position to provide practical insights related to application and implementation throughout the standard setting process. This information can inform standard setting and contribute toward our collective goal of audit quality. We appreciate opportunities to provide input upfront via the notice-and-comment process. However, once standards are adopted and during audit firms' implementation efforts, questions may arise related to application of technical auditing matters and interpretation of auditing standards. Such questions often affect audit methodology at audit firms, which in turn can impact audits of multiple issuers. We see opportunities for the PCAOB to augment interactions between the PCAOB's Office of the Chief Auditor (OCA) and the audit profession as a preventive measure to improve audit quality. For example, the PCAOB can develop mechanisms for auditors to consult<sup>4</sup> with OCA, particularly related to proposed audit methodology changes and adoption of data and technology. This can be a powerful preemptive measure by identifying potential audit quality issues caused by uncertainty in application or implementation of auditing standards before they are implemented by auditors. Ability to consult with OCA can advance audit quality by preventing audit deficiencies from occurring in the first place and would be complementary to the PCAOB's inspection and enforcement programs that act as strong deterrents.

Lastly, all stakeholders benefit from transparent and periodic updates on the status of the PCAOB's standard-setting and research activities. We appreciate that '*OCA will update the agendas as needed, but at a minimum, semi-annually, to provide the latest information on the status and timing of PCAOB's standard-setting and research projects*'<sup>5</sup>. In addition to updating the agendas, we suggest the Board consider publishing more frequent (e.g., quarterly) updates from OCA to report progress on its projects. This will enhance the two-way communication between OCA and stakeholders, align with a collaborative mindset and provide valuable information about developments on its projects over time (rather than point in time).

## **Goal 1: Modernize Standards**

### **Objective: Evaluate Developments in Data and Technology**

We commend the PCAOB for including developments in data and technology as an objective under Goal 1: Modernize Standards. The development and use of Audit Data Analytics (ADA) tools continue to evolve rapidly with significant potential to improve audit quality. ADA allows auditors to analyze the entire population of transactions at a detailed level and identify relationships between the information, providing new insights and enabling the auditors to focus on higher risk items. The PCAOB has acknowledged that '*the results of our activities indicate that PCAOB auditing standards are not precluding or detracting from firms' ability to use technology-based tools in ways that could enhance audit quality*' and '*[the PCAOB] have heard, however, and we continue to acknowledge, that our current standards do not explicitly encourage the use of such tools, indicate when their use may or may not be appropriate, or highlight related risks or possible pitfalls associated with their use*'<sup>6</sup>.

Data and Technology has been on the PCAOB's research agenda for a number of years and we appreciate the Board's renewed attention to this important topic. We recommend the Board consider whether this objective in the Draft Strategic Plan can be further strengthened to go beyond evaluation and assessment. We note that this objective is interconnected to the previous objective '*Adopt Standards that Meaningfully Improve Audit Quality and Enhance Our Ability to Enforce the Standards and Inspect for Compliance*', which inherently calls for considerations of developments in data and technology in auditing

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<sup>4</sup> For example, the consultation process with the SEC's Office of the Chief Accountant as outlined on the SEC's website <https://www.sec.gov/page/communicating-oca>.

<sup>5</sup> See PCAOB News Release: [PCAOB Updates Standard-Setting and Research Agendas, May 2022](#).

<sup>6</sup> See PCAOB Spotlights: Data and Technology Research Project Update, May 2020 and May 2021.



Office of the Secretary  
Public Company Accounting Oversight Board  
September 14, 2022  
Page 4 of 5

standards. Therefore, we suggest the Board consider revising this objective and commit to making meaningful and timely progress to reflect developments in data and technology in auditing standards. This will better connect with other objectives under Goal 1 and better align with the overall Goal 1: Modernize Standards.

Further, we encourage the Board continue to engage in dialogue with the audit profession about practical implementation challenges when expanding the use of technology in audits. For example, we welcome engagement with OCA as we develop innovative uses of technology in the audit. This engagement can provide OCA with real-life examples of where application and interpretation of the extant standards to ADA tools can be challenging and inform OCA of areas that can benefit from standard setting and/or guidance.

## **Goal 2: Enhance Inspections**

### **Objective: Increase Transparency in Reporting Inspection Results**

PCAOB inspection reports provide stakeholders with relevant and useful information, and we support the Board's continued focus on the timely issuance and enhanced transparency of the inspection reports. For example, we appreciate the new, redesigned format of the inspection reports announced in June 2020<sup>7</sup>.

The PCAOB's rigorous inspection process provides the Board with unique, meaningful insights, not only at individual audit firms but across the audit profession. We encourage the PCAOB to continue to increase transparency by sharing perspectives and knowledge gained from the inspection process, via inspection reports or other publications, to benefit stakeholders. For example, reporting of the Board's view on the state of audit quality and changes in audit quality over time across the audit profession, based on inspection results, can allow investors and audit committees to have a broader view and inform their respective engagements with auditors.

## **Goal 2: Enhance Inspections**

### **Objective: Deliver Useful Guidance to the Audit Profession**

PCAOB staff publications and guidance provide valuable and timely information to the audit profession, whether they relate to standards, emerging risks and trends or inspections. We commend the Board for elevating the delivery of useful guidance to the audit profession as an objective under Goal 2 in the Draft Strategic Plan. In particular, auditors can glean from best practices observed by inspections and implement enhancements to improve audit quality where necessary. Inspections can also shine a light on anticipated financial reporting and audit risks based on the economic environment and increase auditors' awareness on these important topical areas in their upcoming audits. In this regard, we find inspections spotlights<sup>8</sup> helpful and recommend the Board continue this practice in the future.

Another avenue through which the PCAOB can deliver useful guidance to the audit profession is to share best practices observed by inspections related to audit firms' systems of quality control. Effective quality control systems are foundational to auditors performing consistent high-quality audits. Global network audit firms have made significant investments in the adoption of ISQM 1<sup>9</sup>. The foundational nature of

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<sup>7</sup> See PCAOB News Release: [PCAOB Issues Six Largest U.S. Firm Inspection Reports in New User-Friendly Format, Guide to Reading Reports, June 2020](#).

<sup>8</sup> For example, PCAOB Spotlight: Observations From the Target Team's 2021 Inspections, August 2022, and PCAOB Spotlight: Staff Overview for Planned 2022 Inspections, June 2022.

<sup>9</sup> ISQM 1 refers to the International Auditing and Assurance Standards Board's International Standard on Quality Management (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.



Office of the Secretary  
Public Company Accounting Oversight Board  
September 14, 2022  
Page 5 of 5

audit firms' quality control systems means many of these enhancements are subject to the PCAOB inspection team's quality control reviews under the current PCAOB quality control standards. Understanding best practices observed by inspections related to quality control systems can have a substantial impact as auditors strive to continue to improve their quality control systems and further enhance audit quality.

Further, audit firms are required to design and perform monitoring activities as part of their systems of quality control under ISQM 1. Such monitoring activities may include key metrics correlated to audit quality, or audit quality indicators. To the extent there are common observations or empirical evidence of effective audit quality indicators identified by inspections through their reviews of audit firms' systems of quality control, we encourage the Board to share such insights to increase the understanding of quality audits and help improve audit firms' quality control systems. This information can complement the PCAOB's other research project on Audit Quality Indicators, an important topic that we encourage the Board continue to consider.

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We appreciate the opportunity to provide input on the Draft Strategic Plan and would be pleased to discuss our comments with the Board and its staff at your convenience. We look forward to continuing our engagement with the Board and its staff in support of our shared commitment of investor protection and audit quality.

Very truly yours,

**KPMG LLP**

cc:

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