



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

August 18, 2017

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Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Release No. 34-81187; File No. PCAOB-2017-001

Dear Mr. Fields:

The Center for Audit Quality (“CAQ”) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention; and advocates policies and standards that promote public company auditors’ objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs.

The CAQ appreciates the opportunity to comment on SEC Release No. 34-81187, Public Company Accounting Oversight Board; *Notice of Filing of Proposed Rules on the Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Departures from Unqualified Opinions and Other Reporting Circumstances, and Related Amendments to Auditing Standards* (Release).¹ This letter represents the observations of the CAQ but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ is supportive of the PCAOB’s efforts to consider ways to update and enhance the auditor’s reporting model to provide additional information to stakeholders in an increasingly complex and global environment. We recognize that the PCAOB has been working diligently since June 2011 to develop an approach that is beneficial to all stakeholders.

As the Release represents a significant change to the auditor’s report, approaching the implementation in a collaborative way with all members of the financial reporting supply chain will help manage the implementation process and related

¹ See <https://www.federalregister.gov/documents/2017/07/28/2017-15718/public-company-accounting-oversight-board-notice-of-filing-of-proposed-rules-on-the-auditors-report>.

expectations of preparers, auditors and investors. We have organized our comments into three activities that could foster an implementation approach that is collaborative.

Communicate and Educate

Communication and education will help promote timely awareness of the changes to the auditor's report in the financial reporting supply chain. We encourage the SEC and PCAOB to communicate to issuers, audit committees, investors, and the marketplace through speeches or other public platforms about the purpose, meaning, and intent of the changes to the auditor's report.

Monitor Implementation

Due to the sweeping changes proposed in the Release, particularly in relation to reporting critical audit matters (CAMs), it will be important for the SEC and the PCAOB to work together to actively monitor the implementation to determine if additional action is needed to support the implementation. We also recommend continuing to evaluate whether the new standard and related auditor reporting requirements are accomplishing their intended purpose. The phased effective date of the standard provides the SEC and PCAOB the opportunity to monitor the impact of the changes to auditor's reports, particularly with respect to the reporting of CAMs, which are first effective for audits of large accelerated filers with fiscal years ending on or after June 30, 2019. During the first phase of CAM implementation, the SEC and PCAOB can identify any unanticipated or unintended consequences of the changes to the auditor's report, and better understand the costs and benefits of the expanded auditor's report. During this first phase of CAM implementation, we recommend that the SEC and PCAOB perform outreach with the auditing profession and other stakeholders either engaged in or benefitting from the financial reporting process to obtain feedback on whether the new standard and its requirements are achieving stated objectives. This could be done through public information sessions so that future auditor's reports reflect lessons learned from the initial phase. The CAQ, given its mission to enhance investor confidence and public trust in the global capital markets, also stands ready to assist the SEC and PCAOB as appropriate.

Perform a Post-Implementation Review

The PCAOB already has a post-implementation review program in place,² and we would support a review approach that includes not only public comment feedback but also "analysis of data collected through the PCAOB inspection and enforcement programs, review of relevant academic literature, and focus group meetings to obtain input from interested parties and experts including audit firms, investors, public companies, academics, and other interested groups."³ This comprehensive feedback mechanism for continuous improvement, if performed timely, would inform the SEC, PCAOB and investors whether the implementation of the standard has resulted in more decision-useful information in auditor's reports. Standard-setters in other jurisdictions have also performed post-implementation reviews of recent changes to their auditor's reports which has provided auditors, investors, and other stakeholders with valuable information about the new auditor's reports.⁴

² <https://pcaobus.org/EconomicAndRiskAnalysis/CEA/Pages/post-implementation-review.aspx>.

³ See Post-Implementation Review No. 2016-01 *Engagement Quality Review*, page 1.

⁴ See the Financial Reporting Council's [report on extended auditor's reports](#) and the [IAASB's Plan for a Post-Implementation Review of the Clarified International Standards on Auditing](#).

We appreciate the opportunity to comment on the Release and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

SEC

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