September 8, 2018
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Strategic Plan 2018 – 2022, Draft for Comment

Dear Madam Secretary and PCAOB Board Members:

I commend your decision to seek public input during your strategic planning process and public comment on the draft strategic plan, and appreciate this opportunity to comment. Generally, I support the PCAOB’s goals and objectives as outlined in the draft strategic plan. My observations and recommendations are presented below.

1. Recognize in the Strategic Plan that Independence of the PCAOB is Paramount

The vision statement on page 4 states that the PCAOB “will be a trusted leader.” While I agree a regulator has the ability to provide leadership to those whom it regulates, the strategic plan also should recognize the importance of the PCAOB actively guarding and maintaining its independence from the audit profession. This includes maintaining both (a) the PCAOB’s actual independence (akin to the “independent mental attitude” required of financial statement auditors) necessary to enable effective oversight and (b) the appearance of independence so as to avoid public concern about regulatory capture. The current discussions in the United Kingdom regarding audit quality and its auditor oversight body highlight the importance of this issue.

2. Evaluate Environmental Impediments to Further Improvements in Audit Quality

A concern is that audit quality among many audit firms may have reached a plateau while further improvements in audit quality are still needed. (See, for example, PCAOB Chairman Duhnke’s comments at the 2018 Deloitte/University of Kansas Auditing Symposium.) In addition to evaluating whether changes to its oversight program made within its strict statutory authority may lead to further improvements in audit quality, the PCAOB is in a unique position to evaluate and develop insights on whether the current environment surrounding the practice of auditing is impeding further improvement, and the Board’s strategic plan should reflect this objective. The environment surrounding the practice of auditing includes the structure of the auditing firms and the nature and volume of other services those firms offer, the nature of the auditor/client relationship, the effectiveness of audit committees in ensuring auditor independence and audit quality, and the nature and roles of standards setters and regulators affecting practice.

3. Identify, and Describe the PCAOB’s Relationship to its Stakeholders

As currently drafted, the strategic plan generally refers to its stakeholders as one group (e.g., “investors and other stakeholders”). The plan would benefit from the identification and description of each of the PCAOB’s significant stakeholders and the relationship of the PCAOB to each of them. Entities or groups affected by the PCAOB’s activities include investors, registered public accounting firms (and other persons participating in
the audit of a U.S. public company), public companies, broker-dealers, audit committees, and the public interest. The U.S. Congress explicitly identified the first and last of these stakeholders in section 101 of the Sarbanes-Oxley Act of 2002 as the intended beneficiaries of the PCAOB’s oversight of auditors of U.S. public companies. The other stakeholders mentioned above are subject to direct or significant indirect effects of the PCAOB’s activities. Framing the way in which the PCAOB considers, prioritizes and responds to the interests of each of these stakeholders may assist the Board in administering its statutory responsibilities and increase the transparency of its decision-making.

4. Focus on Improving Audit Quality Through Emerging Technologies

Increases in computing power, innovative computer programming and other emerging technologies hold the promise of increasing the amount of assurance auditors are able to provide even while reducing overall audit costs. Some auditors are concerned that existing auditing standards impede the implementation of certain of these technologies. The PCAOB should work to understand whether such impediments exist and, if so, whether changes to its standards are necessary and appropriate to mitigate them. Most importantly, the PCAOB must carefully avoid changes to its standards and guidance that would have the effect of reducing the amount of assurance the auditor is required to obtain.

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I am a distinguished lecturer on the faculty of Baruch College, City University of New York, where I teach financial statements auditing. I also am a former PCAOB Chief Auditor and Director of Professional Standards and a former financial statement auditor.

If you have questions regarding any of my observations or recommendations, please do not hesitate to contact me.

Very truly yours,

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