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Public Company Accounting Oversight Board  
1666 K Street NW  
Washington, DC 20006-2803  
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**For PCAOB Consideration**  
Personal Views & Comments to PCAOB's Draft Strategic Plan 2018–2022 ([File 2018-001](#))

Dear Board Members:

It is a privilege to comment on your **Draft Strategic Plan** covering 2018-2022. As a previous Inspections Specialist of the Public Company Accounting Oversight Board (“PCAOB”), my inspections experience from 2012 until 2015 was a reinforcement to my audit experiences with certain Accounting Firms (“Firms”), and facilitated my move to the Industry, in an SEC reporting role of a U.S.-listed issuer. Such Industry experience post-PCAOB tenure in early 2016 gave me some affirmation of that critical “*Integrated*” mindset that we need to consistently apply in the BusinessWorld to address the disconnect in expectations & philosophies between stakeholders, a corroboration of that emotional outburst from Industry’s CFO, Controllers and others with financial reporting role at an SEC Reporting Conference I attended in San Francisco, CA around 2013, of which the reason from what I overheard is due to incremental requests from Auditors to Issuer’s Accounting team to take an audit to finish line, which the former typically justify as new “PCAOB requirements”.

I certainly agree the quality of audit work significantly improved based on my inspections assignment while at PCAOB. For example, in one inspection assignment for a Big 4 Firm’s audit of a large issuer in the financial services sector, where I looked at leases, it was an ideal example wherein engagement team did a thorough risk assessment of various key components within the focus area, demonstrated well their understanding of key controls’ design, documented their testing of the operating effectiveness crisply & coherently making it easier to follow through for every control w/ clear differentiation for those that provide input to other key controls making up the focus area’s account balance, and the senior manager’s interactive presentation provided validation of his thorough understanding of the focus area & consistency to audit documentation, all of which provided credibility of the engagement team’s audit work.

When I moved to the Industry, PCAOB’s inspection framework helped my thought-process in addressing accounting issues. Specific to assessing a key control’s operating effectiveness, what I learned at PCAOB is how a prudent auditor understands & validates the “*Substance of a Control*”, assuming sufficient time to finish the work was allocated and proper risk assessment was completed at planning. For example, in a *Review Control*, more than the “check-the-box” exercise, understanding and testing the key attributes/elements that form part of a critical review is essential, which may include, amongst others, testing the input schedule’s completeness & accuracy, criteria used for review (incl. variability introduced, validating judgments/estimation embedded in and/or part of the control), timeliness in control performance, how noted differences (based on certain thresholds) are resolved and process owner’s suitability for specific control. Knowing these “review” variables will enable an auditor understand & validate how a reviewer’s performance of the control activities addresses its design objective and as a result of its effective operation, can detect or prevent a material error. It is in the depth & relevance of audit work done, rather than volume & agility. At this current juncture though, where we experience new types of threats never seen or in the same frequency a decade ago, such as cybersecurity, an effective “review” control is ONLY one of the many essential considerations. Further, to strive for global social relevance, sensitive to time-critical & persisting threats in various parts of this world, I am proposing to elevate & converge our regulatory framework to avoid repetitive regulatory issues and so, in the long-run, we can shift focus on real-life global threats, to provide true value to our *United Nations*, grounded on the same thinking philosophy, less those inefficient debates and word smittings.

In my opinion, to take a proactive approach in addressing issues in our financial markets, the virtual totality of an accountable organization’s control environment will have to be ascertained, as over time, the convergence in both our top-down & ground-up approaches led us to be more creative and collaborative, causing certain aspects in our corporate governance to be persuaded towards results we want to achieve, as demonstrated by the corporate failures of WorldCom & Enron resulting to the passing of Sarbanes Oxley Act of 2002 (“SOX”) and the delayed congruent effect to financial institutions, specifically the likes of LehmanBrothers & BearStearns, and the more generic, Ponzi schemes (alternative term for investment scams), which necessitated the U.S. government to take over those underwater institutions and to some, infused temporary capital, such as AIG’s bailout. All these necessitated the enactment of Dodd-Frank Act in 2010, an essential reinforcement to SOX which became effective eight (8) years earlier, where at that point, we have not seen the full effect yet of corporate lapses & manipulations.

This response letter is comprised of two parts: (i) the opening section is my rationalization of regulatory/audit matters based on experiences and from my perspective, how those certain components would fit into a proposed interconnected architecture, and (ii) the second section discusses specific comments to the Draft Strategic Plan, *for PCAOB consideration*. Thanks to the Institute of Management Accountants (“IMA”); as this is my first time writing a response letter, I used IMA’s comment letter as a base reference in drafting mine.

Any questions, I would be pleased to provide further context of this response letter at the contact information provided.

Respectfully,

/s/ *Rey J. Puentenegro*  
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## **My Underlying Reasons: Regulatory/Audit Convergence**

During 2016 and 2017, I had the opportunity to diverge from audit/inspections route and gained Industry experience in accordance with accounting principles generally accepted in the U.S. (“GAAP”), compared to my audit background at the Firms, mostly with “insurers” in accordance with International Financial Reporting Standards (“IFRS”), which typically was performed closely together to minimize subsequent major rework, with statutory audits under insurance statutory accounting principles (“ISAP”). With these cumulative experiences, I realize we can leverage the on-going convergence projects between *Financial Accounting Standards Board* (“FASB”) & *International Accounting Standards Board* (“IASB”), the two main global accounting standard-setters, and extend similar concept to the more specific standard-setting bodies (such as *NAIC* for insurers) and to the *Audit & Regulatory* arena, to address the all-important cohesion in the overall Accounting network, and more specifically, facilitate better expectations-setting process by financial market stakeholders (in addition to those inputs from earnings analysts).

While FASB’s simplification & rationalization efforts of its accounting framework & associated standards are making significant headways in our runway, including convergence projects with IASB for **Revenue Recognition** (*effective this year; converging various revenue recognition models*), **Lease Accounting** (*effective 2019; placing off-balance lease transactions to the face of financial statements*), **Credit Losses** (*effective 2020; improvements to impairment standards for debt & equity investments, considering lessons from 2008 financial crisis & to align with IFRS*) and **Insurance Contracts (Long-Duration)** (*effective 2021; serving to put a more current U.S. accounting model and to align with IFRS*), we can exploit, on a positive sense, FASB & IASB’s convergence momentum to create greater awareness of the mission, vision & values of PCAOB and its Equivalents, both within the U.S. & other territories. In my point of view, the following 3-fold convergence themes need to take priority in our cooperative agenda with various stakeholders, even extending to the much broader inter-governmental associations:

### **1) Model Audit & Regulatory (MAR) Frameworks:** *PCAOB’s Audit & Regulatory Frameworks to be in-sync with other Regulatory Bodies (within US & abroad)*

Much had been said and observed about PCAOB for the last 15 years, both its relevance and to some extent, nuisance to the overall economic climate. I was able to personally confirm the relevance of PCAOB’s regulatory framework, at least from my practical experiences, during 2016 & 2017. What I learned at PCAOB, in addition to those at the Firms, assisted me in resolving certain accounting issues in an issuer with changing risk profiles, including litigation effects and value unlocking of its investment properties, thereby heightening audit risks. We all know the U.S. financial market system is highly litigious, since WorldCom & Enron collapses to operational & financial issues in our financial services industry sectors. Within the U.S. itself, there are distinct regulatory institutions covering specific industries and along with recently-enacted federal laws, all these add to the complexities in our regulatory & reporting environment. For **Model Audit & Regulatory Frameworks** to be cohesive & sustainable, we may need to consider various aspects in the current financial reporting network which impact our cumulative status quo. In my mind, the following may need to be considered should this convergence proposal take-off:

*Note: I rehashed below several parts of our Financial Markets’ history, as I felt I needed to emphasize certain aspects of our divided past leading to enactment of federal laws and creation of new agencies, and collaboratively consider those to how current legislations (any new potential changes) will be effective for their purpose.*

**(1) Dodd-Frank Act: Wall Street Reform & Purpose Expansion (2010 to current)**—as we know, this federal law was passed in response to the 2008 U.S. financial crisis with global butterfly effect (collectively “*Great Recession*”) given several monetary & fiscal policies originating in the U.S. typically have world impact, being the primary global standard-setter since World War II. To be honest, I have not fully understood this regulation, even when I moved to PCAOB from a Big 4 Firm and even as of writing this response letter. To me, the sub-prime mortgage crises, or *real estate bubble*, the main culprit of the *Great Recession*, was primarily due to the following: (i) changes in lending policies, i.e. whether to be strict or lenient (impacted by leadership transitions, marketing pressures, etc.), (ii) inherent credit volatility of the U.S. financial market due to diverse financial characteristics (resultant of the ethnic diaspora into the Federal Union), (iii) increasing legal complexity in the U.S. financial system, yet enabling those knowledgeable of the in’s & out’s of the complex system to passthrough securitization process easily & to sell those asset-backed securities eventhough not sufficiently collateralized, and (iv) relaxed regulatory oversight during early to late 2000’s, since WorldCom/Enron accounting scandals until the Dodd-Frank enactment. With PCAOB’s regulatory framework reaching reasonable maturity is somewhat pre-responsive to Dodd-Frank Act’s primary purpose of enhancing various governance areas in the U.S. financial market to address the *Great Recession*, a vision that supposedly should have been pre-anticipated during Sarbanes Oxley Act of 2002 (“SOX”) enactment eight (8) years prior.

**(2) US SEC (Est. 1929) & PCAOB (Est. 2003)**—as the federal agency created by the U.S. Congress in 1929 in response to the *Great Depression* during the 20th Century (between WW1 & WW2), the U.S. Securities & Exchange Commission (“SEC”) has the primary oversight function of the Federal Securities Laws (*Securities Act of 1933 & Securities Exchange Act of 1934*) over the U.S. financial markets. In light of PCAOB reaching considerable maturity stage based on its inspections history and the continued globalization of several facets in the society, it would be beneficial to revisit PCAOB’s current structure in terms of where it would best fit on a long-term basis, considering that its funding structure is distinct of SEC and not directly provided by

taxpayer's money (but rather as an operating cost of every issuer based on market capitalization and from registration fees on regulated firms).

- (3) US Federal Reserve (Est. 1913) (*Banking/Treasury*)**—created by U.S. Congress more than a decade from SEC's commence, US Federal Reserve System's ("FED") central banking function of the U.S. led to its primary role in the supervision of those financial institutions in recession, including Fannie Mae, Freddie Mac, etc., during the subprime mortgage crisis in late 2000's. Lately, it has been active in enforcing employment & discrimination actions against banks, the latest of which is Wells Fargo. I have no direct insight into bank inspection given non-assignment while at PCAOB. However, given FED's monetary & fiscal policies have wide-ranging effect to global economic climate, given the so-many financial issues we encountered prior to 2010 and the potential global economic effect of the impending Brexit, I think now is a good time to examine how each U.S. Federal agency will contribute to a sustainable healthy financial system, keeping in mind the long-term promise that Dodd-Frank Act envisions, not only in the U.S., but globally. While Dodd-Frank's current rules are more applicable to banks and other financial institutions, we can utilize the "qualitative oversight" aspect of this federal law to support a global financial reporting network.
- (4) US NAIC's Model Audit Rule (Est. 2006) (*Insurance*)**—the National Association of Insurance Commissioners ("NAIC") in the U.S. established its mirroring SOX audit framework, called *Model Audit Rule*. As NAIC is not a US federal agency, rather an association of individual States' chief regulators from U.S. 50 states, District of Columbia and sovereign territories, the application of its audit rule is discretionary by each state & territory. Public insurers can leverage on its SEC report filings to minimize preparation costs. NAIC also promulgates its own accounting principles, called ISAP, which is the accounting framework for statutory reporting purposes. Given the enforcement of NAIC's Model Audit Rule is not mandatory by various insurers who could be listed or not and its unique ISAP accounting framework compared to FASB's, this inherently created differences in the underlying accounting, audit and regulatory framework, for the US insurance sector.
- (5) PCAOB's Program Expansion: Broker-Dealer (Est. 2011) (*Investment Securities Broker*)**—as we know, the Dodd-Frank Act of 2010 allocated the inspection of broker-dealers to PCAOB's fold with interim inspections program adopted in 2011, at which point other programs (global & triennial firm inspections) have been considered as more permanent. Given the 2007/08 liquidity issues encountered by investment banks who invested in those security pooling of mortgage interests and the derivative effect to financial institutions (retail banks, insurers, etc.) who invested in long-horizon assets for long-term solvency needs, PCAOB taking responsibility over the inspection of the audits of those broker-dealers, who act as principal originators of those securitized-mortgages, provides structure & process in regards the inspection of broker-dealers, in similar fashion as the more permanent inspection programs for global and triennial firms.
- (6) US HUD Housing Programs (Est. 1965) (*Real Estate underlying Securitized Mortgages*)**—the U.S. Housing & Urban Development ("HUD") was created by U.S. government to ensure strong, sustainable, inclusive and quality affordable housing communities for all, free from discrimination. Due to changes in lending policies, the inherent high volatility credit risk for U.S. market and more specifically, complex securitization process and the lack of sufficient regulation in the 2000's from the time of WorldCom/Enron collapses up to that point PCAOB was still developing its inspection programs, all these contributed to the credit/impairment losses of financial institutions who invested in those asset-backed investments.
- (7) US AICPA's Audit & Other Standards (*pre-cursor to PCAOB Audit Standards*)**—prior to PCAOB assumed the audit standard-setting role for U.S. listed companies, AICPA was the main promulgating body for U.S. generally accepted auditing standards ("U.S. GAAS"). Currently, AICPA's U.S. GAAS is still used for the audit of companies other than those performed under the PCAOB audit rules, mostly those private companies and those in non-profit sectors. In the initial years of PCAOB's operation, AICPA's various set of standards were used as interim standards, several of which have been superseded by PCAOB's Auditing Standards ("AS") for the last 15 years.
- (8) UK's Financial Reporting Council & other Equivalents (*Brexit/Non-US Regulation*)**—while the global financial market the past 16 years has been mostly dominated by news of U.S. financial downturns, as the world is feeling the effect of corporate governance mechanisms put in place to impede previous recessions, it seemed to me that the international arena is experiencing similar tremor as U.S. experienced in the previous decade, particularly the U.K. market and those territories within, or previously part of, the British Commonwealth. UK's Financial Reporting Council ("FRC") is more active now with its inspection & enforcement activities, catching up with PCAOB. The European Union ("EU") is also feeling some commotion within its bandwidth, with the impending Brexit, or UK's plan to exit from involvement in EU's intra-continental economic alliance. We are also seeing the rise of corruption charges, specifically in South Africa, used to be a British territory. As we think about the possibility of harmonizing our audit & regulatory frameworks around the globe, it is important to consider the impact of current economic & territorial issues across the globe, big or small, to the long-term stability in the global financial markets.
- (9) COSO 2013 Update & 2017 ERM Framework (*Underlying Controls Foundation*)**—from its 1992 Internal Controls Framework ("ICF"), the Committee on Sponsoring Organizations ("COSO") of the Treadway Commission released an updated version in 2013. To me, the major enhancement to the current COSO is putting some structure in the core principles underlying each COSO component, to assist in reasonably

concluding the effectiveness of an accountable organization's total control environment. Each reporting company is given the choice which ICF to use and in most instances, COSO's Controls Framework is the more acceptable. In 2017, COSO released its *ERM Framework*, addressing the constant evolution in our enterprise risk management, with recent cybersecurity issues. Though several of PCAOB's Auditing Standards points to the same elements in COSO's 2013 Update and while PCAOB did not specify COSO as the more preferred ICF to utilize (hence, not a requirement per PCAOB Auditing Standards), at this stage of converging several aspects in our Accounting field and ensuring reporting entities have better direction on how to proceed with SOX requirements, it would be imperative to reconcile PCAOB's standard-setting to COSO's Internal Controls Framework. COSO's ELC portion will be further discussed in Goal 1 discussion in succeeding page.

Since 2010 enactment and throughout the ~8-years of deep-dive & look-back testing, and though I have limited banking insight, in my view, Dodd-Frank Act is taking more relevance now that we have gained some practical experiences in dealing with issues in our financial markets. While I understand that there might be more legislative changes as part of Dodd-Frank, it is essential that we cohesively link all-together those critical aspects that impacted the 2008 Global Financial Crisis. Along with the challenges we encountered were experiences and lessons learned gained in PCAOB's inspection process since it officially kicked-off its inspections in the mid-2000's. We can use those historical data points, along with emerging issues and risks, in inviting equivalent bodies within the US and even in other territories to converge their regulatory framework. As PCAOB envisions and wrote in its website: "*PCAOB seeks to be a model regulatory organization*".

## II) **Purpose Elevation & Neutral (PEN) Vision:** *Synergies of PCAOB & Equivalents to Socio-Economic & Geo-Political Climate, and Integration to UN Cooperative Structure*

If you are currently performing or had performed roles of an auditor, inspector and those functions with financial reporting oversight responsibility (both review & preparation) within the issuer's control environment, you can attest the extreme dedication, professionalism and uptightness to ensuring that expectations & demands of those on the other side are addressed. While we are having these various economic issues, including regulation, in my mind, these are only short-term by-product of the complexities and confusions that build-up over time. I had experienced the difficult working environment when I started my audit career with a Big 4 Firm in the Philippines, as we were forced to work in volumes. When I transitioned to the U.S. almost 10 years ago, the working environment was even tougher at that crucial time of government bailouts of certain U.S. major financial institutions. Simplifying and converging accounting/auditing standards and regulatory framework require an immense level of leadership & commitment. If we are successful with this effort in our accounting field, we can create greater synergies to influence other governmental chambers, locally and even on a global scale, to enable a cohesive inter-governmental cooperation, the very purpose of United Nations's creation in 1945. To me, the objective of this elevation in the regulatory framework can be stressed into a 2-part synergy:

★ **PCAOB Elevated to Non-Sovereign Neutrality**—with PCAOB's inspection programs becoming mature and in conjunction with proposed convergence, re-aligning our regulatory efforts with UN's peacekeeping mission will take PCAOB & Equivalents' public perception on a more neutral stance, commensurate to its funding structure not dependent on taxpayers' money and I hope will address certain territorially-driven independence concerns, with a proposed reporting structure somewhat removed from any governmental & sovereign loyalty & pressures. As PCAOB does not fully belong to SEC's cultural mold since the former was created as immediate reaction to WorldCom & Enron collapses and the strengthening in its inspection & enforcement framework go beyond U.S. bounds as some of its activities have cooperative agreements with other territories, this proposed restructuring will align PCAOB's inter-territorial coverage to U.N.'s intergovernmental cooperation.

★ **UN~PEN Mission: Peacekeeper, Enforcer & Neutron**—this proposal elevates U.N.'s humanitarian purpose in providing fair resolution of a virtual population of global issues, including regulatory, economic & trade disputes, and potentially, make those U.N. Court Decisions enforceable among U.N. Member Nations, thereby elevating from membership-driven to a grand judicial & enforcement cooperative union. As UN's Charter has remained the same since 1945 and with persisting & emerging risks & threats to global camaraderie, now would be a perfect time to revisit how the UN and its purpose & programs can be more effective to address geo-political issues of global scale, to address the fast-changing times brought by man's creativity.

## III) **Boomer~X~Y Millennial Cohesion:** *Consideration of Emerging Minds' Leadership Style & Working Philosophies*

I have tried to use both existing and differential knowledge as I go along my professional life. One thing stood out as I have been rationalizing my experiences, that 2-way street of communication needs to be consistently applied, with due consideration of our multi-ethnic composition and giving priority to those with limited influences. We can leverage from our existing operating procedures (and standards, rules & principles), rationalize those for relevance in our convergence efforts, and incorporate new priorities in our cooperative agenda for sustainability, but ensure proper & timely succession to the emerging generation. *In connecting seasoned ideologies & tested practical experiences with the creativity and energies of emerging minds, we can facilitate a path of a smooth transition between generations.*

## **For Consideration: My Comments to Draft Strategic Plan**

Described below are my personal views & comments to certain goal & objective. I was actually hoping for some details and concrete items as part of the ***Draft Strategic Plan***, rather than generic statements. Nevertheless, I want to provide my comments, which are developed based on cumulative experiences at a U.S. Issuer, Accounting Firms and PCAOB in various jurisdictions at transition times from the emergence of IFRS into global platform and its convergence progress with GAAP. Given my own specific perception & understanding of PCAOB (including its standards/guidance and processes/controls) and on generally, the overall U.S. Financial Reporting Network, may not be current, accurate and all-encompassing, these comments should not be construed as conclusive, from my perspective.

### **Goal 1, Objective 1: Timely & Relevant Inspection Activities—Heightened ELC Emphasis**

As PCAOB's 3-part inspection program matures supported by its inspection history and as its management direction moves in parallel with Dodd-Frank Act to set the pace as a “*model regulatory organization*”, it would be an opportune time to do an inventory of what have been achieved, what can be done (including best practices), what are the emerging risks in the horizon and how to respond to those on a cohesive manner. Thinking about my recent experiences, heightening the emphasis of entity level controls (“ELCs”) in the overall regulatory spectrum would be a more conservative approach, to impede similar financial downturns from previous decade. While there might be incremental time and cost at the forefront should the below considerations be incorporated into our current regulatory framework, in my mind, being more proactive with emerging risks would pave for cost-effectiveness, in the long-run. (*Note: The Human Capital component of ELC will be covered in Goal 5, Objective 3 in the last page of this letter.*)

- ◆ ***COSO Integration: Reconcile w/ PCAOB Standards & Inspection Activities***—while the population & precision of ELCs differ between companies depending on size, risk profile, applicable regulatory environment, etc. (though there might be some overlaps and most often, judgment is subjective), identification of effective ELCs (*direct, monitoring & precise*) specific to each organization and ensuring to address all 14 COSO principles relating to ELCs is essential, as fraudulent financial reporting typically results from decisions made by those at the higher level of an organization's structure. This will provide some critical messaging that an audit is not only biased towards the process-level controls (including precise ELCs, or those closer to a process); rather, an assessment of the totality of an accountable organization's control environment, its dynamic risk management (including cyber-security risks), and its communication & monitoring systems. As PCAOB was created to prevent another WorldCom/Enron/A&A downfall, it would be imperative that its standard-setting and inspection processes demonstrate this succinct & integral analysis leading to the appropriate assessment of ICFR opinion, to be more proactive in addressing current & emerging risks from newer types of products & services introduced into the market, including the effect of multi-dimensional nature of delivery, particularly with e-commerce network, social media platforms for marketing, intellectual property rights in diverse forms and shared-service centers.
- ◆ ***Audit Committee Structure: Should this be outside BOD?***—as we all know, an Audit Committee (where Members and its compensation are typically part of and determined by, respectively, the Board of Directors) was required to be created by SOX, vested with the responsibility to review audit results and to approve the scope of audit & non-audit services, including auditor compensation. This structure by itself is susceptible to bias, intimidation and influence by the more superior & influential Board members. For public perception and objectivity to be ascertained and given an Audit Committee has distinctive role and its decisions & oversight have pervasive impact to an organization's financial statements, it is may be worthy of discussing, on a proactive approach, the best forward-looking structure of an Audit Committee, keeping in mind that several corporate failures in the 2000's have demonstrated the Audit Committee to be incompatible with the main Board who makes the operating decisions of an organization, that is, *Audit/Reporting Oversight vs Core Operations' Decision-Making (Revenue Generations)*.
- ◆ ***Legal & Compliance: Globalization & Effectiveness***—the legal & compliance section of every organization (part of ELC) has a wide-reach levity, in this modern day where rules & laws precede anything else. A more thoughtful look at how legal & compliance controls can address current & emerging risks and its integration into the overall COSO control framework of any organization will need to be ascertained. I certainly believe the importance of having an appropriate legal framework commensurate to the risks & size of an organization and on a territorial level, a fair & unbiased judicial process. However, as we have seen in recent decades, sometimes, the legal process can be time-inefficient, cost-ineffective and does not seem to elevate the concept of human diplomacy, at this current times where there are far more life-threatening & peace-disrupting risks around the globe. Re-thinking about how our current legal & judicial processes, just as those long & inefficient debates in multi-media, that do not result to real actionable items for global unity, would be essential, more than ever.

### **Goal 1, Objective 4: Audit Quality Indicators—Global Business & Academe Interloop**

A definition of “*quality audit*” is relative depending on a specific social era. Audits of U.S. public companies (including international subsidiaries) tend to be work-intensive since WorldCom/Enron era compared to private companies, hence, causing some disparity in how an Auditor would perform its assignments, if given with both types of audits. Further, in my own observation, audits outside U.S. tend to be less restrictive and less labor-intensive as the IFRS World has not been predicated yet by what U.S. experienced a decade ago, unless final judgments will be done on

recent global news. Based on my direct insights as a previous Auditor, at the end of all the chaos in our BusinessWorld, most often the Auditors take a toll for any corporate lapses as demonstrated by Arthur & Andersen's demise, based on a framework that can be judgmentally flexed and influenced by Key Management, for they are the ones who compensate the Auditors. Further, I also noted the compensation inequality between Big 4 and the mid-tiers, but that can be addressed another day, as we have more pressing world issues to cohesively address. From the lens of a participant auditor in an Audit Committee Meeting (mainly observer in few occasions) to handling the preparation of a Form 10-K/Q, sometimes one's perspective changes as you get exposure to how different parties in the Accounting spectrum think & behave and influence you. While documentation does not paint a full-picture of the audit testing given various constraints, it is important to recognize auditors' efforts. When assessing which ones are great motivating factors and the ones needing improvement, it is critical to identify and communicate both sides of our audit quality indicators, to balance motivation and continued interest to drive audit quality and to sustain the Accounting profession. However, this does not mean that insufficient audits will be forgiven and inactioned, as that would not provide a good precedent example for others to follow. As the world is getting smaller due to technological advancements, easing up communication channels and affecting expectations-setting, from a perspective of communicating *Audit Quality Indicators* and how it would be relevant at this stage, I would want to raise the following critical points:

- ◆ ***Dodd-Frank Application: Non-Banking/Investment Sector & Globalization***—I believe in equitable recognition of the audit profession, but also fair enforcement for obvious frauds of sizable magnitude, especially those repetitive & intently maneuvered. However, with recent news by a Big 4 Firm's audit quality decline (KPMG in the U.K. and South Africa), one thing seems clear to me, the non-U.S. financial market is starting to feel the rumbling, the unconcealable effect of cumulative corporate lapses, similar to what U.S. experienced since the start of the 21<sup>st</sup> Century. The mechanisms put in place in the U.S. financial market can be used as baseline for other territories to follow. As I mentioned earlier, I feel the timelapse since Dodd-Frank's enactment in 2010 has been the period for the U.S. to determine the effectiveness of such federal law and whether revisions need to be done. If our regulatory history for the past 8 year suggests that we have augmented corporate governance in the U.S. financial markets, along the lines of the proposed convergence project, we can utilize our own developed regulatory framework and extend such to other U.S. industries and sectors. Internationally, in similar concept in sharing best practices of those joint inspections with foreign regulators (where applicable), we can further extend this federal law to prevent those maneuvering before the effect becomes widespread, as we'd seen to Lehman Brothers/ BearStearns, Fonsi schemes and the antecedent, WorldCom & Enron.
- ◆ ***Cohesive Economic Risk Analysis w/ Insiders (incl. standard-setters) & Outsiders***—while the 1<sup>st</sup> point is much more time-critical given existing global financial matters, this point also needs to be included in our cooperative undertaking to ensuring sustainable and coherent financial market system. Within the walls of PCAOB, a more joint analysis between different divisions may be more beneficial, rather than doing it in silos, so Inspectors can gain more professional worth. More importantly, and not sure how PCAOB coordinates with those market analysts (both buy & sell sides), it would be a great idea to have some direct talks with them to get their perspectives on how they assess market risks for specific industries & issuers, and how they come up with price recommendations. Taking the point raised by IMA, any inputs & lessons on this coordination with those who provide direct inputs to the issuers, as part of PCAOB's economic & risk analysis, can be used for timely consideration to audit & regulatory framework & standards, to make the standard-setting process more sensitive to current market issues.
- ◆ ***Global Academe Collaboration***—to contribute to a sustainable culture founded on understanding multi-disciplinary differences would mean to not exclude those that will take future leadership rules, i.e., to start at the very base of the Accounting spectrum. We need to consistently work with the academe, on a global basis, in the development of course materials and how educational framework & syllabus can bring the best of our Accounting students, to have some understanding of those accounting issues, their genesis/development and the more comprehensive/cohesive approach to move forward, in our current culture of collaboration, coaching & congruence to the persisting economic issues. In my view, having some uniformity in course materials across territories will facilitate, on a long-term basis, expectations-setting that is responsive to our multi-ethnic composition and will ensure camaraderie when students of various ethnics come into workforce and interface with others, along the continued globalization and ethnic diaspora.

### ***Goal 2, Objective 3: Cybersecurity Risks—ELC (Risk Mgmt), Inspection Plan & ICFR Opinion***

We have seen in recent news about Facebook being used by non-US territories to affect the psychology of those not fully conversant of its features and capabilities, through non-verified (ie fake) news and interfaced 3<sup>rd</sup> party apps. There are several news & write-ups floating in various multi-media channels that I am not sure of its validity, truthfulness and motives by those making those news. While all these nuances make the world much more exciting, resplendent to our humanity's tendency to want something new & differential, these also pose big risks & threats to our interconnected thinking and ultimately, creates the same level of divisiveness just how the World War 2 impacted the last century, in our philosophy and how we perceive other ethnicities. To make the audit/regulatory environment more responsive to these newer types of risks and to be more sensitive of socio-political issues, in my mind, we should consider the following points in our standard-setting & framework up-keep:

- ◆ **Regulatory Impact: ELC Testplan, ICFR Opinion & Inspection Plan**—given the prevalent impact of cybersecurity attacks to affected organizations and given that auditors have the responsibility to develop audit procedures to be able to opine that financial statements are free of material misstatements, whether due to error or fraud, it is implied to address implications of cybersecurity issues to the organization as a whole, including assessment for fraud considerations. The effect of cybersecurity issues will have to be assessed to the totality of corporate controls to support ICFR opinion. However, as PCAOB drives audit quality through promulgation of audit standards for Audit Firms to follow, this by itself would mean that PCAOB considers its standard-setting to be relevant in this fast-changing times. In similar point as noted in Goal 1 (Objective 1) regarding the integration of COSO Framework into PCAOB standard-setting, as COSO has recently released in 2017 a separate ERM Framework in response to cybersecurity threats, it would serve in the best interests of financial market stakeholders to consider incorporating this ERM framework to PCAOB’s audit/regulatory framework, as well as its inspection plan.
- ◆ **Inspector/Enforcer Co-Educate & Crossover**—just as most Accounting Firms have embraced the resulting changes to expectations and philosophy due to technology advancements and different working styles of emerging leaders, it would be an opportune cross-over time to co-educate as to patterns & concerns that each group observes, and involving even those lesser tenured, in the spirit of inclusion, cohesion and for professional advancements, given that PCAOB as a whole, from my perspective, is the enforcer of the rules of law, which in this case is SOX and to some extent, Dodd-Frank Act. In my mind, this would also provide more professional fulfillment to an Inspector, to be involved in non-routine inspection matters, to have more appreciation of the more social “*action-oriented*” activities of the organization.

### ***Goal 5, Objective 2: Teamwork & Barriers—Consistent Leadership & Social Relevance***

With PCAOB’s recent change in Board Members and several of its Senior Staff Members, it is important that PCAOB Leadership leverages from previous experiences to execute its oversight function with consistent messaging across different firms, particularly the annually-inspected ones, to drive better level-set in expectations, both internal & external, and to avoid confusion as to what “*quality audit*” really means, rather than leaving “accounting firms” guess how to resolve quality issues, to truly give the worth of the “*accounting service fees*” paid by issuers to fund PCAOB’s inspection activities given there are far more time-critical & life-threatening issues somewhere else in this world and to make the organization more relevant and sensitive to socio-political issues. It is uplifting to see more Accountants & Finance professionals, than lawyers, in the current PCAOB Board, a critical messaging of bestowed “trust” to the Accountants of the World. In light of the continued globalization of business & accounting processes and the resulting risks, yet continued divisiveness in our humanity, it is critical that we sustain PCAOB’s mission & vision to not only focus on quantitative metrics.

- ◆ **Socio-Economic Symmetry: More Timely Output, Less Inefficient Debates**—as noted, PCAOB’s funding is significantly coming from the Issuers, as part of their operating cost mandated to protect investors and calculated based on market capitalization. This is a great strategy of spreading regulatory cost, applying economies of scale concept. Individually, accounting service fees paid by each Issuer is small relative to its total annual expenditures. This does not mean, however, that PCAOB can simply take all the time they need, given Issuers have a lot of areas to juggle with, not only regulatory issues, such as how to continually grow its business and to address key management’s commitments to investors, for stability in the company’s financial health and good governance (as a whole, where regulatory is part of). As PCAOB has now better inspections data points to assist in future decision-making, the need to consider timely & efficient public reporting and considering whether it would still be economical to continue doing annual inspections for those with above 100 issuers, as they need sufficient time to remediate inspections findings. Along with the proposed convergence effort and given PCAOB’s previous joint inspection experiences, now would be a great time to start thinking how we could meet halfway with other territory’s regulatory framework.
- ◆ **Audit Firm Coordination: Consistent Leadership Style**—while I certainly believe PCAOB needs to set boundaries with its regulated firms, loosening some rules seems essential given almost all of PCAOB’s inspectors were previous auditors, to still have free flow of camaraderie & connectivity in the Accounting network (see next point for *Independence & Public Perception* matters). Consistent leadership style & messaging between different Firms, particularly for the global network firms, where I experienced disparity in “politics”, is essential to level-set expectations and minimize those feelings of anxiety & animosity. Further, responsive to our “top-down” psychology, re-thinking how PCAOB Inspection Reports can capture the attention of emerging generations, so their interest to understand regulatory matters can be sustained, to truly empower younger generations in the Accounting sector, in addition to ensuring the investors can better contextualize PCAOB’s inspection findings to aid them in their decision-making.
- ◆ **Real “Independence”: Benchmarks align w/ Standards**—I totally agree with IMA’s point re: updating standards on “ethics & independence”. With the recent news about certain PCAOB employees using certain confidential inspections planning data to facilitate in getting employment with a Big 4 Firm, it is critical to upkeep latest standards on ethics & independence. If possible, putting some situational-type discussion embedded within regulatory independence standards would be helpful to assist in decision-making, along the lines of converging regulatory framework on a global scale and facilitating better expectations-setting. The area of “inspector scheduling” may also be

an area to consider, where the “scheduler” may need to be outside the inspector pool, ensuring internal perception is proactively addressed.

### ***Goal 5, Objective 3: Culture of Inclusion—Diversity & Empowerment***

As the regulatory organization which spearheaded global inspections process necessitated by non-U.S. entities listed in a U.S. stock exchange and those referred work engagements, in these sense of having “international influence” through its non-U.S. inspections (which typically is done through joint inspections with foreign regulatory equivalents, if applicable), a collaborative & transparent engagement within PCAOB’s workforce will lead to better diversity & ethnic-emotional empathy across dimensions in the PCAOB organization and its outside stakeholders. In the spirit of diversity & empowerment, I wanted to raise the following matters:

- ◆ ***Sustainable Culture: Human Resources “ELC” Policies***—in line with proposed heightening of ELC components within the regulatory/audit standard-setting & to the Accounting Network in general, having more “defined” human resources policies, re-imagined under current socio-economic environment, as part of PCAOB’s very own ELC bandwidth would give some sense to the BusinessWorld that the organization itself is living by its core principles. I think the relaxed regulatory environment during the 1st decade of the 21<sup>st</sup> Century created “monsters” in the higher-ups thereby enabling the maneuverings of financial transactions and balances. However, the extreme regulation also resulted to a divisive corporate governance infrastructure, thereby furthering those superiority & inferiority feelings. Understanding the impact of the various issues in the Global Financial Reporting Network to our psychology and how those patterns can be integrated into the “Human Capital” control aspect of an organization seems much more critical, to contribute to global humanitarian cohesion.
- ◆ ***Lead by Example: Governance-Elevated & Culture-Immersive Inspections***—during my PCAOB employment, I felt it was an intense period for the organization in gaining more inspection experiences, with significant number of comment forms being provided to the global network firms. More than the inspection results, trying to understand the virtual population of current working philosophies (plus emerging due to new generations coming of age) will facilitate in sustaining the culture of the organization. As PCAOB inspects Accounting Firms and indirectly has influence over those entities subject to inspection (since inspection results ideally have to be communicated to issuers), it would just be proper that it benchmarks its own processes and controls to be at par to a mature Issuer organization, to truly lead by example. In regards its international inspections, considering the psychology of target firms and cultural behaviors in those non-US territories and their implication to inspector selection matter in addition to technical merits to align with multi-dimensional aspect of most business & accounting processes, in conjunction with the proposed convergence and to truly give back to the global community, given the significant cost spent on those international inspections.
- ◆ ***“Inclusive” Wellness: TeamWealth Building Activities***—while I understand that regulatory bodies, such as PCAOB, need to behave differentially from its regulated firms, the bottomline is that Inspectors are also humans. I understand the more tenured folks tend to do things less socially, given family circumstances. However, to consider “true inclusive” culture, resplendant to the working styles of emerging professionals, who are mostly driven by “social coherence & gratification” and to sustain the organization’s culture, doing more communal events, in addition to annual convention, will derive more profound, long-lasting synergy effects to the organization as a whole. To keep teamwork glowing less those organizational barriers, organizing indoor events (such as Lunch & Learn) and outdoor activities (such as STEPS, hiking, marathon, etc.) will usher everyone in the organization to know each other more closely, on personal levels. However, due to various generational cohorts with different motivations & expectations, Team Building exercises could only work if segregated based on diverse grouping characteristics, but ensuring to encourage for openness to those unique differences in leadership & working styles.