To the Board of the Public Company Accounting Oversight Board:

Thank you for the opportunity to comment on your well-presented Draft Strategic Plan 2018 - 2022. The PCAOB plays a critical role in maintaining and enhancing investor protection and furthering the public interest through its audit oversight role, thereby fostering efficient and sound capital markets. I commend the Board’s continuing commitment to long-term strategic planning, which provides a sense of purpose and direction that enables economic resources to be allocated in a considered manner as well as facilitating strategic accountability over time.

I am a member of the Institute of Chartered Accountants of Scotland, having served on its Council and chaired its Constitutional Panel. I currently chair its Strategy and Research Advisory Group. I have been deeply involved in the development of best practice relating to global corporate governance and stewardship. I set up the governance and stewardship team at Standard Life Investments (now Aberdeen Standard Investments), which is one of the UK’s largest and most influential investors, and led it for 25 years before I retired as its Global Head of Governance & Stewardship in 2016. I have served on numerous committees focussed on investor protection and was the founder and inaugural Co-Chair of the Global Auditor Investor Dialogue. After retiring from Standard Life Investments I have developed a portfolio of professional responsibilities including serving as an Independent Non-Executive of Mazars LLP, the interim Chair of the European Corporate Governance Institute, and a member, for a second term, of the PCAOB’s Standing Advisory Group (the views expressed in this letter do not necessarily reflect the views of the PCAOB, its Board members or staff). Also, I have been appointed an Honorary Professor of the University of Edinburgh.

Vision and Values

I strongly endorse your Vision and Values as stated in your Draft Plan. It is essential that your Board upholds and is seen to uphold these at all times. It is notable that the perceived failure of the UK’s Financial Reporting Council (FRC) to uphold some of the values that you espouse has been a major contributor to the UK Government’s decision to commission Sir John Kingman to undertake an independent and far-reaching review, which is on-going, of the FRC.

In your ‘Accountability Value’ you refer to your expectation that you will be held accountable. Mindful of the FRC’s experience, which arguably has lack of effective accountability as one of its root causes, I suggest your Accountability Value be strengthened by adding, after ‘expect to be held accountable’ the words ‘and we shall use our best endeavours to enable this to be achieved effectively’.

Key Factors Affecting Our Strategic Outlook

I agree with the key factors cited in the Draft Strategic Plan. However, there are two notable omissions that should be included.

First, is disruption to global audit markets. The quality of the audits of many issuers is a function of the audit quality of audits undertaken by overseas auditors. Global audit markets are being disrupted by (1) mandatory audit tendering and (2) challenges to the the audit market oligopoly that is enjoyed by the so-called Big Four.
Although the US has chosen not to adopt mandatory audit tendering, its adoption is progressively gaining momentum elsewhere. This has potential consequences for maintaining audit quality at US issuers who have significant subsidiaries and other entities that are audited overseas.

The UK authorities are likely to be the first to grasp the nettle of the Big Four’s oligopoly and I believe it is only a matter of time until other jurisdictions follow suit. I commend to you the lead editorial in the Financial Times of September 3, 2018. It is entitled ‘A shake-up of audit’s oligopoly is long overdue’. Although I do not agree with all that is stated, the editorial captures well the mood of the public and investors, which is for structural market change. Such change will have significant potential consequences for audit quality - positive and negative.

Although these developments are currently taking place overseas, I believe it would be remiss of the PCAOB not to recognise their significance and factor them into its Strategic Outlook.

Second, is the growing importance being attributed to third party assurance in respect of non-financial information. Although the PCAOB’s mission and responsibilities arguably pertain to audit rather than assurance reports, it is a moot point as to whether it has a responsibility to seek an expansion of its regulatory scope to encompass assurance reports. The rapid increase in environmental, social and governance (ESG) investing is irreversible and ESG factors, which tend to be non-financial, are now starting to move markets. The interest of investors and the wider public in assurance reporting is undeniable and the significant role of audit firms in providing assurance reports is indisputable.

Goal One, Objective Three (re enforcement)

I welcome the reference to ‘prompt action’, which is a critical component of effective audit regulation. It is relevant to note that a failure to take prompt action against audit firms has been a significant contributory factor to the FRC’s aforementioned woes. However, I suggest that the strategic objective should refer to imposing more innovative sanctions, when appropriate, than in the past. It is questionable whether the imposition of financial fines is sufficiently impactful. For example, I suggest that preventing firms tendering for new audits for a specified time period might, in some situations, be better aligned with the interests of investors and the public than merely fining the firm concerned. Fines and alternative sanctions are, of course, not mutually exclusive.

Goal Three, Objective Two (re effective stakeholder engagement)

I applaud the PCAOB for including this important objective in its Draft Strategic Plan. In particular, achieving the objective will help to ensure the PCAOB keeps abreast of emerging stakeholder issues and thereby enable it to develop timely standards and guidance to ensure that audit reports remain relevant.

The reference in this Objective to engaging with other global regulators is important, especially in the light of the significance to the PCAOB of global stakeholder developments already referenced in this comment letter. However, there is no explicit reference to engaging selected overseas investors who are significant investors in US capital markets and rely on informative, accurate and independent audit reports. Was this an oversight or an intentional omission?

Conclusion
I congratulate the PCAOB for developing such a clear, concise and well-structured Draft Strategic Plan. Together with some recent PCAOB initiatives, such as standards requiring the disclosure of critical audit matters, it provides the PCAOB with a framework to meaningfully improve investor confidence in audits and in corporate reporting more generally. Thank you, once again, for the opportunity to provide my comments, which I hope will receive positive consideration.

Sincerely,

Guy R Jubb

Honorary Professor,
The University of Edinburgh Business School

Guy.jubb@binternet.com