

Statement on the PCAOB 2019-2023 Strategic Plan and 2020 Budget

DATE:

Nov. 19, 2019

SPEAKER:

William D. Duhnke, Chairman

EVENT:

PCAOB Open Board Meeting

LOCATION:

Washington

Before I begin with my formal statement related to our adoption of the 2020 Budget, I want to take a moment to thank former Board Member Kathleen Hamm for her dedicated service to the Board. I think I speak for each of the Board members in saying that we appreciated the chance we had to serve with her. She was fully committed to our mission and her service left an indelible mark on the organization as well as on all of us individually.

With that said, we now welcome our new Board member, Rebekah Goshorn Jurata, who joined the Board on November 4. Rebekah, we look forward to serving alongside you as we work to accomplish our mission and push forward with our strategic vision and goals. Thank you for your willingness to serve, and welcome to the Board.

I. Background

I am pleased to support the recommendation in favor of adopting our 2020 Budget and related strategic plan.

During 2018, the Board focused our joint efforts on assessing where we were as a regulatory body, defining where we needed to go, and strategizing how to get there. Those efforts, aided by significant external input, yielded a new strategic plan, anchored by a clear vision, revised core values, and five strategic goals. During 2019, we began the hard work of implementing our vision, instilling our values, and accomplishing our goals. Doing so has demanded significant organizational change—changes in structure, processes, capabilities, and, most of all, culture.

Change, of course, is never easy. It is, however, often necessary. When the five new Board members joined last year, one of the first things we did was reach out to our stakeholders for their assessment of the PCAOB and their views on where we should take the organization in the future. Through that outreach, investors, audit committee members, academics, auditors, and, most of all, our own employees made it abundantly clear that the organization was ripe for change. Not merely incremental change, but transformational change; the type of change that can challenge any organization, regardless of its size or maturity.

Our own assessment led us to the same conclusion. We needed to become more effective in improving audit quality, more innovative in our oversight, more engaged with our stakeholders, more efficient and effective in our operations, and more committed to our culture and people. When the Board unanimously adopted its strategic plan, which we reaffirm today, we committed collectively to transform the PCAOB into a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight.

The type of change we are pursuing together to accomplish that vision requires patience, drive, and an unwavering commitment to the outcome. It also requires looking past the fears that change instills to the opportunities that change presents. As a Board, we have been—and will continue to be—intently focused on implementing our vision. Working together with our staff, we will continue to push forward with the changes necessary to move the PCAOB along the organizational maturity curve.

II. Progress in 2019

In 2019, the Board took substantial steps towards implementing our vision. I'll touch briefly on five core areas where we have focused our recent efforts.

First, we have made important changes to how we conduct inspections—the first step in a multi-year journey to transform our inspections program. We placed an increased emphasis this year on firms' quality control systems. We devoted substantial resources to understanding how the largest audit firms define their quality control objectives and manage the risks associated with achieving those objectives. We also significantly increased our interaction with audit committees during the inspection process. Whereas in the past we spoke to approximately 10% of audit committee chairs for the issuers whose audits were selected for inspection, this year we've spoken to the audit committee chair on nearly every inspection we've conducted, or nearly 400. Further, we deployed our first ever "target team" of inspectors to perform a horizontal review of an area of increasing risk and focus: the conduct and supervision of multi-location audits.

We also devoted significant resources to refining our inspections report format to better meet the needs of investors and audit committee members, as well as the broader public. Early next year, we plan to release the new inspection report format, beginning with the 2018 reports for the largest U.S. firms. We hope our changes, which are to both form and substance, will provide more relevant and accessible information to our stakeholders.

We have also begun to take a more preventative approach to communicating what we observe in our inspections. We've made progress on reporting not only the "failures" we observe, but also the "good practices" we see that promote or enhance audit quality.

We've also made an important internal change to our inspections program, which we have not yet shared with our external stakeholders. This year we formed a new team, known as the "Inspections Quality Group." This group, staffed by experienced inspectors, has been tasked with ensuring the consistency, quality, and effectiveness of our inspections activities. Their efforts will touch all parts of our inspections process, from methodology to planning to execution to reporting to remediation.

We continue to make other enhancements to our inspection program and expect to make further changes to it that will improve our ability to identify and respond to risks, communicate consistently, prioritize our use of resources, and measure and analyze results.

Second, we have made massive changes to our stakeholder outreach and communications. We recently hired our first-ever stakeholder liaison, Erin Dwyer. Erin is dedicated to serving as a direct point of contact and resource for investors and audit committee members, and is actively pursuing a new engagement strategy for us. We also hosted our first-ever series of investor roundtables and audit committee roundtables. Over 800 investors and more than 600 audit committee members attended events where the PCAOB had a presence over the last several months. Our key takeaway from these roundtables and other events was that there continues to be a strong desire to interact more often and directly with us. We've also recently begun to improve our outreach to financial statement preparers, and we intend to focus further on that outreach in 2020. We look forward to continuing to expand and improve our stakeholder engagement in the coming year.

We also took significant strides in 2019 towards improving our external documents, such as staff guidance, with an aim of making our publications more timely and useful. For example, we issued targeted resources for investors, audit committees, and auditors related to the implementation of critical audit matters. We also recently issued guidance to raise awareness of the new requirements related to auditing estimates and the use of specialists. While those standards do not go into effect until December 2020, we wanted to provide early insights as auditors prepare for implementation. We plan to continue with this guided approach as we move new projects forward.

Third, we reorganized our research and analysis function, with an aim of more effectively integrating our analytical capabilities into our oversight functions. Aligning our Office of Economic and Risk Analysis' capabilities into our oversight functions remains a work in progress and we look forward to continuing that integration as we strive to implement the Board's overarching vision.

Fourth, we onboarded numerous employees into newly-created, significant positions—including a Chief Data Officer, Chief Risk Officer, Chief Compliance Officer, and Chief Information Security Officer. These roles will be critical to the long-term effectiveness of this organization. This year, we launched the PCAOB's first ever enterprise risk management program and developed formal plans and systems to identify and respond to business continuity concerns as well as other security threats and incidents. We also developed a new suite of performance metrics to measure our progress towards completing our strategic goals. We have also made meaningful enhancements to numerous business processes.

Finally, we have begun to execute on our goal to optimize our culture. We drafted our first-ever human capital strategic plan. We launched a new learning management system to assist our staff in their professional growth and development. We expect to issue soon a new compensation philosophy and a career progression philosophy, with an increased emphasis on transparency for our employees. And we recently developed and launched the organization's first internal communications plan, with an aim of communicating more often and more effectively to all PCAOB staff.

III. Outlook for 2020

These are just a few of the organizational accomplishments we had in 2019, the first year of executing our vision for the PCAOB. Much more, however, remains to be done, which is why today we collectively reaffirm our commitment to our current strategic vision, values, and goals. When we adopted our strategic plan last year, we understood it would take several years to accomplish our goals. That remains true, and we are heartened by the progress we have made to date.

As it relates to the 2020 Budget specifically, the amounts outlined reflect the resources needed to continue to execute against our strategic plan and fulfill our statutory mission. Many of the strategic initiatives we have undertaken require short-term investments, which are reflected in the proposed budget. Over the longer term, we expect that many of the changes we are making will result in more efficient and effective operations.

I appreciate the staff's assistance in developing the 2020 Budget and am pleased to support it today. I also want to thank my fellow Board members for their work on the budget and support of the vision we laid out. I appreciate the strong commitment you have shown to the organization and our mission.

I'll now turn the time over to Board member Brown, who will be followed by Board members Kaiser, DesParte, and Jurata.