

# Statement to U.S. Securities and Exchange Commission on the PCAOB 2018-2022 Strategic Plan and 2019 Budget

## **DATE**

Dec. 19, 2018

## **SPEAKER**

William D. Duhnke, Chairman

## **EVENT**

SEC Open Meeting

## **LOCATION**

Washington

## **I. Introduction**

Chairman Clayton, Commissioners Stein, Jackson, Pierce, and Roisman, thank you for the opportunity to present the PCAOB's recently adopted Strategic Plan and 2019 Budget. It is a privilege to serve with nearly 800 individuals who are deeply committed to our mission of protecting the interests of investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.

2018 has been a year of transition for the PCAOB. Although the year began with the appointment of five new Board members, we quickly developed a common vision and strategic direction which led to a broad organizational assessment, the development of a new strategic plan, and a budget to support its goals and objectives.

I will begin today by addressing our assessment of the organization. I'll then turn to our development of the Strategic Plan and conclude by addressing key details related to our proposed 2019 budget.

## II. Organizational Assessment, Strategic Planning, and Transformation Initiatives and Projects

While the PCAOB turned 15 this year, many of its programs and operations have not matured far beyond their original design. Therefore, we see substantial opportunities to improve the effectiveness and efficiency of our programs, policymaking, external engagement, governance and leadership, and our administrative management. With that preliminary assessment as a backdrop, we commenced our strategic planning process, which we deliberately made as open and accessible as possible. The response was overwhelmingly positive and very helpful in determining our goals and objectives.

The Strategic Plan, approved by the Board on November 15th, focuses on four key priorities in pursuit of our mission: (1) effective oversight, (2) innovation, (3) improved engagement, and (4) process and culture optimization. Let me briefly touch on each of our four strategic priorities and provide you with insight on some of the early transformation efforts.

In 2018, we began a reassessment of our inspections, standard-setting, and enforcement programs. Regarding inspections, we are reconsidering (1) the fundamental purpose of our inspections program; (2) how we select audit engagements for inspection; (3) what procedures we perform during an inspection; (4) what data we collect and use as part of our inspections; (5) how, what, and when we report on our inspections; and (6) our approach to remediation determinations. Thirty dedicated inspections staff volunteered to work on ten projects that we expect to culminate in a number of incremental changes in 2019, with additional changes to come in 2020 and beyond. In 2019, for example, we will focus on firms' quality control systems, enhance our engagement with audit committees, and enhance the timeliness and relevance of our inspections reports.

Our second priority is to become more innovative. Technology is changing the audit and, consequently, how we perform our oversight. We intend to stay ahead of those

changes and respond appropriately to them. Earlier this year, we launched a Data and Technology Task Force which will consider and advise us on the impact of data and technology on the audit and, as appropriate, our standards.

Our third strategic priority is to improve our engagement. We plan to engage more often and more directly with a broader array of investors, as well as with audit committees, preparers, and other interested parties.

Finally, we will modernize and improve our operational and administrative processes. The Board will soon adopt the organization's first enterprise risk management policy and will soon hire a new Chief Risk Officer who will supervise our efforts in this area. We also have designed and begun to implement a new information security program and the Board will shortly approve a new governing policy for that program. We drafted and adopted a new charter for our Office of Internal Oversight and Performance Assurance and hired a new director. We also established the organization's first ethics hotline, where our employees can anonymously and in confidence report 24/7 any concerns they have with compliance with our ethics code or any other policies or procedures.

### **III. 2019 Budget**

Because 2018 has been a year of assessment and planning, we expect 2019 to be a year of implementation. The 2019 budget funds our core oversight and operations at levels similar to 2018 with adjustments to support implementation of our strategic plan and related transformation efforts.

The 2019 Budget seeks \$273.7 million and funds 838 positions. It is \$14.0 million (or 5.4%) higher than the 2018 Revised Spending Plan. Due in significant part to savings achieved in 2018, however, the Accounting Support Fee for 2019 is \$262.9 million. We are pleased to have worked side-by-side with your staff throughout the year. We have discussed our vision and plans with them on numerous occasions, beginning with our preparation and submission of the budget outlook letter last spring and ending with the Board's recent approval of the final 2019 budget in November.

The budgetary increases we request today relative to 2018 represent strategic investments in our people, processes, and technology.

Personnel expenses account for approximately 75% of our budget. In 2019 that number includes a number of new positions to support our most pressing strategic needs in risk management, data, and technology. We are creating a new office which will be led by the PCAOB's first Chief Risk Officer, and will include new roles for a Chief Compliance Officer, Chief Information Security Officer, and a Risk and Security Policy Analyst. We also have added a Chief Data Officer to advance our data management and analysis strategy. Finally, to enhance our outreach and accessibility we are adding two new liaison positions to our new Office of External Affairs—one for investors and one for broker-dealers, issuers, and their associated audit committees.

Our Strategic Plan also contemplates changes to PCAOB oversight and back-end operational processes. We have, for example, allocated \$1.0 million (consulting) to assist the Division of Registration and Inspections with its initiative to transform its inspections planning, performance, and reporting. Other divisions and offices have also added additional funds or positions to assist in our transformation efforts. Our Office of Administration will finalize the organization's first Human Capital Strategic Plan, further develop our leadership development and technical capabilities, enhance our diversity and inclusion efforts, re-evaluate our employee policies, continue to refine our compensation and career framework, and enhance business continuity planning.

Finally, we plan to make strategic investments in information technology. Aside from investments in additional personnel, the 2019 Budget increases spending by \$5.8 million (or 38%) to invest in our data management strategy, processes, and related tools. We will continue to mature our information security policies, procedures, and capabilities, and pursue greater business process automation. Finally, we will continue to invest in our disaster recovery capabilities.

## **IV. Conclusion**

As you can see Mr. Chairman, 2018 has been a year of transition and 2019 promises to be a year of change. I can say confidently, however, with the strong support of the

Commission, the Office of the Chief Accountant, and our incredibly talented and dedicated staff, the future looks bright for the PCAOB.

Thank you.