

**Testimony of William D. Duhnke III  
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**Hearing on “Overseeing the Standard Setters: An Examination of the Financial Accounting Standards Board and the Public Company Accounting Oversight Board”**

**Before the U.S. House of Representatives Committee on Financial Services  
Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets**

**Washington, D.C.  
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Chairman Sherman, Ranking Member Huizenga, and distinguished members of the subcommittee, thank you for the opportunity to appear before you today to discuss the important work of the Public Company Accounting Oversight Board (PCAOB).<sup>1</sup>

I joined our five-member board in early 2018, along with four other new board members. Not since the PCAOB was first founded in 2003 have five new Board members joined the organization at roughly the same time. With such a significant change in the Board’s composition, came a significant opportunity. We had the chance to reflect on lessons learned over the prior 15 years, to innovate, and to improve how we approach audit oversight.

In 2018, we used the opportunity to perform a comprehensive assessment of the PCAOB. To help our assessment, we engaged in significant public outreach. We sought input from our core stakeholders on what we were doing well, what we needed to improve, and how we could best improve audit quality. We heard from the SEC, investors, audit committees, financial statement preparers, audit firms, academics, and others. The message we received back was loud and clear: The PCAOB was ripe for change. The PCAOB had, in many respects, lost the public’s trust. The organization was out of touch with market developments and stakeholders’ needs. It had not matured significantly since opening its doors in 2003. During that time, it developed a culture that lacked internal accountability. And, its integrity had been compromised in 2017 by employees leaking confidential inspections information to those we are charged to regulate.

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<sup>1</sup> The views I express here today are my own and do not necessarily represent the views of the board, or any individual board member.

With that as our starting point, we set the PCAOB back on the path envisioned by Congress when it passed the Sarbanes-Oxley Act. We published a new five-year strategic plan in November 2018. That plan emphasizes the need for us to transform the PCAOB into a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight. It articulates five specific goals and identifies the core values we expect our people to demonstrate as they work towards those goals: integrity, excellence, effectiveness, collaboration, and accountability.

In 2019, we began the work necessary to implement our vision and execute on our strategic goals. Doing so has required substantial change. That change has permeated the entire organization and has touched nearly every aspect of our work. Change is never easy, but the Board collectively believes the changes we are pursuing are necessary to fulfill our mandate. We are grateful to those at the PCAOB who have embraced our current path. Because of their efforts, we've made substantial progress.

Let me highlight a few examples. First, we have focused on improving the effectiveness of our oversight. That oversight involves inspections of audit firms, enforcement of auditing standards and related securities laws, and standard-setting for the audit profession.

With respect to our inspections, we have begun a multi-year transformation of how we plan for, conduct, and report on inspections. We have significantly increased our emphasis on audit firms' systems of quality control. We also have developed—and will soon roll out publicly—a revised inspection report. Our revised report will reflect incremental progress towards providing stakeholders with more timely and relevant information related to our inspections. Further, we have begun to report not only audit deficiencies, but also successful practices we have observed.

In enforcement, where we share concurrent jurisdiction with the SEC, we have placed a renewed emphasis on investigating significant audit failures. We also have issued settled orders and decisions in numerous significant matters, covering violations related to substantive auditing standards, auditor independence rules, audit documentation alterations, and non-cooperation with our inspections. Our investigative pipeline remains consistent with recent years.

With regard to standard-setting, we have been active in improving existing auditing standards. In late 2018, we adopted significant changes to the standards related to auditing accounting estimates, which are at the core of many public companies' reported financial results. We also adopted important changes to the standards governing auditors' use of the work of specialists. In 2019, we began the process of modernizing our standards that govern audit firm quality controls. Strong

systems of quality control provide the foundation for audit firms to execute consistent, high-quality audits. Last month, we issued a concept release seeking public input on how to best update our current quality control standards.

Second, we have placed an increased focus on innovation and technology. We have met with numerous groups to explore technologies affecting both auditing and financial reporting. We must ensure that our work does not inhibit those innovations that support audit quality.

Third, we have greatly expanded our engagement and outreach to stakeholders. We hosted numerous roundtables with investors and audit committees. And, for the first time in the PCAOB's history, we invited every audit committee chair for the U.S. audits we inspected in 2019 to speak with us.

Finally, we have launched significant process and cultural changes within the PCAOB. We recently stood up our Office of Enterprise Risk Management, and hired our first-ever Chief Risk Officer, Chief Information Security Officer, Chief Compliance Officer, and Chief Data Officer. We reorganized our research and analysis function. We also drafted our first-ever human capital strategic plan.

These are just a few of the changes we have pursued recently. As we continue to push forward with our core strategic priorities throughout 2020, we welcome feedback from the subcommittee, as well as investors, audit committees, preparers, and others on our oversight efforts.

Thank you. I'd be pleased to answer any questions you may have.