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Input to the PCAOB Strategic Plan for 2026 to 2030
May 15, 2026

To The Public Company Accounting Oversight Board:

The PCAOB's stated mission is to protect the interests of investors. Every decision you make in your strategic planning process should be guided by the protection of investor interests. My comments are rooted in a fact-based assessment of the current state of the PCAOB and how the PCAOB can better protect the interests of investors.

Observation #1

Data suggests that the PCAOB may be excessively focused on internal controls over financial reporting at the expense of GAAP compliance.

Are Inspections Achieving the PCAOB's Mission to Protect Investor Interests?

PCAOB inspection reports identify instances where a finding led to a financial statement reissuance restatement. The inspection reports also identify instances where a finding led the issuer and the auditor to conclude that their prior opinions on internal controls over financial reporting ("ICFR") should no longer be relied upon. In the table below, I have tallied the number of such instances from all Big Four reports for the inspection years beginning with 2012 and concluding with 2024 (the most recent period for which Big Four inspection reports are available). Below is a summary:

Inspection Years	Results of PCAOB Big Four Inspections	
	Financial Statement Audits Restated	Internal Control Opinions Withdrawn
2012 - 2014	11	13
2015 - 2017	6	17
2018 - 2020	3	10
2021 - 2023	2	4
2024	2	2

The number of Big Four inspections conducted each year has stayed relatively constant at approximately 220 inspections per year.

Beginning with the 2014 inspection year, the PCAOB included tables in each Big Four report identifying the auditing standard the auditor failed to comply with and the number of

instances of failed compliance within each standard. Summarized below are the number of inspection deficiencies identified for 1) the PCAOB's only audit standard on internal controls over financial reporting and 2) all other PCAOB auditing standards combined:

		<u>Big Four PCAOB Inspection Years 2014 through 2024</u>	
<u>PCAOB Standard</u>	<u>Description of Standard</u>	<u>Quantity of Deficiencies Identified</u>	<u>Percent of Total</u>
AS 2201	Internal Controls over Financial Reporting	1,208	48%
Reported Deficiencies from all other PCAOB Standards (listed below):		1,320	52%
		<u>2,528</u>	<u>100%</u>
AS 1105	Audit Evidence		
AS 1201	Supervision		
AS 2101	Audit Planning		
AS 2110	Risks of Material Misstatement		
AS 2305	Substantive Analytical Procedures		
AS 2310	Confirmations		
AS 2315	Audit Sampling		
AS 2401	Consideration of Fraud		
AS 2410	Related Parties		
AS 2415	Going Concern		
AS 2501	Auditing Estimates		
AS 2505	Letters of Audit Inquiry to Attorneys		
AS 2510	Auditing Inventories		
AS 2801	Subsequent Events		
AS 2810	Evaluating Audit Results		

Over the entire 11-year period (from 2014 through the 2024 inspection years), 48% of all PCAOB identified deficiencies arose from the PCAOB's single audit standard on internal controls over financial reporting (AS 2201). For the individual years in that period, the deficiencies arising from the ICFR standard ranged from a low of 40% to a high of 54% of all deficiencies. The trend in this statistic shows no sign of declining over time.

Among the questions that come to mind are:

1. Did financial statement GAAP auditing by the Big Four dramatically improve as suggested by the steep decline in financial statement audit restatements identified by PCAOB inspections? Or did other factors come into play? For instance, did pressures to expedite report issuance cause inspectors to shy away from the challenging task of identifying GAAP non-compliance in favor of ICFR non-compliance which might be easier and faster to sustain? What is the Board's interpretation of this data?

2. Major changes to GAAP for revenue recognition, leasing, and current expected credit losses were effective beginning in 2018, 2019, and 2020, respectively. I would encourage the Board to conduct a “look back” analysis to see if any areas subject to inspection were subsequently restated. This will help the Board understand whether the PCAOB was up to the task of inspecting these major changes in GAAP. Consider expanding this analysis to all Big Four inspection selections starting in 2018.
3. Withdrawals of ICFR opinions continued at a comparable rate across the first three three-year periods. On the surface, this may be an expected result given the difficulty both issuers and auditors have experienced implementing the PCAOB’s standards on internal controls over financial reporting. Does the PCAOB concur?
4. Do the results reflect a greater emphasis by the PCAOB on inspecting ICFR relative to GAAP and substantive auditing compliance as time progressed?
5. The Board should consider whether PCAOB’s ICFR findings undermine the PCAOB’s credibility when they highlight control matters that are not realistically impactful.

First and foremost, investors want to know whether the numbers are right. Many material weaknesses in internal controls are often identified only after a financial statement restatement has been identified. Few financial statement restatements have been identified as the result of first identifying internal control deficiencies.

An academic study titled “[PCAOB Inspections: Public Accounting Firms on Trial](#)”¹ based on surveys and interviews of large audit firm auditors and noted, among other things, that:

*“Respondents collectively perceive that audit quality has improved as a result of inspections. In fact, some partners perceive that they have become so good at auditing that **there exists a concern that being a good auditor has come at the expense of being a good accountant** owing to the focus on developing expertise in auditing standards (i.e., internal controls and documentation) over expertise in accounting standards (e.g. revenue recognition), particularly at ranks below manager.”*

Investors are not well served when audit firms “teach to the test,” aligning their focus with the PCAOB’s focus on ICFR to the detriment of auditing for accounting accuracy. This isn’t just academic theory, it’s a reality being voiced by the Big Four. One partner at a Big Four audit firm recounted his experience from a three-week inspection noting that, “Not once did the PCAOB ask an accounting question. Everything was about internal controls.” Another partner at a Next Four firm echoed the same sentiment, noting that, “The inspectors’ focus has become almost exclusively myopic toward ICFR.”

¹ Westermann, Cohen, and Trompeter; “PCAOB Inspections: Public Accounting Firms on Trial” (May 15, 2018); Contemporary Accounting Research, <https://doi.org/10.1111/1911-3846.12454Digital>

Why Are PCAOB Inspections Overly Focused on ICFR?

In a public forum, a former PCAOB official shared his thoughts about the PCAOB's focus on ICFR over GAAP compliance. His response was twofold. First, as the PCAOB had matured, it lost its cadre of retired audit partners who were there from the beginning. It also eliminated a retired partner seasonal program that had elevated the PCAOB's technical skills related to GAAP compliance. What was left behind were less experienced former auditors whose technical accounting skills may have dulled over their lengthy tenure at the PCAOB. ICFR findings became the low hanging fruit.

Second, he noted that potential GAAP findings arising from a PCAOB inspection were required to be vetted by the SEC (the final arbiter of GAAP for public companies). He noted that early on in the PCAOB's existence, the SEC took the side of the issuer and the auditor on questions of GAAP compliance raised by the PCAOB. This embarrassed the PCAOB and naturally made the PCAOB gun-shy about raising GAAP issues at all.

Concerns about untimely inspection report issuance were being pressed repeatedly by various PCAOB stakeholders. GAAP issues take longer to resolve due to the required SEC consultation. Perhaps this caused some inspectors to shy away from potential GAAP findings? Sound familiar? I am reminded of the Madoff whistleblower Harry Markopolos and his decade long effort to convince the SEC to investigate Bernie Madoff. Markopolos repeatedly argued that the SEC had institutional incentives that favored quickly closing investigations and processing cases administratively rather than aggressively pursuing complex fraud investigations.

When Jim Doty became Chairman of the PCAOB in 2011, his rallying cry to the Inspection Division was to "Be bold, fearless, and feared." That was inspiring. However, over time, that message may have faded.

Lost Political Capital

The excessive focus on ICFR has cost the PCAOB a degree of respect from its many stakeholders. My view is that a keener focus on GAAP and substantive auditing might have averted all this talk about absorbing the PCAOB into the SEC.

On a related note, former PCAOB Chair Erica Williams sought to improve audit firm compliance by assessing large penalties for certain compliance matters that many saw as disproportionate to the underlying issues. **My view is that the PCAOB didn't need bigger fines, it needed better findings.**

Possible Action Items to Address Observation #1

The Board should assess whether PCAOB inspections are appropriately focused on GAAP compliance and whether its existing cadre of inspectors are sufficiently skilled to identify departures from GAAP.

Specific action items could include:

- Limit ICFR inspections to one or two key audit areas for each issuer inspection.
- Collaborate with the SEC more closely, including making SEC technical resources available to the PCAOB on a rotational basis to assist in the PCAOB's identification, development, and confirmation of key GAAP findings. Also, consider re-instituting the retired audit partner seasonal worker program.
- If GAAP issues are not resolved in a timely manner, proceed to issue the inspection report, noting that there are X number of GAAP issues yet to be resolved. Once those issues are resolved, issue an amended report. I suspect that this mechanism will incentivize the auditor and issuer to seek timely resolution of any GAAP issues.
- In the other direction, I suspect that the SEC's Division of Corporation Finance can make fruitful inspection referrals to the PCAOB based on lingering concerns that an issuer may not have been completely forthright in their comment letter responses. I have been surprised throughout my career by how many times I have read issuer responses to comment letters where every word is true, but collectively, the response is misleading (often by selective omission of important facts). A little collaboration between the SEC and the PCAOB can benefit both organizations and better protect investors.
- Identify restatements of periods previously inspected by the PCAOB along with commentary as to whether the subject area of the restatement was within the PCAOB's inspection scope and if so, an evaluation as to whether the PCAOB should have detected the issue at the time of its last inspection.

Observation #2

Indications of regulatory capture threaten the PCAOB's mission to protect investor interests.

Regulatory Capture Evident in QC 1000

The PCAOB's Quality Control Standard 1000, planned to be implemented by December 15, 2026, logically requires monitoring of audit operations. The PCAOB's QC Standard allows each audit firm to decide "what to monitor" and determine "what constitutes reasonable levels of performance." The obvious concern is that the audit firms will set the bar too low on QC 1000 so they can proclaim their quality controls are effective. This strikes me a bit like asking the fox to report back on the safety of the hens in the henhouse. This is essentially a throw-back to the profession's self-regulatory "peer review" approach which was deemed to be a complete failure post Enron / Worldcom and the failure of Arthur Andersen. In a twist of irony, it was the profession's failure at self-regulation that led to the creation of the PCAOB. Yet today, the PCAOB is writing standards that favor a heightened degree of self-regulation.

Audits are not like widgets stamped out with perfect uniformity. The quality of each audit can vary considerably for a whole host of reasons such as excessive staff leverage, excessive workloads, high staff turnover, low audit team year-over-year continuity, varying staff experience levels, lack of sufficient industry expertise, partners and managers who are behind where they need to be in their review cycle due to their own workload issues,

etc. If an audit rolled down the assembly line with metrics indicating a heightened risk that audit quality may have been compromised, one would expect that remedial procedures would be applied to assure that audit quality was not compromised. These circumstances warrant a prescriptive solution from the PCAOB that perhaps incorporated ways for regulators, audit committees, and investors to assess the firms, such as using the concepts of Firm and Engagement Performance Metrics. But that is not what happened.

Allowing the audit firms to “write their own test – then tell if they passed” by each using their own risk-based approach to quality controls over the management and monitoring of their human capital will not drive serious change. Instead, it will allow the largest audit firms to perpetuate the status quo by enabling those firms to put their own stamp of approval on their quality controls, despite their checkered past, including realities of how the largest audit firms mismanage their human capital.

Another Example of Regulatory Capture – “Follow the Money”

There were 39 unique respondents² to the SEC’s request for public comment on the PCAOB’s proposed standards to provide transparency to “Firm and Engagement Performance Metrics.” Below is a summary of the respondents both “For” and “Against” the proposed standard:

<u>Type of Respondent</u>	<u>For the Standard</u>	<u>Against the Standard</u>
CPA Firms (4 Big Four, 4 Next Four and 9 others)	0	17
Audit Committee Associations	0	2
Recipients of Money from the Audit Firms	0	12
Finance Employee with a CPA	0	1
Investor Advocates	<u>7</u>	<u>0</u>
Totals	<u>7</u>	<u>32</u>

What do the 12 public commenters listed below, who all voted against the standard, all have in common?

- | | |
|-----------------------------------|--------------------------------|
| AICPA | Three State CPA Societies |
| Center for Audit Quality | Two Academic Organizations |
| The Small Firm Section of the CAQ | The US Chamber of Commerce |
| Canadian CAQ | Two Consultants to Audit Firms |

Answer: They are all members of the category in the table above titled “Recipients of Money from the Audit Firms.” None of these respondents disclosed that their public

² The overall standard was comprised of two separate but interrelated standards. In some cases, the respondents submitted the same comment to both parts of the interrelated standards. The tally above focuses on the number of individual voices without duplication. In instances where multiple individuals were signatories to one joint letter, that was counted as a single respondent.

comments may have been biased because of 1) money they (or the entities they represent) accepted from the audit firms or 2) they were beneficiaries of on campus recruiting by the Big Four. I discount these responses significantly due to the respondents' inherent conflicts of interest or bias favoring the largest audit firms.

With respect to the audit firms, it is not surprising that the CPA firms opposed "Firm and Engagement Performance Metrics." The metrics would expose the truth about how high leverage, excessive workloads at both the staff and partner levels, high turnover, low year-over-year continuity, and low experience levels undermine audit quality. The fundamental truth is that the existing Big Four staffing model is a complete mismatch for the complexity that auditors are expected to master.

The audit firms also complained about the projected cost of Firm and Engagement Performance Metrics. Yet, these same audit firms tout their ability to use data analytics and artificial intelligence to do all kinds of incredible things with data. But they complained loudly when it came to producing Firm and Engagement Performance Metrics. How are they properly monitoring and managing key aspects of audit quality today without such metrics? Is it that they use them (or something similar) but do not want to provide transparency outside the firm?

As it relates to the organizations purporting to represent audit committee members, I see that group as having the potential for self-interests that mimic those of the large audit firms. Some claim to be "independent" audit committee members but have more focus on retaining well-compensated audit committee assignments by not making waves. As with the auditors, investors have very little visibility to the quality of how the audit committees are fulfilling their oversight responsibilities.

At its core, the proposed firm and engagement performance metrics were about "transparency" and "truth in labeling" for audit services. These are "Mom and apple pie" concepts. The objective was to give audit committees additional information that would enable more informed auditor retention decisions and stimulate competition on more than just price and industry experience.

Although the PCAOB made it clear that its proposed rules were not about creating a definitive measure of audit quality, many respondents nixed the proposal on the basis that "if audit quality could not be definitively measured, why approve these rules?" The real question should have been, "Are audit committees better off with this information than without?" The answer to that question is clearly "Yes." Key inputs that drive audit quality CAN be measured. Some respondents simply failed to do their homework.

Investor advocates in favor of the proposal included the Council for Institutional Investors, the Chartered Financial Analyst Institute, Consumer Federation of America, the AFL-CIO, the American Association of Retired Persons, three former PCAOB board members who together penned one public comment and me. The PCAOB's Investor Advisory Group also whole-heartedly supported Firm and Engagement Performance Metrics as did four out of five PCAOB board members.

In an ideal world, the SEC would have coordinated with the PCAOB to rework the proposed standard and more clearly communicate the merits of this proposed standard. There also would have been more refined cost estimates that leveraged each firm's touted skills in data analytics, artificial intelligence, and existing processes. But that is not what happened. Instead, the proposals for Firm and Engagement Metrics fell victim to both Regulatory and Political capture. **Lost in the fray was the PCAOB's important mission to protect the interests of investors.**

During the Advisory Committee on the Auditing Profession meeting in 2008, former PwC senior Partner and SEC Chief Accountant Don Nicoliasen (and ACAP Co-Chair) said it best: **"The Firms compete primarily on the basis of cost. That's been the history of the profession and it has been disastrous for investors and for the firms."** At its core, Firm and Engagement Performance Metrics was about providing an opportunity to begin to change how the audit firms compete for audits. Absent any change in the paradigm for competition, history will surely repeat itself – and the results will continue to be **"disastrous for investors and the firms."**

The journey of Firm and Engagement Performance Metrics began in with the formation of the Advisory Committee on the Auditing Profession in 2007 and a public comment that same year that identified this opportunity. With a gestation period of nearly 18 years, the future of this proposal came down to counting the days on the calendar until the end of SEC Chair Gensler's term. Not surprisingly, I understand there was hesitation on the part of outgoing SEC Chair Gensler to hastily approve something that he knew was strongly opposed by the incoming administration.

In the ideal world of the Sarbanes-Oxley Act, the retention of the auditor by the audit committee was intended to improve auditor and audit committee independence from management. Unfortunately, it is no secret that audit committees look to management for a recommendation on auditor retention – a fact that auditors know all too well. So auditors are torn between two roles: 1) being objective and skeptical when dealing with management and 2) seeking management's endorsement when the auditor retention decision comes around. Why does this happen? The audit committee has limited visibility to what happens behind the audit curtain. This situation has broad implications as described in 2024 by SEC Chief Accountant Paul Munter:

"The Importance of the Audit Committee in Prioritizing and Promoting Audit Quality"³

The audit committee has the statutory responsibility to appoint, compensate, and oversee an issuer's auditor. In executing its responsibilities, an audit committee should prioritize and aim to promote audit quality to protect investors. Academic studies highlight the risk that, in some cases, in executing their mandate, audit committees may look to protect the interests of the issuer and its management over the interests of investors. This risk can arise out of an audit committee's association or coziness with the issuer or its management or through management's influence over the audit committee's supervision

³ [SEC.gov | An Investor Protection Call for a Commitment to Professional Skepticism and Audit Quality](#)

of the auditor. We remind audit committees of their role as critical gatekeepers for investor protection through oversight of a high-quality audit and the benefit of having an audit committee that is independent of management.

Commitment to audit quality starts with the independence of the audit committee and its selection and oversight of the independent auditor. Audit committees, in selecting an auditor, should prioritize audit quality. **This will encourage auditors to compete for engagements based on their ability to perform a high-quality audit, with the requisite degree of professional skepticism.** To ensure quality, the audit committee should frequently evaluate its process for assessing the auditor's performance, **including relevant firm or engagement-level metrics."**

In Summary

I am concerned about the potential ill-effects of regulatory capture of the PCAOB by the auditors, politicians, academics, and other stakeholders.

Recommendations to Remediate Observation #2

- Protection of the interests of investors (aka "The PCAOB Mission") should be top of mind in every decision the Board makes.
- Any re-write of QC1000 should be grounded in protecting investor interests.
- In the future, require all public commenters to disclose relationships (monetary or otherwise) that might bias the public commenter's response. If the commenter believes there are no such relationships, require the commenter to affirmatively state that there are no such relationships.

About the Author

My name is Robert Conway. I have been a CPA for over 45 years. I am a retired KPMG audit partner. I worked at KPMG for 26 years, including 17 years as an audit partner. Following my retirement from KPMG, I joined the PCAOB to pursue my interest in improving audit quality across the profession. I spent nine years at the PCAOB leading both domestic and international inspections of Big Four audit firms. During the last six of those nine years, I was the leader of the PCAOB's Los Angeles and Orange County offices. Since leaving the PCAOB, I have been deeply involved in technical accounting consulting and I have worked extensively as an expert witness in controversies pertaining to generally accepted accounting principles and PCAOB standards. I also published a book titled "*The Truth About Public Accounting – Understanding and Managing the Risks the Auditors Bring to the Audit.*" In 2007, I wrote a recommendation to the US Treasury Department's Advisory Committee on the Auditing Profession ("ACAP") that was widely credited with providing the impetus for ACAP's Final Report recommendation that the PCAOB evaluate the feasibility and potential benefits of providing transparency to input and output metrics that might better inform auditor retention and continuation decisions. This ultimately culminated in 2024 with the PCAOB's proposed Standard on Firm and Engagement Performance Metrics that was subsequently withdrawn in February 2025.

Closing Thoughts

Thank you for the opportunity to share my feedback as you build out your strategic plan. Please feel free to contact me directly if you have any questions about the items I have described herein.

Sincerely,

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