

**Robert A. Conway**  
**CPA and Expert Witness**  
**Public Comment on the Draft 2022-2026 PCAOB Strategic**  
**September 15, 2022**

To The Public Company Accounting Oversight Board:

My name is Robert Conway. I have been a CPA for over 40 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. 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 audit firm metrics relevant to assessing audit quality.

**The PCAOB's Request for Public Comment**

The PCAOB's Request for Comment noted that you were "particularly interested in stakeholders' perspectives with respect to any **additional opportunities for** (i) enhancing the PCAOB's role in protecting investors, (ii) **anticipating and responding to emerging trends in the auditing profession**, and (iii) improving the effectiveness of the PCAOB's interaction with the external stakeholders."

While you have sought input on additional opportunities for anticipating and responding to emerging trends in the auditing profession, I did not see a baseline articulation of the **emerging trends in the auditing profession** identified by the PCAOB that were considered in developing your draft strategic plan. In addition, I found it difficult to assess the quality of your draft strategic plan without understanding the PCAOB's assessment of the strengths, weakness, threats, and opportunities facing both the PCAOB and the auditing profession. In the pages that follow, I will share what I see as some of the most significant trends that warrant consideration as part of the PCAOB's strategic planning process.

## The Decline in CPA Candidates and the Decline in Accounting Graduates

The AICPA 2021 Trends Report<sup>1</sup> (“AICPA Trends Report”) published in 2022 monitors many things including trends in new CPA candidates and annual graduations with degrees in accounting. Here are two basic facts from the AICPA Trends Report that I find alarming:

1. The number of new CPA candidates has declined from 48,004 candidates in 2016 to 36,670 candidates in 2019 (pre-pandemic).<sup>2</sup> This is a 24% decline.<sup>3</sup>
2. Total annual accounting degree completions have declined from 79,854 in the 2015-2016 academic year to 72,923 in the 2019-2020 academic year.<sup>4</sup> This is an 8.7% decline.

The AICPA Trends Report states that, “The AICPA acknowledges that there are challenges in the CPA pipeline that the pandemic accelerated. As a result, we are accelerating our efforts to reverse these trends evidenced in this report. The CPA pipeline is one of the AICPA’s 2022 primary strategic initiatives. Numerous teams within the AICPA are all aligned in attracting high school and college students to the accounting profession and the CPA, providing education and support services to high school and college teachers, and collaborating with the many constituents engaged with the CPA Candidates as they journey through the CPA pipeline to licensure.”

Yes, the AICPA has many good programs to try to draw more people into public accounting, but none of those programs deal with the central issue – the mismanagement of human capital by the largest CPA firms. Complaints about long hours in public accounting and the absence of work-life balance travel fast via social media from young audit professionals to those in the college ranks that are considering accounting majors. This messaging is driving college students away from careers in public accounting. **The shortage of audit professionals is an immediate threat to audit quality.**

The audit firms will naturally pay higher salaries to get their share of a smaller and less talented pool of future auditors. But higher salaries will not solve the root cause issue. The AICPA cannot be counted on to rectify this situation because of the influence the largest audit firms have over the AICPA. If the AICPA will not act, who will?

The PCAOB’s Draft Strategic Plan is flawed unless the PCAOB recognizes this threat to audit quality and identifies a strategy to address this issue. Both PCAOB advisory groups (the Investor Advisory Group and the Standards and Emerging Issues Advisory Group) strongly advocated in favor of transparency of audit quality indicators as a viable solution to empower 1) audit committees with information that will enable more informed auditor retention decisions favoring the audit firms with better management of their

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<sup>1</sup> See [2021 Trends report | Professional Insights | AICPA](#)

<sup>2</sup> See page 52 of the AICPA 2021 Trends Report

<sup>3</sup> New CPA candidates subsequently declined to even lower levels of 30,385 candidates in 2020 and 32,186 candidates in 2021.

<sup>4</sup> See page 15 of the AICPA 2021 Trends Report.

human capital and 2) similarly empowering investors to make more informed votes for or against auditor ratification.

Left unchecked, the current state will continue to undermine audit quality. Excessive auditor workloads cause burnout and high turnover at the two-to-five-year experience level. This undermines year-over-year engagement continuity which academia has demonstrated undermines audit quality. The high turnover also undermines professional experience levels. High workloads at the partner and manager level also undermine much needed supervision and review. As a result, there is a heightened risk that inexperienced professionals will be inadequately supervised. In short, the staffing model is a complete mismatch for the complexity that investors expect auditors to master. If you have any doubt about what I am saying, simply survey PCAOB employees to understand their perspectives on their experiences in public accounting before coming to the PCAOB.

Will the PCAOB be proactive to improve the future of audit quality, or will it risk the deterioration of audit quality due to the continued mismanagement of human capital by the largest audit firms?

### **The Continuing Efficacy of the PCAOB's Inspection Program**

PCAOB inspection reports identify instances where a PCAOB inspection finding led the issuer and auditor to conclude that a restatement was necessary. I have tallied the number of restatements identified in the Big Four inspection reports as having been triggered by a PCAOB inspection finding for the inspection years beginning with 2012 and concluding with the 2020 inspection year (the most recent period for which Big Four inspection reports are available). Below is a summary of my tabulations. The first table summarizes for restatements of audited financial statements. The second table summarizes restatements of opinions on the effectiveness of internal controls.

<b>Financial Statement Restatements</b>		
<u>PCAOB Inspection Year</u>	<u>Big Four Total</u>	<u>Big Four Ave. Per Yr.</u>
2012 – 2015 (4 years)	14	3.50
2016 – 2019 (4 years)	3	0.75
2020 (1 year)	0	0.00

<b>Internal Control Opinion Restatements</b>		
<u>PCAOB Inspection Year</u>	<u>Big Four Total</u>	<u>Big Four Ave. Per Yr.</u>
2012 – 2015 (4 years)	20	5.00
2016 – 2019 (4 years)	19	4.75
2020 (1 year)	0	0.00

Over this nine-year period (2012 through 2020), the number of Big Four inspections has not varied much among the Big Four. Each year, the PCAOB has inspected financial statement audits and internal control opinions for approximately 50+ issuers for each Big Four audit firm.

Among the questions that come to mind are:

1. Did financial statement GAAP auditing by the Big Four improve as evidenced by the decline in financial statement audit restatements over the nine-year period? Or did other factors come into play? What is the PCAOB's interpretation of this trend?
2. On the other hand, ICFR restatements continued at a comparable rate across the two four-year periods (an average of 4.75 to 5.00 ICFR restatements by the Big Four collectively per year). On the surface, this may be an unexpected 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?
3. Do the results reflect a differing emphasis on ICFR inspections relative to financial statement audit inspections as time progressed? If so, why? Alternatively, are the results affected by higher turnover in PCAOB inspection ranks or perhaps efforts to expedite report issuance by favoring internal control findings that may be more expedient?
4. Do the lack of restatement results from the 2020 inspection season suggest that remote inspections conducted during the pandemic made it more difficult to identify findings and restatements? Might it also suggest that audits conducted remotely by the Big Four may be susceptible to missed adjusting entries that could later result in future restatements?

In planning for the future, it seems incumbent on the PCAOB to take stock of the current state of the PCAOB's inspection program. If these questions have already been addressed, the PCAOB should, in the interest of transparency, share its perspectives on these questions to facilitate stakeholder engagement.

### **The Viability of Remote Inspections and Remote Auditing**

The pandemic has opened the door for certain types of work to be performed remotely. In many workplace circumstances, this can be accomplished with little downside and perhaps much upside. However, I have reservations about the viability of remote inspecting and remote auditing. The absence of any restatements of financial statement audits or ICFR opinions in the 2020 cycle only heightens my concerns. This strikes me as an important issue that warrants attention in the strategic plan, particularly

as it relates to professional skepticism, supervision, and the collaboration within audit teams and within inspection teams.

During the pandemic, the PCAOB communicated frequently about auditing and inspecting during the pandemic. I found those publications to be quite useful. However, unless I missed it, I am unaware of any conclusions from the PCAOB about the acceptability of remote auditing and inspecting in a post-pandemic era. This is an area that warrants further attention by the PCAOB, particularly given the widespread desire of both auditors and inspectors to spend more time working from home in the future.

### **Risks Associated with Expanded Usage of Offshore Service Centers**

Considering the talent shortages described earlier in this letter, I am concerned that US audit firms will seek expanded involvement of auditors in offshore service centers. The rationale may be that if audits can be done remotely, why can't audits be conducted remotely from offshore service centers? The profit motive also favors this possibility. It is important for the PCAOB to closely monitor the extent and manner in which offshore service centers are utilized going forward.

### **Contingency Planning for Inspections in China**

I have read about positive developments with respect to the commencement of inspections of audits of Chinese foreign private issuers. I realize that it has been a challenge to simply get to this juncture and that there is some uncertainty as to whether and when such inspections will progress. I would have expected your strategic plan to have addressed the incremental resource needs for the inspection of Chinese foreign private issuers and the PCAOB's ability to execute such inspections of Chinese foreign private issuers without undermining the PCAOB's ability to execute its baseline inspection program.

### **Assessing Resource Needs**

A strategic plan sets forth priorities that define the scope of operations. The scope of operation in turn has a bearing on resource needs. Your draft strategic plan is generally silent on near-term resource needs.

The PCAOB has the opportunity via the strategic plan to build strong support across your stakeholders for the incremental funds necessary to execute your plan. I mention this because I believe you have widespread support to accomplish considerably more than the PCAOB has accomplished in recent years. There may be an opportunity to obtain a larger than normal budget allocation given the backlog in standard setting and the many other priorities currently in need of attention by the PCAOB.

## **Closing Thoughts**

Thank you for the opportunity to share my feedback on the PCAOB's Draft Strategic Plan. Please feel free to contact me directly if you have any questions about the items I have described herein.

Best regards,

*Robert A. Conway*

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