



OFFICE OF THE
CHIEF ACCOUNTANT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

October 13, 2016

Dr. Parveen Gupta
Mr. Lynn E. Turner
Working Committee Co-Chairs
Investor Advisory Group
Public Company Accounting Oversight Board
Working Group on U.S. Treasury Advisory Committee on the Auditing Profession

Dear Dr. Gupta and Mr. Turner:

This letter responds to your June 27, 2016 letter to Securities and Exchange Commission (“SEC”) Chair Mary Jo White regarding the work of the Advisory Committee on the Auditing Profession (“ACAP”) and the report it issued in 2008.¹

As I mentioned when we spoke recently, I strongly share the working group members’ interest in the sustainability of a strong and vibrant auditing profession. The credibility of financial reporting depends on thorough audits performed by independent auditors. I believe audit quality has improved during the close to 15 years since the passage of the Sarbanes-Oxley Act of 2002 and the creation of the Public Company Accounting Oversight Board (“PCAOB”), which is responsible for overseeing the audits and auditors of public companies and SEC registered broker-dealers. However, the hard work of the PCAOB and others in the auditing profession continues, as is reflected in their robust and ongoing standard setting agendas.

I also believe that the design of the PCAOB’s inspections program, the focus on the importance of the audit committee’s oversight role, and the improvement in the transparency of drivers of audit quality have all contributed to the improvements in audit quality. I believe it is very important for this positive momentum to continue to keep pace with investor expectations as well as new and emerging financial reporting risks. It is thus incumbent upon us to continue to monitor the current environment to identify and understand the issues to be addressed as well as the range of potential approaches to addressing those issues.

¹ See *Advisory Committee on the Auditing Profession Final Report* (Oct. 6, 2008), available at <https://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf> (the “Final Report”).

I understand that the PCAOB has separately provided a response to you on the connections between their activities and the ACAP recommendations. I will not repeat the matters addressed in their response.

The Final Report included recommendations organized according to the areas of study of the three subcommittees. The following is a summary of the various actions taken to date based on the SEC agenda and priorities, which also address to some extent the matters identified in the recommendations.²

Firm Structure and Finances

One of the recommendations encourages greater regulatory cooperation and oversight of the public company auditing profession. The objective of our cooperation and frequent dialogue with the PCAOB is to assess whether more should and could be done in our oversight of auditors. Among the regulatory activities we engage in, the SEC staff and the PCAOB staff foster robust cooperation, engage with co-extensive enforcement authority over auditors, and meet formally on a quarterly basis and more frequently on routine oversight and standard setting activities. The SEC Division of Enforcement's Financial Reporting and Auditing ("FRAud") Group focuses on financial reporting and audit failures, and the Division also has its "Operation Broken Gate" initiative to identify auditors who neglect their duties and the auditing standards. Recent examples of SEC auditor enforcement efforts, in close coordination with the PCAOB, include charges against two national firms and associated partners for deficient audits³ and numerous sanctions of other firms stemming from Operation Broken Gate.⁴

Also, the SEC and the PCAOB are involved with the International Forum of Independent Audit Regulators ("IFIAR"), which brings together independent audit regulators from 51 jurisdictions to collaborate on regulatory activity. Committee 1 of International Organization of Securities Commissions' ("IOSCO"), which the SEC is a member of, represents IOSCO as an observer at meetings of IFIAR. The PCAOB participates and has an active leadership role in IFIAR. Additionally, the Financial Stability Board ("FSB"), which brings together senior policy makers from G20 countries, has held roundtables on effective audit regulation and oversight.

As it relates to improving the transparency of audit firms, IOSCO's Committee 1 led the effort to recently publish a "Statement on Transparency of Firms that Audit Public Companies" by IOSCO to promote good practice and contribute to high quality audit firm transparency reports.⁵ That Committee was chaired by a senior member of OCA. Additionally, I am aware of and support and encourage the current efforts certain audit firms are making to improve

² The five human capital recommendations are omitted from this document as they do not suggest significant actions by the SEC or PCAOB beyond expanding faculty fellowship programs at the SEC and PCAOB. See Section VI of the Final Report. The subheadings reflect Sections VII and VIII of the Final Report.

³ See, e.g., <https://www.sec.gov/news/pressrelease/2015-184.html> and <https://www.sec.gov/news/pressrelease/2015-272.html>.

⁴ See, e.g., <https://www.sec.gov/News/PressRelease/Detail/PressRelease/1370543281121>.

⁵ IOSCO Final Report: *Statement on Transparency of Firms that Audit Public Companies* (Nov. 2015), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD511.pdf>.

transparency in their reporting with respect to matters such as firm governance and the system of quality control for their financial statement audits.

As it relates to governance matters, the SEC issued a concept release in July 2015 seeking public comment regarding audit committee reporting requirements, including potential disclosure requirements regarding shareholder ratification and audit committee input in selecting the engagement partner, among many other important matters.⁶ The SEC staff is currently reviewing and analyzing over 100 comment letters received in response to the concept release and monitoring any voluntary changes from the awareness brought to the issues to determine potential next steps to propose to the Commission for consideration. It is also relevant to note that SEC Form 8-K, item 4.01, requires disclosure of changes in a registrant's audit firm.

Concentration and Competition

In the context of reducing any barriers to competition for smaller audit firms, the Final Report included a recommendation to require disclosure by registrants of provisions in agreements that limit auditor choice. While registrants must disclose information about material definitive agreements, those disclosure requirements do not generally specify disclosures regarding provisions within agreements that limit auditor choice. The audit committee concept release previously mentioned solicits feedback regarding possible disclosure of factors considered by the audit committee when selecting or retaining the auditor, which could include information about consideration of smaller audit firms. As mentioned previously, the release also discusses potential additional disclosures related to the ratification by shareholders of the selection of the independent auditor.

Also, SEC staff in the Office of the Chief Accountant has encouraged applicants from firms of all sizes to apply to our professional accounting fellowship programs. Successful applicants have included former employees from small and mid-size firms. The office also utilizes professionals from other regulators and other SEC offices and divisions on a time limited basis to further provide the multi-disciplinary talent needed for today's priorities.

Finally, as it relates to promoting an understanding and compliance with auditor independence requirements, the SEC staff continues to emphasize the importance of the independence requirements through speeches,⁷ forums, and other public venues. In addition, staff within the SEC Division of Enforcement has been active in bringing cases against auditors who violate independence rules. As an example, the SEC recently brought two cases against a large firm and three former partners for auditor independence failures due to inappropriately close personal relationships.⁸

⁶ See *Possible Revisions to Audit Committee Disclosures*, Release No. 33-9862 (Jul. 1, 2015) [80 FR 38995], available at <https://www.sec.gov/rules/concept/2015/33-9862.pdf>.

⁷ See, e.g., Wesley R. Bricker, Interim Chief Accountant, *Remarks before the AICPA National Conference on Banks and Savings Institutions* (Sept. 21, 2016), available at <https://www.sec.gov/news/speech/bricker-remarks-aicpa-national-conf-banks-savings-institutions.html> and Wesley R. Bricker, Deputy Chief Accountant, *Remarks before the 35th Annual SEC and Financial Reporting Institute Conference* (Jun. 9, 2016), available at <https://www.sec.gov/news/speech/bricker-remarks-35th-financial-reporting-institute-conference.html>.

⁸ See, e.g., <https://www.sec.gov/news/pressrelease/2016-187.html>.

I hope you and the other members of the PCAOB Investor Advisory Group find these examples helpful as you continue to contribute your thought leadership to the important work of the PCAOB. I would be pleased to make myself and my staff available to discuss these matters further as needed. I look forward to participating in the dialogue at the IAG meeting. Please feel free to contact me directly at 202-551-3014.

Sincerely,

A handwritten signature in black ink, appearing to be 'Wes Bricker', with a long horizontal line extending to the right.

Wes Bricker
Interim Chief Accountant