

## **Why the SEC Should Approve the PCAOB's New Quality Control Standard**

**Submitted by Robert A. Conway, CPA**

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I submitted a public comment on the PCAOB's proposed Quality Control Standard in January 2023. I have attached a copy of my comment letter as it is very relevant to the SEC's approval of the PCAOB's Quality Control Standard.

I fully support the SEC's approval of the new Quality Control Standard as advanced by the PCAOB. I would like to briefly explain why approval of this standard is so important.

### **First – A Little Bit About Myself**

My support for new quality control standard is informed by my 40+ year career as a CPA. My career experience has included 26 years at KPMG (17+ years as an audit partner), nine years leading inspections at the PCAOB (including leadership responsibility for the PCAOB's Los Angeles and Orange County Offices), and 4+ years as an expert witness in auditing and accounting. I published a book in 2020 titled "The Truth About Public Accounting -- Understanding and Managing the Risks the Auditors Bring to the Audit."

### **The Current State of the Profession – A Dose of Reality**

The existing large audit firm staffing model is a complete mismatch with the complexity auditors are expected to master. This is a serious threat to audit quality. Why do we find ourselves in this situation? Here is the short story.

The profession has failed to differentiate itself based on audit quality. As a consequence, the profession has fallen victim to commodity pricing. As Don Nicholaisen (former SEC Chief Accountant) commented during Advisory Committee on the Auditing Profession (ACAP) in 2008, "The firms have competed on price from the beginning and the results have been disastrous for both the audit firms and investors." To achieve a suitable level of profitability in a commodity pricing environment, the firms have had to squeeze their professionals for productivity. With the advent of the PCAOB, the audit firms have also had to squeeze their professionals for audit quality. The push for productivity and audit quality has led to long hours at all levels. This in turn has resulted in high-turnover and low-experience levels. It is no secret that corporate America is largely audited by young people just out of college, most of whom have yet to earn their CPA license. To counter the lack of experience at the lower levels, supervision and review by partners and managers is particularly important. But the pressure for productivity has the more experienced professionals (partners and managers) spread thin, thus undermining the quality of their supervision and review. This is an accident waiting to happen.

### **Other Serious Conflicts that Undermine Audit Quality**

There are various conflicts that threaten auditor independence. The two most consequential risks that threaten audit quality and good auditor judgment are 1) the conflict between conducting a high-quality audit and the pressure to retain the client and 2) the conflict between conducting a

high-quality audit and achieving a suitable level of profitability. In short, the independent auditor is not independent.

**The Auditing Profession is Not Out-of-the-Woods**

Audit Analytics tells us that restatements are trending downward, but I am not convinced (based on my experience) that all restatements are bubbling to the surface. Some restatements may go completely undetected. The Pipeline (recruiting) issues facing the profession also continue to threaten audit quality. A higher mix of resources from offshore service centers might improve firm profitability, but there is a limit to how much work can be shifted offshore without undermining audit quality.

**This is not a time to get soft on audit quality. I believe the PCAOB has done a good job of articulating why the improvements to the Quality Control Standards are warranted.**

The SEC should approve the new quality control standard in its current form.

Sincerely,

**Robert A. Conway, CPA**

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