

The Honorable French Hill  
Chairman  
House Committee on Financial Services  
  
1533 Longworth House Office Building  
Washington, DC 20515

The Honorable Maxine Waters  
Ranking Member  
House Committee on Financial Services  
  
2221 Rayburn House Office Building  
Washington, DC 20515

The Honorable Tim Scott  
Chairman  
Senate Committee on Banking, Housing, and Urban  
Affairs  
  
104 Hart Senate Office Building  
Washington, DC 20510

The Honorable Elizabeth Warren  
Ranking Member  
Senate Committee on Banking, Housing, and Urban  
Affairs  
  
311 Hart Senate Office Building  
Washington, DC 20510

RE: Public Company Accounting Oversight Board (PCAOB) and Reconciliation Bill

Thank you very much for the opportunity to provide input on the inclusion of Section 50002 (Public Company Accounting Oversight Board) in the House Committee on Financial Services Committee Print, *Providing for Reconciliation Pursuant to H. Con. Res. 14, Establishing the Congressional Budget for the United States Government for Fiscal Year 2025 Setting Forth the Appropriate Budgetary Levels for Fiscal Years 2026 Through 2034* (the Reconciliation Bill).

First allow us to introduce ourselves. We are Dave Sullivan, CPA (retired) and Dan Sunderland, CPA. Both of us are retired partners formerly with Deloitte & Touche LLP (Deloitte), a registered public accounting firm. Each of us has over 40 years of experience in the public accounting profession. Both of us held a variety of positions with Deloitte throughout our careers with Deloitte. Dave was the US Audit Quality leader where he had responsibility for, among other things, the implementation of PCAOB standards, interactions with the PCAOB Board members and staff and overseeing the firm's inspection by the PCAOB. Dan was the Chief Auditor of Deloitte and was responsible for setting the audit methodology, tools and technology used in executing audits at Deloitte as well as responding to PCAOB findings and devising remedial actions to ultimately address such findings.

Currently, Dave serves as a member of the Public Interest Oversight Board and is a consultant to two annually inspected registered public accounting firms and other organizations. Currently, Dan is Professor of the Practice of Accounting at Northeastern University, is a consultant to two annually inspected registered accounting firms and has served as a consultant and/or expert in a number of matters involving auditing matters. These views are our own and do not represent the views of Deloitte or any other organization with which we are or were associated.

As we read the Reconciliation Bill, it appears that the net result is to move all of the activities of the PCAOB, as delineated in the Sarbanes-Oxley Act of 2002 (SOX) to the Securities and

Exchange Commission (SEC) while removing all of the funding to execute those activities. We have concerns that this will seriously weaken the oversight of public company auditors, which, in our opinion, will be bad for investors, the capital markets and the auditing profession.

We believe that the US capital markets are the most efficient in the world. That is due, in part, to the effectiveness of both the SEC and the PCAOB.

We do not need to remind you of the conditions that existed back when SOX was passed almost unanimously by Congress in 2002. The accounting scandals were very serious, and SOX strengthened both oversight of the auditing profession and the responsibilities that management and those charged with governance had relative to the capital markets.

The result of the implementation of SOX – which included establishing and operating the PCAOB - has been to drive more trust in to the capital markets, reduce financial statement restatements and significantly curtail financial reporting fraud. The SOX legislative framework and the PCAOB's dedication to its mission to protect investors by enhancing audit quality have led to audit firms of all sizes focusing significant resources on audit quality and have provided a ready measure to monitor progress on such quality. What motivated us each day was to pursue excellence in audit quality for the benefit of investors. The PCAOB has also added discipline to foreign issuers and their auditors; it has worked tirelessly to ensure that audits of those adhered to the high standards of SOX and that investors were protected. All of these statements aren't just platitudes; multiple academic studies have validated all of these benefits – and many more.

The SEC has exercised authority over the PCAOB over twenty-two years...and while certainly the SEC can and has pursued actions against auditors, its primary focus has been on registrants and investors. It has relied on the PCAOB to deal with audit standard setting (much as it has relied on the Financial Accounting Standards Board (FASB) to address accounting standard setting), audit monitoring through inspections and, when necessary, audit enforcement. From our perspective, folding functions such as standard setting and monitoring, which have not been a primary SEC remit in the past, carry with it many difficulties that will take significantly more, rather than less, resources to address.

To be clear, we do not believe that SOX and the PCAOB are perfect. We believe that Congress should consider a measured approach that continually assesses both the costs and benefits of the implementation of SOX and the PCAOB. Such an approach could (i) consider how the world of financial reporting has changed and improved since the passage of SOX; (ii) include gathering input from all stakeholders in the capital markets regarding the PCAOB execution of its duties; and (iii) contemplate how inspection processes should evolve and whether macro-inspections of firms and their quality management processes could begin to supplant inspections of individual audit engagements. The result of such a review could be to amend SOX to further refine the responsibilities of the PCAOB to improve their effectiveness. What is important is that SOX continues to be the law of the land and that experienced, thoughtful and well-funded regulators

continue to execute the underlying objectives of that legislation with as little disruption to a process that has proved to be working.

We believe that the result of the Reconciliation Bill, as currently drafted, will be to reduce investor protection and reduce trust in the US capital markets. In addition, since the funding for the PCAOB comes from US publicly listed companies, and not the US Treasury, the bill will do nothing to reduce the US Government's deficit.

We encourage you to have an open-minded discussion of this proposal and consider a more measured approach to improve the effectiveness of the PCAOB rather than to throw the baby out with the bathwater. We both love this profession because of its primary commitment to protecting the public interest and are proud to be a part of it. Over our careers it has developed into something that the folks who drafted the 1933 and 1934 Acts would marvel at. We encourage you to continue this progress and not go backwards.

Thank you for this opportunity to share our views on this matter. If we can be of further assistance, please let us know.

Sincerely,

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