

**Robert J. Kueppers**  
**Oral History**  
**January 30, 2020**

Lucy Harvey:

Hello, I'm Lucy Harvey. I'm here with Bob Kueppers, retired Deloitte partner who has worked in the profession 39 years. We are doing an oral history for the SEC Historical Society on the founding of the PCAOB. We're in Washington, D.C. at the Baker McKenzie offices, and it is Thursday, January 30, 2020.

Lucy Harvey:

Thanks for joining me, Bob. Bob, this is your second oral history for the SEC Historical Society, and on this one, we want to focus on the intersection of your career and the founding of the PCAOB. So we're going to jump ahead from your 1976 graduation from the University of Minnesota where you received not one, not two, but eight job offers from one of each of the big eight firms and they absolutely must have seen the potential that has borne out in your career. But today we're going to forge ahead to when Enron and WorldCom were unfolding, and I want you to tell me what was your role in the profession in that timeframe in late 2001.

Bob Kueppers:

So we're talking fourth quarter of 2001. I think some of the first indications of potential problems were some of the extensive press coverage, particularly of Enron at that time. And as I remember, ultimately, there was a terrible third quarter report, and by the opening days of December of 2001, Enron declared bankruptcy to everyone's shock. The reaction, needless to say, was swift and severe. Congressional hearings were the norm. Everybody and his cousin got called up on The Hill to say, "Answer questions as to what happened," including the SEC.

Lucy Harvey:

What was your specific role as all this is unfolding?

Bob Kueppers:

So at that point, I was in what we used to call the national office of Deloitte. My role was Senior Technical Partner, which meant I was the final answer on accounting and auditing questions that would come from the field. I had had many years of experience at that point, but I was sort of the one on point for any developments in the profession for Deloitte.

Lucy Harvey:

You also had a special role at the SEC Practice Section, right?

Bob Kueppers:

Well, interestingly enough, and it was not my plan, I did have a special role at the SEC Practice Section, but the fellow who was the designate to take over as chairman was a fellow named Bob Herdman. Bob Herdman left Ernst & Young to be the chief accountant of the SEC under Harvey Pitt. So I was certainly at least a second choice, if not third, but I decided that I would be happy to fill that role. The SEC

Practice Section, just as a reminder, was the profession's self-regulatory body and firms that joined that section had to abide by membership requirements. They had to agree triennially to be peer reviewed by another, frankly, competing firm as to their audit quality. That was the old system that we had all labored under for quite some time.

Lucy Harvey:

And in that role, you really were engaged in a lot of dialogues with the profession, with the SEC, about all of what was going on. Correct?

Bob Kueppers:

That's a fair assessment because the SECPS would have been our convening group. Senior folks from all the firms had questions about the future of the Practice Section... because of the hearings and the press attention. I remember this very specifically, there was also a war going on in the Middle East. At some point, more press coverage was in Washington and fewer people were covering the war. In other words, it became the story, whether it's evening news or the morning paper. My point is that I found myself kind of at the leading edge of these conversations because of the Practice Section's legacy and the attending structure, including the Public Oversight Board.

Lucy Harvey:

You talked about coming to Washington over the holidays, the Christmas holidays, to negotiate, to talk, to give information.

Bob Kueppers:

Well, I certainly was active. It always happens in Washington. The question becomes, this is a problem. Is it going to require a legislative solution? And frankly, legislation obviously is unpredictable, but it also can be game changing. And the conventional wisdom was there's no need for legislation, we'll have to strengthen the structures that oversee the audit firms because it wasn't just that Enron failed, it was "where were the auditors?" Where was Arthur Andersen? And you may recall intertwined with all of that in the timeline was these allegations of shredding documents and so forth. So it became very sensationalized.

Bob Kueppers:

My point is that I was in conversations with folks at the SEC, about what's the profession going to do? What should we do? And the conventional wisdom was there's no need for legislation so we need to prop up some of the infrastructure, and that should be fine. But of course, that's not the way it played out.

Lucy Harvey:

Yes, that's not the way. You had talked about the fact that the conventional wisdom was that there would be no bill, and then there was a game changer. Talk about that.

Bob Kueppers:

Well, yes, several things were almost concurrent. We had the indictment of Arthur Andersen coming in the early months of 2002 just very shortly after the Enron bankruptcy. And then eventually within that same time period, we had President Bush's speech at the New York Stock Exchange basically saying,

"Send me a bill, I'll sign it." At that point, things shifted quickly. And then just to pile on, we had the failure of WorldCom in the summer, all within weeks or months of one another. So that was the birth of SarbanesOxley, and even though it was widely debated, and as legislation always is, drafted and redrafted, the question was going to be, what is this going to change? Is the government going to audit all public companies? Is there going to be some structural change?

Bob Kueppers:

Indeed, that gave rise to the Public Company Accounting Oversight Board, which is one of the most difficult names I've ever had to say, but I'm used to it now, and people realize it was about auditing, not accounting. It doesn't matter because legislation is what it is, right? But a lot of us in the profession, I was not doing this by myself, we're on Capitol Hill trying to help the framers come up with something that would be viable, that would work, that would improve the system as we know it, without tearing it down.

Lucy Harvey:

All right. I want to go back just a little while, and that's to the indictment of Anderson, and that forced your hand in a particular role that you had as the SEC Practice Section.

Bob Kueppers:

It's really interesting point because the SEC Practice Section, we were still functioning. We had our work to do, and if I believe I'm right, that was the cycle year, every third year for the Arthur Andersen peer review, which coincidentally, Deloitte was the peer review firm and because of my role, a little bit on the hot seat about signing off on Anderson's audit quality given the daily events that were unfolding.

Bob Kueppers:

The Practice Section, though, had the largest firms as part of it sort of counsel, its board of directors, if you will. And because of the indictment, the question was, what are we going to do? Greg Jonas and the senior partners at Andersen were all colleagues of mine, they were friends, and I remember deciding the best answer was to fly to Chicago and sit down and suggest that they withdraw from the Practice Section, because we didn't want to have some kind of proceeding to pile on what the Justice Department was already up to, if you will. We couldn't fine them or anything, but having them associated with the Practice Section was viewed as a taint at that point and it didn't comport with our rules of membership. So it was fine. They withdrew and we moved on, but it was ironic that that had to occur along with everything else that was going on.

Lucy Harvey:

And ultimately, given the fact that the indictment was then overturned, you realized it was unnecessary.

Bob Kueppers:

Well, that was several years later. I think that was in 2005 or 2006, meaning that the justice department, quoting the Supreme Court, overreached. And what a lot of people don't know about Andersen, which was really a very good firm in many ways, is that they never were... Anderson never was a bankrupt entity. They collected their bills. I mean, they collected their bills from clients, they paid their bills to third parties. The price paid, though, were those partners who lost their capital and lost their pension, many of whom survived to fight another day at another firm, some of whom retired, some of whom went on to something different.

Lucy Harvey:

And the support staff. I understand not all the support staff landed, but yes.

Bob Kueppers:

That's true, but remember the system is small. I mean, there were five firms, now we were four. There was the same number of public companies. And so there was this big shuffle, partners going to firms, clients going to the same firms or a different firm. And that was really the problem for audit committees. The reason why it was the end was that how do you appoint an indicted firm to be your auditor in the summer for that year end, that calendar year end? You can't. And so that forced everybody to look elsewhere, and that just was kind of the... signed warrant for the firm's demise.

Lucy Harvey:

Right. Okay, now we're going to push forward and we've got WorldCom, and you find that you have to come and hand over the keys to the kingdom. Describe to me what [crosstalk 00:10:51]?

Bob Kueppers:

Okay. So just to bridge that, so the legislation enabled the formation of the PCAOB. PCAOB's powers were clear; oversight of audit quality, and should they choose, setting the audit standards, they obviously had enforcement authority, all this under the SEC umbrella. Once they were formed, I mean, I literally had an office and a few people, a small group, frankly. In fact, I think my first meeting was here at Baker McKenzie, oddly enough, because they didn't have an office yet. We wanted to offer our assistance and frankly argue a little bit that maybe we could help with the standards or maybe we could keep a piece of it, but it was pretty clear that depending on how they wanted to assert their newfound powers, the SEC Practice Section may be duplicative at that point, there'd be no reason for it.

Bob Kueppers:

So I did come with a small contingent, we met here. I believe the presiding person was William Webster, who was for a few weeks the appointed chair, didn't last much longer than that, but there was an issue there. But the point was, it was very strange feeling in that we wanted to offer our cooperation, but we also kind of realized this could be a turning point in what had been decades of self-regulation. Of course, it was a turning point.

Lucy Harvey:

Okay. So SOX is signed in late July of 2002, and then there are a series of missteps. And the PCAOB then, through no fault of its own, is given a reputation or spoken of as the "troubled PCAOB." So talk a little bit about that.

Bob Kueppers:

Well, I always, even at the time, I thought that was unfair because, I mean, this is a de novo organization invented out of a fairly new piece of legislation. What's really interesting is Congress did not form another government agency or regulator. This is a District of Columbia nonprofit corporation that functions under the oversight of the SEC. Fair enough. I just think the early days with the William Webster event, he was involved with some company in some capacity and the SEC was not an agreement among the commissioners as to whether he should have been appointed in the first place, but it was embarrassing to have to make the change.

Bob Kueppers:

So I think the “troubled” designation really came from the need... they had to do a redo almost before they got started, literally, though Bill McDonough was the first... not the first, but I mean the real chairman who actually became operational under Bill McDonough and very competent guy, former chairman of the New York Federal Reserve, a very inspiring person. I remember his first press conference about how this would... question from the press about why won't this ruin the auditing profession, and he just turned it around and said, "I'm hoping this inspires the auditing profession to be better." I just feel that designation was short-lived, but we are talking about a startup. We know what startups are today, little tiny companies that don't have anybody, so they had to fill their ranks with a lot of recruiting.

Lucy Harvey:

I do know that you experienced the first iteration of everything that the PCAOB did. And so their first lineup was registration. There was a great deal of difficulty kind of creating their registration system that was going to be all online, there was no paper, and each of the big firms was given almost like a window because there was going to be so much data that was in that first registration application. So talk about what it was to go through the first iteration of that, of registration.

Bob Kueppers:

So registration is totally new, but we had to input all kinds of data and realized at that time there were thousands more public companies than there are today. That number has come down quite a bit. There were something like 12,000 public companies spread among many firms. Because IT was not what it is today, it was literally a startup in that sense, and I remember a lot of back and forth saying, "The file is so big." We just didn't have an efficient way to do it and there was worry about crashing their system and the like.

Bob Kueppers:

But what was really complicated in that whole vein of registration was the need to deal with the foreign filers that filed with the SEC but might be served by your firm in France or the UK or Chile or Japan. And the complexity of that for the firms was it's hard to overstate because the U.S., no problem, we know exactly that, but now we had to coordinate with firms all over the world and say, "Oh, by the way, I know you're not in the U.S. but you still have to do these things." It wasn't the easiest of conversations and my colleagues in the other firms experienced the same frustration. We needed them to sign affidavits. We needed all kinds of access to data they didn't really give up willingly or easily.

Bob Kueppers:

So even though it was, I'll call it a big administrative exercise, it was extremely complicated. We worked together as firms, "What did you do about this? What did you do about that?" More importantly, we worked together with the new registration group at the PCAOB. George Diacont was head of registrations and inspections. I knew George from when I was at the SEC in the 1980s, and we just called him all the time and said, "Here's a new one. What are we going to do about this?" It was frustrating, but it was not unpleasant. We just all had to get through it.

Lucy Harvey:

And it was really the first and only time you had to do it.

Bob Kueppers:

Sort of.

Lucy Harvey:

Okay.

Bob Kueppers:

Right, we had to update that information. And of course, then as the world changed, we had a new database of the signing audit partners that had to be formed to, but they needed that to actually get into business. So they said, "We're supposed to inspect, who are we talking about? What's our population?" So it was a very necessary thing, it was just complicated.

Lucy Harvey:

Complicated. So standard setting, that was, again, you experienced that for the first time, and I understand that you had kind of a special role during AS1 when they were adopting the AICPA standards as their own interim standards.

Bob Kueppers:

So the board determined that they were going to set the standards. They were not going to outsource that or anything like that. They had two choices: one, they start with no standards at all, or as they chose to do, they would adopt the profession's standards, which had been developed over decades and sort of put them under their authority and with their name on it, literally, as a temporary measure and inspect firms against those standards. But then they had a whole list of things on the agenda that they wanted to do, but they knew it would take years to do that. So they sort of, in whole, adopted the AICPA standards, which are good set of standards.

Bob Kueppers:

The issue became, at one point, right at the sort of the last minute, and I was trying to help the folks at the PCAOB, some of whom I knew because they used to work at the SEC, and I realized that the way they had framed it, they were picking up some stuff that didn't belong in there. So it was kind of one of these last minute phone calls to say, "Yes, I hate to mention this now because the meeting is today, but that part of it, you really shouldn't have in your standards." It was just the typical growing pains, but it was very collaborative. We did know that even though it's audit standard one, it was really audit standard zero because it was just picking up what was already there.

Lucy Harvey:

Yes. Inspections. You experienced that for the first time and they were determined to do it in that first year, 2003. So from June to December 2003, the PCAOB did limited inspections for engagements at each of the four big firms-

Bob Kueppers:

Correct.

Lucy Harvey:

... known, I understand by the profession, as the Sweet 16. So what was it like to go through that for the first time?

Bob Kueppers:

Well, the notion of efficiency was not in the lexicon at that point because they had a blank folder. They knew they needed access. At that point, the standard was already, for most of the firms in most cases, electronic work papers, which are complicated pieces of software with Excel spreadsheets and all kinds of things.

Lucy Harvey:

And proprietary?

Bob Kueppers:

Proprietary. And so there was a concern that, well, we would certainly share our technology so they can do the inspection. We had no interest in having to leave the ambit of our intellectual property. So I remember setting up special computers in a room just for the inspectors, with everything loaded on it. It wasn't like they could sit at their desk here in Washington and dial up and download the work papers for Best Buy or Boeing. It doesn't work that way. So they had to visit and it was very structured, just the early days of trying to welcome them into your office to get going on something. It was "inspection-light" the first year, but that was the plan. Let's just see what we can see in a short period of time. It was not designed to be a full implementation, but you have to start somewhere. So we got through that. It was okay.

Lucy Harvey:

And it was cordial?

Bob Kueppers:

It was cordial, but cordial is important. When sometimes you have issues, they will comment, they call it write up a comment on an audit, and you may not agree. In fact, most times you don't agree with their comment and you have to talk that through, because remember the system was that they would highlight in detail, this sort of part one, part two, part one being audits that didn't meet their standards, and then part two being a much longer list of more systemic issues, whether it's quality control should be better here and there, and that was a private part.

Bob Kueppers:

So from the beginning, their whole reporting mechanism became a little awkward. And of course, your clients' audit committees of public companies, those first couple of years, it was, "What am I looking at?" They were trying to get some help with figuring out, "Is this bad? Is this okay? I don't know." It was fascinating, and of course it settled in. It settled in over time.

Lucy Harvey:

And then speaking about enforcement, which was kind of the last of the divisions to actually get in place, you experienced, and Deloitte experienced the first million dollar sanction, and that was December 2007. And then in May of 2008, you were the first of the big firms to have one of your Part

Two reports revealed or put forth. So tell me what it was like to kind of experience that for the first time.

Bob Kueppers:

You told me that you're going to be nice. Well, our year ends in May. Our fiscal 2008 was not my best year, but the point was that we're all used to dealing with the SEC in the enforcement context. Frankly, the large firms rarely... I mean, there are cases against the large firms, of course, but one of the most interesting things was trying to figure out when did a case go to the SEC and when did a case get investigated by the PCAOB? This notion of "double jeopardy" comes to mind saying, well, wait a minute, if you're investigating this matter, do I have any assurance that the SEC isn't doing the same thing and that we're not going to have this kind of two-pronged attack or something?

Bob Kueppers:

But look, the system of settlement versus litigate, and that's kind of what I'll call it, you don't have to settle, you can go to court. The same kind of thing existed with the PCAOB. However, it wasn't court, it was a hearing officer. It's still a public kind of thing with witnesses and all that, but the matter that came up in 2007 was when we determined to settle. We were disappointed that there was, at that point, we felt PCAOB had a lot of leverage on the fine, but in the scheme of things, you try and get those things behind you and you move on. So that's exactly what occurred.

Bob Kueppers:

I was more troubled by the partial disclosure of Part Two because that was really new and nobody ever thought Part Two must be like really juicy because it's secret. And so portions of our Part Two were disclosed, and the reason it would be disclosed is they were not satisfied that we had remediated whatever problem they had quickly enough in a fulsome way, either one. And so, parts of our Part Two came out, and that created the need, in my view, to have a comprehensive communications plan. I remember calling audit committee chairs myself saying, "Look, this is going to happen in the next few days. I apologize, but I wanted to give you a heads up," because clients don't like surprises. Nobody likes surprises.

Bob Kueppers:

So it was a lot of work, and to this day I wish that it hadn't happened, but then I realized that over time it's happened to just about every firm in some form or fashion to some degree, we just happened to be on the, again, the leading edge.

Lucy Harvey:

The leading edge. Now let's talk about 2007 when you were instrumental in starting something called the CAQ.

Bob Kueppers:

Center for Audit Quality.

Lucy Harvey:

Yes.



Bob Kueppers:

Now, instrumental, it was very kind, thank you, but it was a group of us from the firms. We've been with the PCAOB for a few years, obviously. We're talking about 2006, 2007, in that timeframe. One thing about Washington and one thing about life, I guess, is that when bad things happen, there's usually a quiet period and then bad things can happen again. And one of the things we felt was that we needed a stronger presence, a stronger voice in Washington. The AICPA had been our profession's organization forever and they still are, but the public company auditor now was a subset of the bigger profession. It always had been, but now we had a regulator watching over just that.

Bob Kueppers:

And so we struggled with the best way to convene people, to engage our constituencies that weren't just at a firm level, audit committee chairs, the other regulators in town, the groups that care about audit quality because we were doing a lot as firms individually, but we said, if we collaborate together, it's going to be much better. And frankly, not a criticism, but the number of auditors from the large firms who audit public companies are very small percentage of the membership of the greater AICPA. AICPA is a great organization, several hundred thousand members, but maybe 5%, 6% and the largest firms, and the subset of that are actually audit public companies.

Bob Kueppers:

So we decided that we would form our own organization with its own governing body, and remain affiliated with the AICPA. So we didn't look like we were competing, we were just like a sub-brand. We hired an executive director, Cindy Fornelli, who just retired recently and we didn't know whether this was even going to work, but I know I spent the last six, seven years of my career, a lot of my time, at the CAQ and helping that get off the ground, but it was great to have a convener. And frankly, the PCAOB not wanting to show favorites, he said, "Well, okay, we want to meet the senior technical partners of all the certain tier of firms, maybe the annually inspected firms." And they were almost put in a position where they had to call everybody, but we considered the CAQ, we urged them, we said, "If you need something from any of us, feel free to call the CAQ. They can pull us together. We can get a meeting. We can come and visit you and whatever you need."

Bob Kueppers:

So it worked out really well. Plus, we began collaborating with NACD, with the Institute of Internal Auditors, with other organizations, and really showed our commitment to audit quality and I remember we even shot some commercials, just trying image advertising and things. But I'm very happy with the way that turned out, and the fact is it's still an important organization today that gets a lot done.

Lucy Harvey:

Let's talk about SAG, the Standing Advisory Committee... Group, Standing Advisory Group, and there were 170 nominations for that first group and 30 were selected, you among them, and you spent a long time on this SAG. So was that an effective organization?

Bob Kueppers:

I'm not sure. I never knew there were 170 submissions, frankly, but obviously, to be part of that group was an honor and privilege, if you will. Standing Advisory Group was formulated, and it's a public forum. We'd meet for one or two days depending on the agenda and the PCAOB would present an issue or frame up some questions, and then we'd have open discussion.

Bob Kueppers:

The great thing about it was, around one very large table, you had some investor types, if you will, you had some attorneys, securities lawyers, obviously some audit partners, but it wasn't the majority of the group, it was the minority of the group who were the auditors, okay? But it presented a forum that we could very candidly talk about the challenges of performing an audit in a certain circumstance, and of course the whole focus was what should policy be? What should our standards do? How far should they go? And so there was a lot of give and take, a lot of back and forth, and I think I served for two, three-year terms before they kicked me out.

Bob Kueppers:

I enjoyed it because there was another part of it that was very good. There was a dinner in between or the day before or whatever, and you get to sit down with the board members and all the senior staff and your colleagues from the investment community or the legal community. I thought it was quite collaborative. From a participant's point of view, I thought it was effective. From the PCAOB's point of view, I guess it depends who you ask, but I thought it was a good way, and to air things publicly, I thought it put a nice tone on it.

Lucy Harvey:

You talk about the table. I remember the table would take the entire room and then the audience was in the wings. And if you wanted to talk, you'd put up your-

Bob Kueppers:

Tent card, your name card.

Lucy Harvey:

Tent card. And so I was pretty impressed with the PCAOB staffers who then would call the people and knew their names because you couldn't read it, but the tent card was up. Yes.

Bob Kueppers:

That's true. Now, you had to have a good memory to be running the meeting for sure. I know the Investor Advisory Group, which is interesting because it had nothing but investors and that followed the Standing Advisory Group by a little bit. Both ran in parallel for a while, but it's come and gone depending on the board members' desires and so forth. I still think it was a good idea.

Lucy Harvey:

One of the first major challenges for the PCAOB was the AS2, the standard on internal control over financial reporting that was proposed October 7, 2003, and then after a lot of controversy, it was replaced by AS5 July 25, 2007. So talk about that whole experience.

Bob Kueppers:

Yes. So an audit requires the auditor to assess the effectiveness of the internal control system, and these standards became very specific, internal controls over financial reporting. The stronger the controls, the less audit work one has to do. What this required was that we give a separate opinion on the effectiveness of the internal controls over financial reporting as a system, and then over here, another opinion on the financial statements.

Bob Kueppers:

The issue with AS2, in my view, was that it was, I'm not trying to be cynical, but almost too perfect. It was one of those standards that had everything you could ever want in a standard, and it was so strident that in the field when you're trying to apply it, the implication was you had to do quite a bit of work, and then we came to learn that the PCAOB was looking for even more than quite a bit of work. So we got a lot of pushback from our clients because the costs of doing that extra work needed to support our opinion, we get that, but we always used to joke, although we didn't laugh, that sometimes we felt like we were checking the coffee money and the postage stamps, the things that were just totally immaterial. The feeling was the scope created too much cost for the companies and it was very difficult to train staff how to do these kinds of audits because we'd never done it before.

Bob Kueppers:

So there was a call for some relief, I'll just say, unspecified, but some relief. The Chief Auditor at the time, Doug Carmichael, was the main architect of AS2. I must say it was a very well-written standard, it just was difficult in application to do something cost-effectively. So there was a lot of pressure, and it was mostly, I mean, the firms less so than the clients, the companies. A lot of people complaining about this new requirement and the cost of it. That wasn't lost on the SEC, it wasn't lost on the PCAOB either, but they finally undertook a moderation, I'll call it, without gutting the integrity of the notion or the idea, and the AS5 was eventually adopted, which I thought was a real breakthrough. To this day, I believe it was the right level of standard. Yes, less strident, but not any less effective would the way I would summarize it.

Lucy Harvey:

Let's talk about the lawsuit, and that was that free enterprise fund brought a lawsuit in 2006. It brewed, percolated through the system, and in 2009, it went to the Supreme Court, and there were a group of people who were hoping that the PCAOB would be dismantled. Was that a worry? Was that a thought that you and the profession planned for?

Bob Kueppers:

Well, we can deal with this in editing, but I want to go back on the prior topic. When AS5 was up for vote, I know virtual certainty that the board members of the PCAOB were struggling a little bit with pressure they were feeling from the business community and maybe some other people in Washington to take more out of the standard than they did. And of course the worry is when you're trying to strike the right balance, if you go too far the other way, then it's also a problem and it's a risk to the firms too, because if the standard's too loose and the issue of the opinion, and then... you know.

Bob Kueppers:

So anyway, I just want to point out that it was the first time I saw the board as a board, and I knew all the members to some degree. I mean, we weren't close, but I've been working with them on some things. They really internally were trying to figure out what to do because they were feeling pressure to further moderate the standard. But at the end of the day, I remember leading up to the vote, having certain conversations, they did stand their ground and did not yield to that additional pressure. I look back on that and say, thank God, because I think we're in a good place today, but it didn't have to end that way.

Lucy Harvey:

That's good.

Bob Kueppers:

The Free Enterprise Fund litigation I thought was... Actually, when I first heard of it, I first thought, it was like, "Who are these people?" I remember they were a... I don't remember who they were, frankly, but they were somehow connected with or as a co-plaintiff, a very small accounting firm in Las Vegas, Nevada. I don't know where they came from. But here's the problem, it ended up being a Supreme Court case and it had to do with a lot of things, but as I recall, we were going flat out trying to implement the standards and to use AS5. I found it to be sort of a little bit of a sideshow because if they didn't win their case, nothing would change, okay? And I thought it's more important that we focus on implementing the new standard than worry about what's going on up on the other side of the Capitol building.

Bob Kueppers:

In the end, the structure was ratified with one change, and I think it was the removal clause. But frankly, I kind of saw it as a sideshow and every once in a while, I'd say, "Hey, what's going on with that Supreme Court thing?" but it was not central to my worries at that time.

Lucy Harvey:

And this was also the devil you knew, the PCAOB.

Bob Kueppers:

Well, that's right. That's right. Remember, when we were talking about Sarbanes-Oxley, you've got a self-regulated profession, then you've got a directly regulated profession. What's the next step? Government? Is the government going to audit every public company? Can you imagine that? So we were working earnestly to make things work with the PCAOB and who knows what would've happened had the decision been different. But then they'd have to deal with the original enabling legislation, so they probably would have amended that and maybe we'd to be in the same place. I don't know.

Lucy Harvey:

Did you feel that there was a time that the PCAOB had kind of ended being a startup and it had hit its stride?

Bob Kueppers:

Some people would say that's a loaded question, but I trust you. The point is that everybody struggles at the beginning, that first, trying to get your feet wet or however you want to say it. But I felt that the defining moment, if I could pick one, would be the passage of AS5, because I think at that point, the board members said, "We believe we have the right thing here and we're going to stick to our guns." Following that, there were questions about mandatory audit rotation, in other words, rotating the firms, all kinds of other things came up. But I felt that the stand they took, if I could use that term, on AS5 enabled them to handle other issues after that. I think at that point they had a level of maturity that had been lacking previously.

Lucy Harvey:

Did you find that you had to approach the board differently as the composition of it changed?

Bob Kueppers:

Well, the original board, I knew several of the members from SEC days. And then of course, we had a couple of changes with different chairs over time. From Minnesota, Mark Olson was a Minnesota guy, and I didn't really know him, but he was on the board of the Federal Reserve, and Jim Doty I had known quite a bit. Maybe you're not asking me, maybe you're asking more broadly, but I never felt it was a big change. It was just same thing I've seen at the SEC for 30 years. A new Chairman comes in, and when I was actively working, I always wanted to have a meeting the first week because after the new Chair was briefed by all the departments and offices and I used to be bold enough to say, "I don't know what they told you about these three things, but I hope it's on your radar screen." And it wasn't a threat. It was just a way of dealing with people in Washington.

Bob Kueppers:

I felt that way about the PCAOB too, "Tell me what your priorities are?" It would evolve over time, but I felt that it was... Remember, other than until recently, the entire board turned over at once. But up until that time, it was a member here, a member there, and that made it very much easier to do, more like the SEC where a commissioner's term is up, somebody new comes in, and then it's stable for a while. It's like an organized turnover. This last time was more of reboot, but I thought dealing with the board members was very pleasant. The important thing though, is that as board members, as opposed to the head of inspections, or the head of enforcement, or head of standards, is to tell them what's on your mind and what are the things you worried about. And frankly, if you would say it in a very respectful way, you guys could probably do a little better in these areas. That's not a criticism, that's trying to be helpful.

Lucy Harvey:

And you felt like you had the entree to do that?

Bob Kueppers:

I never worried about that. I felt I had the responsibility to do that.

Lucy Harvey:

And CAQ also helped to do that.

Bob Kueppers:

Absolutely. Absolutely. That added another player on the field, if you will, but a good one, at that. Let's say the firms were struggling with a couple big issues. I don't mean client issues. I mean, systemic issues. When the CAQ were to raise something like that, let's say two of their firms, nobody has a face or a name on it, it's just CAQ. And so having that additional flexibility I thought was extremely valuable.

Lucy Harvey:

I do want to say you have a regulatory mindset. You have said that. You had some real experience in Washington, including being an SEC Professional Accounting Fellow.

Bob Kueppers:

Yes. So the fellowship program at one point was part of the White House fellowship program. Then the SEC decided they didn't want the White House picking their fellows, and so they began doing it

themselves. And so at the time I was a fellow, Bob Herdman, who eventually became the Chief Accountant....I was moving into his office [at the SEC] as he was moving out and going back to Ernst & Young. Probably the best two years of my life. I loved working at the SEC. And as is typical in Washington, there was a lot going on. The S&Ls were front page news and Hearings on The Hill. I was fortunate enough to help prepare the Chairman for those hearings. I just did a lot of stuff I've never done in my life, but it was a great job. As a lot of people in our gallery might say, you really felt like you're wearing a white hat when you worked there.

Lucy Harvey:

And it served you well in the rest of your career.

Bob Kueppers:

It didn't hurt.

Lucy Harvey:

So we are really coming to the end. Was there a major challenge that you felt in dealing with the PCAOB? Was there a specific issue that was very, very hard to overcome?

Bob Kueppers:

Well, that's a great question. I'm going to divert a little bit to say that most ironic thing was the fact that their offices were the former Arthur Anderson space, and we all know that one, that's an old, but I was concerned that we could have a constructive relationship, not feel like we're the regulator, they're the regulated, which is true, so no problem there. But I was so used to working with the SEC because regulation is hard and the people who do the worst job at it, don't talk to the regulated. They only to say, "I'm the regulator, I get to decide." But that uninformed view of rule writing and standard setting does not serve anybody well, and so I spent all this time after I was at the SEC helping them with rules, whether it was independence and saying, "If you do that, that's fine, but here's the problem with implementing it, or that's going to work in the U.S. but what about the overseas firms?"

Bob Kueppers:

So I always thought that was my role to inform the regulator about things that I had seen in practice so they would do a better job. Now, not everybody takes that offer willingly, but I really believe that collaborating with those you regulate in a constructive and arms-length way and listening and being respectful is very important for the regulator. I like to believe we help them be successful, but I do think we're better off today than were 20 years ago.

Lucy Harvey:

You had mentioned the global, making sure the global network was to the same standards, that was difficult?

Bob Kueppers:

That's was, still is extremely difficult. For instance, from like Deloitte or any of the others would have member firms, 50, 60, 70 member firms around the world. Those are independent partnerships that are part of your network and they share the brand, and you would, for example, a big client, you may have 30 countries involved and you would have people in those countries to do the work. Those people now

had to comply with PCAOB standards, which were not even their national standard. It was something being imposed upon them from the U.S. The PCAOB felt that it was our responsibility to make sure they performed up to our U.S. standard. The structure of the firms, however, is that you're all co-equal.

Bob Kueppers:

Now, some people are more coequal than others, okay? Because the U.S. was always the largest of the firms in terms of a public company audit practice, but it's a challenge to feel confident that anywhere in the world, on any day of the week, we're doing things "just so." And so we did struggle with foreign registration, we struggled with training, and then when foreign inspections became a reality, that was a whole other kettle of fish because people would fly over to Israel, they'd fly to France, they'd fly all these places from Washington and want to do an inspection. That was a level of invasiveness that the member firms around the world were not thrilled with, to be honest, and I don't blame them, to be honest. There's some growing pains through that. We've got language issues. We've got work papers in Portuguese. You're going to have somebody who speaks Portuguese. It's just inefficient. And of course we still struggle with what to do about China because that's still an open issue.

Lucy Harvey:

Absolutely. So you witnessed the creation of independent regulator of the audit profession, and many in the profession never thought that would happen. So I want to ask, in some, do you think the PCAOB has had a positive effect on the profession?

Bob Kueppers:

So the short answer is that as we sit here today, I believe our audits of public companies are of higher quality than they were before the PCAOB was formed. Now, is that just growth? Is it causation or correlation? The truth is that the additional attention that we were sometimes unwillingly required to put in to the audit has yielded a better product. It's more durable. By that, I mean if you look at the numbers, restatements are down. Restatements and poor controls, I would argue, are somehow related, but now that we're auditing controls and there's more discipline around the audit and what it requires, I would say that it's more than correlation. It's somewhere in between the two, because I think the firms have been forced to make tremendous investments in their audit practice technically.

Bob Kueppers:

It was very painful at first, but now we're seeing people... not quite yet, but soon we'll be seeing people who would make someone a partner and they would have grown up in the regulated environment their whole career. When you've been in the profession for 25 or 30 years and it's sort of thrust upon you, it's much more difficult than if you're trained and you work that way from the time you're a new hire out of college. So I think things are heading in the right direction and I do give credit to the PCAOB for instilling that amount of discipline.

Lucy Harvey:

Wasn't there already the Public Oversight Board that had some oversight authority?

Bob Kueppers:

It certainly had oversight authority. Now, this was part of the self-regulatory structure and the SEC was involved with oversight of the POB. So this was a group of very talented men and women who were highly experienced. They had a small staff, but they would actually monitor the audit work done when

we were doing these peer on peer reviews. So Deloitte would review Anderson, they would look at our work papers, they would make sure the scope was right. It was, I would say inspection-like, but it was not the audits, it was the peer reviews. That was clearly part of the self-regulatory system. Of course, the peer reviews as the standard kind of went by the wayside with the direct inspections of audits by the new regulator, the PCAOB.

Bob Kueppers:

The unfortunate thing was really good group of people, and I remember the staff director, a fellow named Jerry Sullivan, was extremely dedicated and they lifted above their weight trying to stay on top of all this. I think what was unfortunate is there was not really a place in that structure once the legislation took shape, because it would be duplicative to have the POB looking at work papers on the peer review when the real regulator, the legislatively empowered regulator, is actually going right past that into the audit itself. So that whole peer review system had to change, it had to morph, and it really was not the standard because it was a three-year process, but rather the largest firms had an annual inspection by the PCAOB, and that's what the new system was.

Lucy Harvey:

Well, great. I think this was wonderful. Thank you for this conversation.

Bob Kueppers:

We have to do it again.