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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington DC 20006

Re: PCAOB Release No. 2022-001

Dear Madame Secretary and Members of the Board,

I appreciate the opportunity to comment on the Board's proposed frameworks for its advisory boards. I commend the PCAOB Board members for their decision to reinstitute and seek input on the proposed structures and charters for two advisory groups – the investor advisory group (IAG) and the standards and emerging issues advisory group (SEIAG). The Sarbanes-Oxley Act ("the Act") is specific in its requirement for advisory groups, particularly with respect to establishing audit and other professional practice standards. Unfortunately, the predecessor board ceased using the then-existing advisory groups and the PCAOB has operated, since mid-2018, without input from relevant stakeholders, including, especially, the investors for whom the PCAOB was created to protect.

As the Chair of the PCAOB's Standing Advisory Group (SAG) from 2009 through mid-2018 and a senior staff member (Chief Auditor) who participated in every IAG meeting from its inception, I can assure you of the significant value of these advisory groups to the direction and actions of the PCAOB during those years. The SAG and the IAG were both critical to the PCAOB in fulfilling its mission. The brief comments below are offered to help the Board ensure clarity of purpose, structure and operation for the new advisory groups.

The previous IAG benefitted from a very dedicated Chair and committed and engaged members. The IAG members operated with great freedom in matters which they chose to discuss. However, the IAG operated through a charter with very limited information about process. On the other hand, the Board Release (PCAOB Release No. 2003-09) accompanying Rule 3700 included a significant amount of detailed information regarding SAG structure and operations. SAG meetings generally benefitted from this more specific

structure. The Board should consider whether and how Rule 3700 and its accompanying Release will apply to the new IAG and the SEIAG, especially since most of the content in that Release dealt with the previous SAG. Will that information apply to the SEIAG? Or, will any new rule, and related release, constituting the new IAG and SEIAG have sufficient detail to adequately govern their respective operations? While the current Board may have one view about these new advisory boards, the next board or chair may have a different view and simply do as the last chairman did – discontinue their activities. Also, expectations of advisory group members and the Board may diverge without adequate guidelines.

Section 103 (a)(4) of the Act requires that the Board shall “convene, or authorize the staff to convene, such expert advisory groups as may be appropriate ... to make recommendations concerning the content (including proposed drafts) of auditing ... standards required to be established under this section.” The Release accompanying Rule 3700 also includes language that seems to anticipate that the SAG would “participate in the standard-setting process.” But, in this regard, prior Boards have been reluctant to share drafts of proposed standards with the SAG or SAG task forces. SAG members were generally involved in high level discussions of the need for a standard and possible direction of it. However, SAG members, at times, because of the language in the Act or in the Rule 3700 Release, thought their level of engagement in review and comment on Board proposals should be greater in the pre-proposal stage (i.e., “proposed drafts” according to the Act) than it was.

Both the IAG and SEIAG Frameworks make reference to voting members of the Groups. Again, the Release accompanying Rule 3700 discusses certain voting procedures and the formal process of SAG members making recommendations to the Board. Notwithstanding this language, formal votes of the SAG or IAG and related formal recommendations of the advisory groups were rare in the past. I believe the frameworks would benefit from a clear understanding of the nature and purpose of voting within both groups and how the outcome of such voting (and related recommendations) will be considered by the Board.

The frameworks discuss possible structures for the Chair of the two advisory groups. I agree that the Chief Auditor should Chair the SEIAG. Standard-setting is complex and the discussions surrounding any standard can be highly technical. The Chair needs sufficient technical experience in auditing to lead and manage those discussions. A Co-Chair for the SEIAG would be challenging, primarily because SEIAG members come from very diverse backgrounds and bring very different perspectives. For example, the views of investors, preparers and auditors often differ on the direction of an auditing or independence standard. If the Co-Chair could influence the extent or direction of discussion, that could disadvantage the interests of other members. On the other hand, if the IAG is comprised of one constituency, i.e., investors, Co-Chairs may work.

Lastly, it is clear from the proposal that the principal focus of the SEIAG is on the standard-setting function of the PCAOB. However, the proposed framework of the IAG says its purpose is “to advise on matters concerning the PCAOB’s mission.” Such “matters” certainly could include standard-setting. I recommend that the final frameworks be clear on the role of the SEIAG versus the IAG in standard-setting, as well as in the many other important responsibilities of the PCAOB.

Clarification of these types of matters are very important in establishing the new IAG and SEIAG Charters, in meeting the expectations of the members and the Board in the role of the advisory groups and, ultimately, in the success of the advisory groups in helping the PCAOB fulfill its mission to protect investors.

Again, I appreciate the opportunity to comment on this important proposal and would be happy to provide any further information you may deem helpful.

Sincerely,

Martin F Baumann