Overview of the PCAOB

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- Under the Sarbanes-Oxley Act, the PCAOB, acting in the public interest and for the protection of investors, establishes by rule standards used by registered public accounting firms in the preparation and issuance of audit reports for public companies and broker-dealers:
  - Auditing and related attestation standards;
  - Quality control standards; and
  - Ethics and independence standards

- Registered public accounting firms and their associated persons must comply with applicable auditing and related professional practice standards

- Standards adopted by the Board do not become effective unless approved by the SEC

OVERVIEW

- OCA advises the Board on the establishment and application of auditing and related professional practice standards, including auditing and other professional standards related to
  - financial statements and ICFR of public companies and
  - financial statements, compliance reports, and exemption reports of registered broker-dealers

PCAOB'S STANDARD-SETTING PROCESS

Understand Current & Emerging Audit Issues	Research Projects	Standard-Setting Projects
• Obtain intelligence on/identify new, current, or emerging audit issue • Determine whether to advance issue to research agenda	• Research potential issue, taking into account the problem and possible solutions • Determine whether to advance issue to standard-setting agenda	• Develop proposed standard or amendments (rule text) & proposing release • Resolve policy consideration & refine the solution • Adopt final standard and submit to the SEC for final approval

PCAOB'S STANDARD-SETTING PROCESS

- The PCAOB generally follows a notice and comment process for changes to its standards or other rules:
  - Proposed changes generally are issued for public comment;
  - The PCAOB may seek external input on proposed rulemaking through:
    - concept releases,
    - staff consultation papers,
    - advisory group meetings, or
    - other public meetings such as roundtables

PCAOB'S STANDARD-SETTING PROCESS: ECONOMIC CONSIDERATIONS

- PCAOB releases include economic analysis of the effects of a standard or rule as it would apply generally

- Releases follow Staff Guidance on Economic Analysis in PCAOB Standard Setting

- Under the staff guidance, the elements of a regulatory economic analysis are:
  - The <u>Need</u> for the rule;
  - The <u>Baseline</u> for measuring the rule impacts;
  - The <u>Alternatives</u> considered; and
  - The <u>Economic Impacts</u> of the rule (and alternatives), including the benefits and costs

PCAOB'S STANDARD-SETTING PROCESS: ECONOMIC CONSIDERATIONS (CONTINUED)

- Under the Jumpstart Our Business Startups Act ("JOBS Act") of 2012, rules adopted by the PCAOB do not apply to audits of emerging growth companies ("EGCs") unless the SEC determines that application of the additional requirements is "necessary or appropriate in the public interest" after considering "the protection of investors, and whether the action will promote efficiency, competition, and capital formation."

- Therefore, PCAOB standard-setting releases, in addition to analyzing the economic effects of a standard as it would apply generally, also discuss the economic effects of applying the standard to audits of EGCs

PCAOB'S STANDARD-SETTING PROCESS: OTHER ACTIONS

- OCA may issue staff guidance to highlight new, emerging, or otherwise noteworthy issues or to set forth the staff's views on issues related to the implementation of the Board's standards. Examples of recent staff guidance include:
  - Evaluating Relevance and Reliability of Audit Evidence Obtained From External Sources;
  - Guidance related to new standards: Estimates, Specialists and CAMs implementation guidance

- OCA may also issue other staff publications to highlight new or emerging issues, or certain staff activities (e.g., Spotlights related to the invasion of Ukraine, COVID-19, and data and technology research project updates)

QUESTIONS/COMMENTS