



February 4, 2022

By Electronic Mail

The Honorable Gary Gensler  
The Honorable Hester M. Peirce  
The Honorable Allison Herren Lee  
The Honorable Caroline A. Crenshaw  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chair Gensler and Commissioners Peirce, Lee, and Crenshaw:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board's (PCAOB) Office of Internal Oversight and Performance Assurance (IOPA) performance review, titled Office of the Chief Auditor (OCA) Standard-Setting Program Review. The Board formed IOPA to promote the confidence of Congress, the Securities and Exchange Commission, and the public in the integrity of PCAOB programs and operations. IOPA conducted this review in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

IOPA undertook this review to evaluate OCA's standard-setting processes and activities for operational effectiveness and efficiency. As the summary sets forth, IOPA found the standard-setting process to be organized, effective, and well managed. IOPA observed that OCA is staffed with highly experienced qualified professionals in the areas of auditing and standard-setting. Further, IOPA observed that OCA staff applied a sufficient level of rigor throughout each phase of the standard-setting process and received predominantly positive feedback from other PCAOB divisions and offices regarding their collaborations with OCA.

IOPA concluded that the Board appointments in 2021 present a unique opportunity for OCA to reassess points of communication and collaboration with the Board and other stakeholders across the PCAOB. To facilitate this communication, IOPA recommended that OCA apply its historical perspective to revise its process workflow documents to reflect its view of the most effective approach. To further enhance processes, IOPA recommended that OCA establish written guidelines on the roles and responsibilities of members of Inter-departmental teams within the standard-setting process.

The Board has reviewed IOPA's recommendations and management's responses thereto, and has approved the transmittal of the summary to you.



Please feel free to contact the Director of IOPA, Ryan Sack, at (202) 808-1574, or me if you have any questions or would like any additional information about the review.

Sincerely,

*Erica Y. Williams*

Erica Y. Williams  
Chair

Enclosure: Office of Chief Auditor Standard-Setting Program Review (IOPA Review No. 21-OCA-02),  
September 2021

## **Internal Oversight and Performance Assurance**

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# **Office of the Chief Auditor Standard-Setting Program Review**

IOPA Review No. 21-OCA-02

September 2021

## Background

The Office of Internal Oversight and Performance Assurance (IOPA) conducted a program review of the Office of the Chief Auditor's standard-setting process during June – September 2021. The Sarbanes-Oxley Act of 2002, as amended, directs the Board of the Public Company Accounting Oversight Board (PCAOB or Board) to establish standards to be used by registered public accounting firms in their preparation and issuance of audit reports<sup>1</sup>. The Office of the Chief Auditor (OCA) advises the Board on the establishment and application of auditing and related professional practice standards. OCA interacts with the Board on a variety of internal and external matters, such as seeking Board input on policy matters such as standard setting.

The standard-setting process occurs in four phases: understanding current and emerging audit issues, researching and recommending potential solutions, creating and communicating the proposed standard, and adopting the standard to impact behavior. OCA begins phase one of the standard-setting process by performing an environmental scan of both *external* information sources (including engagement with other standard setters, regulators, and organizations) and *internal* information sources (including ongoing OCA monitoring activities and meetings with other PCAOB divisions and offices; particularly, OCA collaborates with DRI and DEI to gather information about the results of inspections and enforcement activities). The list of potential audit issues identified through the environmental scan is refined and prioritized, and, if appropriate, could result in recommended changes to the research or standard-setting agendas. In phase two, research and analysis are performed for topics on the research agenda to determine whether staff guidance or changes to PCAOB standards are needed, or if another regulatory response would be appropriate. If standard setting is needed, the topic will be added to the standard-setting agenda. In phase three, a proposed standard is developed,<sup>2</sup> based on the policy choices made by the Board in the research phase, and the Board issues the standard for public comment. Public comments received are analyzed during phase four, where the draft standard is further refined, re-proposed, if necessary (in which case the project is moved back to phase three), and ultimately adopted.

At the time of our review, OCA had a number of standard-setting projects in various phases, including –

- A standard for Quality Control on the rulemaking agenda in phase three. OCA provided the Board with a draft standard and proposing release for their review in August 2021.
- A standard for the Supervision of Other Auditors on the rulemaking agenda in phase three. A supplemental request for comment was issued in September 2021.
- Data and Technology and Audit Evidence on the research agenda in phase two.

In addition to the projects on the public agenda, OCA also currently monitors the work of other standard-setters and a number of topics, including, for example:

- Confirmations,
- ESG developments,
- Cryptocurrency,
- Financial institution audits, and
- Non-GAAP measures.

In 2016, OCA performed a review of the phased standard-setting process. In collaboration with an external consultant and a team of individuals from various offices and divisions, the process was refined

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<sup>1</sup> Sarbanes-Oxley Act 2002, s 103(a)(1)

<sup>2</sup> The Board has also chosen to issue “concept releases” or “staff consultation papers” on certain projects prior to issuing a proposed standard for comment.

and documented to reflect the Board's expectations of the level of communication and interaction between OCA and the Board at the time. In December 2017, the Securities and Exchange Commission (SEC) announced the appointment of five new Board members, who were sworn in and joined the PCAOB from January to April 2018). The Board at that time requested that OCA review the standard-setting process again. During the course of our review, OCA finalized their conclusions from their own self-assessment and presented to IOPA several of their own recommended areas for improvement.

## Objective and Scope

The purpose of our review was to evaluate OCA's standard-setting processes and activities for operational effectiveness and efficiency. The scope of our review covered the procedures in place as of September 2021. To accomplish our objective, we:

1. Reviewed and evaluated documented policies, procedures, and process flow charts guiding the standard-setting process.
2. Reviewed and evaluated OCA's self-assessment and recommended areas for improvement.
3. Interviewed OCA leadership and staff to gain an understanding of the Office's work-streams and related interactions with other divisions and offices and with external stakeholders, including the SEC.
4. Interviewed Board members to understand how they interact with OCA and to gain their insights into the standard-setting process
5. Interviewed relevant (DRI, OERA, OGC, and DEI) stakeholders to understand how they collaborate with OCA and whether they perceive any opportunities for improvement.

We conducted our review in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

## Summary Results and Conclusion

In general, we found the standard-setting process to be organized, effective, and well managed. OCA is staffed with qualified professionals who are highly experienced in the areas of auditing and standard setting. We observed a sufficient level of rigor applied by OCA staff throughout each phase of the standard-setting process and received predominantly positive feedback from other PCAOB divisions and offices regarding their collaborations with OCA.

IOPA reviewed OCA's self-assessment and areas for enhanced efficiency of the standard-setting process, and we concur with their findings. In this self-assessment, OCA proposed changes to increase agility and leveraging existing OCA monitoring activities during phase one activities, reducing unnecessary internal document exchanges with the Board and other divisions and offices, restoring a version of inter-departmental teams (IDTs), and eliminating steps that require duplicative Board review, primarily in phase two. In phase two, they also proposed limiting the number of documents presented to the Board for review and comment and proposed keeping the Board informed of ongoing research activities early in phase two and requesting Board input when policy decisions are needed.

During the course of our review, we noted a number of areas where current practice varies somewhat from OCA’s workflow document that was created in 2016,<sup>3</sup> generally related to the frequency of interactions between OCA and the Board. While OCA closely followed their documented workflow from 2016-2018, the placement and preferences of a new Board in 2018 prompted OCA to adjust its approach to Board interaction to align with new expectations of the Board and Chairperson.<sup>4</sup> OCA made these adjustments to adapt to the desired dynamic from the new Board, but it has not updated the documented workflow processes.

We believe that the appointment of the new Board in 2021<sup>5</sup> presents a unique opportunity for OCA to reassess points of communication and collaboration with the Board and other stakeholders across the organization. The brief table below summarizes and categorizes these audit observations on a risk scale.<sup>6</sup>

Low Risk (2)	Moderate Risk (0)	Significant Risk (0)	Material Risk (0)
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- **Utilization of Inter-departmental Teams** - In 2018, the Office of the Chief Auditor (OCA) discontinued the use of formal IDTs in phase one of the standard-setting process and did not convene a formal IDT on the new project (Audit Evidence) added to the research agenda after 2018. As a result, contributing divisions and offices have been involved through individual meetings rather than a formal team structure. IOPA noted OCA’s self-assessment included ideas related to the restoration of the IDT going forward.

IOPA agrees with OCA’s direction in establishing a core team of OCA staff who would be responsible for organizing and obtaining input from IDTs, as necessary, throughout the standard-setting process. This should include establishing written guidelines on the specific roles and responsibilities of IDT members within the standard-setting process.

- **Proactive Engagement with the Incoming Board** - The Office of Chief Auditor’s (OCA’s) business processes and work cadence are highly dependent on engagement with the Board. We see an opportunity for OCA to update its operating process documentation given the SEC’s appointment of a new PCAOB Board (see footnote number 5), in order to influence prospective practices toward what OCA’s experience has established to be the optimal design. OCA can then proactively approach the new Board with its recommended processes and take early feedback to make any changes to align with Board priorities promptly and to understand the new Board’s communication preferences and desired pacing.

We recommend that OCA apply its historical perspective to revise the existing process workflow documents to reflect its view of what is most effective, and then proactively approach the Board for feedback to customize the workflow to further align with any of the new Board’s preferences.

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<sup>3</sup> To be clear, IOPA does not regard this to be a compliance issue. The OCA process map represents a practice guide for PCAOB standard setting and is not intended to be a required checklist, compliance exercise or legal document. The process map was created using an iterative/experimental approach and is intended to be a living document that may be refined over time.

<sup>4</sup> The Board that was placed in 2018 desired less frequent interaction than what was depicted in the document workflow.

<sup>5</sup> On November 8, 2021, the Securities and Exchange Commission announced the appointments of Erica Y. Williams as Chairperson and Christina Ho, Kara M. Stein, and Anthony (Tony) C. Thompson as Board members of the Public Company Accounting Oversight Board (PCAOB). Duane DesParte will continue his service as a Board member and will remain Acting Chairperson until Ms. Williams is sworn in.

<sup>6</sup> See Appendix A for IOPA Risk Rating Legend.

The Acting Director of the Office of the Chief Auditor provided responses indicating concurrence with our audit observation and a commitment to corrective actions that are responsive to our recommendations.

We thank all personnel who supported our review, both at the senior management and staff operating level, for their courtesy and cooperation throughout this assessment.

# APPENDIX

## Appendix A – Risk Classifications and Definitions

To provide the reader with further perspective of the degree of risk IOPA attributes to each audit observation, we have assigned color-coded risk ratings as explained in the legend below.

Degree of Risk and Priority of Action	
<b>Material</b>	The degree of risk is unacceptable and poses a significant level of financial, compliance or operational risk to the organization. As such, complete remediation is generally required within one month from the time of the finalized IOPA report.
<b>Significant</b>	The degree of risk is undesirable and poses a significant financial, compliance or operational risk to the organization. As such, complete remediation is generally required within three months from the time of the finalized IOPA report.
<b>Moderate</b>	The degree of risk is undesirable and poses a moderate financial, compliance or operational risk to the organization. As such, complete remediation is generally required within six months from the time of the finalized IOPA report.
<b>Low</b>	The degree of risk appears reasonable but there are opportunities to further reduce risk through improvements to existing policies, procedures, and/or operations. As such, management should take actions to reduce the risks to the organization.

IOPA used its professional judgement in determining the overall ratings presented in the Summary Results and Conclusion section of this report. The report is intended to provide management with information about the condition of risks and internal controls at a point in time.