



December 4, 2024

By Electronic Mail

The Honorable Gary Gensler
The Honorable Hester M. Peirce
The Honorable Caroline A. Crenshaw
The Honorable Mark T. Uyeda
The Honorable Jaime Lizárraga
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chair Gensler and Commissioners Peirce, Crenshaw, Uyeda, and Lizárraga:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board (PCAOB or “Board”) Office of Internal Oversight and Performance Assurance’s (IOPA or “Office”) Performance Review Report: *Division of Registration and Inspections Comment Form and Report Writing* (December 2024). 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 (“Review”) in conformance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*.

The purpose of IOPA’s Review was to evaluate the effectiveness and efficiency of the processes for drafting and issuing comment forms and inspection reports, including the Division of Registration and Inspections’ (DRI) internal process for resolving differences of opinion related to inspection observations.

As the attached summary report sets forth, IOPA’s Review found that DRI has implemented comment form and report writing processes that effectively support the PCAOB’s mission to oversee the audits of public companies and SEC-registered broker-dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. Inspections staff – seasoned professionals with extensive knowledge, skills, and subject matter expertise – consistently exhibited recognition of and support for the organization’s investor protection mission. Additionally, using a Report Team as a centralization of DRI’s inspections report writing process has resulted in more consistent and timely reporting by DRI, along with general enhancements in efficiency and effectiveness for the inspection process. During the Review, IOPA further identified certain enhancement opportunities that the Office believes will help DRI’s continued support of organizational goals.

First, IOPA identified a lack of clarity among DRI staff regarding the roles, responsibilities, and authority of personnel that participate within DRI's comment form and report writing processes and recommended that DRI leadership document and socialize clarifying updates to reduce confusion. IOPA further noted that DRI leadership is not made aware of certain information included by Inspection Teams in comment forms regarding deficiencies that the DRI Report Team determined to omit from the inspection reports DRI submits for approval ("Submitted Inspection Reports") and recommended that the DRI Report Team provide DRI leadership with supplemental information regarding deficiencies identified in comment forms that are omitted from Submitted Inspection Reports.

Second, IOPA noted that inherent complexities may occur when an inspector flags a difference of opinion with a supervisor responsible for providing feedback on that inspector's performance. Specifically, an inspector's initiation of the DRI *Inspections Manual's* Section 600.22 "Resolving Differences of Opinion within DRI" process could potentially trigger a supervisor's unconscious bias that could directly affect the supervisor's feedback and, ultimately, the inspector's performance evaluation. These complexities could further generate an inherent hesitation for inspectors to formally flag differences of opinion. IOPA therefore recommended that DRI provide Inspections staff with the opportunity to voluntarily seek an independent review of the relevant supervisor's feedback in the inspector's performance evaluation when the inspector initiated the Section 600.22 process.

Third, IOPA identified an opportunity for DRI to consider supplementing certain training, communication, and written guidance on comment form processes for Inspection Team staff and leadership and recommended related enhancements.

Finally, IOPA noted significant layers of review currently embedded throughout the comment form and report writing processes, which add time to the overall inspection process and can result in bottlenecks. Based on these observations, IOPA recommended related enhancements.

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

The PCAOB intends to publish the attached summary on its website on or about December 11, 2024. Please feel free to contact Michael Weigand, Director of IOPA, at (202) 591-4659 or me if you have any questions or would like any additional information about the review.

Sincerely,



Erica Williams
Chair

Enclosure: IOPA's Summary Public Performance Review Report: *Division of Registration and Inspections Comment Form and Report Writing* (December 2024)

Office of Internal Oversight and Performance Assurance
Performance Review: *Division of Registration and Inspections*
Comment Form and Report Writing
Summary Report (December 2024)

1. Executive Summary

As detailed herein, from March 2024 through September 2024, the Public Company Accounting Oversight Board’s (PCAOB or “Board”) Office of Internal Oversight and Performance Assurance (IOPA or “Office”) conducted a review of the organization’s Division of Registration and Inspections’ (DRI) comment form and inspection report writing processes (“Review”).

1.1. Program and Review Background

Program Background

Section 104 of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), directs the Board to “conduct a continuing program of inspections to assess the degree of compliance of each registered public accounting firm and associated persons of that firm with this Act, the rules of the Board, the rules of the Commission, or professional standards, in connection with its performance of audits, issuance of audit reports, and related matters involving issuers.”¹ To support the Board in this duty, DRI conducts inspections of registered public accounting firms and drafts inspection reports for Board review and approval. DRI’s *Inspections Manual* details review and approval processes for inspections.

Typically, when the Inspection Team observes potential non-compliance by an inspected firm and/or its associated persons, the Inspection Team drafts a comment form that serves to document and communicate the potential non-compliance. The Inspection Team provides the firm with the comment form, to which the firm provides a response indicating whether they agree or disagree with the facts and the identified deficiency. After evaluating any firm response, the Inspection Team documents in a disposition form the team’s determination of whether any new information provided by the firm impacts the validity of the identified deficiency. Generally, comment forms are the initial output of DRI’s inspection process and provide part of the supporting foundation of any inspection report issued by the Board.

Beginning in 2019, DRI instituted the use of a centralized Report Team with primary responsibility for drafting inspection reports and making recommendations to the Board regarding the issuance of inspection reports for registered firms. Within each draft inspection report, the Report Team determines, on behalf of DRI, the eventual inclusion/placement (or exclusion) of deficiencies previously identified in the Inspection Team’s comment forms. The Report Team uses the Inspection Team’s

¹ The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 added the PCAOB’s authority to carry out oversight responsibilities for audits of broker-dealers registered with the U.S. Securities and Exchange Commission (SEC or “Commission”).

disposition forms to aid with the drafting of inspection reports. DRI ultimately submits the reports to the Board for approval to issue.

Additionally, DRI's comment form and report writing processes can include pre-issuance reviews of draft comment forms and/or technical consultations by the DRI Consultations Group, the Office of the General Counsel (OGC), and/or the Office of the Chief Auditor (OCA).

Review Background: Efficient processes related to comment forms and report writing are critical to the PCAOB's mission, especially considering the volume of registered firms, annual and triennial inspections, comment forms, and inspection reports.² While IOPA has previously assessed various segments of DRI's functions, this Review is the first time IOPA has reviewed DRI's comment form and report writing processes.

1.2. Review Objective and Scope

Objective

The purpose of IOPA's Review was to evaluate the effectiveness and efficiency of the processes for drafting and issuing comment forms and inspection reports, including DRI's internal process for resolving differences of opinion related to inspection observations.

Scope

The scope of IOPA's Review examined processes related to inspections of annually and triennially inspected firms and the PCAOB's interim inspection program related to audits of brokers and dealers³ (collectively, "DRI Programs") and included:

- Performing process walkthroughs and interviews with DRI leadership and staff to understand for DRI Programs: (1) comment form development and disposition; and (2) reporting processes;
- Reviewing relevant policies, procedures, and guidance, including DRI's *Inspections Manual* and relevant practice aids;
- Performing sample testing of instances where staff assigned to a DRI Inspection ("Inspection Team") issued comment forms containing deficiencies that were not included in inspection reports issued by the Board between March 1, 2023 and February 29, 2024;
- Performing population testing on memos documenting the *Inspections Manual's* Section 600.22 "Resolving Differences of Opinion within DRI" formal process for inspections occurring from March 1, 2023 through February 29, 2024;
- Surveying all DRI inspectors on a voluntary basis to understand staff viewpoints on the effectiveness and efficiency of in-scope processes;
- Interviewing DRI collaborators in OGC and OCA to understand their consulting and review roles for in-scope processes; and
- Reviewing the scope and results of an internal quality assurance analysis related to comment forms and inspection reporting performed by DRI's Inspections Quality Group.

² For example, in 2023, the PCAOB inspected 227 firms and published 208 Firm Inspection Reports.

³ IOPA's scope included processes related to comment form development and disposition for inspections of auditors of broker-dealers. IOPA excluded from the Review's scope the reporting process of the interim inspection program for the audits of broker-dealers because this interim inspection program annually issues a single report for all inspected firms, whereas individual reports are issued for inspections of firms that audit issuers.

IOPA conducted this Review in conformance with the Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing*.

1.3. Review Opinion

IOPA’s Review found that DRI has implemented comment form and report writing processes that effectively support the PCAOB’s mission to “oversee the audits of public companies and SEC-registered broker-dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.”⁴ Inspections staff – seasoned professionals with extensive knowledge, skills, and subject matter expertise – consistently exhibited recognition of and support for the organization’s investor protection mission. Additionally, using the Report Team as a centralization of DRI’s inspections report writing process has resulted in more consistent and timely reporting by DRI, along with general enhancements in efficiency and effectiveness for the inspection process.

During the Review, IOPA identified certain enhancement opportunities that IOPA believes will help DRI further enrich its support of organizational goals. Section 1.3.1 (below) summarizes the Review observations on a risk scale, which is described in Appendix A - IOPA’s Risk Rating Legend.

⁴ [PCAOB’s Mission, Vision, and Values](#).

1.3.1 Summary of Observations

Observation Summary and Recommendations	Risk Rating	Responsible Party	Target Date
<p style="text-align: center;">Increase Clarity and Communication on Roles, Responsibilities, and Authority Within Comment Form and Report Writing Processes</p> <p>IOPA identified a lack of clarity among DRI staff regarding the roles, responsibilities, and authority of personnel that participate within DRI’s comment form and report writing processes, and recommends that DRI leadership document and socialize clarifying updates to reduce confusion.</p> <p>Additionally, IOPA noted that DRI leadership is not made aware of certain information included in comment forms by Inspection Teams regarding deficiencies that the DRI Report Team determined to omit from the inspection reports DRI submits for approval (“Submitted Inspection Reports”). IOPA recommends that the DRI Report Team provide DRI leadership with supplemental information regarding deficiencies identified in comment forms that are omitted from Submitted Inspection Reports.</p>	Moderate	DRI Associate Director	Q2 2025
<p style="text-align: center;">Provide DRI Staff Engaged in “Resolving Differences of Opinion within DRI” Process with Optional Independent Review of Performance Evaluations</p> <p>IOPA notes that inherent complexities may occur when an inspector flags a difference of opinion with a supervisor responsible for providing feedback on that inspector’s performance. Specifically, an inspector’s initiation of the DRI <i>Inspections Manual’s</i> Section 600.22 “Resolving Differences of Opinion within DRI” process could potentially trigger a supervisor’s unconscious bias that could directly affect the supervisor’s feedback and, ultimately, the inspector’s performance evaluation. These complexities could further generate an inherent hesitation for inspectors to formally flag differences of opinion.</p> <p>IOPA recommends that DRI provide Inspections staff with the opportunity to voluntarily seek an independent review⁵ of the relevant supervisor’s feedback in the inspector’s</p>	Low	DRI Associate Director	Q1 2025

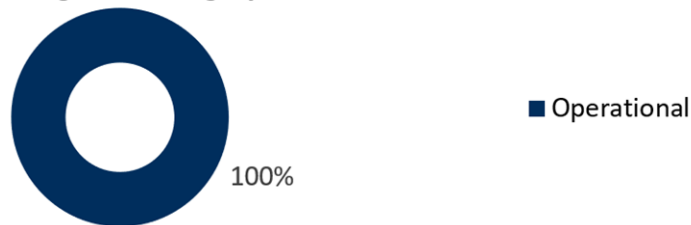
⁵ IOPA suggests that this review could be conducted by a DRI supervisor that is not directly reviewing or involved with the relevant matter and/or individual, although this role could also be performed by someone outside of DRI.

Observation Summary and Recommendations	Risk Rating	Responsible Party	Target Date
performance evaluation when the inspector initiated the Section 600.22 process.			
<p>Consider Supplementing Certain Training, Communication, and Written Guidance Regarding Comment Form Processes</p> <p>IOPA identified an opportunity for DRI to consider supplementing certain training, communication, and written guidance on comment form processes for Inspection Team staff and leadership and recommends related enhancements.</p>	Low	DRI Associate Director	Q2 2025
<p>Evaluate Opportunities to Streamline Comment Form and Report Writing Review Processes</p> <p>IOPA notes significant layers of review currently embedded throughout the comment form and report writing processes, which add time to the overall inspection process and can result in bottlenecks, and recommends related enhancements.</p>	Low	DRI Associate Director	Q1 2025

1.3.2 Risk Category Distribution

IOPA found that all risks identified during the Review were operational in nature.

Findings Risk Category



1.3.3 Leading Practices

During the Review, IOPA found that DRI has implemented numerous leading practices, including:

- The DRI Report Team has achieved more timely reporting and increased consistency in reporting, in part because of the Report Team's unique centralized positioning with a focus on organizational consistency and frequent interactions with staff and leadership in DRI, OCA, OGC, and at the Board level.
- Generally, Inspections staff showed high regard for DRI's formal Section 600.22 process for resolving differences of opinion. The tone at the top set by leadership is also regarded as supportive and encouraging of staff to express their views via open dialogue.
- Collaborators in OGC and OCA reported smooth processes and positive working relationships with DRI inspectors and the DRI Report Team.
- IOPA noted a high degree of professionalism across DRI, with inspectors reporting positive collaboration throughout DRI and with other Divisions and Offices.

1.3.4 Management Response Summary

DRI provided responses indicating a commitment to actions that are responsive to IOPA's recommendations.

IOPA thanks all personnel who supported the Office's review, both at the senior management and staff operating level, for their courtesy and cooperation throughout this assessment.

Appendix A – Risk Classification and Definitions

To provide the reader with further perspective of the degree of risk IOPA attributes to each review observation and has assigned color-coded risk ratings as explained in the legend below.

Material	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 on a highest priority basis.
Significant	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 on a high priority basis.
Moderate	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 on a medium priority basis.
Low	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, on a lower priority basis, management should take actions to reduce the risks to the organization.

IOPA used its professional judgment in determining the overall ratings presented in this report, which is intended to provide management with information about the condition of risks and internal controls at a point in time.