

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standards and Emerging Issues Advisory Group meeting on May 9, 2024 that relates to the proposed rule, Firm Reporting. The other topics discussed during the May 9, 2024 meeting are not included in this transcript excerpt. The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at: <https://pcaobus.org/news-events/events/event-details/pcaob-standards-and-emerging-issues-advisory-group-meeting-may-2024>

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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STANDARDS AND EMERGING ISSUES ADVISORY GROUP

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MEETING

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THURSDAY  
MAY 9, 2024

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The Advisory Group met at the City Club, 555 13th Street, NW, Washington, D.C., at 9:00 a.m., Erica Y. Williams, Chair, presiding.

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1 proposal provides that the optional narrative  
2 disclosure would be no more than 500 characters  
3 per metric.

4 And we look forward to receiving your  
5 comments on this proposal by Friday, June 7th.

6 And now I'd like to turn this over to  
7 Connor from the Office of the General Counsel.

8 MR. RASO: Thank you, Stephanie, and  
9 good morning, everybody.

10 I will give a brief overview. I will  
11 try and shorten it up a little bit to get us on  
12 schedule of the firm reporting proposal that the  
13 Board issued on the same day as the FEMs proposal  
14 that Stephanie gave you an overview of.

15 And it's just a sort of initial  
16 framing matter. The goal of this proposal is to  
17 help enhance public transparency with respect to  
18 audit firms and also to improve the PCAOB's  
19 oversight by getting more complete, more  
20 standardized, and more timely reporting by audit  
21 firms.

22 So this is the overall goal. And

1 really where this fits in with the Board's  
2 existing framework is to supplement, as you know,  
3 Form 2, which is the Board's annual reporting  
4 form, and Form 3, which is the special events  
5 reporting. And so enhancing Forms 2 and 3.

6 I would just note as sort of an  
7 initial matter before I give a brief overview of  
8 the additional reporting that some of the  
9 reporting would be public, and some would be  
10 confidential. And so in thinking about the  
11 proposal and what would be public, what would be  
12 non-public the Board thought about the public  
13 interest in accessing information, essentially  
14 which of the information would be sensitive, the  
15 Board's obligations of course under Sarbanes-  
16 Oxley, and we welcome comments on this balance  
17 between public and non-public reporting.

18 Now I'll just walk through the five  
19 elements of the reporting quickly. First is firm  
20 reporting of financial information. And with  
21 this one, think of two broad buckets of  
22 reporting. First is enhanced reporting of firm

1 fees. And this would apply to all firms. As you  
2 know, Form 2 currently requires firms to report  
3 total fees that were billed to issuer clients for  
4 certain categories, various categories as a  
5 percentage of total fees. Percentage. And what  
6 this would do is it would get rid of percentage  
7 reporting and replace it instead with actual  
8 dollar amounts, which we think would be more  
9 transparent and more useful.

10 The second change in this area would  
11 require more complete and further disaggregation  
12 of fee information. So a little bit more  
13 granular detail on fee information from the  
14 firms.

15 The second bucket of reporting would  
16 only apply to the largest firms, and the proposal  
17 walks through the definition there. And this  
18 would be the largest firms would give the PCAOB  
19 their annual financial statements on a  
20 confidential, non-public basis. And these  
21 financial statements, the firms would report in  
22 accordance with the applicable financial



1 reporting framework in the firm's jurisdiction  
2 and would not need to be audited. So that would  
3 be really helping the PCAOB with its oversight.  
4 So that's sort of the first category of  
5 additional reporting.

6 The second one is information about  
7 the firm's networks, and so it would require a  
8 more detailed -- on Form 2 a more detailed public  
9 description of any network arrangement that the  
10 firm is a part of and would include information  
11 like the legal ownership structure of the  
12 network, financial obligations, information  
13 sharing agreements, et cetera. So, more  
14 information about the network.

15 Bucket three is enhancements to Form  
16 3, which is special reporting. One proposed  
17 change would be to shorten the time frame for  
18 special reporting from 30 days down to 14 days,  
19 or more promptly as warranted. And there would  
20 be a new special reporting obligation for any  
21 event or matter that poses a material risk or a  
22 material change to the firm's organization,

1 operations, liquidity, or financial resources, or  
2 provision of audit services. And one of the  
3 things the proposal notes is that some firms  
4 provide this sort of information on an ad hoc  
5 basic to the PCAOB and so this would be part of  
6 Form 3. And this would be non-public reporting.  
7 It would be confidential to the PCAOB helping  
8 with the Board's oversight. So that's the third  
9 category.

10 The fourth category is cybersecurity.  
11 And that is not a surprise. The last time that  
12 the Form 2 and Form 3 were significantly updated  
13 was in 2008/2009. Cybersecurity of course is a  
14 much bigger issue than it was in that time  
15 period. And so here, too, there are sort of two  
16 categories of reporting. One is a new special  
17 reporting requirement for cybersecurity  
18 incidents, and the release defines that. And  
19 those would go on Form 3. And again, those would  
20 be reported confidentially within five business  
21 days to the PCAOB, but not public. So those are  
22 cybersecurity incidents that the firm

1 experiences.

2           And then the second is a public report  
3 with a brief description of the firm's policies  
4 and procedures with respect to managing  
5 cybersecurity risks. And that would be publicly  
6 reported if the firm had such policies and  
7 procedures.

8           And we are near the home stretch. The  
9 final reporting item relates to the quality  
10 control proposal, which, as Barb mentioned, the  
11 Board will be considering next week. Currently,  
12 applicants for registration provide on Form 1 a  
13 narrative description of their quality control  
14 policies and procedures. And the Board proposed  
15 to create a requirement for firms to update these  
16 quality control policies and procedures; this is  
17 a one-time update, if the Board were to adopt QC-  
18 1000. And so there would be an updated statement  
19 that would be done pursuant to the QC  
20 requirements.

21           So that's sort of the high-level  
22 summary of the proposal and we think that again

1 this would help the Board with its regulatory  
2 mission. It would help investors, audit  
3 committees, and other stakeholders. And the  
4 comment period, again, closes on June 7th, so we  
5 encourage written comments and engagement. And  
6 thank you and we welcome your thoughts.

7 MS. VANICH: Thank you, Connor and  
8 Stephanie. I know we're running at time, but I  
9 do want to pause to see if anyone had any  
10 comments or questions.

11 Ron?

12 MR. EDMONDS: Yes, thank you very  
13 much. Maybe just a couple things on everything  
14 that's been covered so far, and maybe something  
15 that hasn't in detail.

16 So one, I know on your NOCLAR  
17 proposal, I appreciate that you had the  
18 roundtable and I appreciated the opportunity to  
19 participate in that. I know that you received a  
20 lot of feedback in comment letters and at the  
21 roundtable on some incredibly complex issues and  
22 I wondered if in kind of advancing that -- I know