

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Investor Advisory Group meeting on April 24, 2024 that relates to the proposal, Firm and Engagement Metrics. The other topics discussed during the April 24, 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-investor-advisory-group-meeting-2024>.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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INVESTOR ADVISORY GROUP

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MEETING

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WEDNESDAY
APRIL 24, 2024

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The Advisory Group met via
Videoconference, at 1:00 p.m. EDT, Saba Qamar and
Amy Copeland McGarrity, IAG Co-Chairs, presiding.

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CHRISTINE GUNIA, Director, Division of
Registration and Inspections
BARBARA VANICH, Chief Auditor
MARC FRANCIS, Office of General Counsel
STEPHANIE HUNTER, Associate Chief Auditor
VINCE MEEHAN, Office of General Counsel

ALSO PRESENT

EDWARD Y. ABBO, C3.ai
KRIS BENNATTI, Hudson Labs
WILL BIBLE, Deloitte
HAMISH MACALISTER, Transparently.AI
VALERI NIKOLAEV, University of Chicago

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1 investors, audit committees and other
2 stakeholders. Further, the proposed requirements
3 would generate data and information to support
4 the PCAOB's regulator mission.

5 Finally, the proposed requirements
6 would make reported information more useful by
7 increasing standardization and comparability.
8 And by getting useful information to the PCAOB,
9 investors, audit committees and other
10 stakeholders in a more timely manner.

11 We encourage you to review the
12 proposal in its entirety on the PCAOB's website.
13 We note the comment period is open until June
14 7th, and we welcome comments on any and all
15 aspects of the proposed reporting requirements.
16 Thank you for your time today.

17 MS. VANICH: That concludes our
18 prepared remarks. And we'll stay on in case
19 anyone has any questions for a few minutes.

20 MS. QAMAR: Thank you, Barb. Thank
21 you Stephanie. Does anyone have any questions?

22 MR. GOLDMAN: This is Ken. I don't

1 have any questions. I did put a couple comments
2 in the chat, but I don't have any comments.

3 MS. QAMAR: Thank you, Ken.

4 MR. PITT-WATSON: I just have a bit of
5 a question. I mean, I mean, I read the rules
6 that you're suggesting and they all seem
7 sensible. Maybe some more difficult to implement
8 than others. But all I guess, or try to focus on
9 a particular mischief, which is the audit needs
10 to be done for the investor but there are all
11 sorts of incentives for there not to be as high
12 quality or not to cut costs. And indeed for the
13 audit to be done for the auditor or the company.
14 And I guess the rules are trying to address that.

15 I'm just also aware that the whole
16 process of an audit is one which requires a
17 mindset from the auditor, which is one that is
18 focused on the investor. I remember the chief
19 technical guy at Deloitte once saying to me that
20 the big issues that emerge in an audit were
21 discovered in the first two or three weeks
22 because somebody in the company told the auditor

1 I think we need to look in this corner. And then
2 when they did they discovered the problems, and
3 that's why we got principles-based accounting
4 centers in all the rest of it.

5 But it's just, if you add more and
6 more rules, becomes a point at which you will get
7 everybody to hit the rules, to hit the target,
8 but they might end up missing the point because
9 they're always trying to do the rules and believe
10 that just doing the rules is good enough. Is
11 there any tension in that when you're starting to
12 think about new rule writing?

13 MS. VANICH: Well that's a great
14 question, David. I mean, I think we do always
15 think about both pieces of that, right? Like how
16 standards and rules fit in at the procedure
17 level. Like what is important for an auditor to
18 perform the get reasonable assurance. But also
19 how they all fit together.

20 And I think some of the earlier things
21 you mentioned are covered, for example, I
22 mentioned AS 1000 which is our project on the

1 general responsibilities of the auditor which
2 deal with really important parts of the audit,
3 like skepticism and professional judgment. But
4 we think they, we do realize it's a lot of
5 rulemaking but we think, at the end of the day a
6 lot of these things are responsive to what the
7 IAG has asked us for over the last two decades.

8 MR. PITT-WATSON: Will you get a big
9 push back from the audit firms on this data?

10 MS. VANICH: That remains to be seen.
11 Well --

12 MR. PITT-WATSON: Yes.

13 MS. VANICH: -- you can ask me that on
14 June 8th.

15 MR. PITT-WATSON: Yes. Well, I'll
16 look forward to our next meeting on all of that.
17 Because it's this difficult balance between
18 getting them to do the right thing but also
19 having them on board to do the right thing. And
20 I, it's such a challenge, Barb.

21 MS. VANICH: Yes. Thank you.

22 MS. SANCHEZ: This is Gina, I have a

1 question. With regard to, I was very focused on
2 the firm and engagement metrics which I think are
3 really important, particularly as it pertains to
4 the ability to be able to study and draw
5 conclusions from data being gathered from that.
6 And so the question that I have is more of a
7 question of technology.

8 Is there a move towards creating the
9 input process, or sort of the administrative
10 burden, for the audit firms?

11 Is it possible to, A, make it easier
12 to submit a Form AP in kind of the portal format,
13 and then also make that data available within the
14 PCAOB, to do study and to be able to sort of
15 issue kind of white papers once we have more
16 information that is comparable and kind of a, you
17 know, where this new rule would apply where we
18 might be able to make judgements about the
19 effectiveness of rulemaking, et cetera?

20 So I guess it's just a question of
21 what's going to happen? We're asking them to
22 give us a lot more information. What is going to

1 happen to that information, how accessible is it
2 going to be to the PCAOB internally, to academics
3 externally, et cetera?

4 MS. VANICH: I won't get into too much
5 of the how, but Stephanie did mention, right, the
6 Form AP is public, the information will be
7 downloadable. We don't have to talk about the
8 exact way it gets in as part of the rulemaking --

9 MS. SANCHEZ: Right.

10 MS. VANICH: -- and so it's not
11 something that I was part of. But I assume
12 that's something that we're always looking at
13 since we know Form AP data has been downloaded
14 more than like anything else we provide. So we
15 know that people are using it. I think maybe
16 that was one of the first topics covered by the
17 IAG was to make our information and data more
18 user friendly. So it's --

19 MS. SANCHEZ: Right.

20 MS. VANICH: -- certainly something we
21 think about.

22 MS. SANCHEZ: Yes. So obviously this

1 wouldn't be, this not a comment for rulemaking
2 but more just a comment for, once we made the
3 rule and we're collecting the information let's
4 make sure we have a plan to be able effectively
5 use and disseminate that information. So just
6 something to sort of put in your work plan.

7 MS. SANCHEZ: Thank you.

8 MS. QAMAR: Thank you, Gina. I see
9 Paul O'Brien's hand up. Paul?

10 MS. VANICH: Paul, you're on mute.

11 MR. O'BRIEN: Just to reinforce Gina's
12 point, it would be, I think helpful to have a
13 process following a major increase in data
14 collection to, and again, this will take three to
15 five years at least, to actually review the value
16 and just verify that indeed there was value from
17 the increased information. Either enforcement or
18 whatever.

19 I mean, I think this is part of a good
20 process. You ask for more information, and every
21 five or ten years you just review the whole thing
22 and is it doing what you, what the final point, a

1 100 percent endorse the cybersecurity aspect of
2 the data collection. Really important. It's on
3 my radar screen, and I'm sure others as well.

4 Thanks.

5 MS. VANICH: Yes, absolutely. And
6 thank you. We do have a post-implementation
7 process that does review whether or rules are
8 performing as intended, whether the cost benefits
9 are kind of where we thought they would be. So
10 definitely something to make maybe part of that
11 process.

12 MR. GOLDMAN: Could I ask a question?
13 As I thought about it some more.

14 MS. QAMAR: Wait, Amy --

15 MR. GOLDMAN: On the annual reports,
16 additional information in the metrics, have we
17 done enough to differentiate between the small
18 firms and very large big four and others like
19 them?

20 You know, I mean, I used to look at a
21 lot of the enforcement actions I see, and I'm
22 amazed at how many small firms are running around

1 here so to speak. And I just wonder if they're
2 going to be able to do a lot of the work that
3 you're suggesting here.

4 MS. VANICH: Yes.

5 MR. GOLDMAN: Have you looked at the
6 benefit there or the ability for them to perform
7 that and what the cost would be for them?

8 MS. VANICH: Yes, thank you, Ken. You
9 know, I don't want to get ahead of my skis,
10 right, this is open for comment and so we do ask
11 comment on all aspects of the rules.

12 But with respect to metrics, the
13 triggers for the metrics are the audits of an
14 accelerated filer or a large accelerated filer.
15 So the smallest firms generally would not have
16 those kind of audits and therefore would not be
17 subject to the metrics reporting. So I won't
18 speak for reporting to PCAOB, but we do ask many,
19 many questions about, that it is always something
20 that's front of mind.

21 MS. QAMAR: Thank you, Barb. And I
22 see a couple of hands up. Amy, you're next.

1 MS. MCGARRITY: Great. Thanks, Saba.
2 Thanks, Barb, and team for this review of these
3 really important proposals. I'm really grateful
4 to see them.

5 We've been talking about the former
6 AQIs for some time now so really appreciate the
7 work the Board has put into, into this. And I
8 just, I guess would like to have two points.
9 First, underscore Paul and Gina's comments. And,
10 Barb, your indication of a post-implementation
11 review.

12 I think that these concepts are going
13 to evolve through time and will need ongoing
14 review to make sure they're relevant, make sure
15 that we're getting the data that we think
16 matters. So I appreciate that. That thought
17 process.

18 To that end, and, Barb, forgive me if
19 I missed it, the tech spend associated with these
20 auditing firms, and the results that go into the
21 audit, I'm not sure are encapsulated in these
22 firm engagement metrics. And I wanted to see how

1 you think about that. Is it included in sort of
2 that shared services metric or how do you think
3 about a firm could differentiate the value add of
4 its tech spend and the impact on the audit
5 quality?

6 MS. VANICH: So I'm going to call on
7 a lifeline, Stephanie, if you want to get ready.

8 MS. MCGARRITY: Okay.

9 MS. VANICH: I believe that we address
10 that or we talk about in the relief what we
11 thought about. I don't know that I would see
12 that as being part of the service center metric.
13 But I think we talked about use of --

14 MS. HUNTER: We --

15 MS. VANICH: -- technology is
16 something we considered. And we would ask
17 questions, right? So if that's something you all
18 see that would be a valuable metric, please,
19 please include that in your comment letter.

20 MS. HUNTER: Yes. Amy, there is a
21 section within the proposal that speaks to some
22 metrics that we decided not to, I guess I would

1 say officially propose on, but that we considered
2 quite a bit and we're asking for feedback.

3 And one of those categories is in the
4 infrastructure. In the area of infrastructure.
5 And that could be technology. So that is
6 definitely a consideration that has been included
7 in the proposal.

8 MS. VANICH: Thanks, Stephanie.

9 MS. HUNTER: Yes.

10 MS. MCGARRITY: Thank you.

11 MS. VANICH: Thank you, Amy. Denise,
12 did you have a question? I thought you had your
13 hand up?

14 MS. DICKINS: I did. I was, I've been
15 reflecting on the firm metrics proposal.

16 So it seems to me then that we can
17 have audits that are inspected, engagements that
18 are inspected, but we don't have any of the
19 audit, the AQI engagement level, or I shouldn't
20 call it AQI, the firm metrics reports on those
21 necessarily. Because while the smaller firms are
22 probably highly unlikely that they're going to

1 have large accelerated, or accelerated filers, is
2 that correct then, they'll be inspected
3 engagements that we don't have these, the data
4 on?

5 MS. VANICH: We would be inspecting
6 engagements that public reporting would not occur
7 on.

8 MS. DICKINS: Right.

9 MS. VANICH: I don't know if when you
10 say that if you mean that the PCAOB might not
11 have access to --

12 MS. DICKINS: No, no, I just meant --

13 MS. VANICH: -- through --

14 MS. DICKINS: -- it wouldn't be public
15 audited. It wouldn't --

16 MS. VANICH: That's correct.

17 MS. DICKINS: Okay. That was it.

18 Thank you.

19 MS. VANICH: Lynn, do you have your
20 hand up? I don't see you on camera but I think I
21 see a hand.

22 MR. TURNER: Thank you, Barb. And

1 kudos to you and the team for getting these out,
2 it has been a long time coming since they were
3 put out there in 2008, so it's a long arduous
4 road. But I do recall a couple of things from
5 the ACAP hearings that we had, and some of the
6 public discussions about it.

7 The firms did testify at the time that
8 none of them were preparing a set of gap basis
9 financial statements, nor were they providing
10 them to their own partners, let alone to the
11 public. And at the same time the firms were
12 stating that they were subject to significant
13 risk of various types, litigation and just
14 financial and all.

15 So knowing that and that they play an
16 extremely critical role and there is only four of
17 them that do, you know, like 95 percent of the
18 market cap audits, I think your proposal is well
19 founded and very reactive to what the ACAP
20 recommended.

21 And I would say that, also say that
22 during some of the ACAP discussion, one thing

1 that a number of the people from the business
2 committee stated was giving the auditors key role
3 here. Because they are the only professional
4 that has to be hired when you do a public
5 offering or sell securities. You don't need an
6 attorney, although people are always going to use
7 them. But they do have that critical role.

8 And that it would seem that with
9 respect to transparency governance and structure,
10 those same rules that apply to those market of
11 participants should apply to these because you
12 got to, in essence, assess the same type of risk
13 and all.

14 And especially in light of the
15 structural changes that some of these firms have
16 been undertaking in the last year, or last
17 actually two to three years, those are
18 fundamental things that we, exactly the same
19 nature that we saw at the commission in 1998 to
20 2002. And we had to react to those.

21 And we did a number of no action
22 letters and investigations, or certainly delve

1 into what was going on. And I think some of
2 those that are now once again undergoing raise
3 some of the same serious issues, including with
4 respect to independence of the firms. And so I,
5 again, I think this is a necessary rulemaking in
6 light of the changes that are occurring in the
7 profession.

8 I would echo the comments about access
9 to the data and availability. The PDF format is
10 a dead and dying. You know, you talk about
11 using, and certainly Christina Ho has mentioned
12 this, using technology.

13 The PCAOB needs to make it to where
14 that technology is fundamentally more database-
15 oriented to where it can be readily downloaded.
16 Yes, people can go and get the data, and people
17 do go and get that data, but quite frankly it's
18 an arcane process and takes an extensive amount
19 of time. So it would be good to see something
20 happen with that if you're going to roll these
21 rules out.

22 And I would echo too the post-

1 implementation review. But I would be, on these
2 rules I would be careful in, I think the Board
3 should establish a time period for post-
4 implementation review.

5 But since those take considerable
6 resources and all and time, and the Board is
7 doing a marvelous job of trying to catchup for
8 the last two decades, and is doing a good job as
9 Erica has mentioned, you need to give yourself
10 sufficient time to be able to go and do an honest
11 implementation review that you'll have the
12 resources to do. And, you know, three years out
13 ain't going to get it done.

14 And although maybe five, maybe seven
15 or eight. And of course we're seeing push for
16 that on the CAMs as well. So any rate. Thanks
17 for all you're doing, Barb.

18 MS. VANICH: Thank you. Thank you so
19 much. Saba, I don't see any other hands so I --

20 MS. QAMAR: I saw Jeff Mahoney's hand.

21 MS. VANICH: Okay.

22 MS. QAMAR: Jeff, do you still have

1 the question? Your question?

2 Jeff, if you're on mute, I'm not sure
3 if you still have the question.

4 I don't see his question so I think we
5 can move on to the next session. Thank you,
6 Barb, thank you --

7 MS. VANICH: Thank you. Thanks,
8 everyone.

9 MS. QAMAR: Thank you. And thank you
10 everyone for your questions.

11 MS. GUNIA: Would you like me to pick
12 it up from here?

13 MS. QAMAR: Yes. Sorry, I don't know
14 what happened.

15 (Laughter.)

16 MS. GUNIA: All right.

17 MS. QAMAR: I apologize. Next --

18 (Laughter.)

19 MS. GUNIA: No worries. No worries.

20 (Laughter.)

21 MS. QAMAR: -- update from Christine
22 Gunia. Christine, please take it away.