

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 proposal, Firm and Engagement Metrics. 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

+ + + + +

STANDARDS AND EMERGING ISSUES ADVISORY GROUP

+ + + + +

MEETING

+ + + + +

THURSDAY  
MAY 9, 2024

+ + + + +

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.

PCAOB BOARD OF DIRECTORS

- ERICA Y. WILLIAMS, Chair
- GEORGE R. BOTIC, Board Member
- CHRISTINA HO, Board Member
- KARA M. STEIN, Board Member
- ANTHONY C. THOMPSON, Board Member

## STANDARDS AND EMERGING ISSUES ADVISORY GROUP

PREETI CHOUDHARY, Ph.D.  
BRIAN T. CROTEAU, CPA  
CHRISTINE DAVINE, CPA  
RON EDMONDS, CPA  
DAVID FABRICANT, CPA  
MARGARET FORAN  
COLLEEN THERESA HONISBERG, Ph.D.  
JAMES (JIM) HUNT, CPA  
JENNIFER R. JOE, Ph.D., CPA  
SARA LORD, CPA  
JON LUKOMNIK  
JEFFREY P. MAHONEY, J.D., CPA  
CAROLE MCNEES, CPA  
STEVEN MORRISON, CPA, CFF, CFE  
DANE MOTT, CFA, CPA  
CHRISTIAN JAMES PEO, CPA  
SANDRA J. PETERS, CPA, CFA  
KECIA WILLIAMS-SMITH, Ph.D., CPA  
JOHN WHITE

## OBSERVERS

COLLEEN CONRAD, National Association of State  
Boards of Accountancy

SUSAN COSPER, Financial Accounting Standards  
Board

ANITA DOUTT, U.S. Securities and Exchange  
Commission

BRIAN WILSON, International Auditing and  
Assurance Standards Board

## PCAOB STAFF

BARBARA VANICH, Chief Auditor

ANDREW CLEVE, Assistant Chief Auditor

BRIAN DEGANO, Associate Chief Auditor

NICK GRILLO, Assistant Chief Auditor

STEPHANIE HUNTER, Associate Chief Auditor

CONNOR RASO, Acting Deputy General Counsel

MATT SICKMILLER, Assistant Chief Auditor

JESSICA WATTS, Associate Chief Auditor

## C-O-N-T-E-N-T-S

Welcome and Introductions. . . . .	5
Standard Setting Update. . . . .	.12
Firm and Engagement Performance Metrics Proposal Overview. . . . .	.15
Fraud Panel Presentation and Discussion - Part 1 . . . . .	.39
Fraud Panel Presentation and Discussion - Part 2 . . . . .	123
Introduction to Fraud Breakout Sessions. . . . .	171
Non-Public: Breakout Sessions on Key Fraud Topics & Lunch . . . . .	175
Recap of Breakout Sessions . . . . .	175
Consideration of the Internal Audit Function . . . . .	197
SEIAG Chair's Wrap-Up. . . . .	220

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 Brian?

12 MR. Croteau: 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

1 in the past at least there have been some  
2 opportunities for this group to dialogue around  
3 some of the issues that have been raised, and  
4 perhaps even you may want to bounce ideas of  
5 various ways in which you may proceed off of this  
6 group. So I wondered if you might comment on  
7 whether there's any plans to do anything of that  
8 nature and certainly anything that this group can  
9 do. I know I'm sure we're all pleased to do  
10 that.

11 Then just on the measures, both at the  
12 firm and engagement level, I would submit -- and  
13 we'll certainly have our comment letter, but I  
14 would submit that it may be useful to engage with  
15 the firms of all sizes on this proposal and  
16 really go through each of the measures kind of  
17 individually.

18 And maybe a working session, even, to  
19 understand some of the complexity and differences  
20 among the firms because I do think -- we for  
21 instance provide a lot of transparency on our  
22 quality reports to audit committees and the like,

1 but when you get into how we compute some of our  
2 measures, there are reasons we do it certain ways  
3 that we think provide good transparency that  
4 would be different than probably another firm  
5 just based on their size, their structure, their  
6 organizational and other -- organizational  
7 structure and other factors the way they manage  
8 their business, that while you're trying to get  
9 to comparability I think you actually may end up  
10 with something that is less comparable and useful  
11 as a result.

12           And so it's incredibly complex. And  
13 we've started to go through and -- you know, you  
14 could spend a couple hours on each one of these  
15 and begin to talk about the various issues you  
16 might face and differences that you might face,  
17 even within our own firm, and then when you start  
18 thinking about how it compares to other firms.

19           So I think if you want to get a head  
20 start, I think spending some time on that type of  
21 session would be useful.

22           And then maybe just on the Investor



1 Advisory Group and the CAMs, it will be  
2 interesting to see what you do get there. One of  
3 the purposes I thought of CAMs all along has been  
4 to potentially even improve disclosure in the  
5 areas where matters are CAMs. Obviously it's to  
6 learn about the audit areas that were more  
7 sensitive, challenging, subjective, or complex in  
8 conducting the audit. Hopefully we're  
9 accomplishing that with CAMs.

10 I don't know that CAMs move markets  
11 and probably -- in most cases, probably  
12 shouldn't, if company disclosure is adequate and  
13 appropriate in the areas and there's not some  
14 unresolved reporting risk. So it will be very  
15 interesting if there are investors who suggest  
16 that they're actually investing based on CAM  
17 information and how they're doing that, but I  
18 don't think that -- if they're not, I think  
19 there's still value in CAMs which goes to again  
20 shining a light on areas of financial reporting  
21 that are more sensitive, consistent with  
22 probably often a company's critical accounting

1 estimates.

2 So I just suggest that perhaps there  
3 are other questions to ask besides whether you're  
4 making an investment decision as to whether  
5 there's value in current CAM reporting.

6 MS. VANICH: Thanks for that, Brian.  
7 Thank you for your comments and thank you for  
8 your participation at the roundtable we had on  
9 NOCLAR. Happy to take back your thoughts. I  
10 mean, at present we don't have additional  
11 outreach planned. We had the roundtable back in  
12 March and opened the comment period to allow  
13 people to comment on the topics of the  
14 roundtable. But again, happy to take that back.

15 Thank you for the comments on metrics.  
16 We do look forward to seeing everyone's comment  
17 letter and we'll follow up with comment letters  
18 as we see appropriate.

19 Jeff, I don't mean to call you out,  
20 and I don't -- but I don't want to speak for you.  
21 I mean, I think when I -- as I understand, when I  
22 see that your request is about decision useful

1 information, it's not necessarily that people are  
2 basing investment decisions on that, but rather  
3 they find it useful and incremental to the  
4 company's disclosure.

5 MR. MAHONEY: That's correct, Barb.  
6 It goes beyond investment decision making to  
7 include, for example, decision usefulness with  
8 respect to proxy voting.

9 MS. VANICH: Thank you.

10 John White?

11 MR. WHITE: Yes, when I was listening  
12 to Stephanie go through the 11 areas that you are  
13 going to be collecting information potentially, I  
14 just -- a comment from the audit -- from an audit  
15 committee perspective. I guess I've been a great  
16 proponent for audit quality indicators for a long  
17 time. Over a decade we've been talking about it  
18 at these meetings without actually going down  
19 that direction.

20 But from an audit committee  
21 perspective, it seems to me that what audit  
22 committees would like are two things: information

1 that will help them in selecting and retaining  
2 auditors, but probably more importantly,  
3 information that allows them to evaluate what  
4 I'll call the audit plan and oversee the auditors  
5 and figuring out what is -- what do they want in  
6 their audit.

7 And it's interesting. What you're  
8 doing is approaching this in a different way. I  
9 was assuming the PCAOB was just going to come out  
10 with audit quality indicators that would help  
11 audit committees in that way. This is collecting  
12 or putting into the public domain an enormous  
13 amount of information, but for it to be useful  
14 for audit committees somebody's got to digest it  
15 and collate it. And I don't know if I'm looking  
16 at my academic friends here. You may be  
17 salivating at the idea that you're going to get  
18 all this information.

19 But somebody -- and I don't -- I'm not  
20 sure whether it's the academic community or --  
21 frankly, I would have thought it probably  
22 actually should be the PCAOB -- that needs to

1 take this information and help audit committees  
2 understand what it is -- I'm back to audit  
3 quality indicators. But help audit committees  
4 understand what it is that will help them get a  
5 better audit and oversee a better audit. But  
6 anyway, my audit committee view.

7 MS. VANICH: Thank you, John.

8 Sandy Peters?

9 MS. PETERS: Yes, I raised my card  
10 because you said, who's going to analyze the  
11 data, right? That's what we teach people to do,  
12 right? And I think that there will be analysis  
13 of the data. I think that -- I think one of the  
14 challenges in the discussion of the proposal is  
15 that everybody wants everything to be perfectly  
16 right and perfectly comparable right out of the  
17 gate. And we know it won't be, right? As  
18 investors, we know it won't be.

19 And as investors we deal with key  
20 performance indicators all day long, and they  
21 aren't comparable, right? It's about not only  
22 have the metric, but having a respectable

1 explanation of the metric so that investors can  
2 understand it, understand the issues at hand, and  
3 ask questions. I mean, they don't -- investors  
4 don't get to talk to the auditors, but they do  
5 get to talk to management.

6 And it's really about starting, not  
7 about perfection, right? Because I think if we  
8 seek perfection and perfect comparability, we're  
9 not going to have anything, right? And I think  
10 over time that there will be refinements and  
11 there will be things we learn and things we learn  
12 are more useful or not useful. But I don't think  
13 -- it seems as though the reason we've been  
14 talking about this for a decade is because it's  
15 like well, we have to find the perfect thing and  
16 we can't do anything until we do the perfect  
17 thing. And that's never how life works, right?

18 And so I would encourage us not to get  
19 lost in the weeds of it before we say there's  
20 truly something here. I mean, I was an audit  
21 partner. I know that the number of manager hours  
22 and manager and partner engagement was really

1 important, right, just as one example. So I  
2 guess I would be kind of cautious of us saying  
3 who's going to analyze the data? Someone will  
4 analyze the data and someone will find it useful.  
5 I know investors will.

6           Interestingly I've been doing some  
7 outreach for another -- as a member of -- I'm  
8 also a member of the PIOB. And it's really so  
9 much more apparent to me than I always ever  
10 thought about how little investors know about the  
11 audit, right? And this is just something to help  
12 them understand the audit better.

13           MR. WHITE: Just to understand, Sandy,  
14 what I'm suggesting is -- is that you want  
15 information for the audit committees at kind of  
16 an earlier stage than investors trying to  
17 influence things later.

18           MS. PETERS: No, I get that. And we  
19 want that as well, but we also -- investors also  
20 want to hold the audit committee accountable,  
21 right? And, I mean, if you look at what  
22 investors get to make a decision on the auditor

1 in the U.S., it's the audit opinion, mostly, with  
2 CAMs that describe what was done, not what was  
3 found. And an audit committee report that  
4 explains what was done, but not what was found,  
5 right? And so it's -- that is the -- pretty much  
6 the sum total of what they know about the audit,  
7 right? And we're just looking for more  
8 information to help -- this credence could be a  
9 little bit more transparent.

10 MS. VANICH: Thank you, both.

11 Last comment, Dane Mott. And then  
12 let's move on.

13 MR. MOTT: Sure. Yes, I just want to  
14 -- supportive of both of these things, both the  
15 CAMMYs, I guess, if this -- make them kind of an  
16 annual maybe.

17 (Laughter.)

18 MR. MOTT: But, today, CAMs are very  
19 boilerplate and kind of light on content, so I  
20 think kind of getting to a place where we raise  
21 them up and have good examples of best practice.  
22 Maybe that will kind of drive it. So it is more



1 decision useful for investors. And, granted, Ron  
2 said, well, are investors making investment  
3 decisions off this? Not necessarily, but it's  
4 kind of the mosaic theory. You need to look at  
5 all types of information.

6 And today the broad information we  
7 have are how much we pay for the audit, the name  
8 of the audit partner, and what the audit opinion  
9 was. And then you have kind of a history of  
10 whether there were restatements or internal  
11 control issues, but we don't have a lot to kind  
12 of work on to kind of get a sense for -- as  
13 investors, the ones who are ultimately paying for  
14 the audit, if we're paying for a good product.  
15 So having these starting set of 11 metrics is  
16 super helpful.

17 I can assure you, there will be data  
18 providers, because they're standardized, who will  
19 create these into databases that firms will  
20 subscribe to and will be looking across this data  
21 across firms and being able to do analysis of it.  
22 And we'll be able to comparison and contrasts

1 across similar firms and get a sense for if  
2 certain firms are -- kind of seem to have a more  
3 rigorous audit than others. And it will lead to  
4 better discussions between investors and audit  
5 committees and management teams.

6 So thank you for the great work.

7 MS. VANICH: Thank you. Let's now  
8 turn to our main topic of discussion today. As  
9 mentioned our Emerging Issues and Auditing  
10 Subcommittee is going to lead the discussion.

11 Again, thank you for all the work  
12 you've put into this, Preeti, which go ahead and  
13 get us started.

14 MS. CHOUDHARY: Sure. Thank you,  
15 Barb.

16 Welcome, new members, to the SEIAG and  
17 existing members. My name is Preeti Choudhary.  
18 I'm a full professor at the Dhaliwal-Reidy School  
19 of Accountancy at the University of Arizona and  
20 I'd like to just briefly mention the other team  
21 members that I've been working with. Brian  
22 Croteau has been representing the auditor's view,