



***Public Company Accounting Oversight Board***  
***Strategic Plan***  
***2010 – 2014***

*November 23, 2010*

**Table of Contents**

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Introduction..... 3  
Mission Statement ..... 4  
Vision..... 4  
Core Values..... 5  
Key Environmental Factors ..... 10  
Goals and Objectives ..... 19  
Performance Measurement ..... 29  
Appendix: Planning, Budgeting and Reporting Framework.....57

## **Introduction**

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The Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) developed this Strategic Plan to guide its programs and operations, and development of its budgets, in the coming years.

The Sarbanes-Oxley Act of 2002 (the “Act”) established the PCAOB to oversee the audit of the financial statements of public companies.<sup>1</sup> In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) amended the Sarbanes-Oxley Act and, among other things, vested the PCAOB with the authority to oversee the audits of the financial statements and selected practices and procedures of broker-dealers. The Sarbanes-Oxley Act, as amended, serves as the strategic blueprint for structuring and managing the PCAOB’s programs and operations.

The Act charges the PCAOB to conduct its oversight of registered public accounting firms by establishing and enforcing, through inspections and discipline, auditing and related professional practice standards. In order to do so, the PCAOB has designed its programs based on the components of this mandate but with a view to structurally integrating those programs’ strategies, objectives, and initiatives. Thus, the PCAOB’s programs are designed to address four primary responsibilities: registration of accounting firms; inspections of registered firms’ audits and quality control; establishment of auditing and related attestation, quality control, ethics, and independence standards for registered public accounting firms; and investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards. The PCAOB recognizes that meeting each of these responsibilities requires devotion of substantial attention and resources to analyzing information obtained in its inspections, investigations, and otherwise, in order to identify risks that may have resulted in, or could lead to, audit, quality control, ethics or independence failures by registered firms. The PCAOB also uses such analysis to identify weaknesses in, and appropriate improvements to, its auditing and related professional practice standards or a need for guidance on how to apply such standards in particular circumstances. The PCAOB further uses this analysis to identify ways in which it can improve the effectiveness of its oversight programs in light of lessons learned through its activities and other means.

The Act gives the Securities and Exchange Commission (the “SEC” or the “Commission”) oversight authority over the PCAOB, including the authority to appoint and remove the Board’s five members. The PCAOB is subject to rules and orders promulgated by the SEC. Moreover, the PCAOB’s own rules, including its auditing and related professional practice standards, are not effective unless approved by the SEC. The PCAOB’s annual (and any supplemental) budgets are also subject to SEC approval. And, as provided in the Act, adverse PCAOB inspection reports, remediation determinations, and disciplinary actions against registered firms and their associated persons are subject to review by the SEC.

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<sup>1</sup> This plan uses the term “U.S. public companies” as shorthand for the companies that are “issuers” under the Act and the Board’s rules. This includes domestic public companies, whether listed on an exchange or not, and foreign private issuers that have either registered, or are in the process of registering, a class of securities with the Securities and Exchange Commission or are otherwise subject to its reporting requirements.

This Strategic Plan sets forth goals, objectives and initiatives to achieve the PCAOB's mission under the Act. In addition, consistent with the SEC's rule on the approval process for the PCAOB's budget, this Strategic Plan provides the framework for developing the PCAOB's annual budget. Specifically, the PCAOB has established the following four overarching goals –

- Goal 1: Protect the interests of the investing public in informative, fair and independent audit reports on the financial statements of public companies through effective oversight of registered public accounting firms and their associated persons**
- Goal 2: Develop a program to protect the interests of the investing public in informative, fair and independent audit reports on the financial statements and selected practices and procedures of broker-dealers through effective oversight of registered public accounting firms and their associated persons**
- Goal 3: Inform, educate and obtain input from a broad cross-section of the public, including auditors, investors, the academic community and other interested parties, about the PCAOB's oversight activities**
- Goal 4: Operate the PCAOB with careful stewardship over its resources consistent with the public interest nature of its mission**

As outlined below, each goal has corresponding objectives and supporting initiatives that highlight some of the key tools that the PCAOB will use to achieve that goal.

### ***Mission Statement***

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The PCAOB's mission is to oversee the audit of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. It is also charged with overseeing the audits of broker-dealer compliance reports under federal securities laws, to promote investor protection.

### ***Vision***

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The PCAOB aims to reduce the risks to the investing public of auditing failures related to U.S. public companies and broker-dealers.

## Core Values

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In pursuing its mission, the PCAOB is committed to the following values –

- ◆ **Public Interest:** The PCAOB is committed to protecting investors and serving the public interest when carrying out its responsibilities.
- ◆ **Integrity:** Given the nature and significance of the PCAOB's mission, each Board member and staff must maintain the highest possible ethical standards.
- ◆ **Excellence:** The PCAOB is committed to high-quality analysis and performance in its oversight of registered public accounting firms and their associated persons.
- ◆ **Effectiveness and Efficiency:** The PCAOB recognizes its responsibility to manage resources, including information, effectively and efficiently.
- ◆ **Fairness:** In exercising its oversight authority, the PCAOB strives to treat registered public accounting firms and associated persons in a fair, impartial and consistent manner.
- ◆ **Risk-focused:** The PCAOB strives to anticipate risks and respond to emerging issues.
- ◆ **Accountability:** The PCAOB is committed to compliance with all applicable requirements, including the Act, the PCAOB's own rules, and applicable SEC rules and orders, as well as to enhancing transparency with respect to its programs.
- ◆ **Teamwork:** The PCAOB is committed to maintaining a collaborative work environment based upon a culture of openness, cooperation and trust.
- ◆ **Inclusiveness and Diversity:** The PCAOB is committed to enhancing its practice of inclusiveness and seeks to enrich its programs through a staff that brings a diversity of experience, skills, cultures, and backgrounds.

## Overview of Strategic Plan

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**Goal 1: Protect the interests of the investing public in informative, fair and independent audit reports on the financial statements of public companies through effective oversight of registered public accounting firms and their associated persons**

**A. Support Programs with Robust Analysis and Risk Assessment**

- *Identify Risks for Follow-up in Inspections and Investigations*
- *Identify Weaknesses in Standards*
- *Address Risks Associated with Global Networks of Firms*
- *Assess Inspections Effectiveness*
- *Manage Knowledge*
- *Use Academic Expertise in Risk Assessment*

**B. Conduct Firm Inspections**

- *Use Risk Analysis in Inspections*
- *Perform Timely Inspections and Produce Timely Reports*
- *Improve Policies and Methodologies for Inspections and Evaluation of Remediation*
- *Evaluate Firms' Actions to Address Engagement Deficiencies*
- *Examine Effects of Global Financial Crisis*
- *Examine IFRS*
- *Examine Firms' Supervision of Audit Work Performed by Affiliates*
- *Coordinate with Non-U.S. Regulators*

**C. Protect Investors Through Developing Appropriate Standards**

- *Use Risk Assessment to Establish Standard-setting Agenda*
- *Organize PCAOB Standards*
- *Enhance Standard-setting Process*
- *Publish Appropriate Implementation Guidance*

**D. Protect Investors by Enforcing Audit-Related Laws and Rules**

- *Use Risk Analysis to Guide Investigation Program*
- *Conduct Timely Investigations and Disciplinary Proceedings*
- *Maintain Appropriate Procedures*

**Related Measures/Indicators:**

Measure 1-1(a): Number of Annual and Triennial Inspections Completed

Measure 1-1(b): Number of Non-U.S. Inspections Completed

Measure 1-2: Timely Issuance of Inspections Reports

Measure 1-3: Standards-setting Activities

Measure 1-4: Timely Resolution of Formal Investigation

Measure 1-5/2-1: Timely Processing of Registration Applications and Requests for Withdrawal

**Goal 2:** Develop a program to protect the interests of the investing public in informative, fair and independent audit reports on the financial statements and selected practices and procedures of broker-dealers through effective oversight of registered public accounting firms and their associated persons

**A. Establish Regulatory and Operational Infrastructure to Implement New Oversight Authority Relating to Broker-Dealer Audits**

- Consider and Adopt Appropriate Amendments to PCAOB Rules
- Consider and Adopt Appropriate Standards for Broker-Dealer Audits
- Develop a Funding System to Assess and Collect an Accounting Support Fee from Broker-Dealers

**B. Analyze Information Obtained from External Sources to Support PCAOB Programs with Robust Assessments of the Risks of Audit or Related Professional Practice Standard Failures by Auditors with Broker-Dealer Audit Clients**

- Obtain Information from and Consult with FINRA and the SEC
- Issue Inspection Information Requests to Registered Firms
- Develop Profiles and Risk Assessments on Broker-Dealers and Their Auditors

**C. Develop an Inspection Program to Examine Audits of Broker-Dealers and Quality Controls Related to Such Audits**

- Develop Inspection Methodologies for Broker-Dealer Audit Inspections
- Conduct an Initial Year of Limited Inspections

**Related Measures/Indicators:**

Measure 1-5/2-1: Timely Processing of Registration Applications and Requests for Withdrawal

**Goal 3: Inform, educate and obtain input from a broad cross-section of the public, including auditors, investors, the academic community and other interested parties, about the PCAOB's oversight activities**

- A. Provide Transparency on PCAOB Activities**
- *Develop PCAOB Messages*
  - *Consult on ACAP Recommendations*
  - *Communicate with Congress, and Appropriate Federal and State Agencies*
- B. Inform Public about Registered Accounting Firms**
- *Provide Access to Applications and Reports*
  - *Disseminate Information about Registered Firms*
  - *Publish Summary Reports*
- C. Establish an Office of Outreach and Small Business Liaison**
- *Educate Through Forums*
  - *Seek Input and Receive and Respond to Questions and Other Concerns*
- D. Seek Input from Interested Parties**
- *Enhance Transparency of Standard-setting*
  - *Use Standing Advisory Group to Obtain Input on Standard-setting*
  - *Use Investor Advisory Group to Obtain Input on Appropriate Topics*
  - *Monitor Use of Advisory Groups*
- E. Work with Others on Financial Reporting and Auditing Initiatives**
- *Identify and Report Implementation Problems to Accounting Standard-setters*
  - *Provide Input to SEC IFRS Work Plan*
  - *Monitor and Evaluate Opportunities to Collaborate with Others*
  - *Coordinate Investigations*
- F. Participate in International Efforts on Auditor Oversight and Practices**
- *Participate in International Meetings of Audit Regulators*
  - *Host Conferences for Non-U.S. Audit Regulators*
  - *Monitor the Work of Other Standard-setters*

**Related Measures/Indicators:**

- Measure 3-1(a): Feedback from Forums on Auditing in the Small Business Environment
- Measure 3-1(b): Feedback from Forums on Audits of Practices, Procedures and Financial Statements of Broker-Dealers
- Measure 3-2: Progress in Establishing Relationships with Non-U.S. Audit Oversight Bodies
- Measure 3-3: International Auditor Regulatory Institute Feedback
- Indicator 3-1: Usage of the PCAOB Web Site
- Indicator 3-2: Input from PCAOB Standing Advisory Group
- Indicator 3-3: Number of Participants and Countries/Jurisdictions that Attend the International Auditor Regulatory Institute



**Goal 4: Operate the PCAOB in a manner that demonstrates careful stewardship over its resources consistent with the public interest nature of its mission**

**A. Attract, Retain and Develop Staff**

- *Maintain an Effective Workforce Management Plan with a Focus on Recruiting*
- *Develop and Implement Initiatives Relating to the PCAOB's Compensation and Benefit Program*
- *Assess Mix of Resources*
- *Minimize Disruption to Programs and Operations*
- *Enhance Training and Development*

**B. Leverage and Utilize Information Technology Appropriately**

- *Meet Technology Needs*
- *Enhance IT Governance*
- *Maintain IT Security*

**C. Support PCAOB Programs and Maintain Appropriate Operations.**

- *Build and Refine Rules*
- *Maintain the Ethics Program*
- *Establish and Maintain a Compliance and Risk Management Function*
- *Consider Cost/Benefit Methodologies*
- *Develop a Merit Scholarship Program*
- *Enhance Programs Based on Reviews*

**Related Measures/Indicators:**

Measure 4-1: Progress related to Programmatic Information Technology Initiatives

Indicator 4-1(a): Percentage of Staff Hired by Year

Indicator 4-1(b): Percentage of Staff by Years of Experience

Indicator 4-2(a): Internal Training Hours Offered to the PCAOB's Division of Registration and Inspections

Indicator 4-2(b): Internal Training Hours Offered to the PCAOB's Division of Registration and Inspections (by Content Area)

## Key Environmental Factors

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In developing this strategic plan, the PCAOB has taken into consideration the environment in which it operates, including both the environment in which financial reporting and auditing take place as well as the PCAOB's internal, cultural and operational environment. The PCAOB has used this analysis to identify factors that could affect its programs and operations. To the extent possible, the PCAOB has taken these factors into account in designing its goals, objectives and initiatives. To the extent some of these factors may, in the future, affect the PCAOB's programs and operations, the PCAOB intends to continue to monitor them and be prepared to adjust its goals, objectives and corresponding initiatives as necessary and appropriate. In particular, several key factors are described below.

**Globalization and Cross-Border Auditing.** Both U.S. and non-U.S. registered public accounting firms issue, and participate in the issuance of, audit reports on which investors in U.S. public companies rely. More than 1,000 foreign private issuers are required by the federal securities laws to file audited financial statements annually with the SEC and, in many cases, audited reports on the effectiveness of their internal control over financial reporting. In addition, many U.S.-based public companies have branches, subsidiaries, and joint ventures around the world that contribute to those companies' financial results and position, as well as the effectiveness of their internal control over financial reporting. Public accounting firms that audit or play a substantial role in audits of such companies' financial statements and internal control, wherever located, are required to be registered with the PCAOB and are subject to PCAOB oversight. Foreign private issuers typically report their financial statements under local accounting standards (with a reconciliation to U.S. generally accepted accounting standards "GAAP") or under the International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB"). These issuers use registered public accounting firms that are based locally, although such firms may also be members of a global network of firms that share a common name and certain policies, practices, audit methodologies and business interests. Registered public accounting firms with U.S.-based multi-national audit clients often also use the work of such network affiliates, or other local firms, to assist in audits of non-U.S. operations. In many cases, affiliates who assist in audits are separately registered with the PCAOB, and they must be so registered if they play a substantial role in an audit of a U.S. public company's financial statements.

- **Challenges in Inspecting Global Network Firms.** Multi-national audits present certain risks. For example, firms that supervise multi-national audit work face a risk that affiliates do not adhere to the quality controls or individual audit instructions required by the supervising firm. Moreover, sharing a common name presents additional reputational risk. Since 2005, the PCAOB's inspection program has included inspections of non-U.S. registered firms each year. Some of these inspections have uncovered audit risks that are different from, or in addition to, risks encountered in the U.S. In particular, the PCAOB has encountered different business, cultural, and audit environments that bear on the manner in which audits are conducted. Similarly, the PCAOB's inspections program has shown that audits that require work to be performed in multiple jurisdictions pose a variety of risks. These include the risk that affiliates in some countries may not adhere to PCAOB standards, to applicable quality controls, or to audit instructions required by the supervising firm. The PCAOB expects to continue to refine and expand its assessment of risks associated with non-U.S. inspections, and it may find that it continues to need additional expertise and information resources to do so.

- **Challenges in Gaining Access to Non-U.S. Firms.** In addition to the challenges of designing an effective program of non-U.S. inspections, in some jurisdictions, the PCAOB has also experienced challenges in gaining access to non-U.S. firms and their work papers in order to perform required inspections. Many of the non-U.S. registered firms that are subject to inspection are located in countries that have established or are establishing local auditor oversight systems. As appropriate, the PCAOB strives to work with its non-U.S. counterparts to allay concerns related to sovereignty and, in some cases, local confidentiality and other legal restrictions. The PCAOB nevertheless continues to encounter difficulties in securing the cooperation of local firms and authorities with its inspections that affect the PCAOB's ability to complete certain scheduled inspections. Finally, if the PCAOB remains unable to inspect certain registered firms, the PCAOB may require additional resources to address firms' refusal to cooperate in inspections through appropriate disciplinary proceedings. The Board may also need to continue to consider additional actions, such as new disclosure and quality control requirements relating to the PCAOB's inability to inspect the firms in question.
- **Challenges in Overseeing Audits of Financial Statements Presented Under Local Accounting Standards or IFRS.** Audits of financial statement presented under IFRS or local non-U.S. accounting standards or IFRS present several challenges. In particular, the principles-based nature of IFRS and some local standards allows management and auditors substantial discretion. With little application guidance, and inconsistent national interpretations, auditors face particularly acute challenges to enforce applications that fairly present an issuer's financial statements. Moreover, global audit networks face challenges in enforcing consistent quality control over substantive consultations on interpretation and application of accounting standards. Given these audit challenges, the PCAOB faces its own challenges in identifying financial reporting and auditing risks related to application of IFRS and local standards. For example, inspections of such audits require mastery of applicable standards as well as a sophisticated understanding of local interpretations and practices. Such inspections also require coordination among inspection teams to identify differences in local interpretations and practices. Given these challenges, the PCAOB may require additional expertise and training on financial reporting and auditing risks related to IFRS and local standards so that it can effectively inspect registered firms' audits of financial statements presented under IFRS. Moreover, additional risk analysis resources may be needed to support these inspections

**Global Financial Crisis.** The global economy continues to be affected by a significant, multi-year financial crisis that has manifested in different, and often sudden, ways in local economies in which issuer audit clients of registered firms operate. As a result, the PCAOB expects audits of 2011 financial statements to raise complex accounting and auditing issues, especially in areas such as valuation, impairment, and financial statement disclosures. Such transactions and instruments can involve significant estimates and other judgments that are susceptible to management bias. These conditions have increased the need for auditors to have a comprehensive understanding of their audit clients' businesses and transactions, as well as economic conditions, in order to be able to assess the potential impact of liquidity and other risks associated with the crisis. The need to deal with these types of issues affects PCAOB training requirements, risk analysis practices, and management support. Moreover, economic pressures on clients may result in pressures on audit fees which may, in turn, impact the quality of auditing.

Fundamentally, the auditor's job is to provide reasonable assurance that financial statements are fairly presented, consistent with applicable standards, and not misleading to investors and, if applicable, that the company has effective internal control over financial reporting. Also, where applicable, the auditor is responsible for evaluating its audit client's assessment of the client's ability to continue as a going concern. The audit serves, among other things, as a counterweight against management bias in these areas. The combination of complexity and economic challenges has made auditing more challenging in the current environment, and also has reinforced the need for auditors to maintain their professional skepticism.

Moreover, in light of public accounting firms' for-profit nature, changes in the economic environment may exacerbate certain pressures on auditors, including pressures to maintain audit practice profit margins, accommodate audit clients facing deteriorating economic and business conditions, and reduce audit fees. Registered firms may also face internal cost pressures, including pressures to retain partners and staff and pressures to meet obligations and goals. Firms may also consider new business lines. All of these factors could affect the quality or independence of services provided to public company audit clients.

Given these risks and challenges, the PCAOB has found that its inspections are more challenging than in the past, and its need for thoughtful risk assessment is greater. In addition, the PCAOB has and may continue to identify gaps in its auditing and related professional practice standards, or emerging needs for new or improved standards. In order to protect investors, the PCAOB will need to identify and correct any such weaknesses in its standards in a timely manner. In addition, since the financial crisis began, the PCAOB's inspections have resulted in increased referrals to its enforcement program. For example, through the PCAOB's inspection process, a number of referrals related to audits of the financial statements of financial institutions have been made. The PCAOB may thus also find, through these increased referrals from inspections or otherwise, that some auditors that have failed to adhere to applicable standards, laws and rules and, in order to protect investors and deter auditor misconduct, should be disciplined. Investigations and disciplinary proceedings involving complex transactions and accounting and auditing issues will likely consume more resources than have many of the PCAOB's past disciplinary cases.

To be prepared for these and other challenges, it will be critical for the PCAOB's inspectors and enforcement staff, as well as other PCAOB staff, to have relevant training, robust risk analysis, and appropriate management support. In addition, Board members will require access to a wide range of expertise and risk analysis themselves, in order to make appropriate determinations about use and allocation of the PCAOB's resources, give appropriate direction to its program leaders, and consider and adopt appropriate standards, rules, and other decisions, among other things.

**Legislative, Regulatory and Judicial Developments.** As described below, certain legislative, regulatory and judicial developments could affect the scope of the PCAOB's responsibilities and, accordingly, the PCAOB's programs and operations, and resource needs.

**Implementing Dodd-Frank Legislation.** Implementation of the Dodd-Frank Act amendments to the Act will affect the PCAOB's programs, operations and resource needs. Those amendments expand the PCAOB's oversight responsibilities to include audits of the financial statements and selected practices and procedures of broker-dealers. This new authority will require development

of an inspection methodology, including appropriate risk analyses, hiring and training of additional staff, and specialized auditing and related professional practice standards for such audits, and adjustments to the PCAOB's funding system. The PCAOB will also have to tailor its outreach program to include broker-dealer auditors and broker-dealers. In addition, pursuant to the SEC's order approving the PCAOB's fiscal year 2010 budget, the PCAOB is required to consult with the SEC about the PCAOB's plans for implementing any changes in response to legislative actions, which could also affect the PCAOB's programs, operations and resource needs.

**Regulatory Developments.** Policy initiatives and other actions taken by the SEC, which has statutory oversight authority over the PCAOB, or by other governmental agencies could have an impact on the PCAOB's programs and operations. In particular, the following regulatory developments may affect the PCAOB's programs and operations –

- **The SEC's Initiative on Global Accounting Standards.** On February 24, 2010, the SEC issued a statement that sets forth its position on global accounting standards. Among other things, the SEC directed its staff to execute a Work Plan, the results of which are intended to aid the SEC in its evaluation of the impact that the use of IFRS by U.S. companies would have on the U.S. securities markets. Consistent with the statement, on October 29, 2010, the SEC staff issued a Progress Report on its Work Plan. As described in the Work Plan and the SEC staff's Progress Report, consideration of whether to allow U.S. issuers to report their financial position, results and cash flows under IFRS includes consideration of auditing issues. The SEC staff may seek technical assistance or other information from the PCAOB, which could require additional resources. For example, in considering the effects of global accounting standards, the PCAOB may be asked to provide information about the impact of audit standards, risks to fair and consistent applications of IFRS identified in inspections, as well as the effectiveness of firms' quality control over consultations regarding application of IFRS.<sup>2</sup>
- **Treasury Advisory Committee Recommendations.** The Department of the Treasury, Advisory Committee on the Auditing Profession (the "ACAP"), issued its Final Report on October 6, 2008. The Committee recommended that the PCAOB undertake or participate in a number of initiatives, which could affect the PCAOB's resource needs.
- **Changes in Financial Reporting.** Certain changes in financial reporting could have implications for the PCAOB's programs. In particular, the Financial Accounting Standards Board ("FASB") and the IASB have announced an unprecedented pace of standard-setting activities, including new standards on financial instruments, reporting other comprehensive income, fair value measurement, revenue recognition, insurance, leases, consolidations financial statement presentation and financial instruments with characteristics of equity. Moreover, further expansion of principles-based accounting standards that are less detailed than FASB's existing standards enhances audit challenges and risks, as well as challenges to inspect and otherwise oversee such audits.

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<sup>2</sup> As discussed below, though, the PCAOB has faced resistance to its inspections of non-U.S. firms in the European Union, Switzerland, and China. If the PCAOB cannot conduct those inspections, the PCAOB may not be able to provide the SEC information about and analysis of the fairness and consistency of IFRS application for its Work Plan.

These potential changes could affect the need for the PCAOB to modify its standards or issue additional guidance, modify or expand its risk analysis models, adjust its inspections methodology, or augment the expertise of its staff. Such changes also may result in the PCAOB requiring more resources with specialized knowledge.

The SEC's eXtensible Business Reporting Language ("XBRL") initiative, which requires that certain filers provide financial statement data in a form that uses electronic tags to provide a uniform taxonomy for financial statement information and related disclosures across registrants, could also affect the PCAOB's programs. The SEC currently does not require auditor assurance on the XBRL data, although some companies may voluntarily engage their auditors to examine and report on such information by their auditor. Nevertheless, in the future, the SEC may require some companies' filings to include auditor attestation reports on XBRL data. Such changes would likely require the PCAOB to establish specific standards for such engagements and to include such engagements in its inspections and other oversight activities.

- **Pending PCAOB Proposal Related to Periodic Inspection Requirements for Certain Categories of Firms.** In October 2007, the Board adopted amendments to Rule 4003 that would give the Board discretion concerning whether and how often to inspect, rather than require the PCAOB to inspect triennially, (1) firms that play a substantial role in one or more audits but do not serve as principal auditor on any audit ("substantial role only firms") and (2) any firm that has served as principal auditor but has not done so for at least two consecutive years before the inspection would otherwise be required. The 2007 amendment was submitted to the Commission for approval on October 22, 2007, is pending before the Commission, and is not currently in effect. The scope of firms that current Rule 4003 provides that the PCAOB must inspect is significantly broader than the scope would be if the amendments were approved (although if the amendments were approved, the PCAOB would nevertheless, as part of its regular program, conduct inspections of substantial role only firms). The difference in scope could have ongoing resource implications, in particular for the Division of Registration and Inspections, the Office of Research and Analysis, and the Office of International Affairs, as well as related administrative resources.
- **The SEC's Rule Amendments Related to Interim Commission Review of PCAOB Inspection Reports.** On July 27, 2010, the SEC amended its Informal and Other Procedures to add a rule to facilitate interim Commission review of the PCAOB's inspection reports under Section 104(h) of the Act. The rule amendments will have resource implications, particularly for the Division of Registration and Inspections and the Office of General Counsel. As noted in the SEC's adopting release, the PCAOB may incur additional costs as a result of the rule amendments, due to adjustments in its inspection process -- in anticipation of review requests and providing information to the Commission -- that will be required to comply with the new procedures.

**Judicial Developments.** Judicial decisions relating to interpreting the Act and other federal securities laws, or auditing and related professional practice standards or other PCAOB rules, may have an impact on the PCAOB's programs and operations.

**Profile of the Audit Profession.** Registered public accounting firms vary in size, ranging from sole proprietorships to large audit firms with extensive global networks, and type of practice, and are based in various locations around the world.<sup>3</sup> This diversity requires consideration of a diverse mix of risks and corresponding adjustments to the PCAOB's programs, as appropriate.

For example, although approximately 2,500 firms have registered with the PCAOB, four very large firms audit 97.8 percent of the global market capitalization of public companies whose securities trade on U.S. exchanges.<sup>4</sup> As described above, many of these audits are multi-national and involve both registered and unregistered network affiliates. An audit failure by one of these firms, especially in connection with a large issuer audit client, could have significant negative effects on the firm, including possible negative effects on the firm's ability to continue to serve as the auditor for its many other issuer audit clients. This dynamic presents a special risk.

The PCAOB's mission is to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports of public company financial statements, as well as broker-dealer compliance reports that facilitate SEC examinations of broker-dealers. The PCAOB's mission is not to protect any individual firm from demise, whether related to the firm's audit practice, another business line, or otherwise. The PCAOB believes the best way for a firm to avoid demise is to focus on performing high quality audits and avoid business lines and practices that could jeopardize the quality of audits or the firm's reputation. The PCAOB strives through its programs to encourage firms to do so, but it cannot ensure that they will do so. In particular, through its inspection and remediation processes, the PCAOB aims to protect investors from the risk of a significant and abrupt change in the availability of audit services due to a firm's demise. But in the event that a firm nevertheless fails, the PCAOB could find it necessary to work closely with the SEC to protect investors as audit clients transition to other firms.

Smaller audit firms, with smaller issuer audit clients, present different risks. For example, smaller audit firms may experience staff and other resource constraints that can exacerbate risks of an audit failure.

Moreover, as discussed above, non-U.S. firms present other risks that can affect the PCAOB's programs and operations. None of these firms audits the financial statements of more than 100 issuer audit clients, and therefore, in general, such firms are on a triennial inspection schedule. Nevertheless, such firms are some of the largest firms in the world and serve foreign private issuers that constitute some of the largest

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<sup>3</sup> As of November 4, 2010, 2,403 accounting firms were registered with the Board, including pending withdrawals. Of these 2,403 registered firms, 1,498 are U.S. and 905 are non-U.S. The U.S. registered firms are based in 46 states, the District of Columbia, and Puerto Rico, and the non-U.S. registered firms are located in 85 countries. Currently, nine U.S. firms have more than 100 public company audit clients and must be inspected on an annual basis. In addition, 541 of these firms registered with the Board after January 1, 2009 and indicated in their registration applications that they do not audit the financial statements of public companies but they either do, or intend to, audit the financial statements and selected practices and procedures of broker-dealers.

<sup>4</sup> Source: Audit Analytics and Standard and Poor's.

companies in the world, presenting significant risk to investors who purchase their securities on U.S. exchanges. The PCAOB faces risk that its inspection approach may not provide for adequate coverage in the inspections of these firms and, to the extent the PCAOB identifies potential violations of applicable audit and related professional practice standards or other applicable legal requirements by such firms or their associated persons, additional investigative resources could be required.

In addition, in 2009 and 2010, the PCAOB has registered more than 500 firms that stated in their registration applications that they do not audit public company financial statements but either do, or intend to, audit the financial statements and selected practices and procedures of broker-dealers. Moreover, some number of registered firms with public company audit clients also have broker-dealer audit clients. The PCAOB gained authority to establish and enforce auditing and related professional practice standards for broker-dealer audits in July 2010, pursuant to the Dodd-Frank Act. At this time, the PCAOB has limited information about registered firms' broker-dealer audit practices. As the PCAOB develops its program to oversee such audits, the PCAOB may learn additional information about such firms that could affect its goals, objectives and initiatives. Undoubtedly, additional information about such firms will affect, and help the PCAOB refine, its resource needs to support this new program.

Finally, whatever the size or location of a firm, changes in its operations also may affect the PCAOB's inspections. For example, improvements, or shortcomings, in the internal operations of firms' risk management and quality control could have an effect on the scope and focus of inspections. In addition, changes in firms' use of technology may require changes in the way the PCAOB collects information during its inspections as well as changes in the PCAOB's assessments of risk at such firms.

**External Auditing-related Initiatives.** The International Auditing and Assurance Standards Board ("IAASB") of the International Federation of Accountants and the American Institute of Certified Public Accountants' (the "AICPA") Auditing Standards Board (the "ASB") provide forums through which auditors can share knowledge, expertise, and best practices in auditing. In contrast to the PCAOB, the IAASB and the ASB do not have direct statutory authority to establish audit standards, or authority to enforce or monitor compliance with those standards, although a number of authorities have applied or adapted one or the other's standards, to varying extents, as local regulatory or professional requirements. In particular, the SEC currently requires broker-dealers to file audit reports on their financial statements and selected practices and procedures in accordance with generally accepted auditing standards as established by the ASB, although the Dodd-Frank Act amendments to the Act give the PCAOB authority to set such standards going forward. The PCAOB monitors the work of the IAASB and the ASB to leverage standards these organizations have developed. Staff time and other resources devoted to this monitoring have been considerable, and to the extent such initiatives expand, the PCAOB may require additional resources to continue its monitoring.

**Risks Associated with Non-public PCAOB Disciplinary Process.** The Act requires that hearings associated with PCAOB disciplinary proceedings not be public, unless otherwise ordered by the Board for good cause and with the consent of the parties. In contrast, SEC Rule 102(e) proceedings against accountants, including outside auditors, are made public at the time the proceeding is instituted by the SEC. If final Board sanctions are appealed to the SEC, the Act stays the imposition of the sanction and prohibits the Board from reporting the sanction to the public unless and until the SEC lifts that stay. The lack of public disclosure of disciplinary proceedings provides an incentive for respondents to litigate



disciplinary actions, which in turn could result in an inefficient use of PCAOB resources. Moreover, because of the delays in disclosure important information about disciplinary proceedings, such as how the PCAOB is enforcing applicable laws, rules and standards, is not timely communicated to the public, including registered firms and their associated persons.

**Changes in Leadership and Human Capital.** Changes in the leadership of both the PCAOB and the SEC could affect the PCAOB's programs and operations. In particular, three of five Board seats are expected to turn over in the near future, including the chairman. Such changes could result in additional changes in the PCAOB's strategic goals, objectives and initiatives. Moreover, since the PCAOB's inception, the SEC has experienced, and will continue to experience, changes in leadership, which could result in changes in the SEC's oversight of the PCAOB and other policies related to the PCAOB. Among other things, such changes could involve changes in the PCAOB's responsibilities, including new (or fewer) responsibilities. Maintenance of effective oversight of registered firms and associated persons while accommodating such changes in leadership requires, among other things, a comprehensive internal training process, effective maintenance of historical records and data, and a robust annual strategic planning process, each of which could affect the Board's allocation of resources during transitions.

In addition to challenges related to changes in leadership, the PCAOB may experience other challenges related to hiring and maintaining the staff necessary to meet its goals and objectives, including its hiring goals in connection with establishing a program to oversee auditors of broker-dealers. In the past, the PCAOB has faced constraints in hiring and retaining the staff it needs; in particular, the market for experienced accountants has been highly competitive. When economic conditions improve, the PCAOB could face challenges in retaining staff, and if staff leave, it could face challenges replacing them with appropriate skills and experience. Another challenge is the lack of diversity in the accounting profession. In addition, while the current economic environment has provided some opportunity for the PCAOB to meet its hiring needs, it presents other challenges. In particular, as discussed in the PCAOB's Indicator 4-1(a), the PCAOB estimates that as of December 31, 2010, 15 percent of its staff will have been hired by year end. This presents challenges to train staff in PCAOB policies and approaches in a timely and effective manner as well as to inculcate a mission-driven culture.

Opportunities for career progression and training at the PCAOB also bear directly on the PCAOB's ability to attract and to retain experienced staff to enable the PCAOB to respond to environmental changes. In particular, as changes in the financial reporting environment emerge, the PCAOB will need to continually train its staff.

**Technology.** The PCAOB is dependent on technology to support its programs and operations. For example, the PCAOB's risk assessment program is heavily dependent on IT tools, including relational data analysis. Enhancements of IT tools, including tools designed to permit inputs based on evidence collected in inspections, as well as tools designed to improve delivery of analysis to programs, would significantly improve the effectiveness and efficiency of PCAOB programs.

In addition, the PCAOB currently is implementing several large-scale technology projects, including changes to its Registration and Annual and Special Reporting System to provide for new reports on broker-dealer audits, creation of a Funding System to assess and collect an accounting support fee from broker-dealer auditors, an Inspection Information System, creation of an Enterprise Data Warehouse, and

development, implementation of a Document Management System, and a new Human Resources Information System that, among other things, will enhance the PCAOB performance review system, among other new and ongoing IT projects. Such projects present special risks related to meeting program and budget goals. In addition, given the rapid pace of technological change, the PCAOB could experience challenges in maintaining the effectiveness of its existing systems and technology infrastructure.

## Goals and Objectives

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**Goal 1:** Protect the interests of the investing public in informative, fair and independent audit reports on the financial statements of public companies through effective oversight of registered public accounting firms and their associated persons

**Objectives:**

**A. Analyze information obtained through oversight activities to support PCAOB programs with robust assessments of the risks of audit or related professional practice failures by registered public accounting firms**

- **Identify Risks for Follow-up in Inspections and Investigations.** Identify risks that may have resulted in, or could lead to, audit or related professional practice failures by registered public accounting firms to target in inspections or, as appropriate, investigations, including by (1) implementing the Inspection Information System to capture and analyze data obtained through oversight activities (“oversight data”), (2) applying screening techniques, qualitative research and statistical models to external and oversight data, (3) electronically monitoring annual and special reports filed by registered firms
- **Identify Weaknesses in Standards.** Maintain a consistent process to identify weaknesses in, and appropriate improvements to, auditing and related professional practice standards or the need for guidance on how to apply such standards in particular circumstances, including by analyzing information from inspections, investigations and research activities
- **Address Risks Associated with Global Networks of Firms.** Implement measures to address risks associated with global networks of firms, evaluate the effectiveness of such measures, and determine appropriate PCAOB action to address continuing or new risks
- **Assess Inspections Effectiveness.** Maintain a process to routinely assess the effectiveness of each inspection, including by evaluating the effect of any changes in inspections scope or approach, and adjust the inspection program appropriately in light of such assessment
- **Manage Knowledge.** Maintain, routinely assess the effectiveness of, and adjust an Enterprise Data Warehouse system that captures, analyzes, and communicates information across the organization
- **Use Academic Expertise in Risk Assessment.** Implement, evaluate, and as appropriate adjust, an academic fellow program to advise on ways to apply empirical research techniques to enhance risk analysis

- B. Conduct an inspection program that (i) identifies deficiencies that have or could result in audit, quality control, ethics or independence failures, or other violations of PCAOB or SEC rules, by registered public accounting firms, (ii) reports appropriate findings on such inspections, and (iii) determines whether appropriate remediation by the firms has occurred**
- ***Use Risk Analysis in Inspections.*** Use risk analysis to design and perform inspections of registered firms in a manner that identifies existing or potential deficiencies, including, as appropriate, review and appropriate testing of (i) selected audits of financial statements and of internal control over financial reporting, (ii) firm management and monitoring processes related to audit quality control, (iii) business and partner management, (iv) design and effectiveness of quality control and other practices related to foreign affiliates, and (v) emerging issues
  - ***Perform Timely Inspections and Produce Timely Reports.*** Maintain a program to perform inspections in conformity with applicable frequency requirements and produce timely inspection reports
  - ***Improve Policies and Methodologies for Inspections and Evaluation of Remediation.*** Maintain a process to evaluate the design and effectiveness of, and as appropriate adjust, the PCAOB's policies and methodologies for performing and documenting inspections
  - ***Evaluate Firms' Actions to Address Engagement Deficiencies.*** Evaluate firms' actions to address identified significant engagement deficiencies and determine appropriate action when firms fail to do so
  - ***Examine Effects of Global Financial Crisis.*** Use risk assessment to identify and examine effects of global financial crisis on audit engagements, including fair value measurements, going concern assumptions, and changes in the credit environment
  - ***Examine IFRS.*** Develop and implement policies and methodologies to inspect registered firms' audits of financial statements presented under IFRS, evaluate evidence on the effectiveness of implementation of IFRS, identify risks related to IFRS for follow-up in future inspections, investigations or research activities and weaknesses in auditing and related professional practice standards, as applied to audits against IFRS, and assess the effectiveness of, and as appropriate adjust, PCAOB policies and methodologies for future inspections
  - ***Examine Firms' Supervision of Audit Work Performed by Affiliates.*** Examine the design and effectiveness of firms' policies and procedures related to its supervision and control of work performed by affiliated firms, including by assessing firms' quality control over consultations on application of applicable accounting and auditing standards instructions to affiliates, and evaluation of results of affiliates' work

- **Coordinate with Non-U.S. Regulators.** Coordinate with non-U.S. regulators as appropriate to facilitate inspections of non-U.S. registered firms, including by maintaining a process for determining whether joint inspections with a non-U.S. inspection body is possible and appropriate, consistent with Rule 4012
- C. Protect investors with auditing and related professional practice standards that strengthen the reliability of public company audits**
- **Use Risk Assessment to Establish Standard-setting Agenda.** Maintain, and as appropriate adjust, a standards-setting agenda by using inspection and other information, and related risk analysis, to identify opportunities to enhance investor protection through appropriate initiatives to fill new or emerging gaps in, or otherwise improve, auditing and related professional practice standards
  - **Organize PCAOB Standards.** Develop a cohesive organization for PCAOB standards and codify existing standards into that organization
  - **Enhance Standard-setting Process.** Develop auditing and related professional practice standards using timely and rigorous research (including internal collaboration and consultation and, as appropriate, *ad hoc* task forces and other external sources of information) and public exposure
  - **Publish Appropriate Implementation Guidance.** Identify opportunities to enhance investor protection by publishing appropriate guidance interpreting auditing and professional practice standards or other PCAOB rules, select appropriate tools to provide such guidance effectively and efficiently, and develop such guidance in a timely manner
- D. Protect investors by enforcing auditing and related professional practice standards, the Act and PCAOB rules, and other laws and rules applicable to preparation and issuance of audit reports and related obligations and liabilities of accountants**
- **Use Risk Analysis to Guide Investigation Program.** Use risk analysis to identify acts or practices, or omissions to act, by a registered public accounting firm, any associated person of such firm, or both, within the PCAOB's enforcement jurisdiction that may warrant further investigation or enforcement action
  - **Conduct Timely Investigations and Disciplinary Proceedings.** Initiate and complete investigations and take other actions, including reporting to the PCAOB on ongoing and potential enforcement matters, in a timely and appropriate manner
  - **Maintain Appropriate Procedures.** Maintain fair and efficient procedures for investigations and disciplinary proceedings

**Goal 2:** Develop a program to protect the interests of the investing public in informative, fair and independent audit reports on the financial statements and selected practices and procedures of broker-dealers through effective oversight of registered public accounting firms and their associated persons

**Objectives:**

- A. Establish regulatory and operational infrastructure to implement new oversight authority relating to broker-dealer audits**
- ***Consider and Adopt Appropriate Amendments to PCAOB Rules.*** Consider and adopt appropriate amendments to PCAOB rules and forms to integrate authority to oversee auditors of broker-dealers, including amendments to require broker-dealer auditors to comply with appropriate PCAOB standards and to establish a program of inspection and inspection frequency requirements for classes of such firms
  - ***Consider and Adopt Appropriate Standards for Broker-Dealer Audits.*** Consider and adopt appropriate auditing and related professional practice standards for auditors of broker-dealers' financial statements and selected practices and procedures
  - ***Develop a Funding System to Assess and Collect an Accounting Support Fee from Broker-Dealers.*** Develop a Funding System to assess and collect an accounting support fee from broker-dealers, including by considering and adopting rules to implement provisions of the Dodd-Frank Act on funding an accounting support fee and developing an IT system to facilitate assessment and collection of the fee
- B. Analyze information obtained from external sources to support PCAOB programs with robust assessments of the risks of audit or related professional practice failures by auditors with broker-dealer audit clients**
- ***Obtain Information from and Consult with FINRA and the SEC.*** Obtain information about broker-dealers and their auditors from, and consult with, FINRA, and the SEC
  - ***Issue Inspection Information Requests to Registered Firms.*** Develop and issue information requests to registered firms to evaluate scope of firms' broker-dealer audit practices and identify and evaluate related risks
  - ***Develop Profiles and Risk Assessments on Broker-Dealers and Their Auditors.*** Develop profiles and preliminary risk assessments on broker-dealers and their auditors with a view to identifying registered firms with broker-dealer audit clients and appropriate characteristics to classify such firms for inspection frequency and other oversight purposes

**C. Develop an inspection program to examine audits of broker-dealers and quality controls related to such audits**

- ***Develop Inspection Methodologies for Broker-Dealer Audit Inspections.*** Develop inspection methodologies to select and examine appropriate aspects of broker-dealer audit engagements, evaluate quality controls over such audits, and perform appropriate testing to assess registered firms' compliance with applicable standards, laws and rules
- ***Conduct an Initial Year of Limited Inspections.*** Conduct limited inspections to assess registered firms' compliance with applicable standards, laws and rules and further develop inspection methodologies

**Goal 3: Inform, educate and obtain input from a broad cross-section of the public, including auditors, investors, the academic community and other interested parties, about the PCAOB's oversight activities**

**Objectives:**

- A. Develop and implement a plan to communicate appropriate information to the public, including investors, auditors, policymakers, the media, members of Congress and other interested parties**
- ***Develop PCAOB Messages.*** Develop and facilitate delivery, including through the PCAOB Web site, of messages on the PCAOB's programs and initiatives and other significant topics related to the PCAOB or public company auditing
  - ***Consult on ACAP Recommendations.*** Consult with the SEC and other interested parties on PCAOB consideration and, as appropriate, action on recommendations of the ACAP, including establishment of a financial reporting fraud center
  - ***Communicate with Congress, and Appropriate Federal and State Agencies.*** Communicate with the PCAOB's congressional committees of jurisdiction, as appropriate other members of Congress, the Federal Executive Branch and appropriate state agencies regarding legislative and other initiatives that could facilitate the Board's achievement of its mission, address (or enhance) risks to the investing public's interest in reliable audit reports, or otherwise affect the responsibilities of the PCAOB
- B. Provide the investing public with appropriate information about registered public accounting firms**
- ***Provide Access to Applications and Reports.*** Maintain an automated system to provide internal, and as appropriate public, access to registration applications and annual and special reports, and act timely on confidential treatment requests related to such reports
  - ***Disseminate Information about Registered Firms.*** Disseminate appropriate information about registered public accounting firms to the public in a timely, efficient and informative manner, including by maintaining a Web site that displays a Web page on each registered firm and provides information about the extent of the PCAOB's oversight of such firm, as appropriate, by category of oversight, as well as the firm's (and any predecessor's) registration application, all past inspection reports (including, if applicable, the portion of such reports describing quality control deficiencies that were not remediated within twelve months of the report), any public disciplinary sanctions against the firm or its associated persons



- ***Publish Summary Reports.*** Publish, pursuant to PCAOB Rule 4010, summaries, compilations, and other general reports concerning PCAOB inspections for public awareness or identified audiences
- C. Establish an Office of Outreach and Small Business Liaison**
- ***Educate Through Forums.*** Continue Forums on Auditing in the Small Business Environment and commence Forums on Audits of Practices, Procedures and Financial Statements of Broker-Dealers
  - ***Seek Input and Receive and Respond to Questions and Other Concerns.*** Seek input, and receive and respond to questions and other concerns, relating to the effect of the PCAOB's work on the small business community, including auditors of small broker-dealers and their audit clients
- D. Maintain a program to obtain input from investors, public companies, registered public accounting firms, the academic community and other interested parties on the PCAOB's proposals and emerging issues related to its work**
- ***Enhance Transparency of Standard-setting.*** Enhance the transparency of standard-setting and other rulemaking initiatives by developing clear releases and other statements describing the objectives, methods and intent of each proposal in a manner that allows the investing public and other interested parties to understand the import and effect of the proposal and facilitates meaningful public comment
  - ***Use Standing Advisory Group to Obtain Input on Standard-setting.*** Use the PCAOB's Standing Advisory Group (the "SAG"), ad hoc task forces and working groups to obtain input on standards-setting projects, as well as other developments in financial reporting
  - ***Use Investor Advisory Group to Obtain Input on Appropriate Topics.*** Use the PCAOB's Investor Advisory Group to obtain input on appropriate topics related to the PCAOB's programs
  - ***Monitor Use of Advisory Groups.*** Monitor the role, composition and format of the PCAOB's advisory groups to ensure that the PCAOB obtains input from a wide variety of sources
- E. Facilitate financial reporting and auditing initiatives administered by other regulators, standards-setters and others, as appropriate to further the PCAOB's strategic goals**
- ***Identify and Report Implementation Problems to Accounting Standard-setters.*** Analyze information obtained in inspections and other oversight activities to identify problems related to the implementation of applicable accounting and financial reporting

requirements that may affect the reliability of financial reporting under such standards or other requirements and report any such problems to appropriate standards-setters

- ***Provide Input to SEC IFRS Work Plan.*** Provide information about applications of IFRS identified in inspections as well as the effectiveness of firms' quality control over consultations regarding application of IFRS
- ***Monitor, and Evaluate Opportunities to Collaborate with, Others.*** Monitor the initiatives of, and evaluate opportunities to collaborate with, the SEC, FINRA, the FASB, the IASB, and state and other appropriate regulators on initiatives that further the PCAOB's strategic goals
- ***Coordinate Investigations.*** Coordinate investigations, as appropriate, with the SEC, state or other appropriate regulators, including by sharing appropriate information with such regulators as permitted by the Act and the PCAOB's rules

**F. Participate in international efforts to improve auditor oversight and auditing practices worldwide**

- ***Participate in International Meetings of Audit Regulators.*** Participate in the International Forum of Independent Audit Regulators to exchange insights on ways to enhance investor protection through audit oversight
- ***Host Conferences for Non-U.S. Audit Regulators.*** Continue to host educational and technical assistance conferences for non-U.S. audit regulators and government representatives
- ***Monitor the Work of Other Standard-setters.*** Monitor the work of other auditing standard-setting bodies, including the U.S. Government Accountability Office, the AICPA's ASB, and the International Federation of Accountants' IAASB, to benefit from, and as appropriate incorporate, new developments and techniques into the PCAOB's standard-setting initiatives

**Goal 4: Operate the PCAOB in a manner that demonstrates careful stewardship over its resources consistent with the public interest nature of its mission**

**Objectives:**

**A. Attract, retain and develop highly qualified individuals to fulfill the PCAOB's goals and objectives**

- ***Maintain an Effective Workforce Management Plan with a Focus on Recruiting.*** Maintain, routinely reevaluate the effectiveness of, and as appropriate adjust, a workforce recruiting and management plan – with a focus on recruiting – that meets staffing objectives established by the PCAOB's budgets, including objectives related to the PCAOB's new authority over auditors of broker-dealers and initiatives to enhance the diversity of the PCAOB's recruiting pool
- ***Develop and Implement Initiatives Relating to the PCAOB's Compensation and Benefit Program.*** Develop and implement appropriate initiatives identified in the PCAOB's evaluation of its compensation and benefit program, including career development and work-life components
- ***Assess Mix of Resources.*** Conduct annual, and as appropriate interim, assessments of whether the PCAOB's programs and operations have an appropriate mix of resources dedicated to achieving its goals and objectives, including support staff, information technology, and access to specialized services
- ***Minimize Disruption to Programs and Operations.*** Minimize disruptions to PCAOB programs and operations related to turnover of Board and staff positions or related to uncontrollable events, including by providing training in PCAOB policies and approaches, implementing a business continuity plan, and considering a document management system to store significant records and training and career development initiatives to minimize disruptions from staff vacancies
- ***Enhance Training and Development.*** Evaluate the PCAOB's training programs and develop initiatives to enhance understanding of PCAOB policies and approaches, technical skills in accounting, including IFRS, writing skills, understanding of relevant IT applications, and management skills, including a leadership and development program to facilitate succession planning as appropriate

**B. Utilize information technology to support the PCAOB's programs and operations**

- ***Meet Technology Needs.*** Meet the PCAOB's technology needs in a timely and cost-effective manner, including needs related to implementing authority related to broker-dealer audits and related risk assessment

- **Enhance IT Governance.** Implement a governance system for IT projects, including more formal processes that provide for appropriate prioritization, funding, and oversight of new and continuing projects
  - **Maintain IT Security.** Maintain appropriate IT security consistent with applicable confidentiality and other requirements and in light of IT industry best practices
- C. Continue to align the PCAOB's programs and operations with the Act and the PCAOB's strategic goals and objectives**
- **Build and Refine Rules.** Continue to build and refine the framework of rules necessary for the PCAOB to exercise its statutory authority, including by amending and establishing new PCAOB rules necessary to implement authority to oversee broker-dealer audits
  - **Maintain the Ethics Program.** Maintain, and as appropriate adjust, the PCAOB ethics program, including by further integrating the principles of the PCAOB's Ethics Code into PCAOB's programs and operations
  - **Establish and Maintain a Compliance and Risk Management Program.** Design, implement, and communicate effective compliance and risk management policies and procedures
  - **Consider Cost/Benefit Methodologies.** Consider potential methodologies to assess the nature and magnitude of the effects (cost/benefit) of PCAOB initiatives on investors, public companies, and audit firms
  - **Develop a Merit Scholarship Program.** Develop a merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs, in accordance with Section 109(c)(2) of the Act
  - **Enhance Programs Based on Reviews.** Enhance the efficiency and effectiveness of PCAOB programs based on the results of performance and other reviews performed by the PCAOB's Office of Internal Oversight and Performance Assurance

## Performance Measurement

The Board has established certain quantifiable performance measures and indicators to assist the organization in ascertaining its progress in achieving its mission, goals, and objectives.<sup>5</sup> The results associated with the measures and indicators provide the Board with information and insight into its performance relative to its current and past efforts. The measure and indicators also assist in determining how the PCAOB may need to add or reallocate its resources, which informs the PCAOB's annual budgets, as appropriate.

The quantitative measures and indicators that follow are organized by goal and each has a corresponding description of its relevance to the organization.<sup>6</sup> The measures and indicators also are premised on the continuation of the PCAOB's current responsibilities and the environment in which the PCAOB operates.<sup>7</sup> As the PCAOB gains more experience, the PCAOB will continue to seek ways – both qualitative and quantitative – to measure its progress in achieving its mission. The PCAOB also will determine whether its existing measures and indicators are realistic and reasonable in light of the current environment and whether and how they assist the organization in meeting its goals and objectives. The PCAOB reports against its measures and indicators in its Annual Report.

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<sup>5</sup> Quantifiable measures relate to certain activities for which the PCAOB is directly responsible; the indicators relate to those activities that the PCAOB may not directly control. Qualitative measures include discussions such as those found in PCAOB Rule 4010 reports, and other descriptive summaries of registered firms' audit practices that reflect the impact of the PCAOB's oversight activities.

<sup>6</sup> Unless otherwise noted, the performance measures and indicator data are shown as of September 30, 2010.

<sup>7</sup> To the extent that significant changes occur in either of these areas, those measures and indicators that are no longer relevant or appropriate may be altered or eliminated.

**Goal 1: Protect the interests of the investing public in informative, fair and independent audit reports on the financial statements of public companies through effective oversight of registered public accounting firms and their associated persons**

**Measure 1-1(a): Number of Annual and Triennial Inspections Completed (excluding Broker-Dealer Authority)**

	2009	2010	2011
Projected Number of Annual Inspections	11	10	9
Actual Number of Annual Inspections	10		
Projected Number of Triennial Inspections	295	287	223
Actual Number of Triennial Inspections	277		

**Relevance of Measure:** This measure reflects the PCAOB's performance in fulfilling its statutory requirement to inspect registered firms, annually or triennially. Recognizing its limited inspections resources, the PCAOB schedules triennial inspections to allow a relatively consistent mix of firms by size and complexity each year.

**2009 Results:** The total projected number of annual firms was not inspected in 2009 since one of the annual firms is no longer registered.

In 2009, the PCAOB inspected 277 triennial firms (including 82 non-U.S. inspections). As of December 31, 2009, the fieldwork with respect to five of these inspections (including four non-U.S. inspections) was in process. With regard to the one U.S. triennial inspection, the PCAOB had commenced and performed significant inspections fieldwork prior to year end; however, the PCAOB was unable to complete fieldwork since the firm did not provide all necessary documents and information. With respect to three of the non-U.S. triennial inspections, assertions of legal conflicts by the firms prevented the PCAOB from obtaining all documents and information necessary to complete fieldwork prior to year end. With regard to the remaining non-U.S. triennial inspection, the inspection team returned to the firm location in January 2010 in order to complete fieldwork.

The PCAOB conducted planned inspections of all other U.S. triennial firms. The Division of Registration and Inspections did not inspect the projected number of triennial inspections in 2009 as planned due to the matters noted in Measure 1-1(b) related to non-U.S. inspections.

**2010 Progress:** In 2010, the PCAOB expects to conduct nine annual firm inspections and 248 triennial inspections (including 66 non-U.S. triennial inspections located in 20 jurisdictions) for a total of 257 inspections in 2010. The Division's 2010 Budget assumed the Division would inspect nine non-U.S. substantial-role only firms and one U.S. substantial-role only firms. As of September 30, 2010, based on the Division's analysis of firm related information, the Division has conducted inspections of nine non-U.S. substantial role only firms and no such U.S. firms. In the third quarter, the Division reviewed updated firm

information as provided in annual reports (Form 2) by registered firms and determined that no such U.S. firms met the criteria of a substantial role only firm. Based on this analysis, the Division has refined its estimate of the number of substantial role only firms to inspect in 2010. The Division does not expect to conduct the projected number of triennial inspections in 2010 as planned due to (1) the matters noted in Measure 1-1(b) related to non-U.S. triennial inspections and (2) the withdrawal of existing domestic triennial firms.

**2011 Plan:** In 2011, the PCAOB expects to conduct nine annual and 223 triennial inspections.

<b>Measure 1-1(b): Number of Non-U.S. Inspections Completed (excluding Broker-Dealer Authority)</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Projected Number of Non-U.S. (Triennial) Inspections	101	90	43
Actual Number of Non-U.S. (Triennial) Inspections	82		
<p><b>Relevance of Measure:</b> This measure reflects the PCAOB's performance in fulfilling its statutory requirement to inspect non-U.S. registered public accounting firms.</p>			
<p><b>2009 Results:</b> In 2009, certain non-U.S. triennial inspections that were planned did not occur. The PCAOB expected to conduct inspections of 28 firms in ten European Union (EU)<sup>8</sup> countries, China, and Switzerland since these firms were required to be inspected in 2009 pursuant to the inspection frequency requirements of Rule 4003 (and the amendments to Rule 4003 adopted by the Board in 2009<sup>9</sup> would not affect the deadline for those inspections). The PCAOB was unable to conduct such inspections due to asserted conflicts with local law and/or national sovereignty by the firms and/or their home-country regulators. As of December 31, 2009, the asserted conflicts with local law and/or national sovereignty have not been resolved. As a result, certain firms were "pulled forward" and inspected in 2009 that were previously planned to be inspected in years beyond 2009.</p> <p>In 2009, the PCAOB inspected 82 non-U.S. firms located in 26 jurisdictions. As of December 31, 2009, the fieldwork with respect to four of these inspections was in-process. With respect to three of these firms, assertions of legal conflicts by the firms prevented the PCAOB from obtaining all documents and information necessary to complete fieldwork prior to year end. With regard to the remaining inspection, the inspection team returned to the firm location in January 2010 to complete fieldwork.</p>			
<p><b>2010 Progress:</b> In 2010, the PCAOB expects to conduct 66 non-U.S. triennial inspections in 20 jurisdictions in 2010 (versus an original projection of 90 non-U.S. triennial firms). The 2010 Plan also includes the PCAOB's plan to conduct nine non-U.S. substantial-role only firm inspections.</p> <p>The 2010 Budget assumed that the PCAOB would inspect certain EU firms, as well as certain firms in China and Switzerland. In 2010, the PCAOB continues to face significant challenges in conducting non-U.S. inspections in the EU, China and Switzerland due to asserted conflicts with local law and/or national sovereignty by the firms and/or their home-country regulators. To date, the asserted conflicts with local</p>			

<sup>8</sup> Norway is not a member state of the EU but, because it is a member of the European Economic Area and is subject to the EU's Directive on Statutory Auditors, it is included as one of the EU countries for purposes of this measure.

<sup>9</sup> On March 4, 2010, the Commission approved the amendment to Rule 4003 allowing the Board to postpone, for up to three years, the first inspection of any foreign registered public accounting firm that the Board is otherwise required to conduct before the end of 2009 and that is in a jurisdiction in which the Board has not conducted an inspection prior to 2009.



law and/or national sovereignty have not been resolved and, therefore, the Division does not expect to conduct required inspections in these countries in 2010. Given these circumstances, the Division has adjusted the sequencing of certain inspections that were otherwise due to be inspected in years after 2010.

**2011 Plan:** In 2011, the PCAOB expects to conduct at least 43 non-U.S. triennial inspections

<b>Measure 1-2: Timely Issuance of Inspections Reports (excluding Broker-Dealer Authority)</b>					
	Number of Firms Inspected or Projected	Reports Issued Pre-2010	Reports Issued by Calendar Year		
			2009 Actual	2010 Projected	2011 Projected
<b>Annual Firms – Inspections Year</b>					
2003-2006	30	30	N/A	N/A	N/A
2007	10	10	N/A	N/A	N/A
2008	12	11	10	1	N/A
2009	10	N/A	N/A	9	1
2010 (projected)	9	N/A	N/A	N/A	9
2011 (projected)	9	N/A	N/A	N/A	N/A
Total Reports			10	10	10
<b>Triennial Firms – Inspections Year</b>					
2004-2005	363	363	N/A	N/A	N/A
2006	162	156	5	4	2
2007	226	202	46	17	3
2008	243	175	74	32	34
2009	277	79	79	107	91
2010 (projected)	258	N/A	N/A	52	70
2011 (projected)	262	N/A	N/A	N/A	50
Total Reports			204	212	250
<p><b>Relevance of Measure:</b> This measure reflects the PCAOB’s performance in issuing inspection reports on a timely basis.</p>					
<p><b>2009 Results:</b> In 2009, the Board issued 214 inspection reports (including ten annual firm inspection reports), including 79 reports on inspections conducted in 2009, 84 reports on inspections conducted in 2008, 46 reports on inspections conducted in 2007 and 5 reports on inspections conducted in 2006. By the close of 2009, the Board had issued inspection reports on 165 of the 171 firm inspections conducted in 2006, 212 of the 236 firm inspections conducted in 2007, 186 of the 255 firm inspections conducted in 2008, and 79 of the 287 firm inspections conducted in 2009.</p> <p>In light of widespread reports of audit failures outside the U.S., in 2009 the Board reassessed its non-U.S. inspections program. As part of this initiative, the Board delayed the issuance of inspection reports for certain non-U.S. triennial inspections for fieldwork that was performed in 2006, 2007, and 2008 and began a process of performing additional internal reviews of these inspections. These reports account for most of the remaining reports on 2006, 2007 and 2008 inspections to be issued.</p>					

**2010 Progress:** As of September 30, 2010, the Board issued 153 inspection reports (including nine annual firm inspection reports), including 32 reports on inspections conducted in 2010, 71 reports on inspections conducted in 2009, 30 reports on inspections conducted in 2008, 16 reports on inspections conducted in 2007 and 4 reports on inspections conducted in 2006. The Board expects to issue a total of 10 and 212 annual and triennial firm inspections reports, respectively, by year end.

**2011 Plan:** In 2011, the PCAOB expects to issue ten annual and 250 triennial inspection reports.

<b>Measure 1-3: Standard-setting Activities</b>			
	<b>Current Projections</b>		
	<b>2009 Actual</b>	<b>2010 Plan</b>	<b>2011 Plan</b>
Risk Assessment, including fraud risk assessment	Re-proposed	Adopted	N/A
Communications with Audit Committees	Under Consideration	Proposed	Adopt or Re-propose
Confirmation	Issued Concept Release	Proposed	Adopt or Re-propose
Signing the Auditor's Report	Issued Concept Release	Under Consideration	Under Consideration
Application of the Sarbanes-Oxley Act's Provision on "Failure to Supervise"	Under Consideration	Issued Concept Release	Propose; Adopt
Related Parties	Under Consideration	Under Consideration	Propose; Adopt or Re-propose
Specialists	Under Consideration	Propose	Adopt or Re-propose
Fair Value Measurements and Other Accounting Estimates	Under Consideration	Under Consideration	Propose
Part of the Audit Performed by Other Auditors (Principal Auditor)	Under Consideration	Under Consideration	Propose; Adopt or Re-propose
Quality Control Standards, including SEC Practice Section Requirements	Under Consideration	Under Consideration	Issue Concept Release
Going Concern	Under Consideration	Under Consideration	Under Consideration
Subsequent Events	Under Consideration	Under Consideration	Propose
Auditor's Reporting Model	N/A	Under Consideration	Issue Concept Release
Audits of Broker-dealers	N/A	Under Consideration	Propose; Adopt or Re-propose
Attestation Reporting under Regulation AB	N/A	Under Consideration	Under Consideration

Codification of PCAOB Standards	N/A	Under Consideration	Under Consideration
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**Relevance of Measure:** This measure reflects a reasonable expectation of when the Board may issue a concept release related to a particular topic, propose or re-propose a new standard, or adopt a final standard. Projects "under consideration" are in various stages of research and development. The project milestones are contingent on the Board's determination, based on its own assessment or comments received, that the staff should pursue a standard-setting project in each area. Priorities can change over time and the development and completion of a standard is dependent on many internal and external factors.

**2009 Results:** The Board re-proposed for public comment and adopted Auditing Standard No. 7, *Engagement Quality Review*. The Board also re-proposed for public comment seven auditing standards relating to the auditor's assessment of and response to risk and related amendments to PCAOB standards. Additionally, the Board issued concept releases for public comment on possible revisions to the standard on audit confirmations and whether to require the engagement partner signature in the auditor's report.

Other active projects under consideration by the PCAOB staff included: application of the Act's provision on "failure to supervise"; fair value measurements and other accounting estimates; specialists; communications with audit committees; related parties; quality control standards, including quality controls over work of affiliated firms; principal auditor; going concern; subsequent events; and the applicability of SECPS requirements to all registered firms.

**2010 Plan:** In March, the Board proposed for public comment an auditing standard on communications with audit committees. In September, the Board held a roundtable and re-opened the comment period to seek additional input. As a result, the projected adoption of communications with audit committees auditing standard has changed from 2010 to 2011. In July, the Board proposed for public comment an auditing standard on confirmation. The projected adoption of the confirmation standard has changed from 2010 to 2011.

In August, the Board adopted certain auditing standards relating to the auditor's assessment of and response to risk. The Board also issued a release on application of the Act's provision on "failure to supervise" to seek comment on possible rulemaking that might complement the application of that provision. The issuance of the release was originally scheduled to occur in 2009 and the project milestone was changed to 2010. The Board plans to consider whether to propose related rules or standards in late 2010. As a result, the potential rulemaking proposal and subsequent adoption has changed from 2010 to 2011.

The Board plans to issue an auditing standard related to using the work of a specialist in late 2010. As a result, the re-proposal or adoption of the standard originally scheduled for 2010 has changed to 2011.

Other active projects under consideration by the PCAOB staff include: signing the auditor's report; fair value measurements and other accounting estimates; part of the audit performed by other auditors (principal auditor); quality control standards, including SEC Practice Section requirements; going concern; subsequent events; and codification of PCAOB standards. The projected standard-setting proposal and adoption of signing the auditor's report which was originally scheduled to occur in 2010 has been delayed pending further action by of the Board. In light of the ongoing project by FASB on fair value measurements, the projected proposal relating to fair value measurements and other accounting estimates auditing standard(s) originally scheduled for 2010 has been delayed until 2011. Additionally the projected issuance of proposed standards on principal auditor and subsequent events has changed from 2010 to 2011. Also, the project on applicability of SEC requirements was incorporated into the quality control project. The milestone for issuing a proposed standard on quality control originally scheduled for 2010 has been changed to issuing a concept release for public comment in 2011.

After the April Standing Advisory Group meeting, the Board added the auditor's reporting model to its standard-setting agenda. The Board also added audits broker-dealers to its standard-setting agenda after the enactment of the Dodd-Frank Act which expanded the Board's authority. In addition, the Board added attestation reporting under Regulation AB and Codification of the Board's standards to the standard-setting agenda. PCAOB staff is continuing to conduct research for these projects in the remainder of 2010.

**2011 Plan:** Based on feedback received from the communications with audit committees roundtable and comments on the proposed standard, the Board will consider re-proposing or adopting the standard as final in 2011. Based on feedback received on the proposed confirmation auditing standard in 2010, the Board will consider re-proposing or adopting the standard as final in 2011.

In 2011, the Board will consider proposing auditing standards relating to the application of the Act's provision on "failure to supervise", related parties, part of the audit performed by other auditors (principal auditor) and audits of broker-dealer. For each of these projects, depending on comments received and other factors, the Board may issue a re-proposed standard before adopting a final standard. The Board will also consider proposing standards relating to fair value measurements and other accounting estimates and subsequent events.

In 2011, the Board will consider issuing a concept release on quality control standards, including the SEC Practice Section requirements and auditor's reporting model. The Board plans to consider issuing a concept release for public comment relating to the auditor's reporting model and subsequently holding a roundtable.

In 2011, the PCAOB staff will continue to develop the projects on signing the auditor's report. attestation reporting under Regulation AB, and codification of PCAOB standards. The PCAOB staff will also continue to follow the FASB project relating to going concern as it considers potential changes to the auditing standard on going concern.

<b>Measure 1-4: Timely Resolution of Formal Investigations</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Projected Percentage Resolved Within 3 Years of Formal Start of Investigation	66%	66%	66%
Actual Percentage Resolved Within 3 Years of Formal Start of Investigation	69%		
<p><b>Relevance of Measure:</b> This measure identifies the percentage of formal investigations ordered by the Board that have been resolved within three years of the opening of the formal investigation. This calculation takes into consideration: (1) the institution of disciplinary proceedings to be litigated; (2) the settlement of instituted disciplinary proceedings; (3) the deferral of a PCAOB investigation to an investigation of the same alleged auditor misconduct by the SEC or another regulator; and (4) the closure of the formal investigation without a recommendation to institute a disciplinary proceeding. As the PCAOB conducts a greater number of investigations, it will assess whether its target for resolving formal investigations within three years remains appropriate.</p>			
<p><b>2009 Results:</b> The PCAOB's Division of Enforcement and Investigations (DEI) exceeded its performance measure goal of 66 percent for the year. Of the formal investigations resolved in 2009, 69 percent were resolved within the three-year time frame.</p>			
<p><b>2010 Plan:</b> In 2010, the PCAOB expects to meet its performance measure of 66% for the year. This projection, though, will depend on DEI's workload of litigated matters, current investigations, including the complexity and breadth of those investigations, and whether ongoing investigations for which disciplinary proceedings are appropriate will be contested.</p>			
<p><b>2011 Plan:</b> In 2011, the PCAOB expects to meet its performance measure of 66% for the year. As with the 2010 Plan, this projection may vary due to the recurring factors discussed above.</p>			

**Goal 2: Develop a program to protect the interests of the investing public in informative, fair and independent audit reports on the financial statements and selected practices and procedures of broker-dealers through effective oversight of registered public accounting firms and their associated persons**

<b>Measure 1-5/2-1: Timely Processing of Registration Applications and Requests for Withdrawal</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Projected Percentage of Received Applications Acted Upon within the Statutory Time Frame	100%	100%	100%
Actual Percentage of Received Applications Acted Upon within the Statutory Time Frame	100%		
Projected Percentage of Received Withdrawal Requests Acted Upon Within the Time Frame Specified in PCAOB Rule 2107(a)	100%	100%	100%
Actual Percentage of Received Withdrawal Requests Acted Upon Within the Time Frame Specified in PCAOB Rule 2107(a)	100%		
<p><b>Relevance of Measure:</b> This measure reflects the PCAOB's timeliness in acting on registration applications and withdrawal requests, including applications received from public accounting firms with non-public broker-dealer audit clients. Should there be a significant change in the number of firms seeking to register or withdraw, the PCAOB will adjust its registration resources accordingly.</p>			
<p><b>2009 Results:</b> The PCAOB experienced a significant increase in registration applications during 2009 as a result of the effectiveness of registration requirements for auditors of nonpublic broker-dealers. The Board supplemented registration staff resources with temporary personnel to meet its goal of processing registration applications and withdrawal requests within the timeframes established by the Act and Board rules.</p>			
<p><b>2010 Progress:</b> During 2010, the PCAOB experienced a significant increase in the number of hearings initiated on registration applications as a result of the receipt of applications from firms that engaged in conduct for which registration was necessary while not being registered with the Board. The Board also experienced a significant increase in the number of withdrawal requests it received. The Board supplemented staff resources with temporary personnel as necessary to allow it to continue to meet its goal of processing registration applications and withdrawal requests in a timely manner.</p>			
<p><b>2011 Plan:</b> The PCAOB expects to continue its practice of acting on registration applications and withdrawal requests in a timely manner.</p>			



**Goal 3: Inform, educate and obtain input from a broad cross-section of the public, including auditors, investors, the academic community and other interested parties about the PCAOB's oversight activities**

**Measure 3-1(a): Feedback from Forums on Auditing in the Small Business Environment**

	2009	2010	2011
Projected Percentage of Small Business Forum Sessions Rated 4.0 or higher out of 5.0	85%	90%	90%
Actual Percentage of Small Business Forum Sessions Rated 4.0 or higher out of 5.0	100%		
Number of survey respondents	410		
Number of Attendees	590		

**Relevance of Measure:** This measure shows the percentage of sessions of Forums on Auditing in the Small Business Environment (Forums) that meet the stated learning objectives by a score of 4.0 or higher (on a scale of 1.0-5.0), as rated by attendees. This information is used, in turn, to shape the content and focus of future forums.

**2009 Results:** In 2009, the PCAOB held six Forums. For the year, all the sessions at the Forums were rated 4.0 or higher, exceeding the projected performance measure of 85 percent. A total of 590 people attended the Forums in 2009; 410 attendees responded to a participant survey distributed after each Forum in 2009.

**2010 Plan:** In 2010, the PCAOB expects to hold seven Forums. The PCAOB has targeted a rating of 4.0 or higher for a minimum of 90% of its sessions delivered during the year. As of November 15, 2010, six of the seven Forums had been held. A total of 568 people attended the six Forums to-date; 403 responded to the survey, with 99% of respondents rating the Forum 4.0 or higher.

**2011 Plan:** In 2011, the PCAOB expects to hold seven Forums following a format similar to that of prior years. The PCAOB plans to maintain a target rating of 4.0 or higher for a minimum of 90% of its sessions during the year.

<b>Measure 3-1(b): Feedback from Forums on Audits of Practices, Procedures and Financial Statements of Broker-Dealers</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Projected Percentage of Small Business Forum Sessions Rated 4.0 or higher out of 5.0	N/A	N/A	85%
Actual Percentage of Small Business Forum Sessions Rated 4.0 or higher out of 5.0	N/A	N/A	
Number of survey respondents	N/A	N/A	
Number of Attendees	N/A	N/A	
<p><b>Relevance of Measure:</b> This measure shows the percentage of sessions of Forums on Audits of Practices, Procedures, and Financial Statements of Broker-Dealers that meet the stated learning objectives by a score of 4.0 or higher (on a scale of 1.0-5.0), as rated by attendees. This information is used, in turn, to shape the content and focus of future forums.</p>			
<p><b>2009 Results:</b> N/A</p>			
<p><b>2010 Plan:</b> N/A</p>			
<p><b>2011 Plan:</b> As a result of the implementation of the Dodd-Frank Act amendments to the Act, the PCAOB expects to hold two forums targeted specifically to newer registrants with non-public broker-dealer clients. The PCAOB will target a rating of 4.0 or higher for a minimum of 85% of its sessions during the year.</p>			

<b>Measure 3-2: Progress in Establishing Relationships with Non-U.S. Audit Oversight Bodies</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Establish or Maintain Contact			
Projected Number of Oversight Bodies	25	21	14
Actual Number of Oversight Bodies	25		
Establish or Maintain Working Relationship			
Projected Number of Oversight Bodies	13	14	11
Actual Number of Oversight Bodies	13		
Establish or Maintain Cooperative Arrangement			
Projected Number of Oversight Bodies	16	19	30
Actual Number of Oversight Bodies	4		
<p><b>Relevance of Measure:</b> This new measure shows the cumulative number of countries/jurisdictions with which the PCAOB established or maintained contact, a working relationship or a cooperative arrangement. The PCAOB develops relationships with non-U.S. regulators to facilitate its inspections of registered non-U.S. firms.</p>			
<p><b>2009 Results:</b> During 2009, the PCAOB met its projections with regard to establishing or maintaining contact or a working relationship with certain jurisdictions. Due to certain objections raised by the relevant authorities in China, 10 countries in the European Union and Switzerland, the PCAOB was unable to meet its projection with regard to establishing cooperative arrangements in those jurisdictions.</p>			
<p><b>2010 Plan:</b> In 2010, the PCAOB plans to develop certain existing contacts into working relationships and certain existing contacts or working relationships into cooperative arrangements. If the PCAOB remains unable to inspect certain registered firms, the PCAOB may require additional resources to address firms' refusal to cooperate in inspections through appropriate disciplinary proceedings. The Board may also need to consider additional actions, such as new disclosure and quality control requirements relating to the PCAOB's inability to inspect the firms in question.</p>			
<p><b>2011 Plan:</b> In 2011, the PCAOB plans to establish contact with the relevant authorities in Papua New Guinea, develop an existing contact in Turkey into a working relationship, and transform existing contacts or working relationships into cooperative arrangements in certain other jurisdictions.</p>			

<b>Measure 3-3: International Auditor Regulatory Institute Feedback</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Projected Institute participants that rated it 4.0 or higher out of 5.0	85%	85%	85%
Actual Percentage of Institute participants that rated it 4.0 or higher out of 5.0	90%	98%	
Number of survey respondents	40	40	
Number of attendees	103	70	
<p><b>Relevance of Measure:</b> This measure shows the percentage of participants who strongly agree that the Institute was effective in meeting its learning objectives.</p>			
<p><b>2009 Results:</b> In 2009, 40 of 103 Institute participants completed the post-event survey. Of the respondents, 90% strongly agreed that the Institute was effective. The survey asks whether the respondents believe that the information presented during the Institute was clear, informative and useful, among other things.</p>			
<p><b>2010 Plan:</b> The PCAOB hosted a fourth PCAOB International Auditor Regulatory Institute in November 2010. Ninety-eight percent of survey respondents indicated strong agreement (4.0 or higher) that the Institute was effective in meeting its objectives. The survey asks whether the respondents believed that, overall, the program presented useful information about the structure and operations of the PCAOB and general considerations relevant to auditor oversight.</p>			
<p><b>2011 Plan:</b> The PCAOB plans to host a fifth PCAOB International Auditor Regulatory Institute in 2011. The PCAOB anticipates receiving feedback rates at levels similar to those experienced in prior years.</p>			

<b>Indicator 3-1: Usage of the PCAOB Web Site</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Projected Visits to the PCAOB Web Site	1.3 million	1.1 million	1.2 million
Actual Visits to the PCAOB Web Site	0.97 million		
<p><b>Relevance of Measure:</b> This indicator tracks the number of unique visits to any page of the Web Site by external parties. This indicator provides a gauge on the level of outside interest in, and questions about, the PCAOB's regulatory activities.</p>			
<p><b>2009 Results:</b> There were approximately 967,000 hits to the Web Site in 2009, slightly up from the number of hits in 2008 but lower than the projected number of hits of 1.3 million. The amount was lower than originally projected as it was based on the assumption that the PCAOB's redesigned Web Site would be deployed before the end of 2009.</p>			
<p><b>2010 Plan:</b> As the PCAOB continues to carry out its responsibilities, the PCAOB projects 1.1 million visits to the PCAOB Web Site by year end. As of September 30, 2010, the actual number of visits to the Web Site was 1.0 million, with the number of verifiable visits by users in the United States constituting 67%, followed by 8% in China, and 2% in Canada. Additionally, the number of hits on individual pages related to rulemaking was approximately 29%, followed by 16% on news and events and 15% on pages focused on standard-setting activities.</p> <p>The PCAOB expects to meet its year end projection in light of the launch of a redesigned Web Site during the first quarter of 2010 and the PCAOB's oversight responsibilities under the Dodd-Frank Act, to include audits of the financial statements and selected practices and procedures of broker-dealers.</p>			
<p><b>2011 Plan:</b> The PCAOB projects 1.2 million visits to the PCAOB Website by interested parties, particularly those impacted by the Board's expanded oversight authority related to the auditors of non-public broker-dealers.</p>			

<b>Indicator 3-2: Input from PCAOB Standing Advisory Group</b>				
<b>SAG Meetings during 2008 – 2010</b>		<b>Resulting or Projected PCAOB Standard-Setting or Other Activities</b>		
<b>Topics Discussed</b>	<b>Date(s)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
FASB/IASB Projects and Potential Challenges in Auditing	October 2010 July 2010	N/A	Under Consideration	Under Consideration
Failure to supervise	October 2010 February 2008	Under Consideration	Issue Concept Release	Propose Standard; Adopt Final Standard
Quality Control	October 2010 February 2008	Under Consideration	Under Consideration	Issue Concept Release
Broker-dealer Audit Considerations	July 2010	N/A	Under Consideration	Propose Standard; Adopt Final Standard or Re-Propose Standard
Subsequent Events	July 2010	Under Consideration	Under Consideration	Propose Standard
Auditor's Reporting Model	July 2010 April 2010	N/A	Under Consideration	Issue Concept Release; Hold Roundtable
Responsibilities of the Principal Auditor	April 2010	Under Consideration	Staff Audit Practice Alert Issued	Propose Standard; Adopt Final Standard or Re-Propose Standard
Auditing Fair Value Measurements	October 2009	Under Consideration	Under Consideration	Propose Standard
Using the Work of a Specialist	October 2009	Under Consideration	Propose Standard	Adopt Final Standard or Re-Propose Standard
Communications with Audit Committees	October 2009	Under Consideration	Proposed Standard; Held Roundtable	Adopt Final Standard or Re-Propose Standard
Related Parties	October 2009	Under Consideration	Staff Audit Practice Alert Issued	Propose Standard; Adopt Final Standard or Re-Propose Standard

<b>Indicator 3-2: Input from PCAOB Standing Advisory Group</b>				
<b>SAG Meetings during 2008 – 2010</b>		<b>Resulting or Projected PCAOB Standard-Setting or Other Activities</b>		
<b>Topics Discussed</b>	<b>Date(s)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Confirmation	April 2009	Issued Concept Release	Proposed Standard	Adopt Final Standard or Re-Propose Standard
Engagement Quality Review	April 2009	Re-proposed Standard; Adopted Final Standard	Staff Question and Answer Issued	N/A
Going Concern	April 2009	Under Consideration	Under Consideration	Under Consideration
Audit Considerations in the Current Environment	October 2008	N/A	N/A	N/A
Feasibility of audit quality indicators	October 2008	Not a Standard-Setting Project <sup>10</sup>	Not a Standard-Setting Project	Not a Standard-Setting Project
Signing the auditor's report	October 2008	Issued Concept Release	Under Consideration	Under Consideration
CiFIR proposal relating to judgments made by financial statement preparers and auditors	February 2008	Not a Standard-Setting Project <sup>11</sup>	Not a Standard-Setting Project	Not a Standard-Setting Project

**Relevance of Indicator:** This indicator shows how the PCAOB uses input from its SAG. Specifically, it tracks whether a discussion has led or is expected to lead to an identifiable contribution to an initiative or activity. This allows the PCAOB to evaluate whether its planning for the discussion was effective or whether changes in planning based on lessons learned are appropriate. Although this indicator is useful to consider how to improve the effectiveness of the PCAOB's planning for discussions, the PCAOB does not intend for every discussion to lead to identifiable results. For example, an effective discussion may appropriately lead to no action, depending on the nature of the advice received (and assuming that advice was sound). Moreover, the PCAOB intends to experiment with content in ways that may justify discussion topics that do not lead to or require follow-up. Nevertheless, tracking this information allows the PCAOB, with hindsight, to learn valuable

<sup>10</sup> OCA is monitoring the work in this area by others, such as the International Organization of Securities Commissions and the International Auditing and Assurance Standards Board.

<sup>11</sup> A portion of the SEC's Advisory Committee on Improvements to Financial Reporting (CiFIR) recommendation relates to a recommendation that the SEC adopt a policy statement regarding accounting judgments. If the SEC implements the recommendation relating to the accounting judgments, the PCAOB will evaluate the portion of the recommendation relating to auditing judgments.

lessons about how to make effective use of the SAG.

Any projected project milestones are contingent on the Board's determination, based on its own assessment of any comments received, that staff should pursue a standard-setting or other project in this area. Priorities can change over time and the development and completion of a standard or other project is dependent on many internal and external factors.

**2009 Results:** In 2009, the PCAOB held two SAG meetings. At the April meeting, the SAG discussed three topics: audit confirmations, engagement quality review, and the going concern assumption. At the October

meeting, the SAG discussed three topics: accounting estimates, fair value measurements, and use of specialists; communications with audit committees; and related parties.

In 2009, the Board adopted Auditing Standard No. 7, *Engagement Quality Review*, issued concept releases for public comment regarding signing the auditor's report and audit confirmations, and added going concern to the standard-setting agenda.

**2010 Plan:** At the April meeting, the SAG discussed two topics: the auditor's reporting model and responsibilities of the principal auditor. After the April SAG discussion, PCAOB staff issued Staff Audit Practice Alert No. 6, *Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm*. The projected issuance of a proposed auditing standard on principal auditor has changed from 2010 to 2011.

At the July meeting, the SAG discussed broker-dealer audit considerations, FASB/IASB projects and potential impact on auditors, subsequent events, and a potential framework for the auditor's reporting model. The Board added the auditor's reporting model after the April SAG discussion and audits of financial statements and selected practices and procedures of broker-dealers after the July SAG discussion and enactment of the Dodd-Frank Act to the standard-setting agenda. The Board is conducting research for both of these projects. In 2011, the Board plans to issue a concept release and hold a roundtable to seek comment on potential standard-setting on auditor's reporting model. Additionally, the Board plans to propose and adopt or re-propose the standard on audits of broker-dealers in 2011.

At the October meeting, the SAG discussed three topics: FASB/IASB projects and potential challenges in auditing, failure to supervise, and quality controls. In August 2010, the Board issued a release for public comment on the application of the Act's provision on "failure to supervise" to seek comment on possible rulemaking that might compliment the application of the provision and sought the SAG members' input at the October meeting. The Board plans to consider whether to propose related rules or standards in late 2010. As a result, the potential rulemaking proposal and subsequent adoption has changed from 2010 to 2011. Also, the project on applicability of SEC requirements was incorporated into the quality control project. The milestone for issuing a proposed standard on quality control originally scheduled for 2010 has been changed to issuing a concept release for public comment in 2011.

Additionally, in 2010, the Board proposed for public comment an auditing standard on communications with



audit committees and an auditing standard on confirmation. The PCAOB staff held a roundtable and re-opened the comment period to seek additional input on communication with audit committees in September. The projected adoption of the communications with audit committees and confirmation standards has changed from 2010 to 2011.

The SAG discussed specialists, related parties and fair value in 2009. The Board plans to propose for public comment an auditing standard on using the work of a specialists in late 2010. As a result, the projected adoption of the specialist standard has changed from 2010 to 2011. In light of the ongoing project by FASB on fair value measurements, the projected proposal relating to fair value measurements auditing standard(s) originally scheduled for 2010 has been delayed until 2011. The projected issuance of a proposed auditing standard on related parties has changed from 2010 to 2011.

Finally, the projected standard-setting proposal and adoption of signing the auditor's report which was originally scheduled to occur in 2010 has been delayed pending further action by of the Board.

**2011 Plan:** The PCAOB plans to hold three SAG meetings in 2011, covering seven to ten topics with the SAG. These topics will likely include discussion regarding standard-setting projects as well as other topics that may result in standard-setting projects.

<b>Indicator 3-3: Number of Participants and Countries/Jurisdictions that Attend the International Auditor Regulatory Institute</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Projected Number of Participants	132	132	75
Actual Number of Participants	103	70	
Projected Number of Countries/Jurisdictions	53	53	40
Actual Number of Countries/Jurisdictions	42	40	
<p><b>Relevance of Measure:</b> This indicator shows the amount of interest by other countries and jurisdictions in the activities, responsibilities, and mission of the PCAOB.</p>			
<p><b>2009 Results:</b> The PCAOB hosted its third annual International Auditor Regulatory Institute for non-U.S. regulators and government officials. Approximately 103 representatives from 42 countries/jurisdictions attended. These numbers represent a 10% decrease in representatives attending and a 12% decrease in countries/jurisdictions represented from 2008. Some of this decline may be attributable to budgetary constraints resulting from the global financial crisis.</p>			
<p><b>2010 Plan:</b> The PCAOB hosted its fourth International Auditor Regulatory Institute for non-US regulators and government officials in November 2010. Approximately 70 representatives of 40 countries/jurisdictions attended. These numbers represent a 32% decrease in representatives attending, and a 5% decrease in countries/jurisdictions represented.</p>			
<p><b>2011 Plan:</b> The PCAOB expects to host a fifth International Auditor Regulatory Institute (IARI) for non-U.S. regulators and government officials, with anticipated attendance of 75 representatives from approximately 40 countries.</p>			

**Goal 4: Operate the PCAOB in a manner that demonstrates careful stewardship over its resources consistent with the public interest nature of its mission**

**Measure 4-1: Progress related to Programmatic Information Technology Initiatives**

	<b>Projected Completion (2009-2013 Strategic Plan)</b>	<b>New Projected Completion (2010-2014 Strategic Plan/ 2011 Budget)</b>
Registration and Annual and Special Reporting	2010	2010
PCAOB Web Site Redesign	2010	2010
Inspections Information System	2011	2011
ORA Risk Analysis Database Redesign / Enterprise Data Warehouse (Version I)	N/A	2012
Human Resources Information System	N/A	2011

**Relevance of Measure:** This measure gauges the PCAOB's progress in implementing significant program-related IT initiatives, against its implementation plans.

**2009 Results:** The Registration and Annual and Special Reporting (RASR) system was deployed at the end of 2009. Work continued on the Inspections Information System (IIS) during 2009 with deployment pilot test of the scheduled system to begin in 2010. The majority of the work on the public Web Site Redesign project was completed during 2009, however, the launch occurred in early 2010.

**2010 Plan:** The PCAOB continues development on RASR and support of the annual reporting process, including delivering functionalities deferred from the system's initial launch.

The PCAOB continues planning for, and working on a backlog of issues and requests deferred from the initial release of the Web Site redesign. The Office of Information Technology (OIT) began and will continue work on planned enhancements to the Web Site intended to increase transparency related to the Board's authority over various categories of registered firms.

The PCAOB expects to continue developing, implementing, and pilot testing the IIS, with full deployment expected in 2011.

Working in conjunction with the Office of Research and Analysis (ORA) and the Data Stewardship Council (DSC),<sup>12</sup> OIT began an effort to develop Version I of the Enterprise Data Warehouse (EDW). Version I will provide ORA with additional flexibility and functionality to identify, analyze, and share risk analysis across the organization.

**2011 Plan:** The PCAOB expects to perform additional development work on RASR relating to the registration of broker-dealer auditors. As a result of the Dodd-Frank amendments to the Act, the PCAOB intends to develop and implement a funding system to assess a portion of the accounting support fee to broker-dealers in 2011. Working in conjunction with the DSC, OIT and ORA intends to work on Version I of the EDW with full deployment of Version I anticipated in 2012. Future versions may include broker-dealer oversight data/activities, enhanced security and quality control functionalities, and links to other PCAOB systems such as RASR and the IIS. In 2011, the PCAOB anticipates an effort to identify and evaluate an alternative, more cost-effective Human Resources Information System that meets the PCAOB's operational and information needs.

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<sup>12</sup> The DSC is an organization-wide data governance committee and consists of representatives from various divisions/offices, including OIT, ORA, and the Division of Registration and Inspections (DRI). The DSC is responsible for establishing the future state architecture of the EDW system, including data input and policies.

<b>Indicator 4-1(a): Percentage of Staff Hired by Year</b>			
<b>Duration of Current Employees' Employment: Percentage of Employees Who Commenced Employment In</b>	<b>December 31, 2009 (Actual)</b>	<b>December 31, 2010 (Projected)</b>	<b>December 31, 2011 (Projected)</b>
2003	12	11	8
2004	14	12	10
2005	22	19	15
2006	12	10	8
2007	12	10	8
2008	8	7	5
2009	20	17	13
2010	N/A	15	11
2011	N/A	N/A	23
<p><b>Relevance of Measure:</b> This indicator shows the percentage of staff hired by year, and thus shows when the PCAOB experienced significant changes in staff tenure.</p>			
<p><b>2009 Results:</b> Approximately 20 percent of staff had less than one year of tenure with the organization at year-end.</p>			
<p><b>2010 Plan:</b> The 2010 Budget provides for additional staff to be hired throughout the year to support the growing needs of the organization. Combined with anticipated turnover, this hiring will further increase the percentage of staff with less than one year at the PCAOB. This projected distribution reinforces the PCAOB's need to provide sufficient training opportunities, focus on integrating new staff into the PCAOB's culture, and develop management training efforts.</p>			
<p><b>2011 Plan:</b> The PCAOB will continue to monitor the retention rates and tenure of its staff.</p>			

<b>Indicator 4-1(b): Percentage of Staff by Years of Experience</b>			
<b>Duration of Current Employees' Employment: Percentage of Employees with Given Years of Experience</b>	<b>December 31, 2009 (Actual)</b>	<b>December 31, 2010 (Projected)</b>	<b>December 31, 2011 (Projected)</b>
Five or More Years	26	52	48
Three or More Years	60	69	67
One or More Years	80	85	77
Less Than One Year	20	15	23
<p><b>Relevance of Measure:</b> This indicator arrays the PCAOB staff by years of experience, and thus permits comparison among years of relative experience of the staff in place during that year.</p>			
<p><b>2009 Results:</b> Due to the PCAOB's hiring success during the year, approximately 20% of all staff had been with the organization for less than one year. This percentage confirms the PCAOB's need to continue providing training on PCAOB's inspections methodologies and to consider the impact on the organization's culture due to such a large increase in new staff. Having 26% of staff with five or more years should ameliorate some of the potential cultural affects, as those more experienced staff may provide guidance to newer staff during their transition.</p>			
<p><b>2010 Plan:</b> The PCAOB expects to end 2010 with roughly 15% of staff having less than one year of experience with the organization. With the passage of legislation expanding the PCAOB's authority and oversight over the auditors of broker-dealers, and the associated need to hire a significant number of staff in 2010, the PCAOB will again, need to focus on providing training opportunities and integrating new staff into the organization.</p>			
<p><b>2011 Plan:</b> The PCAOB will continue to monitor retention, taking into account the integration of new staff given its expanded responsibilities.</p>			

<b>Indicator 4-2(a): Internal Training Hours Offered to the PCAOB's Division of Registration and Inspections (excluding Broker-Dealer Authority)</b>			
	<b>2009 (Actual)</b>	<b>2010 (Projected)</b>	<b>2011 (Projected)</b>
Inspection Methodology and Technical Courses	62.00	52.00	50.00
Inspector Development Courses	43.50	62.00	72.00
Identified Self-Study Courses	29.00	33.00	34.00
<b>Total Hours</b>	<b>134.50</b>	<b>147.00</b>	<b>156.00</b>
<p><b>Relevance of Indicator:</b> This indicator shows the number of internal training hours offered to the inspectors within the Division of Registration and Inspections (Division). This indicator is evaluated against the minimum number of continuing professional education hours (40 hours) required by each Inspector in order to maintain their certification as a certified public accountant. This information is used to ensure that Inspectors meet the continuing education of state boards of accountancy and to serve as a key input to the allocation of training resources. All Inspectors are required to attend Inspection Methodology and Technical Courses. Certain Inspectors within the Division are required to attend Inspector Development Courses based on their unique role.</p>			
<p><b>2009 Results:</b> In 2009, the Division delivered 62 internal training hours related to inspections methodology and technical courses and 72.5 hours related to inspector development courses and self-study courses.</p>			
<p><b>2010 Progress:</b> The Division expects that the total training hours offered in 2010 will be consistent with the 2010 projection. As of September 30, 2010, the Division delivered 53.5 internal training hours related to inspections methodology and technical courses and 96.5 hours related to inspector development courses and self-study courses resulting in 150 total training hours offered.</p> <p>The majority of the Division's training efforts were complete as of September 30, 2010 since most of the Division's training occurs in the first quarter.</p>			
<p><b>2011 Plan:</b> In 2011, the Division expects to deliver 50 internal training hours related to inspections methodology and technical courses and 106 hours related to inspector development courses and self-study courses. The 2011 plan includes training initiatives for the new inspections information system and specialized training for international inspectors.</p>			

**Indicator 4-2(b): Internal Training Hours Offered to the PCAOB's Division of Registration and Inspections (by Content Area) (excluding Broker-Dealer Authority)**

	<b>2009 (Actual)</b>	<b>2010 (Projected)</b>	<b>2011 (Projected)</b>
Profession or Industry Specific	67.7%	59.9%	56.4%
New Employee Orientation	4.5%	4.1%	3.8%
Processes, Procedures, Business Practices	14.1%	16.3%	16.7%
Managerial and Supervisory	7.8%	14.3%	15.4%
Basic Skills	5.9%	5.4%	7.7%
Total Hours	100.0%	100.0%	100.0%

**Relevance of Indicator:** This indicator evaluates the content area of the internal training hours offered to the Inspectors within the Division of Registration and Inspections (Division). Due to the technical nature of the role of an inspector, it is expected that a majority of the training hours offered each year will be in the categories of (1) Profession or Industry Specific and (2) Processes, Procedures, and Business Practices. The training hours offered in these categories will fluctuate each year depending on the anticipated needs of Inspectors.

**2009 Plan:** In 2009, the Division offered 81.8% of its learning hours in the Profession or Industry Specific and Processes, Procedures, and Business Practices categories with the remaining hours in the other categories as noted above.

**2010 Progress:** As of September 30, 2010, the Division offered 76.2% of its learning hours in the Profession or Industry Specific and Processes, Procedures, and Business Practices categories with the remaining hours in other categories listed above. The 2010 Plan provides for a greater emphasis on Management and Supervisory course offering to enhance management skills consistent with Goal 4 of the PCAOB's 2010 -2014 Strategic Plan.

**2011 Plan:** In 2011, the Division expects to offer 73.1% of its learning hours in the Profession or Industry Specific and Processes, Procedures, and Business Practices categories with the remaining hours in other categories as noted above. The 2011 Plan provides for a greater emphasis on Management and Supervisory course offering to enhance management skills consistent with Goal 4 of the PCAOB's 2010 -2014 Strategic Plan.



## **Appendix: Planning, Budgeting and Reporting Framework**

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There are three key stages of the PCAOB's strategic planning process: reviewing and updating the plan; implementing the plan; and reporting on progress on achieving the goals and objectives and completing initiatives under the plan. Given the SEC's oversight role, the SEC is involved in each of these stages.

### Reviewing and Updating of Strategic Plan

The Board has the overall responsibility for approving the Strategic Plan, including the mission, vision, and core values of the organization and for assuring that the Plan remains current and useful for internal management purposes. The PCAOB's mission is largely set forth in the Act. The vision reflects what the Board intends the organization to become, and the core values establish the principles that guide the Board and staff's approach to their work.

The Board also has responsibility for approving and, on an annual basis, confirming the PCAOB's strategic goals and objectives, as well as corresponding initiatives that are included in the plan. The goals are intentionally broad statements of what the Board aims to achieve and are intended to endure for several years. The objectives and corresponding initiatives are more specifically focused action plans related to carrying out the goals in the near term. The Board consults with the SEC and its staff on both its long-term strategic goals as well as its short-term objectives and initiatives, periodically as well as before adopting changes.

This Strategic Plan builds on prior plans and was developed in several phases. First, the Board and senior staff met to discuss the extent to which environmental factors affecting the organization have changed since last year's plan was completed. As part of this discussion, the Board and senior staff identified the organization's strengths and weaknesses, and considered the significant factors that may affect the achievement of the PCAOB's goals and objectives. The factors and risks identified by this review, as well as subsequent reviews, are highlighted in the "Key Environmental Factors" section.

Based on its environmental scan and assessment of strengths and challenges, the Board and senior staff then identified, considered and, where appropriate, re-prioritized the organization's major issues and discussed related policy matters. Once the goals and objectives were updated to reflect any changes in statutory authority and confirmed, staff identified short and longer-term implementation strategies, which were reviewed by the Board and provided to the SEC as part of the PCAOB's preliminary budget submission for 2010. These strategies are reflected in the initiatives that correspond to each objective. To help track its progress in meeting its objectives, staff also reviewed the organization's performance measures and indicators. Based on the results associated with these measures and indicators over time, and other factors, the PCAOB will determine whether there are areas where the organization is in a position to improve its performance. In updating the plan, as in the past, the Board also considered the SEC's rule facilitating Commission review and approval of the PCAOB budget as well as specific comments from the SEC.<sup>13</sup>

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<sup>13</sup> See Amendments to the Informal and Other Procedures; Public Company Accounting Oversight Board Budget Approval Process, Securities Exchange Act Release 54168 (July 18, 2006).

### Implementing the Strategic Plan

The Board uses its Strategic Plan as the starting point for formulating its resource needs. In particular, the PCAOB's budget builds from the Strategic Plan and is organized so that the activities of each division and office for the upcoming year are directly linked to the goals, objectives and initiatives established in the plan. In addition, the budget includes actual and projected performance data related to the targets included in the Plan. Once the budget is approved, the PCAOB then executes its planned initiatives and activities. As part of this execution, the PCAOB division and office leaders have responsibility for undertaking the particular initiatives funded in the budget, notwithstanding that the responsibility for the completion of the entire plan ultimately resides with the Board. Throughout the year, progress in completing the specific initiatives in the Plan is monitored through periodic meetings among the Board and division and office heads.

### Reporting Progress on the Strategic Plan

The PCAOB reports the results of its progress in achieving its Strategic Plan goals and objectives in its Annual Report for each fiscal year, which is required, under Title I of the Act, to be submitted to the SEC for transmission to certain Congressional committees. This information also is used to help ascertain the extent to which certain goals, objectives or initiatives need to be updated, or organizational resources need to be added or reallocated in the subsequent year.