



May 5, 2021

By Electronic Mail

The Honorable Gary Gensler
The Honorable Hester M. Peirce
The Honorable Elad L. Roisman
The Honorable Allison Herren Lee
The Honorable Caroline A. Crenshaw
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Gensler and Commissioners Peirce, Roisman, Lee, and Crenshaw:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board's (PCAOB) Office of Internal Oversight and Performance Assurance (IOPA) performance review, titled Division of Registration and Inspections (DRI) Transformation Project Status. The PCAOB Board formed IOPA to provide the Board, the Securities and Exchange Commission, and others assurance that the PCAOB is achieving the objectives of Title I of the Sarbanes-Oxley Act in an effective manner. IOPA conducted this review in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

IOPA undertook this review to evaluate the status of DRI's transformation projects to improve its inspection approach and process. As the summary describes, IOPA concluded that DRI has achieved consistent progress on its transformation initiatives over the relevant period of performance, generating a number of significant improvements. By the end of 2019, DRI had redesigned its inspection report, had begun to implement a redesigned remediation process, and had substantially completed its first year of redesigned quality control procedures. Qualitatively, DRI identified over 200 examples of "leading practices" across all firms and completed a preliminary analysis to summarize those examples into meaningful categories.

However, IOPA identified an opportunity to improve in the area of formal project management and proposed recommendations to enhance the organization's ability to manage, measure and communicate project performance across the Divisions and Offices. We accept those recommendations and PCAOB management is working diligently to implement these improvements.

Please feel free to contact the Director of IOPA, Ryan Sack, at (202) 808-1574, or me if you have any questions or would like any additional information about the review.



Sincerely,

William D. Duhnke III
Chairman

Enclosure: Division of Registration and Inspections (DRI) Transformation Project Status (IOPA-20-DRI-002), October 2020

PERFORMANCE REVIEW

Division of Registration and Inspections (DRI) Transformation Project Status (20-DRI-02)

INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE OCTOBER 2020

Background

IOPA conducted a review, from August to October 2020, of the Division of Registration and Inspections' (DRI or the Division) inspection approach and process transformation initiatives¹. Our review was limited to initiatives to transform DRI's operations and did not evaluate DRI in regard to it achieving its statutory mandate.

During the 2018 strategic planning process, the PCAOB divisions/offices identified transformation initiatives with the aim of achieving the PCAOB's strategic goals. For its part, DRI undertook a significant effort to reimagine and redesign the Division's structure and operations in a path toward a culture of innovation and an enhanced future state it referred to as "Vision 2025." DRI envisioned an inspection program that would drive continuous improvement in firms' audit quality through a combination of activities that address prevention, detection, and remediation. DRI would manage the inspection program with a focus on being more innovative, nimble, and flexible, with technology and automation key to all aspects of the program and readily adaptable as risks and needs of its stakeholders changed.

¹ The term "transformation initiatives" has been used interchangeably across and within divisions/offices with the terms "transformation projects" or "strategic initiatives". For purposes of our review, we regard all these terms to denote division/office significant process improvement efforts towards achieving the PCAOB's strategic objectives.

DRI started with a portfolio of 16 work-streams², which were established to focus on improving the approach, policies, and procedures for conducting inspections, and to foster consistent application of business process re-engineering principles, while maximizing the use of automation management across the Division. DRI categorized the work-streams around a framework of Objectives, People, Process, and Technology.

DRI leadership assigned a project leader for each work-stream, and additional team members were selected to fully staff each project, creating opportunities for staff input as the teams completed their assigned projects in accordance with DRI's strategic plan. DRI anticipated that certain work-streams might progress to a point where they could immediately add value in 2018, but the Division expected to realize even more significant benefits in the 2019 inspection cycle and beyond.

To achieve the benefits of the work-streams associated with DRI's overall transformation project, DRI has worked closely and collaboratively with the Office of Data, Security, and Technology (ODST) to ensure alignment between process and technology tools to maximize efficiency and effectiveness. To the extent the transformation initiatives have interdependencies, DRI has collaborated with other divisions and offices.

Objective and Scope

The purpose of our review was to evaluate the status of DRI's transformation projects to improve its inspection approach and process. We evaluated the projects with respect to:

- Project management and reporting
- Progress made against DRI's project plans
- Plans to complete projects, as applicable
- Achievement of objectives and outcomes
- Opportunities to improve project performance, as applicable

We reviewed projects representing various work-streams of the inspection approach and process, including³:

² For DRI's purposes, "work-stream" denotes a logical and manageable subdivision of the work effort to accomplish the broader transformation project or initiative. According to DRI, work-streams were established to focus on the approach, policies, and procedures for conducting inspections and were created to foster consistent application of business process re-engineering principles and to maximize the use of automation management across DRI. The work-streams were categorized around a framework of Objectives, People, Process and Technology.

³ The work-streams of "culture and values" and "rewards and recognition" relate to the people or human resources component of DRI's overall transformation project. According to DRI, these work-streams have been coordinated with the Office of Human Resources.

- Inspection Report Writing
- Remediation Process
- Root Cause Analysis
- Culture and Values
- Rewards and Recognition

Also, we held discussions with the Portfolio Management Associate Director to gain an understanding of the project management approach implemented or planned organization-wide.

We conducted our review in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Summary Results and Conclusion

We found that DRI has achieved consistent progress on its transformation initiatives since 2018, generating a number of significant improvements. For example, by the end of 2019, DRI had redesigned its inspection report, had begun to implement a redesigned remediation process, and had substantially completed its first year of redesigned Quality Control procedures. Qualitatively, DRI identified over 200 examples of good practices across all firms and completed a preliminary analysis to summarize those examples into meaningful categories. As DRI reported in its July 2020 Strategic Plan Assessment Worksheet, which was provided to us during our review, DRI considered the status of the five core transformation projects to be –

Project Name	Project Completion Status
Inspection Report Writing	To be completed Q4 2020
Remediation Process	Phase 2 - Q2 2021; Phase 3 - TBD
Root Cause Analysis	Implemented ⁴
Culture and Values	Implemented ⁵
Rewards and Recognition	Implemented

⁴ IOPA considers this effort implemented, with a reduced scope, as DRI considers a central data tool originally from this project to be part of a larger-scale, ongoing effort across DRI.

⁵ IOPA considers this project to be substantially implemented, but noted that an original project milestone to review DRI inspection title structure remained unresolved. DRI Management has agreed to engage with Human Resources and complete the milestone.

During the course of our review, we identified an opportunity to improve, not only in the case of DRI but organization-wide, in the area of formal project management, which we summarize below. The brief table below categorizes the audit observation on IOPA's established risk scale.⁶

Low Risk (0)	Moderate Risk (1)	Significant Risk (0)	Material Risk (0)
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- **Formalize Project Planning to Improve Project Execution and Monitoring**

We found that the DRI transformation project teams have made substantial progress since they began their transformation initiative projects in 2018. This progress has come without the use of project-planning tools standardized across the PCAOB or a formal project management methodology, which we believe has led to noted instances of reduced project control and documentation. For example, we noted a reduced level of identifying, tracking and statusing certain project milestones and their related division/office inter-dependencies. We believe an organization-wide approach to project planning would enable DRI, as well as all division/offices, to improve their ability to manage their projects and measure and communicate performance across divisions and offices.

We found that the PCAOB Portfolio Management Associate Director intends to identify a suite of related tools designed to match the varying complexity and needs of the organization-wide transformation projects and will begin to liaise with the divisions and offices and provide guidance on project management techniques.

IOPA recommends the Portfolio Management Associate Director document a project plan and timeline to acquire, implement, and support a standard suite of project management tools that will allow PCAOB project teams to better record detailed project plans and monitor performance against those plans. Once these organization-wide project management tools and methodologies are available, we recommend that DRI utilize them under the oversight of the Deputy Director – Innovation Management to more thoroughly plan and monitor DRI initiatives and related interdependencies.

DRI and the Portfolio Management Associate Director provided responses indicating concurrence with our audit observation and a commitment to corrective actions that are responsive to our recommendations.

We thank all personnel who supported our review, both at the senior management and staff operating level, for their courtesy and cooperation throughout this assessment.

⁶ See Appendix A for IOPA Risk Rating Legend.

APPENDIX

Appendix A – Risk Classifications and Definitions

To provide the reader with further perspective of the degree of risk IOPA attributes to each audit observation, we have assigned color-coded risk ratings as explained in the legend below.

Degree of Risk and Priority of Action	
Material	The degree of risk is unacceptable and poses a significant level of financial, compliance or operational risk to the organization. As such, complete remediation is generally required no later than one month from the time of the finalized IOPA report.
Significant	The degree of risk is undesirable and poses a significant financial, compliance or operational risk to the organization. As such, complete remediation is generally required no later than three months from the time of the finalized IOPA report.
Moderate	The degree of risk is undesirable and poses a moderate financial, compliance or operational risk to the organization. As such, complete remediation is generally required no later than six months from the time of the finalized IOPA report.
Low	The degree of risk appears reasonable but there are opportunities to further reduce risk through improvements to existing policies, procedures, and/or operations. As such, management should take actions to reduce the risks to the organization.

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