



September 6, 2023

By Electronic Mail

The Honorable Gary Gensler  
The Honorable Hester M. Peirce  
The Honorable Caroline A. Crenshaw  
The Honorable Mark T. Uyeda  
The Honorable Jaime Lizárraga  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chair Gensler and Commissioners Peirce, Crenshaw, Uyeda, and Lizárraga:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board (PCAOB or Board) Office of Internal Oversight and Performance Assurance's (IOPA) Performance Review Report on *Division of Registration and Inspections: Registration Process Review* (IOPA Review No. 22-DRI-03). The Board formed IOPA to promote the confidence of Congress, the Securities and Exchange Commission, and the public in the integrity of PCAOB programs and operations. 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 operational effectiveness and efficiency of the PCAOB's registration and reporting operations in place as of December 2022.

As the summary report sets forth, IOPA found the processes and procedures of the Division of Registration and Inspections (DRI) staff responsible for overseeing the registration, withdrawal, annual reporting, and special reporting processes for public accounting firms ("Registration") to be well-organized, appropriately documented, compliant, and aligned with the Act and PCAOB rules. Additionally, IOPA noted that Registration staff demonstrates a high level of expertise and professionalism and strives for the consistent application of PCAOB philosophies related to registration and reporting.

During the course of the review, however, IOPA identified certain improvement opportunities the staff believes will "help ensure the internal efficiency, integrity, and effectiveness"<sup>1</sup> of registration and reporting operations, in furtherance of the PCAOB's mission. For example, IOPA asserts that DRI could consider enhancing certain of Registration's uses of automation and technology, resources, and

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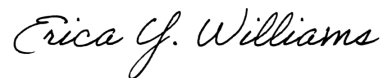
<sup>1</sup> IOPA's Charter, Mission and Scope of Work.

processes and protocols. IOPA included these concepts in the report as illustrative examples and did not intend for them to create any restrictions on DRI's evaluation and re-envisioning of registration or reporting.

The Board has reviewed IOPA's recommendations and management's responses thereto and has approved the transmittal of the summary report to you.

The PCAOB intends to publish the attached summary on its website on or about September 13, 2023. 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,



Erica Williams  
Chair

Enclosure: IOPA Performance Review Report on *Division of Registration and Inspections: Registration Process Review* (IOPA Review No. 22-DRI-03)

## **Internal Oversight and Performance Assurance**

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# **Division of Registration and Inspections: Registration Process Review**

IOPA Review No. 22-DRI-03  
December 2022<sup>1</sup>

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<sup>1</sup> This date represents the month in which IOPA's audit fieldwork was substantially completed.

# EXECUTIVE SUMMARY

## Background

As detailed herein, from October through December 2022, the Public Company Accounting Oversight Board's (PCAOB or "Board") Office of Internal Oversight and Performance Assurance (IOPA) conducted a process review ("Review") of the organization's registration and reporting operations.<sup>2</sup> The Sarbanes-Oxley Act of 2002, as amended (the "Act"), requires public accounting firms that prepare or issue an audit report for an issuer or a broker-dealer registered with the Securities and Exchange Commission (SEC), or play a substantial role in those audits, to register with the PCAOB.<sup>3</sup> The Division of Registration and Inspections (DRI) staff responsible for overseeing the registration, withdrawal, annual reporting, and special reporting processes for public accounting firms ("Registration") makes recommendations for Board action regarding registration applications, succession requests, and withdrawal requests. Pursuant to delegated Board authority under PCAOB Rule 2300(h),<sup>4</sup> Registration staff also makes recommendations to DRI's Director for action on requests for confidential treatment of certain information submitted to the PCAOB.

**Registration Applications:** Public accounting firms wishing to register with the PCAOB<sup>5</sup> must submit a registration application on Form 1<sup>6</sup> and pay a registration fee.<sup>7</sup> Once the application has been received and fee paid, the Board has 45 days to take action to approve the application, request additional information from the applicant firm, or provide the applicant firm with written notice of a hearing to determine whether to approve or disapprove the application.<sup>8</sup> During this period, Registration staff reviews the application for completeness, accuracy, and consistency; performs research and regulatory checks on the applicant firm and associated persons; and communicates with other PCAOB divisions and offices to determine whether concerns exist with respect to the applicant firm. Registration staff evaluates the results of the procedures performed and prepares a recommendation for presentation to the Board.

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<sup>2</sup> Pursuant to our [Charter](#), the Board "has charged [IOPA] with providing internal examination of the programs and operations of the PCAOB to help ensure the internal efficiency, integrity, and effectiveness of those programs and operations. ... To achieve its mission, the Office shall — Identify risks to the efficiency, integrity, and effectiveness of PCAOB programs and operations; Conduct performance and quality assurance reviews, audits, and inquiries to detect and deter waste, fraud, abuse, and mismanagement in PCAOB programs and operations; and recommend constructive actions that, when implemented, reduce or eliminate identified risks, and promote compliance with applicable laws, regulations, and PCAOB rules and policies." IOPA's enumerated responsibilities include providing "ongoing quality assurance with regard to the design and operating effectiveness of PCAOB programs (e.g., registration, inspections, investigations and enforcement, and standard setting) and operations (e.g., administration, information technology, human resources, and budget and finance)."

<sup>3</sup> Section 102(a) of the Act, 15 U.S.C. § 7212.

<sup>4</sup> PCAOB Rule 2300, *Public Availability of Information Submitted to the Board; Confidential Treatment Requests*.

<sup>5</sup> PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*.

<sup>6</sup> PCAOB Rule 2101, *Application for Registration*.

<sup>7</sup> PCAOB Rule 2103, *Registration Fee*.

<sup>8</sup> Section 102(c)(1) of the Act; PCAOB Rule 2106(b), *Action on Applications for Registration*.

**Withdrawal Requests:** Registered firms wishing to withdraw from PCAOB registration must submit a request for leave to withdraw from registration on Form 1-WD.<sup>9</sup> The Board has 60 days from the receipt of the completed Form 1-WD to determine whether to order that the withdrawal of the firm's registration be delayed for a period of up to 18 months, if the Board determines that such withdrawal would be inconsistent with the Board's responsibilities under the Act.<sup>10</sup> During this period, Registration staff reviews the firm's Form 1-WD, performs research and regulatory checks on the registered firm and associated persons, and communicates with other PCAOB divisions and offices to determine whether there are reasons the firm's withdrawal request should be delayed (*e.g.*, if pending disciplinary proceedings against the firm are identified).<sup>11</sup> If Registration staff believes that the firm's withdrawal should be delayed, the staff will present this recommendation to the Board.

**Annual Reports:** Registered firms must submit an annual report on Form 2<sup>12</sup> and pay an annual fee.<sup>13</sup> Registration staff verifies certain information disclosed on the annual report and follows up with the firm to resolve identified discrepancies.

**Special Reports:** Registered firms must submit a special report on Form 3 no later than 30 days after the occurrence of a reportable event,<sup>14</sup> including as to audit reports (*i.e.*, withdrawal of an audit report, resignation or dismissal of a registered firm, 100-issuer threshold change), certain legal proceedings, certain relationships, changes in licenses and certifications, and changes in the firm or contact person. In certain circumstances, firms may submit a succession request on Form 4, which allows an unregistered firm to succeed to the PCAOB registration status of a predecessor registered firm without any interruption in registration status.<sup>15</sup> This form must be filed within 14 days of the change or combination.<sup>16</sup> If the form is filed late, the firm may submit a request to the Board for leave to file Form 4 out of time.<sup>17</sup> Referrals from other PCAOB divisions and offices, registered firms, and other sources also notify Registration staff that a Form 3 or 4 may not have been filed, after which Registration staff performs follow-up procedures to evaluate the referrals and determine whether additional action is needed.

**Registration System:** Registration is the business owner of the Registration, Annual, and Special Reporting (RASR) system, the PCAOB's web-based system through which firms submit registration applications and other forms, plus registration and annual fees. RASR provides

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<sup>9</sup> PCAOB Rule 2107, *Withdrawal from Registration*.

<sup>10</sup> *Id.*

<sup>11</sup> See PCAOB Rule 2107(e) (any pending Board disciplinary proceeding against a firm that filed a pending Form 1-WD, or against any associated person of that firm, or any pending Commission or court review of a Board sanction against such firm or person, is automatic grounds for delaying the withdrawal request, unless the Board orders otherwise).

<sup>12</sup> PCAOB Rule 2200, *Annual Report*.

<sup>13</sup> PCAOB Rule 2202, *Annual Fee*.

<sup>14</sup> PCAOB Rule 2203, *Special Reports*.

<sup>15</sup> PCAOB Rule 2108, *Succeeding to the Registration Status of a Predecessor*.

<sup>16</sup> PCAOB Rule 2109, *Procedure for Succeeding to the Registration Status of a Predecessor*.

<sup>17</sup> PCAOB Rule 2108(d).

different levels of access to the public, registered firms, applicant firms, and internal PCAOB users.

As noted in 2004 by a member of the Board when providing a 22-month “report card” for the PCAOB, “Registration is important because it forms the foundation for the Board’s authority over the profession – that is, only registered firms are required to comply with our standards, and are subject to our inspection and enforcement authority.”<sup>18</sup>

## Objective and Scope

The purpose of our Review was to evaluate the operational effectiveness and efficiency of the PCAOB’s registration and reporting operations in place as of December 2022, including but not limited to reviewing Registration’s processes and procedures.

To accomplish our objective, we:

1. Reviewed and evaluated documented policies and procedures guiding registration and reporting operations.
2. Interviewed DRI leadership and staff to gain an understanding of Registration’s work streams and related interactions with other divisions and offices and with external stakeholders.
3. Interviewed staff in DRI Inspections; DRI Remediation; DEI; Office of the General Counsel; Office of International Affairs; Office of Data, Security, and Technology; and Office of Administration to understand how they collaborate with Registration staff and whether any opportunities for improvement exist.
4. Performed sample testing on forms submitted through RASR to verify whether Registration staff effectively followed documented procedures, applications and withdrawal requests were processed within the relevant timeframes, and applicant and registered firms had appropriately submitted applicable registration and annual fees.
5. Reviewed the use and function of the RASR system and analyzed controls related to applicant firms, registered firms, and internal-user access.

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

Our Review found Registration’s processes and procedures to be well-organized, appropriately documented, compliant, and aligned with the Act and PCAOB rules. Registration staff – a team of qualified, highly experienced, and long-tenured individuals – demonstrates a high level of expertise and professionalism and strives for the consistent application of PCAOB philosophies related to registration and reporting. Additionally, key stakeholders from other divisions and offices who work directly with Registration staff reported high regard for the staff’s ability to collaborate effectively with internal partners.

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<sup>18</sup> Oct. 18, 2004 speech by then-Board member Kayla J. Gillan, [The PCAOB: A Two-Year Report Card](#), at the National Association of Corporate Directors 2004 Annual Corporate Governance Conference.

During the course of our Review, however, we identified certain improvement opportunities that we believe will “help ensure the internal efficiency, integrity, and effectiveness”<sup>19</sup> of registration and reporting operations, in furtherance of the PCAOB’s mission. For example, we believe that DRI could consider enhancing certain of Registration’s uses of automation and technology, resources, and processes and protocols. Although these are included herein as examples, they should not be construed to create any restrictions on DRI’s evaluation and re-envisioning.

The brief table below summarizes and categorizes the audit observation on a risk scale.<sup>20</sup>

Low Risk (1) <sup>21</sup>	Moderate Risk (0)	Significant Risk (0)	Material Risk (0)
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Our observation is summarized below –

● **Evaluate Registration’s Automation/Technology, Resources, and Processes/Protocols** – Given the significant changes in the public accounting landscape over the twenty-plus years since the passage of the Act,<sup>22</sup> IOPA asserts that the time is opportune for DRI to re-evaluate certain: (a) automation and technology (*e.g.*, incorporating additional automation and updated technology into the PCAOB’s registration processes), (b) resources (*e.g.*, adding appropriate resources, which IOPA believes will both support longer-term succession planning and generate more immediate efficiencies by redirecting certain registration-related tasks from other divisions and offices to DRI); and (c) processes and protocols (*i.e.*, to reflect and optimize any changes in PCAOB rules, including in collaboration with other divisions and offices). Undertaking this re-evaluation would be consistent with the fourth goal of the Board’s 2022-2026 Strategic Plan – to enhance organizational effectiveness – including by “improv[ing] internal processes to make it easier for PCAOB staff to advance the PCAOB’s mission.”<sup>23</sup> Moreover, revisiting the PCAOB’s approach to registration and reporting may have long-term, beneficial effects on other divisions and offices.

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<sup>19</sup> IOPA’s Charter, Mission and Scope of Work.

<sup>20</sup> See Appendix A for IOPA Risk Rating Legend.

<sup>21</sup> IOPA believes that the observation detailed herein presents a low risk pursuant to IOPA’s Risk Rating Legend, in that “[t]he degree of risk appears reasonable but there are opportunities to further reduce risk through improvements to existing policies, procedures, and/or operations.” See Appendix A. Nonetheless, IOPA asserts that the adjustments suggested in this report present the PCAOB with enhancement opportunities that, if implemented, would benefit the entire organization.

<sup>22</sup> See, *e.g.*, Dec. 12, 2022 speech by PCAOB Chair Erica Y. Williams, [A Challenge to the Audit Profession: Uphold the Highest Standards in Audit Quality](#) (“our capital markets don’t stand still. They evolve and grow. Practices change. Technology advances – relentlessly – with an impact on financial reporting and auditing”); May 6, 2022 speech by PCAOB Board member Christina Ho, [The Future of Auditing](#), at the 2022 Deloitte/University of Kansas Auditing Symposium (“With technology disruption and market transformation, auditing is becoming more complex and involves more judgment. Consequently, PCAOB’s mission to protect investors has become more challenging and even more crucial. ... For the audit profession, this is a transition period and a defining moment. Every aspect of auditing is changing because of technology, the elevated risk landscape resulting from the pandemic, regulatory and political influences, and talent shortages”); Sept. 9, 2015 speech by then-SEC Commissioner Kara M. Stein, [Accountants and Capital Markets in an Era of Digital Disruption: Remarks to the Institute of Chartered Accountants in England and Wales and BritishAmerican Business](#) (noting “a vision of the public accountant as an agent of the public interest, instilling trust and confidence in our capital markets,” in a “changing landscape” ripe with a “digital revolution [that] is driving change” and transforming business models and financial markets).

<sup>23</sup> [2022-2026 Strategic Plan](#) at 15.

DRI provided a response indicating concurrence with our audit observation and a commitment to 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.



# 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	
<b>Material</b>	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 on a highest priority basis.
<b>Significant</b>	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 on a high priority basis.
<b>Moderate</b>	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 on a medium priority basis.
<b>Low</b>	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, on a lower priority basis, 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.