



*Public Company Accounting Oversight Board*

*Strategic Plan*

*2007 - 2012*

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## *Introduction*

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The Public Company Accounting Oversight Board (PCAOB or Board) developed this Strategic Plan to guide the programs and operations of the organization in the coming years.

To date, Title I of the Sarbanes-Oxley Act of 2002 (Act) – the landmark legislation that created the PCAOB as the independent nonprofit overseer of the auditors of public companies – effectively served as the strategic blueprint for developing the PCAOB's programs and operations. Notably, it is the Act itself that sets forth the PCAOB's mission and identifies its core functions.

The Act gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies trading in U.S. securities markets; inspections of registered public accounting firms; 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.

Since its inception, the Board has moved aggressively to develop these four program areas to fulfill its statutory responsibilities, and in doing so takes a supervisory approach to auditor oversight. Under this approach, the Board endeavors to address many auditing problems through a combination of inspections and standards-setting. The PCAOB's supervisory model uses several tools to improve audit quality, correct audit deficiencies, and promote compliance with applicable standards and laws. In particular, these tools include regular dialogue with registered public accounting firms about quality control defects that may have weakened the quality of the firms' audits, and issuance of guidance or other reports on practices the PCAOB identifies in the course of its inspections or otherwise. The Board exercises its enforcement authority, in support of this model, to focus on serious violations of PCAOB standards or securities laws by auditors under its jurisdiction.

Although the PCAOB is a private sector entity, the Act gives the Securities and Exchange Commission (SEC) oversight authority over the Board. In addition to appointing members of the Board, the SEC, among other things, must approve the PCAOB's budget and rules, including auditing standards, and may review appeals of adverse Board inspection reports and disciplinary actions against registered firms.

This Strategic Plan is intended to align the PCAOB's programs, operations, and budget with the overall mission, goals, and objectives of the organization. In addition to serving as a roadmap for the PCAOB, this Strategic Plan serves as a framework for developing the PCAOB's annual budget. Under this plan, the PCAOB has the following four overarching goals --

- Goal 1:** Promote investor confidence in audited financial statements of public companies through an effective use of a supervisory model of oversight of registered public accounting firms
- Goal 2:** Inform, educate and obtain feedback from a broad cross-section of the audit profession, market participants and other interested parties about the PCAOB's oversight activities and best practices in the auditing profession
- Goal 3:** Further strengthen the effectiveness and coordination of auditor oversight efforts in the United States and abroad
- Goal 4:** Operate the PCAOB in a manner that recognizes its public mission and responsibility to exercise careful stewardship over its resources

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, as derived from the Act, is to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.

### ***Vision***

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The PCAOB seeks to be a model regulatory organization. Using innovative and cost-effective tools, the PCAOB will aim to improve audit quality, reduce the risks of auditing failures in the U.S. public securities market, and promote public trust in both the financial reporting process and accounting profession.

## Core Values

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

- ◆ **Public Interest:** The Board and the staff of the PCAOB are committed to protecting investors and serving the public interest when carrying out their responsibilities.
- ◆ **Integrity:** Given the nature and significance of the PCAOB's mission under the Act, it is the personal responsibility of the Board and the staff of the PCAOB to maintain the highest possible ethical standards.
- ◆ **Excellence:** The Board and the staff of the PCAOB are committed to high-quality analysis and high performance in their oversight of registered public accounting firms.
- ◆ **Effectiveness and Efficiency:** The Board recognizes that the PCAOB is primarily supported by fees from public companies and understands its responsibility to manage resources effectively and efficiently.
- ◆ **Fairness:** In exercising its regulatory and enforcement authority, the PCAOB is committed to treating registered public accounting firms and associated persons in a fair, impartial and consistent manner.
- ◆ **Flexibility and Innovation:** The PCAOB will be forward-thinking, anticipate risks, and respond to rapidly emerging issues with its flexible and innovative programs and operations.
- ◆ **Accountability:** The Board and the staff of the PCAOB accept responsibility for their actions and decisions.
- ◆ **Teamwork:** The PCAOB will maintain a team of outstanding, highly qualified, experienced professionals, who are expected to collaborate in a work environment based upon cooperation and trust.

## *Key Environmental Factors*

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Environmental changes -- internal and external, foreseen and unforeseen -- could affect the PCAOB's ability to achieve its goals, objectives, and corresponding initiatives. As such, this Strategic Plan is subject to adjustment in response to environmental changes that could impact the PCAOB's activities or its role as an audit oversight body. Several key factors are discussed below. The PCAOB intends to monitor these factors and adjust its Strategic Plan, as appropriate, as part of its strategic planning process.

**Staff Recruitment, Development and Retention.** The PCAOB's ability to achieve its goals and objectives is dependent on the recruitment, development and retention of highly qualified and experienced professionals. Since the PCAOB's inception, the market for experienced accountants has been highly competitive and the PCAOB has faced challenges in meeting its hiring goals. The PCAOB does not foresee any short-term changes in this segment of the labor market and, as such, will continue to regularly assess its staffing model and compensation structure to ensure that the organization remains an attractive career opportunity for qualified professionals.

**Changes in Leadership.** As the PCAOB matures, it is inevitable that there will be turnover of PCAOB senior staff as well as Board members, who are subject to certain term limitations under the Act. Given such changes in leadership, the PCAOB will emphasize the importance of continuity and of preserving institutional knowledge through information sharing and succession planning.

**Regulatory and Legislative Changes.** The activities of the PCAOB could be affected by regulatory or legislative changes relating to the scope of the organization's responsibilities, including changes or developments relating to Title I of the Act. Any such changes could impact the PCAOB's programs and operations and result in the PCAOB requiring more or fewer resources. Given the SEC's statutory oversight authority over the PCAOB, actions taken by the SEC relating to the PCAOB, as well as changes in leadership in the Commission or its senior staff, may impact the PCAOB's programs and operations. For example, if the SEC were to determine that PCAOB registration requirements apply to auditors of non-public broker dealers, the PCAOB would likely require additional resources to tailor its inspections and standards-setting programs to effectively oversee these uniquely-focused auditors.

**Changes in the Audit Profession and the Capital Markets.** The PCAOB oversees a diverse population of registered public accounting firms, whose public company audit client profiles are continually changing.<sup>1</sup> In addition, the percentage of non-U.S. public accounting firms registered with the PCAOB relative to domestic registered public accounting firms is growing. Changes to the client bases of these registered firms may impact the PCAOB's programs and operations. As additional registered public accounting firms with close to 100 public company audit clients increase their public company client base, the PCAOB will have to devote additional resources to conduct annual inspections of those firms. Further, developments in the capital markets may result in more emphasis on the PCAOB's risk-based approach to its programs and/or adjustments to staffing levels in certain areas.

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<sup>1</sup> As of April 30, 2007, 1,773 accounting firms were registered with the Board. The domestic registered firms are based in 48 states, Guam and Puerto Rico, and the non-U.S. registered firms are located in 82 countries. Ten U.S. firms and one Canadian firm have more than 100 public company audit clients and must be inspected on an annual basis. The PCAOB is also required to inspect approximately 1,115 of the 1,773 registered firms on a triennial basis.

**Globalization and Cross-Border Auditing.** With an increasingly globalized and complex world economy, both U.S. and non-U.S. registered public accounting firms audit financial statements on which U.S. investors rely. Many U.S.-based public companies have branches, subsidiaries, and joint ventures around the globe, and many non-U.S.-based companies trade in U.S. markets. The consequences of inaccurate financial reporting and of other financial frauds do not stop at national borders. As such, in meeting its statutory mandates, the PCAOB is faced with the challenge of taking into consideration cultural and legal differences of regulatory regimes around the world as it continues to develop its cooperative approach to oversight of audit firms that operate in the global capital markets.

**Technology.** The PCAOB must continue to use technology to support its business needs. Technology changes rapidly and the PCAOB's core programs are now sufficiently established to provide a more informed basis for selecting appropriate technology solutions. As the PCAOB works to achieve its goals and objectives, the organization will pay close attention to its related technology needs. To the extent that any new business processes or changes to existing processes emerge within the organization, the PCAOB will need to adjust its information technologies as appropriate. Separately, the PCAOB will need to ensure that its existing systems, including its technology infrastructure, are appropriately robust, reliable and secure. Any adjustments to the PCAOB's technology infrastructure may require additional or different resources.

**FEF v. PCAOB, et al.** On March 21, 2007, the U.S. District Court for the District of Columbia issued its decision granting summary judgment to the PCAOB in the constitutional lawsuit filed by the Free Enterprise Fund and Beckstead & Watts LLP. On April 13, 2007, plaintiffs filed an appeal to the United States Court of Appeals for the District of Columbia. The continued defense of the lawsuit will likely require significant resources.

## *Goals and Objectives*

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**Goal 1:** Promote investor confidence in audited financial statements of public companies through an effective use of a supervisory model of oversight of registered public accounting firms

**Objectives:**

- A.** Continue to integrate risk assessment approaches into the PCAOB's programs that encourage collaboration in the identification and measurement of emerging accounting and auditing issues and other key areas of risk that might lead to audit failures
- Identify audit risk related to public companies, types of transactions, accounting methods, industries or registered public accounting firms to enhance the risk-focusing of inspections, to identify potential matters for investigation, and to promote risk reducing activities in registered public accounting firms
  - Enhance collaboration among divisions and offices with regard to the sharing of risk-based analyses and information
  - Assess the nature and magnitude of the effects (cost/benefit) of PCAOB activities on investors, public companies, and audit firms
- B.** Conduct a risk-focused inspection program for registered public accounting firms that evaluates and identifies areas of potential improvement in the practices, processes and quality controls of these firms, reports the findings to the affected firms, and determines whether appropriate remediation by the firms has occurred
- Conduct inspections in accordance with the supervisory model
  - Achieve timely issuance of final inspection reports following the completion of inspection fieldwork
  - Continue to tailor the inspection program for U.S. and non-U.S. firms to firm size and nature, based on risk assessments and other pertinent information
  - Determine the appropriate inspection work programs for registered U.S. and non-U.S. firms, while assuring proper consistency across similar inspections
  - Fulfill annual inspection plans consistent with approved schedules and policies, including the Board's reliance policy for inspections of non-U.S. firms

- C. Develop or improve standards and guidance for conducting audits that will provide a framework for promoting high quality and scalable audits**
- Determine how to utilize tools most effectively -- such as auditing standards, Q&As, audit practice alerts, and PCAOB Rule 4010 reports -- to support the supervisory model in improving audit practice
  - Complete the issuance of the Board's new internal control over financial reporting standard
  - Develop and draft auditing and related professional practice standards and staff guidance considering, among other things, the size and nature of registered public accounting firms and public companies
  - Further integrate into the standards-setting process evidence from inspections, enforcement, and the activities of the PCAOB's Office of Research and Analysis
- D. Identify situations in which registered public accounting firms and associated persons have failed to conduct audits of the required quality, investigate where needed, and take appropriate action**
- Use risk-based analyses to proactively identify auditing activities and issues that may warrant further investigation or enforcement action
  - Use enforcement authority, in supporting the supervisory model, to focus on serious violations of PCAOB standards or securities laws by auditors
  - Initiate and complete investigations and take other actions, including reporting to the Board on ongoing, as well as potential, enforcement matters, in a timely and appropriate manner

**Goal 2:** Inform, educate and obtain feedback from a broad cross-section of the audit profession, market participants and other interested parties about the PCAOB's oversight activities and best practices in the auditing profession

**Objectives:**

- A. Develop and implement a proactive outreach strategy to communicate key issues to the auditing profession, market participants and other interested parties**
- Develop messages on certain key issues, proactively identify audiences (including conferences, meetings, editorial boards and other groups), and identify appropriate PCAOB speakers for speaking engagements and meetings with outside parties
  - Provide guidance and education on standards-setting activities
- B. Maintain effective and timely communications with registered public accounting firms with respect to specific risks related to their public company clients and improvements in audit quality, effectiveness and efficiency**
- Evaluate communications with registered public accounting firms and enhance, as appropriate
  - Communicate matters related to audit risk to registered public accounting firms through audit practice alerts and other methods
- C. Enhance outreach efforts to registered public accounting firms that are not subject to PCAOB annual inspections and to smaller public companies**
- Develop and provide guidance and education for auditors of internal control over financial reporting at smaller public companies, as well as inform audiences of the Board's proposed new internal control standard
  - Continue Forums on Auditing in the Small Business Environment
- D. Continue to seek ways to provide the investing public with information about registered public accounting firms and their practices that have not been made available in the past, to reflect best practices and emerging risks in the auditing profession**
- Take action on pending confidential treatment requests related to registration applications and continue to maintain public access to registration data
  - Finalize annual and other reporting rules and validate their implementation approach
  - Further refine the role of PCAOB Rule 4010 reports and how best to use such reports as a proactive communication tool
  - Proactively seek opportunities to communicate key messages to appropriate audiences of investors

- E. Maintain an effective and dynamic program to obtain feedback and insights from investors, public companies, registered public accounting firms and other interested parties on the PCAOB's proposals and emerging issues related to its work
- Use the PCAOB's Standing Advisory Group (SAG) and other ad hoc task forces and working groups to obtain input on standards-setting projects
  - Consider the role and composition of the PCAOB's advisory groups to determine whether the Board is hearing from all appropriate parties and groups
  - Communicate regularly with Congress, the business and investor communities and other interested parties
  - Further develop a mechanism for gathering questions that are frequently asked at conferences, meetings, and other events and develop appropriate responses to such questions for use by PCAOB speakers
  - Explain and seek feedback on the Board's positions and solicit comments on the Board's rules and standards

**Goal 3: Further strengthen the effectiveness and coordination of auditor oversight efforts in the United States and abroad**

**Objectives:**

- A. Coordinate effectively with the SEC, the Financial Accounting Standards Board (FASB), state regulators and other appropriate U.S. organizations to improve auditor oversight and reduce duplication of effort**
- Maintain complementary working relationships and collaborate with the SEC, FASB, state regulators and other appropriate U.S. organizations, and participate with such groups in certain efforts related to the PCAOB's mission, such as efforts to address complexity in financial reporting
  - Coordinate investigations and share inspections and other appropriate information with other regulators, as permitted by the Act, the Board's rules and as appropriate
  - Communicate with appropriate regulatory agencies and professional bodies in matters related to standards-setting
- B. Work effectively with international audit regulators to facilitate inspections of non-U.S. registered public accounting firms and to strengthen global oversight of auditors of U.S. public companies**
- Develop and maintain effective bilateral and multilateral relationships with appropriate non-U.S. authorities
  - Further refine policy for reliance and cooperation with non-U.S. regulators
  - Work with appropriate non-U.S. regulators to implement policy for reliance and cooperation
- C. Play a leadership role in international efforts to improve auditor oversight and auditing practices worldwide and reduce duplication of effort**
- Participate in international regulatory bodies and forums, such as the International Forum of Independent Audit Regulators, to improve coordination and oversight
  - Host educational/technical assistance conferences for non-U.S. auditor regulators and government representatives
  - Participate in international auditing standards-setting bodies

**Goal 4: Operate the PCAOB in a manner that recognizes its public mission and responsibility to exercise careful stewardship over its resources**

**Objectives:**

**A. Continue to attract, retain and develop highly qualified individuals**

- Assess the effectiveness of the current recruitment strategy and make changes to the model, as necessary, to meet hiring objectives
- Evaluate the PCAOB's compensation and benefits structure to ensure that the organization continues to be an attractive career option for credentialed professionals
- Develop a comprehensive staff retention strategy
- Continue to enhance, as appropriate, staff training and career development programs
- Develop succession plans for key positions
- Continue to promote valued work behaviors

**B. Develop strong internal communication and collaboration processes and an organizational structure that assists the organization in accomplishing its mission, including processes that capture and preserve institutional knowledge for the entire organization**

- Adopt a permanent document retention policy and implement a phased records management strategy
- Develop and maintain an internal communications strategy, including an intranet, that promotes the sharing of information and encourages collaboration among divisions and offices

**C. Utilize information technology (IT) to enhance efficiencies in and the integration of the PCAOB's programs and operations**

- Implement IT solutions necessary to meet the Board's priority activities, share information across the organization, and support the business processes of each division and office
- Determine the scope of appropriate information sharing across divisions and offices and how to expand existing automated systems for collecting and analyzing appropriate information derived from inspections, investigations and other research
- Evaluate and implement IT tools to improve the efficiency and effectiveness with which inspections staff can conduct and report on inspections of registered public accounting firms
- Adopt, as appropriate, a more robust IT governance structure
- Enhance and maintain IT system ease of use through soliciting input and feedback from staff and ad hoc user groups

- Meet the technology needs of the organization's programs in a timely and cost-effective manner

**D. Measure and report the results of PCAOB activities (including PCAOB financial results) in a timely, accurate and transparent matter**

- Complete the PCAOB's Annual Report in a timely manner
- Complete a management assessment of internal controls over financial reporting in a timely manner
- Determine the standard to be used by the Board for the audit of its internal controls over financial reporting
- Provide appropriate budget information and data to the SEC in a timely manner
- 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
- Evaluate and enhance the public Web site, as necessary, to facilitate communications with interested parties

**E. Continue to align the PCAOB's programs and operations and accountability initiatives with the Board's priorities**

- Continue to build and refine the framework of rules necessary for the PCAOB to exercise its statutory authority
- Continue to strengthen the PCAOB ethics program by further integrating ethical principles into PCAOB's programs and operations
- Review the PCAOB Strategic Plan and measure progress in meeting goals, objectives, and initiatives on a regular basis to ensure continued alignment between priorities and resource needs
- Develop a framework for identifying and monitoring operational and reputation risks of the PCAOB
- Continue to operate in accordance with the statutory requirements of the Act

## *Appendix: Strategic Planning Process*

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There are three aspects to the PCAOB's strategic planning process: creating the plan, implementing the plan, and periodically reviewing and updating the plan.

### *Creating the Strategic Plan*

The Board has the overall responsibility for approving the Strategic Plan, including the mission, vision, and core values of the organization. The mission, largely set forth in the Act, states the organization's purpose. 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 the responsibility for approving the 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. They are intended to endure for several years. The objectives and corresponding initiatives are more specifically focused action plans related to carrying out the goals.

This Strategic Plan for fiscal years 2007-2012 was developed in several phases. First, the Board and senior staff met to identify and prioritize the organization's major issues and to discuss different opinions on policy matters. At its October 5, 2006 SAG meeting, the Board then sought input from members of the SAG on measuring the PCAOB's success in achieving its mission under the Act, drawing on the SAG members' backgrounds and perspectives as practicing auditors, preparers of financial statements, investors and others. Incorporating the input from the SAG members as well as PCAOB staff, the Board and senior staff decided upon the goals and objectives that were to be included in the Strategic Plan for this time period. Once the goals and objectives were established, staff developed short-term strategies, which were reviewed and finalized by the Board, to implement the plan. These strategies are reflected in the initiatives that correspond to each objective. In the process of developing the Strategic Plan, the Board and senior staff also considered and discussed the significant factors that may impact the achievement of the PCAOB's goals and objectives. These factors are highlighted in the section on "Key Environmental Factors."

### *Implementing the Strategic Plan*

While the responsibility for the completion of the initiatives resides with the Board, the heads of the PCAOB offices and divisions have been assigned responsibility for developing strategies to implement and allocate resources for initiatives related to their respective programs.

Progress in completing the specific initiatives is monitored on a periodic basis. In particular, management meetings, coordinated by the Chief of Staff and Office of Budget, Program Analysis and Strategic Planning, are held periodically to assess progress in completing the initiatives and achieving the objectives in the plan. At these meetings, office and division heads provide a status report on the initiatives related to their respective programs, including a discussion of any factors that may impact the completion of an initiative. In addition to these management meetings, the Board and senior staff meet twice each fiscal year -- in the middle and at the end of each year. At these two meetings, the Board and senior staff discuss in detail the status of the initiatives for the relevant year as well as factors impacting the completion of the initiatives. At

the mid-year meeting, the Board has the opportunity to reprioritize initiatives and make any mid-course corrections, as appropriate. At the year-end meeting, the Board and senior staff have the opportunity to update the initiatives for the subsequent fiscal year. As the strategic planning process matures, performance evaluations for PCAOB staff will be further aligned with achievement of the goals and objectives outlined in the Strategic Plan, and a discussion of the progress made in achieving key goals and objectives will be included as part of the PCAOB's Annual Report for each fiscal year.

#### *Updating the Strategic Plan*

The goals, objectives and initiatives in the Strategic Plan are reviewed, validated and revised by the Board and senior staff at least annually. In addition, this yearly assessment includes a discussion and analysis of the significant factors that may impact the PCAOB's ability to achieve its goals and objectives and complete its strategic initiatives. From this discussion and analysis, critical issues may emerge that may result in new objectives, initiatives or modifications to the Strategic Plan. In addition, as part of updating its Strategic Plan, the Board intends to continue to seek input from its stakeholders, including SAG members, on a periodic basis.