



***Public Company Accounting Oversight Board  
Strategic Plan:***

***Improving the Relevance and Quality of the Audit for the  
Protection and Benefit of Investors***

***2011 – 2015***

*November 30, 2011*

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## **Chairman's Message**

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Auditing firms and the broader audit profession represent an advanced achievement of societal economic development. That we are in a position to anatomize the problems of particular audits and discuss their relevance for a complex global economy is, in no small part, attributable to the clarity, objectivity and independence that the audit profession has bestowed on our commercial civilization.

In our role as regulators, we must be mindful of unanticipated consequences, but not shrink from the task of taking on the tough questions about auditing.

As a regulator, the PCAOB is distinct, in that the technical rules we administer, and which we clarify by standards and audit practice alerts, do not constitute a new bureaucratic regime. We are about auditing, which has existed in the modern form for around 200 years. The fundamental qualities of the good audit are not new: these include, in addition to competence, independence in the sense of the absence of a direct financial interest in the audit outcome, and objectivity in the sense of the auditor's forming a credible basis for a conclusion and sticking to it. These qualities have been around a long time, and our capital markets show the benefit.

At the PCAOB, we believe that the continued existence and future of that independent audit profession may well depend on our work. Investor protection and audit quality will require perseverance and proficiency in establishing relevance, transparency, accountability and independence as the hallmark of the audit profession. We will pursue these goals in our policies, our inspection and remediation, our standard-setting, and our enforcement; and we will accomplish this through execution of the Strategic Plan that follows, and as it adapts to reflect both success and shortfall.

The PCAOB represents an investment in capitalism, not merely an investment in investor protection and in audit quality. As the following Strategic Plan will show, the benefits of that investment over the past eight years have laid a foundation for a stronger economic system in years to come. As with any investment, a close analysis is warranted and welcomed; and this Strategic Plan serves as both an analysis of why that investment in the PCAOB was wise and of why the continued investment can yield greater benefits in years to come. We welcome oversight of our stewardship.

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This Plan includes a brief background of the PCAOB, our mission, our core values. For the first time, we have adopted one of the innovations of organizational self-analysis, in the form of a "SWOT" Analysis. In this we have assayed an analysis of and the Board's response to our perceived strengths, weaknesses, opportunities and threats. In addition, the Board's objectives and strategies, outlined in this Plan, are intended to guide the organization's programs, operations and development of its budgets, by drawing on the organization's strengths and acting upon opportunities to further the Board's mission and addressing both weaknesses of and threats to the organization. This approach has also resulted in revisiting the measurements by which we evaluate

our own execution of this Strategic Plan. As the SWOT Analysis evolves to reflect changing circumstances, new challenges and (we expect) successful execution of strategies and responses, the metrics will be reevaluated year to year.

In all our activities, including our strategic planning, we benefit from the oversight of and interaction with the Chairman, Commissioners and staff of the United States Securities and Exchange Commission; and for their contributions to this Strategic Plan we are particularly grateful.

James R. Doty  
Chairman

## **Organizational Background**

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

The Sarbanes-Oxley Act of 2002 (the “Act”) established the PCAOB to oversee the audits 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 PCAOB’s statutory mission is to oversee the audits 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. The PCAOB is also charged with overseeing the audits of broker-dealer compliance reports under federal securities laws, to promote investor protection.

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, we have designed our programs based on the components of this mandate but with a view to structurally integrating those programs’ strategies and objectives. Thus, our programs are designed to address four primary responsibilities: (i) registration of accounting firms; (ii) inspections of registered firms’ audits and quality control; (iii) establishment of auditing and related attestation, quality control, ethics, and independence standards for registered public accounting firms; and (iv) investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards. We recognize that meeting each of these responsibilities requires devotion of substantial attention and resources to analyzing information obtained in our 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. We also use such analysis to identify weaknesses in, and appropriate improvements to, auditing and related professional practice standards and in considering a need for guidance on how to apply such standards in particular circumstances. We further use this analysis to identify ways in which we can improve the effectiveness of our oversight programs in light of lessons learned through our activities and other means.

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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.

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, PCAOB rules, including our auditing and related professional practice standards, are not effective unless approved by the SEC. Our 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.

This Strategic Plan sets forth goals, objectives and strategies to achieve our mission. In addition, consistent with the SEC rule on the approval process for the PCAOB budget, this Strategic Plan provides the framework for developing the PCAOB annual budget. Specifically, we have established the following three overarching goals –

- Goal 1: Our Knowledge: Foster maximum, effective use of the unique insight afforded the PCAOB into audit issues that enables the PCAOB to further investor protection**
- Goal 2: Our Relevance: Enhance the relevance, quality and transparency of the audit and strengthen skepticism, independence and objectivity in the audit culture for the benefit of the investing public**
- Goal 3: Our People: Establish a workplace culture that promotes excellence, integrity, diversity, respect, fairness, accountability, continuous learning and careful stewardship of resources**

## ***Mission***

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To protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports.

## ***Core Values***

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

- ◆ **Public Interest and Stewardship:** We are committed to protecting investors and serving the public interest when carrying out our responsibilities in a manner that demonstrates careful stewardship over our resources.
- ◆ **Excellence, Integrity and Fairness:** We are committed to quality and continual learning in an environment that demands the highest personal and professional conduct exercised in a consistent, equitable and balanced manner.
- ◆ **Teamwork and Diversity:** We are committed to maintaining a collaborative work environment based upon a culture of openness, cooperation, trust and respect. We are committed to enhancing our practice of inclusiveness and to seeking to enrich our programs through a staff that brings a diversity of experience, skills, cultures, and backgrounds.

## ***Analysis of and Response to Strengths, Weaknesses, Opportunities and Threats***

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In developing this Strategic Plan, we have taken into consideration the environment in which we operate, including both the environment in which financial reporting and auditing take place as well as the organization's own internal, cultural and operational environment. As part of this process, we have considered the organization's *strengths* (characteristics that should endure and can be used for the PCAOB to achieve its mission), *weaknesses* (characteristics that can be addressed or improved upon for the PCAOB to achieve its mission), *opportunities* (external factors and situations that could allow the PCAOB to further its mission) and *threats* (external challenges that may adversely affect its programs and operations or prevent the PCAOB from achieving its mission). While the various issues are categorized below, there may be overlap between these categories. For example, certain weaknesses and threats present opportunities for the PCAOB to further its mission to protect investors. Also, certain issues may be viewed as both a strength and an opportunity or both a weakness and a threat.

The Board's goals, objectives, and strategies in this Plan are designed to take advantage of the opportunities presented to the PCAOB by using its strengths, recognizing and, where possible, correcting its weaknesses, making appropriate use of opportunities and addressing and minimizing its threats (the PCAOB "SWOT" Analysis and Response). We intend to monitor these issues and are prepared to adjust our goals, objectives, and strategies, as necessary and appropriate, in light of changes in the environment.

### **THE "SWOT" ANALYSIS**

#### **Strengths**

- **Independence and Institutional Credibility**: The PCAOB was established with the requisite independence, through funding authority that did not rely on the regulated accounting firms, and with a full-time Board and staff. As a result, the PCAOB has institutional credibility in confronting the realities of the global audit and otherwise seeking to accomplish its mission and achieve its strategic goals.
- **Experienced and Knowledgeable Staff**: We have experienced and knowledgeable staff, who are committed to our mission and to honing their skills and expertise to further the mission.
- **Robust Foundation for Oversight**: We have developed a robust auditor oversight program to further our mission, and we know that has been effective in improving the quality and credibility of audits.
- **Unique Data and Analysis**: We possess unique data and analysis related to audits based on eight years of inspections and enforcement experience, as well as a sophisticated research and analysis function.



- Close Working Relationships with Other Regulators: We have close working relationships with the SEC, the Financial Industry Regulatory Authority (“FINRA”), the Financial Accounting Standards Board (“FASB”), and other U.S. and non-U.S. regulators, to further our mission.

## Weaknesses

- Non-public Disciplinary Process: The filing of disciplinary charges is non-public under the Act, which, among other things, deprives the PCAOB and others of the prophylactic effect, protection and benefit of informing auditors and the public generally of the allegations that firms or individuals may have violated auditing standards and thus foster broader compliance. This weakness is structural and would require legislative action to remedy.
- Timeliness of Reporting Firm Inspection Results: We face challenges related to issuing and providing *relevant* inspection reports to the public in a *timely* manner. The Act provides that certain inspection information and findings be kept confidential and that firms may appeal inspection findings. During the period between leaving the inspection site and the issuance of the firm report, PCAOB staff communicates with a firm about identified deficiencies, evaluates, and considers a firm’s response to the identified deficiencies, drafts an inspection report, and reviews inspection supporting documentation and the draft report for consistency and fairness. Once the draft report is issued, the Act and the Board’s rules provide a firm 30 days to respond to the draft report and the firm’s response is considered before the Board ultimately issues the final inspections report. Pursuant to SEC rule, the Board may publish the final report 30 days after its issuance. This process can result in tension between achieving quality in the reporting process and providing relevance and timeliness in reporting.
- Public Reporting of Our Analysis of Inspection Results: We face challenges in providing the public, on a regular basis, information regarding our analysis of the overall results of inspections, including trends and prior-year comparisons.
- Career and Leadership Development: We face challenges in developing career and leadership opportunities for staff, reflecting the creation and rapid growth of the organization in a relatively short time period, and face retention challenges if our compensation and competitive human resources programs do not compare with other market participants.
- Information Technology Governance and Enterprise Architecture: As the PCAOB has grown and matured, the demands on its information technology (“IT”) resources have out-stripped its IT governance and enterprise architecture. Because of the sophisticated nature of our IT activities, building out and formalizing these systems, and creating a strategic plan to guide the future of the Board’s information technology program, will be complex and challenging undertakings.

## Opportunities

- Global Debate on Improving the Relevance and Quality of the Audit: We have an opportunity to shape a global process and engage interested parties in debate on how to improve the relevance and quality of the audit, which has been revived throughout developed financial markets in the wake of the global financial crisis.
- New Information Sharing Authority: In light of our new authority under the Dodd-Frank Act to share information with non-U.S regulators on a confidential basis, we have an opportunity to improve investor protection through cross-border coordination of inspections and investigations.
- Continual Interaction Among Core Regulatory Functions: The continual interaction among our programs – standard-setting, inspections, research and analysis, and enforcement – presents an opportunity to strengthen each program area to explore audit risks on a cross-divisional basis.
- Responding to Risks: The PCAOB is continually adapting to the changes in the environment such as, among other things, emerging markets, continuing effects of the global financial crisis, audits under International Financial Reporting Standards (“IFRS”), and the growth of consulting and other business practices at large firms. These environmental risks along with our inspections and other regulatory experience provide the PCAOB with the opportunity to continually re-assess our processes and approaches and refine them as necessary.
- Public Interest in PCAOB Information: Following the financial crisis, public interest in information about the PCAOB’s work has increased. There is an interest in more information about the Board’s general views about the state of audit quality, in communication of best practices that the Board has observed, and improvement in the timeliness and usefulness of inspection reports.
- Data Management and Analysis Capabilities: The availability of sophisticated information, data management and analysis technology presents us with the opportunity to strengthen our internal analyses and processes and more broadly enhance the effectiveness of our programs and operations.
- Building a New Broker Dealer Auditor Oversight Program: Our new oversight authority over broker-dealer auditors provides us with the opportunity to build a new regulatory program, with the benefit of lessons learned over the past eight years in building and refining a risk-based public company auditor oversight program, as well as drawing on the SEC’s and FINRA’s knowledge, expertise and experience.

## Threats

- Competitive Hiring Market: The highly competitive market for experienced auditors poses severe challenges for hiring and retaining staff. Many of our most talented and accomplished people are sought after by other private sector organizations.
- Lack of Access to Certain Non-U.S. Firms: We are blocked from gaining access to non-U.S. firms in certain jurisdictions.

- Disengagement by Regulators in Jurisdictions Essential to Effective Cross-Border Oversight of Global Audits: Other regulators could choose not to engage in a meaningful way in cross-border oversight or could disengage from a meaningful joint inspection process that has been commenced. This could result in collective failure to detect a problem that the public would expect the joint inspection process to identify.
- Failing to Detect an Audit Problem: We may fail to detect a problem that our oversight programs reasonably could have identified. We face challenges in providing consistent oversight in light of the diversity of the audit profession – ranging from sole proprietorships to large audit firms with extensive global networks – and in tailoring our programs accordingly.

### **RESPONSE TO THE “SWOT” ANALYSIS**

Achievement of the strategic goals, through implementation of the supporting strategies, as outlined below, will depend on the effectiveness of our response to the above-stated elements of the “SWOT” Analysis. The discussion that follows describes how we plan to address the Board’s strengths, weaknesses, opportunities, and threats and explains –

- (i) How our *strengths* are brought to bear in performing our mission and how we intend to maintain and increase these strengths as well as build new strengths;
- (ii) How we propose to address our *weaknesses*;
- (iii) How we plan to exploit or act on our *opportunities* to further our mission and address both weaknesses and threats; and
- (iv) How we plan for the contingencies posed by the *threats* we perceive in the environment in which we operate.

In each case, the strengths discussed will be reflected in the operational plans developed by the PCAOB staff in light of the Board’s direction, and with monitoring of costs, benefits and effectiveness.

#### **Strengths**

One of our strengths is the synergy among PCAOB core regulatory programs. These linkages are reinforced by our research and analysis function. Our standard-setting, inspection and enforcement programs require that we gather an array of U.S. public company information from public sources, broker-dealer data from other regulators such as FINRA and the SEC, and inspection data from our own inspection program. Once the data is assembled, it must be analyzed. The Board is committed, through the development of its data infrastructure and architecture system to achieve greater programmatic efficiency.

Our commitment to advancing our auditing standard-setting agenda encompasses both the maintenance of high-quality standards and continued constructive interaction with other audit regulators. As we monitor the implementation of our standards such as engagement quality review and risk assessment, we have improved audit quality among inspected firms, and this “feedback” process between standard-setting and inspection-remediation is one of the strengths of our oversight process.

Close working relationships with other regulators, both U.S. and non-U.S., will continue to yield investor and market benefits. Closer relations with FASB, including the sharing of information on observations about audit and accounting issues such as valuation, will constitute a theme of our programmatic development.

Staff expertise and knowledge of audit practices, together with the interaction of experienced inspection teams with the audit engagement teams and firm leaders have driven improvements in audit quality. Audit firms have upgraded their internal review and quality assessment programs as a result, and firm leadership regularly confirms their estimation that this process has improved audit quality. The PCAOB will continue to build on this foundation by continually challenging itself and audit firms to foster further improvements. The Board will instill its commitment to excellence, including both robust oversight and fairness, in recruiting and training its staff.

### Weaknesses

Disciplinary charges filed by the PCAOB are the result of careful analysis by the enforcement staff and vigorous review by the Board; such charges rest on confidence that we have gathered the relevant facts and have accorded the charged firms or individual ample opportunity to demonstrate their conduct was appropriate and consistent with the law. We will continue to seek the authority to conduct our disciplinary process in public in order to inform the profession and the public on our view of the requirements of the standards and rules.

Reporting of firm inspection results must be both *timely*, to achieve the benefit of the inspection, and *meaningful* in terms of the substance of the report, including both the portion made public and those which the Act requires be kept confidential. The inspection results should also be reported consistently. Balance in the weighting of these considerations can likely never be completely and perfectly achieved, in the sense that considerations of consistency and quality may always compete with considerations of timeliness and relevance. That said, the Board will be considering the best means of achieving balance (e.g., considering enhancements to the reporting process) and will be working with the program leadership to achieve that balance.

Reporting of overall inspection results to the public must be *timely*, to achieve the benefit of the inspection trends, and *meaningful* in terms of the substance of the report so that users of the report can learn from our findings. Overall inspection results are communicated in summary reports under PCAOB Rule 4010. Drafting these summary reports is generally a lengthy process due to the amount inspection findings and often requires significant resources. The Board will consider ways to streamline its processes

and to devote sufficient resources in efforts to issue summary reports on a more regular basis.

Recruiting will remain a priority for the PCAOB. The Board's continued effectiveness depends on its ability to attract, retain and develop talented professionals who share its mission and values. In confronting the challenges of the market, we will continue to monitor the competitiveness of our benefits, the structure of our compensation and the unique career opportunities we can provide. In establishing the PCAOB, Congress included express authority for fixing salaries and compensation "at a level that is comparable to private sector self-regulatory, accounting, technical, supervisory, or other staff or management positions."<sup>2</sup>

Implementing a more robust governance framework and enterprise architecture for our information technology program, and creating a formal IT strategic plan and benchmarking process, are immediate Board priorities. We are actively addressing these issues and anticipate making substantial progress before the end of 2011.

### Opportunities

PCAOB concept releases, proposed rules and policy statements will be issued with a view to shaping the larger discussion on relevance and quality of the audit. Through roundtables, town hall meetings and the comment process, the Board will seek to ensure that competing views are heard and that there is a full opportunity for factual development of the arguments.

Our authority to share information with foreign regulators and the invocation of our strengths should improve our inspection coverage of the global firm audit process and yield a better database of risks. A critical piece of this initiative will be developing a robust data infrastructure.

The PCAOB will continue to refine its programs in response to changes in environmental factors and information we learn from our experience. These refinements will position the PCAOB to proactively respond to changes in the environment such as, among other things, emerging markets, continuing effects of the global financial crisis, and audits under IFRS. Moreover, by setting auditing standards, inspecting firms to those standards, and enforcing those standards, the Board is able to identify risks, which might otherwise be obscured, through the interaction of programs.

Consistent with its statutory oversight of audits and the exercise of its duties under the Act, the PCAOB will continue to follow closely the implications of changes in the business models of the profession and developments in the markets where they practice. For example, although a number of the largest firms divested their consulting practices in the last decade, most are now rebuilding consulting capabilities. The focus on consulting growth may involve risk of (i) marketing services not allowable under independence rules to audit clients, (ii) marketing allowable consulting services but not following appropriate approval procedures and (iii) redirecting partners and staff from

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<sup>2</sup> See the Act at section 104 (f)(4).

the proper role of the auditor through firm emphasis on marketing of consulting services in considerations of compensation or advancement. Also in relation to the evolution of the global firm business model, we will seek to remain informed on and engaged with the audit regulators in other regimes where the developments may have particular implications for our oversight role, as for example, where the discussion of “audit only firms” in the European Union may lead.

As the Board's audience broadens and as public interest in receiving more information about the Board's work increases, we intend to expand our publication of relevant information about the Board's activities, such as the results of inspections of accounting firms, the communication of common trends and effective audit practices, and the Board's views on the state of audit quality and efforts to improve it.

We will develop a program to oversee the auditors of broker-dealers, considering the potential costs and benefits of our regulatory activities and drawing upon our experiences in regulating auditors of public companies, the knowledge, expertise and experience of the SEC and FINRA, and information learned during the Board's interim inspection program.

In bringing our strengths to bear on exploiting our opportunities, we will demonstrate more fully the long-term benefits of the investment of the capitalist system in our mission and the transparency, relevance and independence that investment fosters in the audit process.

### Threats

Competitive hiring markets may appear anomalous in times of weaker economic conditions. In our case, the recruiting and retention environment we face is largely the result of the hiring practices of the major auditing firms and other labor market participants who also draw from these firms. In the past, the hiring practices have been leading trends, creating market pressures when such firms move to expand. The PCAOB must monitor these market developments continuously and regularly reassess our approach to both recruiting and retention. To date, employee referrals have been our most important source for new hires. While these referrals have been steady, they will not be sufficient to meet our hiring needs. In addressing our hiring challenges, the PCAOB will implement a number of strategies including outsourcing certain aspects of the recruitment process, opening additional satellite locations, conversion of existing satellite locations into permanent space, and closely monitoring the competitiveness of our offers.

The PCAOB inspection program is unique in its scope and resources. This is both an advantage, in the form of an opportunity for sharing of techniques with our counterparts around the world and a drawback, since other sovereigns may perceive us as a threat. We will work diligently to demonstrate the advantages that can accrue through effective cross-border audit oversight. Moreover, we will continue to meet with counterparts in jurisdictions where we perceive audit risk. Progress may not be even across the globe and we will take care to rely on appropriate disclosure and consider other steps to make

investors and others aware of any continuing limitations on our access to registered firms abroad.

As the audit profession continues to evolve its business models, firms large, medium and small confront choices on profitability, mergers and consolidations, partner productivity, promotions and compensation, practice growth, and marketing emphasis. Striking differences in the effects on audit quality and tone-at-the-top may emerge at different types of firms. Although there may be significant effects on audit quality, the PCAOB does not arbitrate or control these business model evaluations or how they are communicated to the audit profession. Through our inspection and enforcement arms we do have insight into the operative consequences of such developments, and we will spend substantial time in working on our “root cause” analytical tools to gain a deeper understanding of such persistent shortcomings as we may see in audit practice from time to time.

In particular, the growth of consulting practices at the largest firms merits careful monitoring through our inspections program. We will examine the firms’ approach to selling consulting and other business services and how those initiatives may affect audit quality. We will also continue to address this topic with large firm leadership.

We do not inspect all audits, even of those firms we inspect annually; nor do we inspect all firms that are required to be inspected, because some firms are in jurisdictions where we do not have access. In the inspections we do conduct, we selectively look primarily at higher risk and emerging areas and may fail to identify an audit problem in areas not inspected. The continued development of our risk assessment model as well as our inspectors’ skill set is never-ending.

## **Goals, Objectives and Strategies**

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**Goal 1: Our Knowledge: Foster maximum, effective use of the unique insight afforded the PCAOB into audit issues that enables the PCAOB to further investor protection**

### **Objectives:**

**A. Address and act on the major issues on historical and emerging audit trends with full participation of a broad cross-section of investors, preparers, auditors, academics and the public**

#### **Strategies**

- Enhance the standard-setting and rulemaking process through rigorous research, roundtables, consultation, task forces and public exposure
- Use the Standing Advisory and Investor Advisory Groups to obtain the views of knowledgeable persons, and evaluate the use of these and other groups
- Seek insight from the academic community through our academic conference and other outreach
- Use the knowledge gained from our oversight activities and outreach to demonstrate thought leadership by publishing audit practice alerts, summary reports, research notes, policy statements, interpretative releases, speeches and other means
- Participate in and, where appropriate, take a lead in regional, national and international meetings and conferences to share knowledge and contribute to the debate on issues relevant to auditor oversight

**B. Respond to audit risks, understand root causes of, and learn from, audit failures, and communicate effective audit practices**

#### **Strategies**

- Assess and respond to audit risk by identifying and evaluating systemic root causes within a firm's structure, operations, processes or other areas that detract from or cause deficiencies in audit quality, consider the firm's prior inspection reports and remediation efforts, current year findings, and leverage a firm's internal root cause program analyses for further review by the PCAOB
- Assess and respond to audit risk through evaluating registered firms' actions to address engagement deficiencies, assessing inspections effectiveness, and improving policies for inspections and evaluating remediation efforts
- Assess and respond to audit deficiencies by conducting timely investigations and disciplinary proceedings



- Assess and respond to audit risk to enhance investor protection through improved audit quality by (1) developing new and updating current audit and related professional standards; (2) publishing appropriate implementation and other guidance; (3) publishing timely staff practice alerts in response to identified audit and financial reporting risks; and (4) monitoring the implementation of the Board's new standards
- Use risk analysis to guide inspections and investigations and to establish the standard-setting agenda, with a focus on addressing risks associated with (1) global networks of firms, (2) foreign markets, including China, (3) effects of the global financial crisis, (4) audits of financial statements under IFRS, and (5) growth of consulting practices at the largest firms
- Establish a regulatory and operational infrastructure to implement new oversight authority relating to broker-dealer audits including developing an interim and permanent inspection program and considering and adopting standards

**C. Collect and analyze relevant data and unique knowledge, leveraging information technology as appropriate and communicate our findings as appropriate to the accounting profession and the public**

**Strategies**

- Analyze information obtained through oversight activities and external sources – including the PCAOB tips center – to support PCAOB programs with robust assessments of risks of audit or related professional practice standard failures by registered public accounting firms
- Manage knowledge, across the PCAOB's programs and operations, leveraging IT systems, such as the PCAOB's data infrastructure and architecture system and inspection information system

**D. Cooperate and facilitate financial reporting and auditing initiatives among the SEC, FINRA, FASB, the International Accounting Standards Board, the International Auditing and Assurance Standards Board and other appropriate U.S. and non-U.S. regulators**

**Strategies**

- Analyze information obtained in inspections and other oversight activities to identify problems related to the implementation of accounting and financial reporting requirements and report findings to appropriate standard setters
- Coordinate investigations with the SEC and other regulators
- Consider the work of and coordinate with accounting standard setters to share comments and views on auditability of new or proposed accounting standards and, as appropriate, seek feedback on proposed auditing standards
- Collaborate with other auditing standard setters and regulators to foster better audit quality globally

**Goal 2: Our Relevance: Enhance the relevance, quality, and transparency of the audit and strengthen skepticism, independence and objectivity in the audit culture for the benefit of the investing public**

**Objectives:**

**A. Improve the relevance and usefulness of the audit report for the investing public**

**Strategies**

- Seek insight through research, roundtables, consultation and public exposure on potential changes to the audit reporting model
- Consider and adopt appropriate standards and rules to implement changes to the audit report

**B. Enhance auditors' professional skepticism, independence and objectivity**

**Strategies**

- Monitor and hold auditors to high standards of professional skepticism, independence and objectivity through inspections and, where necessary, disciplinary proceedings
- Seek insight through research, roundtables, consultation and public exposure on developing approaches to enhance professional skepticism, independence and objectivity of auditors, including consideration of mandatory audit firm rotation, and other possible solutions

**C. Improve transparency related to the PCAOB's activities and registered accounting firms, including members of large global networks, smaller public accounting firms, and broker-dealer accounting firms**

**Strategies**

- Issue timely and meaningful inspection reports and summary reports, pursuant to Rule 4010, that communicate the PCAOB's analysis of its inspection findings and enhance outreach efforts to seek feedback from report users on ways to improve these reports
- Develop clear and comprehensible PCAOB messages and seek insight and receive and respond to questions and other concerns
- Continue to inform interested constituencies about the benefits of public enforcement and the concurrent limitations of the confidentiality of PCAOB-filed enforcement proceedings
- Communicate with Congress and appropriate federal and state agencies
- Educate through Forums on Auditing in the Small Business Environment and Broker Dealer Auditing Forums

- Develop a comprehensive codification system for PCAOB standards
- Improve disclosure in audit reports, including consideration of identifying audit partners and other accounting firms participating in audits
- Disseminate appropriate and useful information about registered public accounting firms to the public in a timely and meaningful manner, including through the PCAOB's Website

**D. Communicate the PCAOB's contribution to improving the quality of corporate governance**

**Strategies**

- Enhance audit committees' and others' understanding of the PCAOB's work, including inspection results
- Consider and adopt standards enhancing communications between auditors and audit committees

**E. Contribute leadership to establish effective and practical cross-border oversight of auditing to the global economy**

**Strategies**

- Negotiate bilateral agreements for cross-border inspections and information sharing
- Facilitate joint inspections of non-U.S. registered accounting firms
- Host and participate in educational and technical assistance programs for non-U.S. audit regulators
- Collaborate and coordinate regulatory activity with non-U.S. audit regulators and participate in international meetings of audit regulators
- Consider whether additional steps should be taken to protect investors in U.S. public companies that are audited by registered firms located in jurisdictions that do not allow the Board to conduct inspections

**F. Establish a Center for Excellence**

**Strategies**

- Engage a consultant to consider the utility and programmatic potential of a PCAOB Center for Excellence to facilitate detection and prevention of financial reporting fraud and provide training for PCAOB staff in the area of fraud risk assessment
- Develop the plans for a PCAOB Center for Excellence into a practical, mission-oriented vehicle for outreach that is focused on fraud risk. The program would operate not merely as a resource for analysis of past frauds but as a means of making available to PCAOB staff the best techniques for audit scoping and execution to detect fraud, and as a basis for audit practice alerts to equip auditors to be alert to systemic risks of fraud

**Goal 3: Our People: Establish a workplace culture that promotes excellence, integrity, diversity, respect, fairness, accountability, continuous learning and careful stewardship of our resources**

**Objectives:**

**A. Attract, retain and develop highly qualified individuals with the utmost integrity**

**Strategies**

- Enhance the integrity of the PCAOB's programs and operations by continuously maintaining robust ethics, compliance, and internal oversight functions
- Focus on recruiting experienced and knowledgeable individuals with diverse backgrounds by enhancing and routinely reevaluating (and adjusting, if necessary) the scope, breadth, and rigor of recruiting activities to meet staffing objectives designed to achieve the mission
- Develop and implement appropriate initiatives identified in connection with the PCAOB's evaluations of its compensation and benefit program and employee satisfaction, including career and leadership development, cross-divisional training opportunities, succession planning, work-life balance components, competitive performance-based compensation and performance-management improvements

**B. Foster intellectual and technical growth by developing a high caliber training program in accounting, auditing, fraud detection and leadership for the PCAOB and other appropriate regulatory bodies**

**Strategies**

- Enhance the PCAOB's training programs and develop initiatives to deepen technical and other skills, including IFRS, fair value, and management skills
- Develop internal and external training on new PCAOB standards
- Develop training on fraud detection and prevention in connection with the Center for Excellence

**C. Create a diverse, team-oriented, collaborative workforce that responds thoughtfully and rapidly to emerging audit issues and risks**

**Strategies**

- Develop mechanisms to foster meaningful internal communications, including opportunities for an exchange of diverse views, among and within PCAOB's divisions and offices and between the Board and PCAOB staff

- Establish and maintain a challenging work environment that rewards excellence
- Assess the mix of resources – including staffing, information technology, specialized knowledge and services – in the PCAOB’s programs and operations
- Facilitate collaboration and teamwork among and within PCAOB’s divisions and offices and between the Board and PCAOB staff

## ***Performance Measurement***

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We will seek to ascertain our progress with respect to meeting our goals and objectives over the next five years, relying on a combination of qualitative as well as quantitative measures. 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 effect of the PCAOB's oversight activities. Quantitative measures, conversely, are those that may be appropriate for some objectives and may assist in demonstrating our ability to achieve results. If misconstrued or ill-defined, however, such quantitative measures may also lead to counter-productive, output-only based behaviors. For example, while simply counting the number of attendees at the PCAOB's Auditing in the Small Business Environment Forums or Investor Advisory Group outreach events may be useful, such statistics would ignore the more critical question of whether the information provided at such events is of value to those regulated by the PCAOB or to the investing public. Similarly, the raw number of PCAOB inspection findings, investigations or disciplinary actions during a specific time period, while useful, is less important than the improvements to audit quality that result from the PCAOB's inspection and enforcement functions, especially given the PCAOB's risk focused approach to inspections.

Recognizing these inherent limitations, we have established certain quantifiable performance measures and indicators, which are designed to assist in determining the PCAOB's progress in achieving our mission. The 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 but may be of interest for management or policy purposes. The results associated with the measures and indicators provide us with additional information and insight into our performance relative to our current and past efforts. The measures and indicators also assist in determining how we may need to add or reallocate our resources, which in turn informs the PCAOB's annual budgets. For those measures or indicators that are new, historical information may not be available; however, the results will be provided in subsequent plans.

The quantitative measures and indicators that follow are organized by goal and each has a corresponding, brief description of its relevance to the organization. The measures and indicators are premised on the continuation of the PCAOB's current responsibilities and the "SWOT" analysis discussed earlier in the Plan. To the extent that significant changes occur in either of these areas, those measures and indicators that are no longer relevant or appropriate may need to be altered or eliminated. As our organization gains more experience, we also will continue to seek additional ways – both qualitative and quantitative – to measure our progress in achieving our mission. Towards this end, we plan to assess the value of these measures to the oversight of the PCAOB's programs and to the public more generally and add to, delete or adjust them accordingly.

**Goal 1: Our Knowledge: Foster maximum, effective use of the unique insight afforded the PCAOB into audit issues that enables the PCAOB to further investor protection**

<b>Measure 1-1: Global Network Firm Inspections Program Performance</b>					
<b>Relevance of Measure:</b> This measure reflects the PCAOB's performance in conducting inspections in the PCAOB's global network firm inspections program, which includes inspections of the largest domestic registered firms and their non-U.S. affiliates.					
<b>Measure 1-1.1: Number of Inspections Conducted and Portions of Issuer Audits Inspected</b>					
Performance Measure	2010		2011		2012 Projected
	Projected <sup>3</sup>	Actual	Projected	Estimate	
<b>Number of Inspections Conducted:</b>					
Domestic	7	7	7	7	7
Non-U.S.	61	38	28	30	65
<b>Portions of Issuer Audits Inspected:</b>					
Domestic	340	335	335	304	301
Non-U.S.	233	114	96	103	223
<b>Overview of Changes in Inspections Activities:</b>					
<p><b>Number of Inspections Conducted</b> – The decrease in the number of conducted non-U.S. inspections in 2010 as compared to the 2010 projection relates to the PCAOB's inability to gain access to certain non-U.S. jurisdictions. The 2011 projection assumed the PCAOB would inspect 28 firms due to the continued delays associated with developing cooperative arrangements with non-U.S. regulators and in light of hiring constraints. The increase in the number of inspections conducted assumed in the 2012 projection is primarily a result of the number of firms that were inspected in 2009 and are due for inspection in 2012 as well as additional firms that are required to be inspected (in 2012 or earlier years) located in certain European jurisdictions where the PCAOB has not previously been able to conduct inspections but expects to be able to gain access in 2012.</p> <p><b>Portions of Issuer Audits Inspected</b> – The decrease in the number of portions of domestic issuer audits inspected in 2011 as compared to the 2011 projection is a result of the need to reallocate certain of its domestic resources to non-U.S. inspections in order to conduct inspections in certain European jurisdictions that</p>					

<sup>3</sup> For purposes of this measure, the terms "projected" and "projection" are synonymous with what are assumed in the 2010, 2011, and 2012 budgets.

were not assumed in the 2011 projection. The 2012 projection of the number of portions of domestic issuer audits inspected is consistent with the 2011 Estimate. The fluctuations in the number of portions of non-U.S. issuer audits inspected are a result of the fluctuations of the number of inspections conducted as discussed above.



**Measure 1-1.2: Number of Reports Issued and Reports Aged Greater than 12 Months Outstanding**

<b>Performance Measure</b>	<b>2010 Actual</b>	<b>2011 Estimate</b>	<b>2012 Projected<sup>4</sup></b>
<b>Reports Issued:</b>			
Domestic	7	4	10
Non-U.S.	32	100	50
<b>Reports Aged Greater than 12 months Outstanding:</b>			
Domestic	-	3	-
Non-U.S.	84	21	11

**Overview of Changes in Inspections Activities:**

In early 2011, the Division of Registration and Inspections re-organized certain of its operations and program areas. The projections for 2010 and 2011 did not contemplate these organizational changes and; therefore, projected figures for 2010 and 2011 are not available. Comparative information is available for 2012 and beyond.

**Reports Issued** – The decrease in the issuance of domestic inspections reports in 2011 as compared to 2010 relates to the increase in the number and complexity of inspection findings in connection with certain of the PCAOB’s inspections. In addition, in 2011, the PCAOB enhanced its reporting model for domestic firms. The revisions to the model included increased focus on the causes of audit deficiencies, including identifying certain root causes as specific quality control criticisms, and commentary on expectations regarding remediation of quality control defects or criticisms. In 2011, the PCAOB also began the process of issuing letters to leadership of the annually inspected U.S. firms to accompany reports. These letters are intended to highlight the most critical defects and criticisms and the Board’s view of the inspection results. These changes were applicable to the 2010 domestic inspection reports and contributed to the delay in issuance of certain reports.

The increase in the issuance of domestic inspections reports in 2012 is a result of the issuance of reports that were not issued in 2011, and also reflects the timely issuance of the 2011 reports. The increase in the issuance of non-U.S. inspections reports in 2011 is the result of the focused efforts to decrease the backlog of inspection reports. The projected decrease in the issuance of non-U.S. inspections reports in 2012 is due to the reduction in inspection report backlog.

<sup>4</sup> For purposes of this measure, the terms “projected” and “projection” are synonymous with what are assumed in the 2012 Budget.

**Reports Aged Greater than 12 months Outstanding** – The increase in the PCAOB’s domestic inspections reports aged greater than 12 months outstanding in 2011 is a result of the delay in the issuance of certain domestic reports due to the matters described above. The decrease in the PCAOB’s non-U.S. inspections reports aged greater than 12 months outstanding is a result of the PCAOB’s focused efforts to decrease its backlog of inspections reports.

<b>Measure 1-1.3: Number of Remediation Submissions Finalized<sup>5</sup></b>			
<b>Performance Measure</b>	<b>2010 Actual</b>	<b>2011 Estimate</b>	<b>2012 Projected<sup>6</sup></b>
<b>Remediation:</b>			
Domestic:			
Submissions Received	7	7	4
Submissions Finalized	2	3	11
Non-U.S.:			
Submissions Received	6	26	34
Submissions Finalized	2	16	24
<b>Overview of Changes in Inspections Activities:</b>			
<p>In early 2011, the Division of Registration and Inspections re-organized certain of its operations and program areas. The projections for 2010 and 2011 did not contemplate these organizational changes; therefore, projected figures for 2010 and 2011 are not available. Comparative information is available for 2012 and beyond.</p> <p><b>Remediation</b> – The increase in the remediation submissions finalized is a function of when the inspections reports are issued. As noted in Measure 1-1.2, the PCAOB has had a focused effort on decreasing its backlog of inspections reports.</p>			

<sup>5</sup> Submissions Finalized represent remediation recommendations approved by the Board during the year presented.

<sup>6</sup> For purposes of this measure, the terms “projected” and “projection” are synonymous with what are assumed in the 2012 Budget.

<b>Measure 1-2: Non-Affiliate Firm Inspections Program Performance</b>					
<b>Relevance of Measure:</b> This measure reflects the PCAOB’s performance in conducting inspections in the non-affiliate firm inspections program, which includes domestic and non-U.S. firms that are not members of the global network structure of certain of the largest domestic registered firms.					
<b>Measure 1-2.1: Number of Inspections Conducted and Portions of Issuer Audits Inspected</b>					
Performance Measure	2010		2011		2012
	Projected <sup>7</sup>	Actual	Projected	Estimate	Projected
<b>Number of Inspections Conducted:</b>					
Domestic	200	183	182	170	184
Non-U.S.	29	26	15	14	25
<b>Portions of Issuer Audits Inspected:</b>					
Domestic	479	468	435	426	513
Non-U.S.	53	46	27	21	45
<b>Overview of Changes in Inspections Activities:</b>					
<p><b>Number of Inspections Conducted</b> – The decrease in the number of domestic inspections conducted since 2010 relates to the withdrawal of registered firms. The decrease in the number of non-U.S. inspections conducted in 2011 as compared to 2010 and 2012 relates to the PCAOB’s inability to gain access to non-U.S. firms in certain jurisdictions.</p> <p><b>Portions of Issuer Audits Inspected</b> – The fluctuations in the number of portions of issuer audits inspected relate to the number and mix of the firms inspected.</p>					

<sup>7</sup> For purposes of this measure, the term “projected” is synonymous with what is assumed in the 2010, 2011, and 2012 budgets.

<b>Measure 1-2.2: Number of Reports Issued and Reports Aged Greater than 12 Months Outstanding</b>			
<b>Performance Measure</b>	<b>2010 Actual</b>	<b>2011 Estimate</b>	<b>2012 Projected<sup>8</sup></b>
<b>Reports Issued:</b>			
Domestic	161	190	187
Non-U.S.	20	41	22
<b>Reports Aged Greater than 12 months Outstanding:</b>			
Domestic	35	30	13
Non-U.S.	20	8	4
<b>Overview of Changes in Inspections Activities:</b>			
<p>In early 2011, the Division of Registration and Inspections re-organized certain of its operations and program areas. The projections for 2010 and 2011 did not contemplate these organizational changes; therefore, projected figures for 2010 and 2011 are not available. Comparative information is available for 2012 and beyond.</p> <p><b>Reports Issued</b> – The increase in the PCAOB’s reports issued in 2011 as compared to 2010 is a result of the PCAOB’s focused efforts to decrease the backlog of its inspection reports. The projected decrease in the issuance of non-U.S. inspections reports in 2012 is due to the reduction in inspection report backlog.</p> <p><b>Reports Aged Greater than 12 months Outstanding</b> – The decrease in the PCAOB’s reports aged greater than 12 months outstanding is a result of the PCAOB’s focused efforts to decrease its backlog of inspections reports.</p>			

<sup>8</sup> For purposes of this measure, the terms “projected” and “projection” are synonymous with what are assumed in the 2012 Budget.

<b>Measure 1-2.3: Number of Remediation Submissions Finalized<sup>9</sup></b>			
<b>Performance Measure</b>	<b>2010 Actual</b>	<b>2011 Estimate</b>	<b>2012 Projected<sup>10</sup></b>
<b>Remediation:</b>			
Domestic:			
Submissions Received	90	98	125
Submissions Finalized	68	107	133
Non-U.S.:			
Submissions Received	6	17	22
Submissions Finalized	5	12	17
<b>Overview of Changes in Inspections Activities:</b>			
<p>In early 2011, the Division of Registration and Inspections re-organized certain of its operations and program areas. The projections for 2010 and 2011 did not contemplate these organizational changes and; therefore, projected figures for 2010 and 2011 are not available. Comparative information is available for 2012 and beyond.</p> <p><b>Remediation</b> – The increase in the remediation submissions finalized is a function of when the inspection report was issued. As noted in Measure 1-2.2, the PCAOB has had a focused effort on decreasing its backlog of inspections reports.</p>			

<sup>9</sup> Submissions Finalized represent remediation recommendations approved by the Board during the year presented.

<sup>10</sup> For purposes of this measure, the terms “projected” and “projection” are synonymous with what are assumed in the 2012 Budget.

**Measure 1-3: Broker-Dealer Inspections Program Performance**

**Relevance of Measure:** This measure reflects the PCAOB’s performance in conducting inspections in its broker-dealer inspections program, which includes firms that audit issuers and are subject to inspection on an annual or triennial basis and firms that audit the financial statements of broker-dealers, but not issuers.

Performance Measure	2011		2012
	Projected <sup>11</sup>	Estimate	Projected
<b>Number of Inspections Conducted</b>	20	9	43
<b>Portions of Broker-Dealer Audits Inspected</b>	31	21	60

**Overview of Changes in Broker-Dealer Inspections Activities:**

The implementation of the Dodd-Frank amendments to the Sarbanes-Oxley Act expanded the Division’s oversight responsibilities to include audits of the financial statements and selected practices and procedures of broker-dealers. On August 18, 2011, the Commission approved the Interim Inspections Program pursuant to PCAOB Rule 4020T. In 2011, the Division of Registration and Inspections began conducting inspections pursuant to the Interim Inspections Program.<sup>12</sup>

**Number of Inspections Conducted** – It is expected that the PCAOB will only be able to conduct nine inspections in 2011 due to the lag in hiring inspectors with broker-dealer expertise as compared to the 2011 projection. The increase in the number of inspections conducted in 2012 as compared to 2011 is expected to reflect a growing broker-dealer inspections program and assumes no hiring constraints.

**Portions of Issuer Audits Inspected** – The difference in the number of portions of broker-dealer audits inspected in 2011 as compared to the 2011 projection is due to the decrease in the number of inspections conducted. The increase in the number of portions of broker-dealer audits inspected in 2012 as compared to 2011 is a reflection of a growing broker-dealer inspections program.

Performance measures related to reports issued, reports aged greater than 12 months outstanding, and remediation are not applicable for the periods presented since the PCAOB will not be issuing inspection reports as part of the interim inspections program.

<sup>11</sup> For purposes of this measure, the terms “projected” and “projection” are synonymous with what are assumed in the 2011 and 2012 budgets.

<sup>12</sup> 2010 information has not been provided since broker-dealer inspections did not commence until 2011.

<b>Measure 1-4: Audit Firm Registration Performance</b>					
<b>Relevance of Measure:</b> This measure reflects the PCAOB's performance in reviewing registration applications and requests to withdraw from registration.					
<b>Performance Indicator</b>	<b>2010</b>		<b>2011</b>		<b>2012</b>
	<b>Projected<sup>13</sup></b>	<b>Actual</b>	<b>Projected</b>	<b>Estimate</b>	<b>Projected</b>
<b>Percentage of Received Applications Acted Upon within the Statutory Time Frame</b>	100%	100%	100%	100%	100%
<b>Percentage of Received Withdrawal Requests Acted Upon Within the Time Frame Specified in PCAOB Rule 2107(a)</b>	100%	100%	100%	100%	100%
<b>Overview of Changes in Audit Firm Registration Activity:</b>					
<p>The 376 registration applications and 251 withdrawal requests received during 2010 were acted upon within the statutory time frame. Similarly, the 157 registration applications and 108 withdrawal requests received between January 1, 2011, and September 30, 2011, were acted upon within the statutory time frame. No changes to this rate of action are currently anticipated. Should there be a significant change in the number of firms seeking to register or withdraw, the PCAOB intends to adjust its registration resources accordingly to allow action to continue to occur on a timely basis.</p>					

<sup>13</sup> For purposes of this measure, the term "projected" is synonymous with what is assumed in the 2010, 2011, and 2012 budgets.



<b>Measure 1-5: Timely Resolution of Formal Investigations</b>			
<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. <sup>14</sup>			
	<b>2010</b>	<b>2011</b>	<b>2012</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%	--	--
<b>Overview of Changes in Activities:</b>			
<p>In 2010, the PCAOB exceeded its performance measure goal of 66 percent for the year. Of the formal investigations resolved in 2010, 69 percent were resolved within the three-year time frame. In 2011 and 2012, the PCAOB expects to continue meeting its performance measure of 66% for the year. This projection, though, will depend on the Division of Enforcement and Investigations' 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. As the PCAOB conducts a greater number of investigations and disciplinary proceedings, it will assess whether its target for resolving formal investigations within three years remains appropriate.</p>			

<sup>14</sup> 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.

**Indicator 1-1: Percentage of Formal Investigations Arising within the PCAOB**

**Relevance of Indicator:** This indicator emphasizes the PCAOB’s goal of continuing to draw upon the experience and expertise of internal sources (e.g., the Division of Registration and Inspections (DRI) and the Office of Research and Analysis (ORA)) to identify potential audit failures and other potential auditor misconduct for investigation. The indicator measures the percentage of new formal investigations that the Division of Enforcement and Investigations (DEI) initiates each year based on internal referrals from DRI and ORA.

	<b>2010</b>	<b>2011</b>	<b>2012</b>
Projected Percentage of Enforcement Cases Arising within the PCAOB	N/A	45%	50%
Actual Percentage of Enforcement Cases Arising within the PCAOB	67%	--	--

**Overview of Changes in Activities:**

The PCAOB’s investigations arise from a number of sources, including inspections of registered firms, ORA,<sup>15</sup> other regulators, public disclosures of restatements and auditor changes, news reports, and confidential tips. In the DEI’s experience, internal sources have generated a significant percentage of investigations in which DEI has identified failures by registered public accounting firms and associated persons to conduct audits of the required quality. In 2012, the Division intends to continue to look for opportunities to refine the process through which it receives referrals from DRI.

DEI also will continue to consider carefully external sources of investigations and will focus on “high priority” matters (see Indicator 1-2) arising out of those sources.

<sup>15</sup> Certain referrals from DRI to DEI have originated with referrals from ORA to DRI.

**Indicator 1-2: Percentage of Formal Investigations Deemed "High-Priority"**

**Relevance of Indicator:** This indicator emphasizes the PCAOB's approach to seeking to maximize its ability to protect investors, achieve appropriate deterrent effects, and improve audit quality by focusing on "high-priority" investigations. The indicator measures the percentage of formal investigations that the Division of Enforcement and Investigations (DEI) opens each year that are deemed high-priority.

	<b>2010</b>	<b>2011</b>	<b>2012</b>
Projected Percentage of "High-Priority" Investigations	N/A	75%	75%
Actual Percentage of "High-Priority" Investigations	73%	--	--

**Overview of Changes in Activities:**

The Board exercises its enforcement authority strategically, focusing on serious violations of PCAOB standards or securities laws by auditors. "High-priority" investigations involve significant investor protection considerations such as improving audit quality by strengthening skepticism, objectivity and independence of the audit profession, as well as the protection of Board regulatory processes. In 2012, the PCAOB intends to continue to deploy its resources strategically while monitoring emerging areas of risk to investors.

**Goal 2: Our Relevance: Enhance the relevance, quality, and transparency of the audit and strengthen skepticism, independence and objectivity in the audit culture for the benefit of the investing public**

<b>Measure 2-1: Feedback from Forums on Auditing in the Small Business Environment</b>			
<b>Relevance of Measure:</b> This measure shows the extent to which participants in Forums believe that Forum sessions 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.			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Projected Percentage of Small Business Forum Sessions Rated 4.0 or higher out of 5.0	90%	90%	90%
Actual Percentage of Small Business Forum Sessions Rated 4.0 or higher out of 5.0	100%	--	--
Number of survey respondents	453	--	--
Number of Attendees	666	--	--
<b>Overview of Changes in Activities:</b>			
<p>The results of this measure are used to shape the content and focus of future forums. In 2010, the PCAOB held seven Forums and all of the sessions at the Forums were rated 4.0 or higher, exceeding the projected performance measure of 90 percent. A total of 666 people attended the Forums in 2010; 453 attendees responded to a participant survey distributed after each Forum in 2010.</p> <p>In 2011, the PCAOB expects to hold seven Forums. The PCAOB continues to target a rating of 4.0 or higher for a minimum of 90% of its sessions delivered during the year. As of November 15, 2011, six of the seven Forums had been held. A total of 650 people attended the six Forums to date; 434 responded to the survey, with 100% of respondents rating the Forum 4.0 or higher.</p> <p>In 2012, the PCAOB expects to hold seven Forums following a format similar to that of prior years. The PCAOB plans to maintain its target rating of 4.0 or higher for a minimum of 90% of its sessions during the year.</p>			

<b>Measure 2-2: Feedback from Forums on Audits of Smaller Broker-Dealers</b>			
<b>Relevance of Measure:</b> This measure shows the extent to which participants in Forums on Audits of Smaller Broker-Dealers believe that Forum sessions 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.			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Projected Percentage of Small Business Forum Sessions Rated 4.0 or higher out of 5.0	N/A	85%	85%
Actual Percentage of Small Business Forum Sessions Rated 4.0 or higher out of 5.0	N/A	--	--
Number of survey respondents	N/A	--	--
Number of Attendees	N/A	--	--
<b>Overview of Changes in Activities:</b>			
<p>The results of this measure are used to shape the content and focus of future forums.</p> <p>As a result of the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (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 in 2011. The PCAOB will target a rating of 4.0 or higher for a minimum of 85% of its sessions during the year. As of November 15, 2011, one of the two Forums had been held. A total of 206 people attended this Forum; 158 responded to the survey, with 100% of respondents rating the Forum 4.0% or higher.</p> <p>In 2012, the PCAOB expects to hold four Forums. The format of these events will be similar to the 2011 Forums and the PCAOB plans to maintain a target rating of 4.0 or higher for a minimum of 85% of the sessions during the year.</p>			

<b>Measure 2-3: Progress in Establishing Relationships with Non-U.S. Audit Oversight Bodies</b>			
<b>Relevance of Measure:</b> This measure shows the cumulative number of countries/jurisdictions with which the PCAOB established or maintained contact, a working relationship or a cooperative arrangement.			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Establish or Maintain Contact			
Projected Number of Oversight Bodies	21	14	14
Actual Number of Oversight Bodies	21	--	--
Establish or Maintain Working Relationship			
Projected Number of Oversight Bodies	14	11	9
Actual Number of Oversight Bodies	14	--	--
Establish or Maintain Cooperative Arrangement			
Projected Number of Oversight Bodies	19	30	32
Actual Number of Oversight Bodies	10	--	--
<b>Overview of Changes in Activities:</b>			
<p>The PCAOB develops relationships with non-U.S. regulators to facilitate its inspections of registered non-U.S. firms and exchange confidential information with regard to firms that fall within the jurisdiction of the PCAOB and the foreign regulator.</p> <p>In 2010, the PCAOB developed certain existing contacts into working relationships and certain existing contacts or working relationships into cooperative arrangements. The PCAOB continued to face obstacles in conducting inspections in the European Union, China and Switzerland.</p> <p>In 2011, the PCAOB concluded bilateral agreements with the audit regulator in the United Kingdom, Switzerland, Norway, Japan, Israel, and Taiwan. Cooperative arrangements remained under negotiation with the authorities in 14 other European Union countries, Brazil, China, Malaysia and Thailand.</p> <p>In 2012, the PCAOB plans to maintain its existing contacts, working relationships and cooperative arrangements and continue negotiations with the following countries in an effort to conclude cooperative arrangements: Belgium, Brazil, China, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malaysia, Poland, Portugal, Spain, Sweden and Thailand.</p>			

<b>Measure 2-4: International Auditor Regulatory Institute Feedback</b>			
<b>Relevance of Measure:</b> This measure shows the percentage of participants who agree or strongly agree that the Institute was effective in meeting its learning objectives.			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Projected Institute participants that agree or strongly agree (rated it 4.0 or higher out of 5.0)	85%	85%	90%
Actual Percentage of Institute participants that agree or strongly agree (rated it 4.0 or higher out of 5.0)	98%	100%	--
Number of survey respondents	40	42	--
Number of attendees	70	77	--
<b>Overview of Changes in Activities:</b>			
<p>The PCAOB hosted a fifth PCAOB International Auditor Regulatory Institute in November 2011. One hundred percent of survey respondents indicated agreement or strong agreement 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. This percentage rating is comparable to that which the Institute received in 2010 and anticipates receiving in 2012.</p>			

<b>Indicator 2-1: Number of Participants and Countries/Jurisdictions that Attend the International Auditor Regulatory Institute</b>			
<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.			
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Projected Number of Participants	132	75	75
Actual Number of Participants	70	77	--
Projected Number of Countries/Jurisdictions	53	40	35
Actual Number of Countries/Jurisdictions	40	36	--
<b>Overview of Changes in Activities:</b>			
<p>The PCAOB hosted its fifth International Auditor Regulatory Institute for non-US regulators and government officials in November 2011. Approximately 77 representatives from 36 jurisdictions attended. These numbers represent a 10% increase in representatives attending, and a 10% decrease in jurisdictions represented relative to 2010. The PCAOB expects to host a sixth International Auditor Regulatory Institute (IARI) for non-U.S. regulators and government officials in 2012, with anticipated attendance of 75 representatives from approximately 35 jurisdictions.</p>			