



February 16, 2022

Office of the Secretary
PCAOB
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Release No. 2022-0001

Dear Secretary Brown and PCAOB Board Members:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Public Company Accounting Oversight Board's (PCAOB or Board) Request for Public Comment, *Advisory Groups – Draft Governance Frameworks*, PCAOB Release No. 2022-0001.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

We strongly support the reestablishment of advisory groups to assist the Board in meeting its statutory mission. For many years the Standing Advisory Group and the Investor Advisory Group each played an important role in informing Board members and staff about the practical implications of the PCAOB's work on the auditing profession and the broader financial reporting process. Like many others, we were disappointed that the PCAOB allowed these groups to go inactive recently and we are pleased that they will soon be back in service to the Board.

We appreciate the opportunity to comment on the Draft Governance Frameworks for each of the proposed new advisory groups: the Standards and Emerging Issues Advisory Group (SEIAG) and the Investor Advisory Group (IAG). We comment below on certain specifics of each of the proposed Frameworks. However, first we express our concern regarding the lack of balance between the two Groups.

IAG role versus SEIAG

As noted on its website, the mission of the PCAOB is as follows: "The PCAOB oversees the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports." This follows from the language in the Sarbanes-Oxley Act of 2002 (Act) establishing the PCAOB: "There is established the Public Company Accounting Oversight Board, to oversee the audit of public companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the



public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors.” It is important to note that the term “audit reports” is used in the PCAOB mission and the Act because the only information about public company audits investors receive is what is included in those audit reports. Few, if any, investors have a direct relationship with the firm auditing the public companies in which they invest. And while some analysts and others in the investment community may have a background in accounting or even auditing, the vast majority do not.

Thus, while we agree it is important for the PCAOB to seek and listen carefully to advice from investors, as has been the case with the former Investor Advisory Group and will be with the new Group, it is also important to keep in mind that these advisors will probably not have a deep and current understanding of the specifics of public company auditing. That knowledge is much more likely to rest in members of the new SEIAG. Further, while all PCAOB Board members have great and distinguished experience, only two members are CPAs and only one has recent direct experience with public company audits.

We believe that the Board needs input from all members of the financial reporting process and, therefore, believe the advice from the new SEIAG will be at least as, if not more, important to the Board. We are certain that extremely qualified individuals will be nominated and selected for SEIAG membership and that these individuals will act in the public interest as we believe was true for the work of the Standing Advisory Group in the past. But as we review the proposed Framework for each of the new Groups, we see the following differences that seem to set the IAG up as a more important part of the PCAOB’s process.

- The Purpose & Role of the IAG allows that Group to advise on what seems to be an unlimited scope of PCAOB activities while the Purpose & Role of the SEIAG is limited to standards unless “if requested by the PCAOB Board” on other matters of significance to the PCAOB.
- Either a Board member or a staff person will become Co-Chair of the IAG while the Chief Auditor will Chair the SEIAG (no mention of a Board member possibly chairing the Group).
- A member of the IAG will be appointed as Co-Chair while the Board will only consider appointing a member as Co-Chair of the SEIAG.
- The agendas for meetings of the SEIAG must be approved by the Board while the agendas for meetings of the IAG do not.

These differences suggest to us that the Board considers the SEIAG to be less important than the IAG or that Board members believe that they must exercise more control over the former Group. We think that is a mistake and urge the Board to reconsider the differences listed above and revise the respective Frameworks to make them more compatible. Specifically, we recommend the following changes.

- Revise the Purpose & Role for the SEIAG to make clear that while its main purpose is to advise on pending auditing standards matters, it may also provide views on any other matters of significance to the mission of the PCAOB. In other words, eliminate the “if requested by the PCAOB Board language” in the proposed Framework. For example, it would seem quite appropriate for this Group to discuss matters such as developments in technology affecting financial reporting and auditing, implications of the inspections process on auditor relationships with audit committees, etc. We note that if the PCAOB does not make this revision it should change the title of the SEIAG to reflect its Purpose & Role more accurately as the Standards and, If Requested by the PCAOB Board, Emerging Issues Advisory Group. We sincerely hope such a name change is not needed.
- Have a Board member Co-Chair each of the Groups with a member selected by each Group as Co-Chair.



- Eliminate the requirement for Board approval of SEIAG meeting agendas. It is sufficient for the Board to provide input and for a Board member to serve as Chair of each Group.

Comments relating to specific proposed Frameworks

We agree that all Advisory Group meetings should be open for public observation as proposed. And at least two such meetings a year seems like an appropriate objective. One issue the PCAOB should consider is how long those meetings should last. While we have not researched this, we believe that similar meetings in the past have lasted either a day or a day and a half. Given the fairly large memberships of up to 18 or 24 members along with certain observers and Board and staff members attending, it is important to provide enough time to allow all who attend to be heard on the issues. So while the contents of meeting agendas will largely guide the length of meetings, we suggest that longer meetings be scheduled at least initially.

IAG proposed Framework

We agree that it would be a good idea for one or more IAG members to also serve on the SEIAG to ensure communication. However, it should be clear that those members count against the total 24 SEIAG members and would represent investors who would otherwise be appointed to the SEIAG. Otherwise, this would just add to the size and communication challenges of the SEIAG and could provide a bias toward investors’ views in that Group’s discussions.

One suggested category of potential IAG members is investor advocates. In the past, some who may seem to fit this role might better be described as “gadflies” or “pundits” with fairly extreme, negative views about the auditing profession and limited real-world connections to the investment community. We believe the investor advocates term should be removed as an example of those with “relevant expertise and/or experience in investing in public companies.” In any event, we urge that individuals selected for membership on the IAG all should have actual investment experience.

SEIAG proposed Framework

We suggest that the Chairman of the AICPA’s Auditing Standards Board be a regular non-voting attendee.

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We would be pleased to discuss our comments with the PCAOB or its staff at your convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com