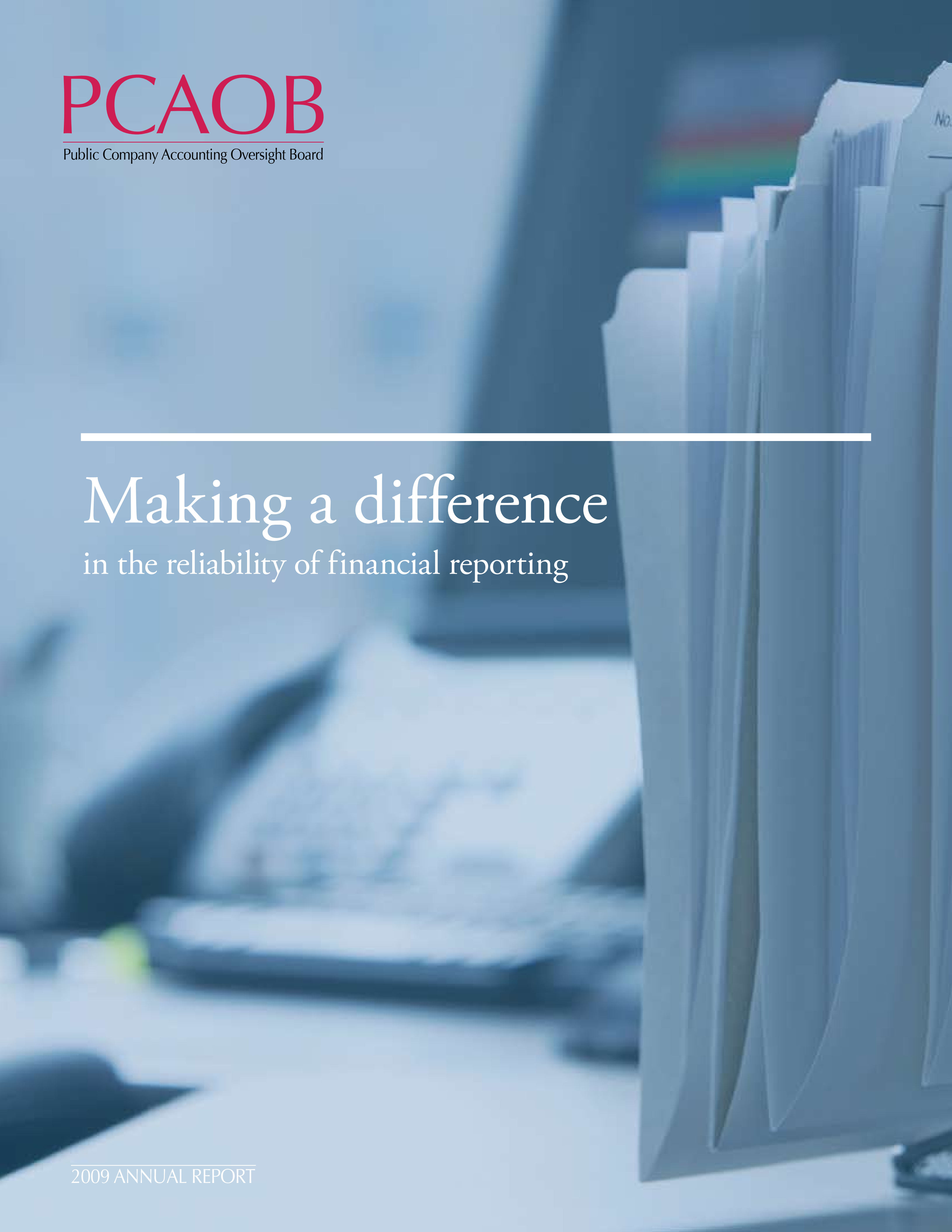


PCAOB

Public Company Accounting Oversight Board

Making a difference

in the reliability of financial reporting

2009 ANNUAL REPORT

PCAOB

Public Company Accounting Oversight Board

MISSION

The PCAOB's mission, as derived from the Sarbanes-Oxley Act of 2002, 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

The PCAOB seeks to be a model regulatory organization. Using innovative and cost-effective tools, the PCAOB aims 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 auditing profession.

Seven years ago there was no PCAOB—just a Congressional blueprint for auditor oversight, based on the idea that inspections of public company audits performed independently of the profession would strengthen audit quality and restore damaged confidence in financial reporting. Since those early days, the Board and its staff have turned the blueprint into a mature regulatory organization that oversees a large and diverse population of public accounting firms—ranging from sole proprietorships to major firms with extensive global networks.

Many challenges still lie ahead. Ultimately, though, auditors, preparers and regulators, face the same challenge—to foster and maintain confidence in financial reporting. The Board is committed to continuing to work toward that goal.

Daniel L. Goelzer
Acting Chairman
Public Company Accounting Oversight Board

Excerpts From *Seven Years of The Public Company Accounting Oversight Board—What Has been Accomplished and What Remains to Be Done?,* Address to the AICPA National Conference on SEC and PCAOB Developments (December 7, 2009)

FROM THE CHAIRMAN

On behalf of the Public Company Accounting Oversight Board, I am pleased to present this report on the Board's work in 2009. Under the Sarbanes-Oxley Act of 2002, the Board's mission is to protect the interests of investors and to further the public interest in the preparation of informative, fair and independent audit reports. I believe that the 2009 annual report demonstrates the Board's and its staff's commitment to this critical mission during these challenging times. A few significant events and challenges are highlighted below.

In 2009, the population of public accounting firms registered with the Board grew substantially, ending the year at 2,349. As a result of the expiration of a series of temporary SEC exemption orders, audits of SEC-registered broker-dealers must be performed by an accounting firm that is registered with the Board for fiscal years ending after December 31, 2008. As a result, during 2009, more than 400 firms with broker-dealer audit clients registered with the Board. Many of these new registrants are small accounting firms. In order to address their questions and concerns regarding the registration requirements, the Board staff published questions and answers concerning the registration of auditors of broker-dealers, and the Board issued a statement on the topic. In its statement, the Board made clear that the Act does not subject audits for broker-dealers to the PCAOB's standard-setting, inspection, investigative, or disciplinary authority. While this gap between the Board's registration responsibilities and its oversight authority is of concern, there is legislation pending in Congress that would address the problem by extending Board oversight authority to encompass all broker-dealer audits.

During 2009, the Board embarked on the sixth cycle of annual inspections of accounting firms that audit more than 100 public company clients. Many smaller firms experienced their second round of triennial inspections. Over the course of the year, the PCAOB conducted inspections of 287 public accounting firms, including 82 non-U.S. firms in 26 jurisdictions, and issued 214 inspection reports. In the 2009 inspections, the PCAOB reviewed aspects of more than 1,000 public company audit engagements. As of December 31, 2009, the PCAOB had conducted more than 1,300 inspections and issued more than 1,000 reports since regular inspections commenced in 2004.

Our inspections program concentrates on the more challenging aspects of a firm's public company audit practice. As a result, two key areas of PCAOB focus in the 2009 inspections related to the financial crisis and to cross-border auditing.

With respect to the financial crisis, changes in economic and business conditions during the past two years have made auditing more difficult, particularly in the areas of financial instrument valuation, impairment, going concern evaluation, financial statement disclosures and other aspects of financial reporting that require significant estimates and judgments. The need for auditors to engage in thoughtful risk assessment and audit planning was also greater, and the inspection program sought to reflect those realities.

With respect to cross-border auditing, as the non-U.S. inspections program has expanded, the PCAOB has increased its understanding of the complexities and risks associated with inspecting an audit in which significant work has occurred in multiple jurisdictions and has been performed by several separate, but usually affiliated, firms. Those complexities include the need to focus on the differences in the audit environments in the various jurisdictions involved and on the quality control mechanisms of the large, global network firms. The PCAOB has begun to devote more of its inspections efforts to "referred work"—that is, work that is performed by audit firms other than the firm that signs the audit report. In addition, the Board's Inspections and Research and Analysis staff have begun to consider ways to improve the risk assessment process to address the unique auditing and business culture characteristics of each jurisdiction.

One of the most serious problems the PCAOB's inspections program currently faces is the inability to gain access to registered firms in the European Union, China, and Switzerland. The Board and its staff are continuing to work with regulators in these jurisdictions to address the conflicts of law, sovereignty, and other issues that are asserted to be obstacles to PCAOB inspections. Because of the impact on U.S. investors of the PCAOB's inability to conduct some statutorily-required non-U.S. inspections, the Board has begun to publish information on the status of its non-U.S. inspections program to provide additional transparency to the investing public. This additional transparency includes the names of firms that have not been inspected, notwithstanding the passage of four years since the firm became subject to inspection, as well as a list of issuers audited by firms the PCAOB is unable to inspect. To the extent that the PCAOB remains unable to gain access to certain non-U.S. firms, the Board and its staff will explore additional ways to use its regulatory and other statutory tools to address the situation.

DANIEL L. GOELZER

During 2009, the Board also devoted considerable effort to its standard-setting responsibilities, re-focusing on some of the "nuts and bolts" auditing issues that were put on hold while internal control auditing dominated the agenda in the first several years of the Board's existence. Most importantly, the Board adopted Auditing Standard No. 7, *Engagement Quality Review.* This new auditing standard establishes important responsibilities for engagement quality reviews, formerly known as concurring partner reviews. The PCAOB's inspection staff routinely identifies audit deficiencies that a properly performed review should have detected and caused to be remedied before the audit report was issued. Auditing Standard No. 7 has a significant potential to improve audit quality, because better engagement quality reviews should catch those deficiencies and prevent investor harm.

During 2009, the Board also issued concept releases on possible revisions to the audit confirmation standard and on a possible requirement for the engagement partner to sign the audit report in his or her own name. In addition, the Board re-proposed seven new auditing standards related to the auditor's assessment of and responses to risk. These matters remained under consideration at the end of the year.

In the enforcement area, the Board publicly announced the institution and settlement of six enforcement proceedings during 2009. These six proceedings are not fully reflective of the Board's 2009 enforcement activity, though. Much of the work of the Division of Enforcement and Investigations occurs out of public view. As required by the Act, investigations are nonpublic, and contested enforcement proceedings are nonpublic until a final decision is reached in which sanctions are imposed, or longer if such a decision is appealed to the SEC. The Division has a full docket of investigations, and many of these matters are likely to result in contested disciplinary proceedings.

In 2009, the Board launched two new initiatives designed to bring additional perspectives and insight to its efforts to accomplish its mission. In late July, the Board established an Investor Advisory Group. This group, which held its first meeting in May of 2010, is intended to assist the Board in hearing the views of investors on a wide range of issues relating to the Board's work. Historically, investors have been less likely to comment on Board proposals and other activities than have accounting firms, issuers, and other affected constituencies. One objective of the new advisory group is to correct that imbalance. In addition, the Board announced the establishment of an academic fellowship program, beginning with the 2010–2011 academic year. The Board believes that this program will enable the Board to utilize the talents of the academic community and to bring the perspective of leading scholars to bear on its work.

Finally, in 2009, the U.S. Supreme Court granted a writ of certiorari and heard argument in a case challenging the constitutionality of the Board's structure. The litigation deals principally with the way in which Board members are appointed and the circumstances under which Board members could be removed. The Board prevailed in this case in both the District Court and U.S. Court of Appeals for the District of Columbia Circuit. The Supreme Court's decision is expected by the end of June 2010.

In closing, I would like to thank former Chairman Mark Olson, who resigned from the Board effective July 31, 2009, for his leadership, service and contributions during his three years at the PCAOB. Many of the accomplishments described in this report are the results of his efforts.

Daniel L. Goelzer

Daniel L. Goelzer, Acting Chairman
Public Company Accounting Oversight Board
Washington, D.C.
May 2010

CORE VALUES

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.

OVERVIEW

The Public Company Accounting Oversight Board (PCAOB or Board) was created by the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act or Act) to protect investors and further the public interest in the preparation of informative, fair and independent audit reports on the financial statements of public companies and other issuers.[1] At the end of 2009, the PCAOB had 567 employees and has offices in Washington, D.C.; Atlanta; Chicago; Dallas; Denver; Irvine; New York; and San Mateo as well as satellite locations in Boston; Charlotte; Detroit; Houston; and Tampa.

Based on the blueprint set forth in the Sarbanes-Oxley Act, the PCAOB:

- **Registers accounting firms**—No accounting firm may prepare, or play a substantial role in preparing, audit reports for public companies without being registered with the PCAOB. The Act also requires broker-dealers to have balance sheets and income statements audited by PCAOB-registered public accounting firms. At the end of 2009, 2,349 firms were registered. Once registered, firms must file periodic reports that provide the PCAOB and the public with updated information about the firm and its audit practice.

- **Conducts inspections**—The PCAOB conducts inspections of registered firms in connection with their public company auditing practices. Since 2003 through the end of 2009, the PCAOB has conducted more than 1,300 inspections of firms' systems of quality control and reviewed aspects of more than 6,000 audits. Once PCAOB inspectors identify a problem, they focus the firm on the need to address it, both in individual audits and systemically. Moreover, although the PCAOB does not interact directly with public companies, firms' work following up on deficiencies identified in PCAOB inspections has led to restatements or other corrections to financial statements.

- **Conducts investigations and disciplinary proceedings**—The PCAOB conducts investigations and disciplinary proceedings to determine whether to impose sanctions on registered firms and associated persons that have violated applicable laws and standards. The PCAOB's enforcement matters have involved audits of all sizes. In several cases, the PCAOB has revoked firms' registration, preventing them from auditing public companies. The PCAOB has also suspended or barred individuals from working on the audits of public companies, including partners and other individuals associated with major accounting firms. Sanctions can also include significant monetary penalties.

- **Establishes auditing, quality control, ethics, independence, and other standards relating to audits of public company financial statements**—The PCAOB uses information learned in inspections and other oversight activities to identify weaknesses in applicable standards and develop improvements for the benefit of future audits.

The Act gives the Securities and Exchange Commission (SEC) oversight authority over the PCAOB, including the authority to appoint and remove Board members. The PCAOB is subject to rules and orders promulgated by the SEC. Moreover, the PCAOB's own rules, including its auditing and related professional practice standards, are not effective unless approved by the SEC. In addition, 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.

The PCAOB's annual budget is also subject to SEC approval. Once approved, the Act provides for the PCAOB's budget to be funded through an annual accounting support fee assessed on public companies in proportion to their average market capitalizations.

1. This report uses the terms "public company" and "issuer" interchangeably. The term "issuer" is defined by the Act and PCAOB rules.

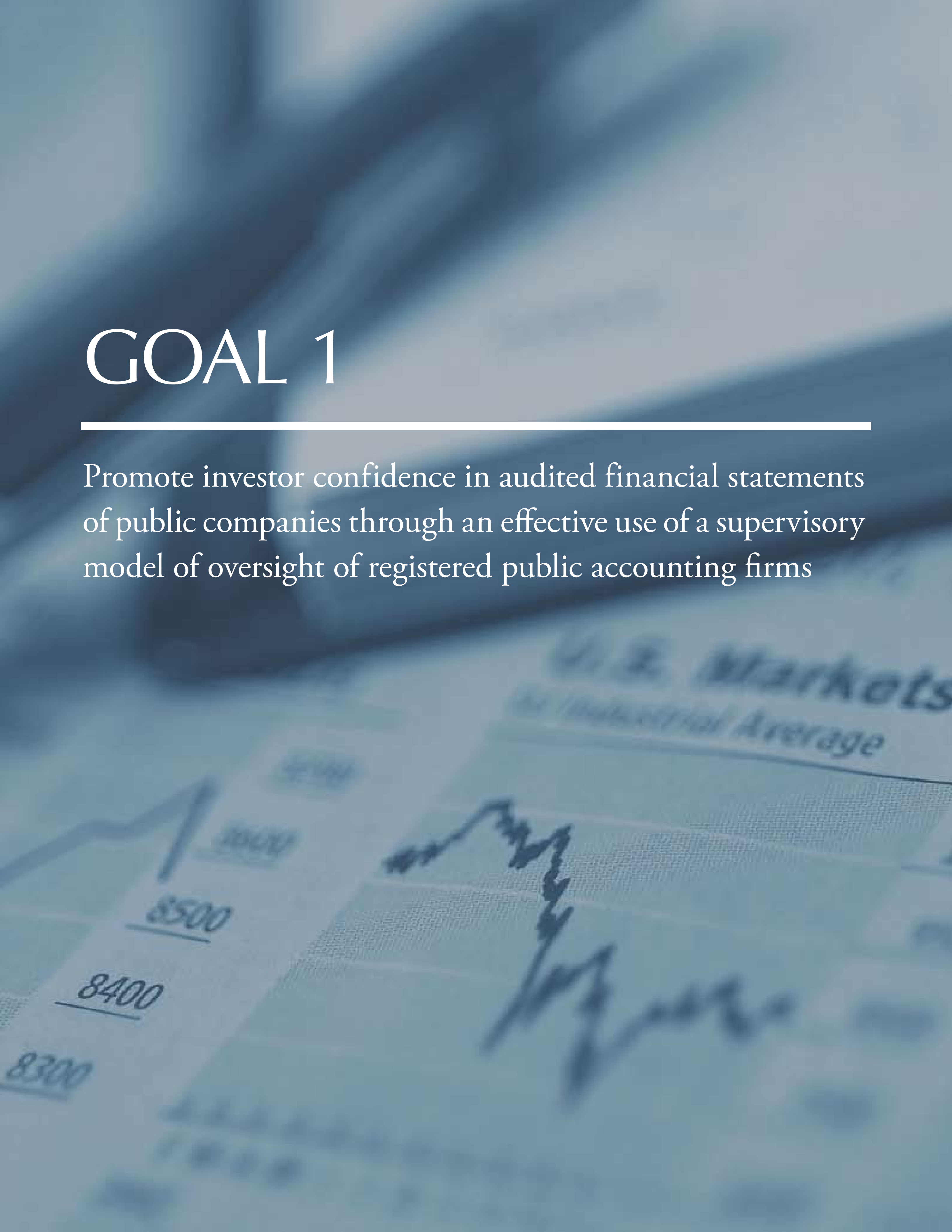
SUMMARY OF PCAOB ACTIVITIES IN 2009

This annual report provides a summary of the PCAOB's work in 2009 to fulfill its mission. The report presents the PCAOB's activities in the context of its 2008–2013 Strategic Plan, which sets forth four strategic goals. Following this summary, the report presents the PCAOB's 2009 financial review, the report of the PCAOB's independent auditors, the PCAOB's 2009 financial statements, and the PCAOB's financial reporting management's report on internal control over financial reporting.

Appendix 1 to this report provides a discussion of the PCAOB's performance measures and related 2009 results. Appendix 2 provides a list of Board releases and staff guidance issued in 2009. Appendix 3 provides a list of jurisdictions in which the PCAOB had conducted inspections, as of the end of 2009. Appendix 4 provides a list of registered firms not yet inspected even though, as of the end of 2009, four years had passed since issuance of an audit report while registered. Appendices 5 and 6 provide lists of the members of the PCAOB's Standing Advisory Group (SAG) and Investor Advisory Group (IAG), respectively, as of the end of 2009. A glossary to the report defines certain terms used throughout the report.

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 1 reflects the Board's intention to apply its statutory programs to protect the investing public's interest in reliable and independent audit reports on public company financial statements. Two fundamental considerations underlie this goal and are reflected in how the Board implemented its programs in 2009. First, the PCAOB has authority to routinely inspect registered firms' public company audits and related quality controls. Inspection adds value to the pre-existing regulation of public company audits, which in large part consisted of federal and state enforcement of applicable laws and standards in disciplinary proceedings only after egregious investor harm had already occurred. The Board's allocation of resources in 2009 and prior years thus emphasized inspection as a tool to prevent investor harm. Second, the PCAOB needs information and analytical tools to identify audits, and portions of audits, that could most benefit from inspection. To this end, the PCAOB maintains an Office of Research and Analysis (ORA), which as discussed below played an important role in 2009 by advising the Board and its programs on audit and financial reporting risks.

In addition, several key events and circumstances influenced the Board's decisions about how to implement its programs in 2009. In particular, the evolving global financial crisis motivated the Board to shift resources to inspection, enforcement and risk analysis initiatives. The PCAOB was also affected by a surge in registration applications in 2009 due to the expiration of the last of a series of SEC orders that granted temporary exemptions to registered broker-dealers from the statutory requirement that their balance sheets and income statement be audited by PCAOB registered firms. In addition, as in past years, the PCAOB evaluated the effectiveness of various methodologies and initiatives and refined them based on experience. This review resulted in several improvements in 2009, including in its methodologies for inspecting audits or portions of audits performed by firms affiliated with a global network. Meanwhile, the PCAOB also experienced challenges in gaining access to non-U.S. firms and their work papers in order to perform required inspections. These events and circumstances are discussed in more detail in the context of individual programs below.

Registration

No accounting firm may prepare, or play a substantial role in preparing, an audit report for a public company without being registered with the PCAOB. In 2009, the Board considered and approved registration applications of 549 accounting firms, including 76 non-U.S. firms. The Board also disapproved two registration applications by disciplinary orders according to the process established by the Act and the Board's rules.

Of the firms that registered in 2009, 404 indicated that they certify financial statements for broker-dealers. The surge in registration applications from such firms stemmed from the expiration, for fiscal years ending after December 31, 2008, of the last of a series of SEC orders that granted temporary exemptions to registered broker-dealers from the statutory requirement that their balance sheets and income statements be audited by PCAOB-registered firms. Although broker-dealers are now required to use registered firms, audits related to broker-dealer clients are not subject to the PCAOB's standard-setting, inspection, investigative or disciplinary authority. As discussed later in this report in the context of Goal 2, the PCAOB devoted resources in 2009 to educating such firms about PCAOB registration requirements, educating the public about the limitations of the PCAOB's oversight of such firms' audits related to broker-dealers, and monitoring certain legislative initiatives that would provide for enhanced oversight of such audits.

The Board also considered and granted 67 requests to withdraw from registration. Firms are not required to provide reasons for withdrawal. Nevertheless, two common reasons voluntarily provided are that the firm has merged with another registered firm or that the firm no longer intends to audit public company financial statements. In addition, a number of non-U.S. firms affiliated with a global network withdrew in the context of a global or regional reorganization of the network. At the end of 2009, there were 2,349 firms registered with the PCAOB, including 1,413 domestic firms and 936 non-U.S. firms located in 88 jurisdictions.

Number of Registered Public Accounting Firms by Country

(AS OF DECEMBER 31, 2009)

COUNTRY	NUMBER OF REGISTERED FIRMS
United States	1,413
China*	113
United Kingdom	73
India	56
Canada	53
Germany	43
Australia	41
France	35
Singapore	23
Mexico	19
Israel, the Russian Federation	18 each
Brazil, Italy, South Africa	17 each
Belgium, Chile, Netherlands, Spain	16 each
Japan, Ireland, Turkey	15 each
New Zealand	14
Argentina, Malaysia	13 each
Taiwan	12
The Republic of Korea	11
Indonesia, Switzerland, Thailand	9 each
Hungary, the Philippines, Venezuela	8 each
Austria, Colombia, Peru, Poland, Sweden	7 each
Czech Republic, Denmark, Greece, Norway, Portugal, Romania	6 each
Costa Rica, the Cayman Islands, Finland, Pakistan, Ukraine, United Arab Emirates	5 each
Bermuda, Egypt, Kazakhstan, Luxembourg, Paraguay	4 each
Bolivia, Panama, Vietnam	3 each
Bahrain, Croatia, Cyprus, Dominican Republic, El Salvador, Iceland, Malta, Slovakia, Slovenia, Uruguay	2 each
Armenia, Bahamas, Barbados, Belize, Brunei Darussalam, Bulgaria, Cambodia, Ecuador, Estonia, Georgia, Ghana, Haiti, Jamaica, Lao People's Democratic Republic, Lebanon, Mauritius, Nicaragua, Nigeria, Papua New Guinea, Tunisia	1 each
TOTAL	**2,349**

* The number of registered firms in China includes those located in Hong Kong.

Number of Issuer Audit Reports in 2009 per Registered Firm

(AS OF DECEMBER 31, 2009)

AUDIT REPORTS PER FIRM	U.S.	NON-U.S.	TOTAL
Firms that issued no issuer audit reports	916	737	1,653
Firms that issued audit reports for 1–5 issuers	285	137	422
Firms that issued audit reports for 6–10 issuers	67	34	101
Firms that issued audit reports for 11–25 issuers	76	18	94
Firms that issued audit reports for 26–50 issuers	46	7	53
Firms that issued audit reports for 51–100 issuers	13	3	16
Firms that issued audit reports for >100 issuers	10	0	10
TOTALS	**1,413**	**936**	**2,349**

Research and Analysis

The PCAOB devotes considerable resources to collecting, analyzing and providing internal business intelligence reports on data from public sources, vendors, registered firms and other sources. The PCAOB also uses an array of research and analysis to monitor financial reporting and auditing risks, such as by combining nonpublic data collected in the inspection process with publicly available data relating to public companies' financial reporting, debt and equity markets, and corporate governance, in order to identify those firms, offices, partners, engagements and audit issues that present the greatest audit risks. These surveillance activities also include monitoring news feeds and maintaining data-mining applications to identify companies that may have materially misstated their financial statements.

The PCAOB increased these efforts in 2009 to meet the demands of the financial crisis. Specifically, as discussed later in this report in the context of the PCAOB's inspection program, the PCAOB undertook an initiative in 2009 to evaluate the effectiveness of its inspections. Based on this evaluation, the PCAOB enhanced its use of risk assessment to select audits to review by increasing resources in its ORA, ending 2009 with approximately 35 accountants, economists, and analysts. With those additional resources, the office expanded its analysis of company filings and analyst reports and conducted in-depth research on the credit derivatives market, the vulnerability of prime brokers, and the securitization industry generally. As a result, it increased and refined its referrals of potential financial reporting problems for inspection and provided specialized training to inspectors.

Inspections

The PCAOB's inspection program is the core of its oversight of registered firms' public company audit work.[1] The PCAOB conducts annual inspections of registered firms that regularly audit the financial statements of more than 100 public companies. In 2009, the PCAOB inspected 10 such firms.

1. As discussed above, although broker-dealers are required to file audit reports on their financial statements and selected practices and procedures by registered firms, the PCAOB does not have authority to inspect such audits or registered firms' quality controls over such audits. In addition, on December 30, 2009, the SEC released new custody and recordkeeping rules under the Investment Advisers Act of 1940. Specifically, subject to certain exceptions, Rule 206(4)-2 requires advisers that have custody, directly or indirectly, of client assets, to obtain a surprise examination by a PCAOB-registered firm that is subject to regular inspection. In addition, when an adviser or its related party serves as the qualified custodian for client assets, the adviser must obtain, or receive from its related party, at least once each year a written report that includes an opinion from a PCAOB registered and inspected public accounting firm with respect to the adviser's or related party's internal controls related to the custody of those assets. The PCAOB does not, however, have authority to inspect such surprise examinations or internal control reports.

Registered firms that regularly audit the financial statements of 100 or fewer public companies must be inspected at least once every three years. There are approximately 875 such firms, including approximately 250 non-U.S. firms. Firms subject to triennial inspections vary considerably in nature and size. The domestic firms in this category range from sole proprietorships to larger regional firms, some of which have multiple offices. The size and complexity of these domestic firms' audit clients also vary, and include small, unlisted companies, 401(k) or other savings plans of larger companies, shell companies, regional financial institutions, as well as local public companies that are listed on an exchange. These firms' audit clients tend not to be multi-national; however, a growing number of small domestic accounting firms have taken on audit clients based in China. These audits present considerable challenges and continued to be a focus of PCAOB inspections in 2009.

Unlike the domestic firms that are subject to triennial inspections, many of the non-U.S. firms are members of a global network of firms that share a common name and certain policies, practices, audit methodologies and business interests. In addition, these non-U.S. firms can be quite large, with thousands of employees and multiple offices in their home country. These firms audit issuers based outside the U.S. that use U.S. securities markets and are required by federal securities laws to file audited financial statements annually with the SEC. In addition, these non-U.S. firms audit financial information of subsidiaries and other branches of many U.S.-based multi-national public companies. Non-U.S. issuers and U.S. multi-national public companies are some of the largest public companies in the world and figure prominently in investors' retirement and other savings plans.

The nature of audits performed by networked firms outside the U.S. and their quality control systems present special challenges for the PCAOB. For example, some quality controls of networked firms operate regionally or globally. Therefore, to best evaluate the effectiveness of the control, the PCAOB may need to coordinate inspections of the various firms that use the control, which presents logistical and scheduling challenges.

INSPECTIONS PERFORMED IN 2009

In 2009, the PCAOB conducted 287 inspections of registered firms' public company audit work, including inspections of 10 firms that performed more than 100 U.S. public company audits in the prior year as well as inspections of 82 non-U.S. firms located in 26 jurisdictions.

In 2009, the PCAOB continued to refine its inspection approach in response to the continuing effects of the global financial crisis. Accordingly, PCAOB inspectors examined aspects of audits for several companies in the financial services industry, which among other things involved examining audits of complex financial instruments and transactions. In addition, PCAOB inspectors examined areas highlighted in the PCAOB's December 2008 Staff Audit Practice Alert No. 3, *Audit Considerations in the Current Economic Environment,* including areas requiring the use of estimates and fair value measurements.

The PCAOB was unable to conduct required and planned inspections of several non-U.S. firms because of asserted restrictions under non-U.S. law or objections based on national sovereignty. These firms were located in 10 countries subject to the EU's Directive on Statutory Auditors, China and Switzerland. As discussed later in this report in the context of Goal 2, in light of these difficulties, the PCAOB periodically disclosed certain information about the status of inspections of registered non-U.S. firms in order to put the public on notice of the effect of such difficulties on its inspection plans.

PCAOB inspections include engagement reviews of portions of individual audits as well as reviews and appropriate testing of firms' systems of quality control. In 2009, PCAOB inspectors reviewed portions of more than 350 audits performed by the 10 firms subject to annual inspection, and portions of more than 730 audits performed by the remaining 277 inspected firms. PCAOB inspectors selected audits for inspection based on an assessment of audit and financial reporting risks, including risks identified by the ORA as discussed earlier. Many of these risks arose from or were exacerbated by the financial crisis, including risk relating to market volatility; the going concern assumption; revenue recognition; valuation of long-lived assets, including goodwill; management estimates, in particular those related to assets with potential impairment or loss of value; and fair value assumptions for complex financial instruments. In addition, as in past years, PCAOB inspectors inspected audits of internal control over financial reporting under Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AS No. 5).

In evaluating firms' quality controls in 2009, PCAOB inspectors focused on the following functions and processes, as applicable, given the nature and management structure of the firm:

- Management structure and processes, including tone-at-the-top;
- Practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission and disciplinary actions;
- Policies and procedures for considering and addressing the risks involved in accepting and retaining clients, including the application of risk-rating systems;
- Supervision by U.S. audit engagement teams of audit work that foreign affiliates perform on the foreign operations of U.S. issuer audit clients;
- Processes for monitoring audit quality, including the firm's internal inspection program;
- Policies and procedures for considering independence implications of non-audit services; business ventures, alliances and other arrangements; personal financial interests; commissions and contingent fees; and,
- Practices for consultations on accounting, auditing and SEC financial reporting matters.

ENHANCEMENT OF INSPECTION METHODOLOGIES

In addition to conducting the inspections described above, the PCAOB evaluated the effectiveness of various methodologies and initiatives. Based on this evaluation, the PCAOB refined its inspection program in several respects. As discussed above in the context of the PCAOB's research and analysis program, the new resources the PCAOB added to that program allowed it to increase the number and depth of engagements to analyze. The analysis resulted in more, and more sophisticated, referrals for inspection, which helped inspectors focus on critical deficiencies in audits of some of the largest companies in the world, leading to significant findings in PCAOB inspection reports and related remediation efforts by the firms involved.

The PCAOB also conducted an evaluation of the effectiveness of its non-U.S. inspection program in 2009 and made several changes to its methodologies. Among other things, the PCAOB enhanced its focus on the quality control mechanisms of large, global network firms as well as on audit work performed by non-U.S. firms on financial information of subsidiaries or other segments of multi-national audit clients, commonly known as "referred work." In addition, the PCAOB created a central office to oversee its non-U.S. inspection program, established a system of greater staff accountability for international inspections work, and significantly revised its non-U.S. inspections methodology to better address the risks associated with audits of large, networked firms for multi-national companies. These steps are intended to put inspections of non-U.S. firms on a more equal footing with those of U.S.-based firms.

In 2009, the PCAOB dedicated additional resources to the inspections of the largest firms in an effort to deepen its understanding of the largest firms' systems of quality control, including gaining an understanding and evaluating the specific management processes used by each firm to monitor and control the quality of their audit practices. Inspection procedures for these firms included focused inspections of certain topics on a coordinated basis in order to compare and contrast the design and operating effectiveness of specific aspects of firms' systems of quality controls. Among other areas, the PCAOB focused on firms' ability to systematically identify, accumulate, evaluate, and respond to significant indications of weaknesses or deficiencies in audit quality on both an individual engagement level, and on a firm-wide basis.

The PCAOB also redesigned its approach to documenting its inspections, in order to facilitate internal review and evaluation of procedures performed.

Another initiative in 2009 was to evaluate the mix of resources required to perform inspections, in light of these program enhancements. As a result of this evaluation, the PCAOB determined that the enhancements required a significant increase in resource allocation. Thus, in 2009, the PCAOB increased inspection staffing by 57, the majority of whom were inspectors who brought varying levels of expertise in auditing in the financial services industry and auditing fair value measurements. This increase brought the total inspection headcount at the end of 2009 to 315.

INSPECTION REPORTS

The Act requires the Board to prepare a written report of each inspection and to transmit that report, in appropriate detail, to the SEC and relevant state regulatory authorities. The Act also provides that each report must be made available to the public, in appropriate detail, subject to statutory limitations on disclosure. The public portion of an inspection report summarizes the most significant auditing deficiencies, where it appeared to the inspection team that the firm did not obtain sufficient competent evidential matter to support its audit opinion. This portion of the report is available on the PCAOB's website. The full inspection report issued to the firm may include additional detail concerning audit deficiencies and related issues and may also include criticisms of the quality control systems of the firm. As discussed below, quality control criticisms remain nonpublic unless the firm fails to address them to the Board's satisfaction within 12 months of the report's issuance.

In 2009, the Board issued 214 inspection reports, including 79 reports on inspections conducted in 2009, 84 reports on inspections conducted in 2008, 46 reports on inspections conducted in 2007 and five reports on inspections conducted in 2006. By the close of 2009, the Board had issued inspection reports on 165 of the 171 inspections conducted in 2006, 212 of the 236 inspections conducted in 2007, 186 of the 255 inspections conducted in 2008, and 79 of the 287 inspections conducted in 2009. In light of recent reports of audit failures outside the U.S., the Board reassessed its non-U.S. inspection program and suspended issuance of inspection reports for certain non-U.S. inspections for which fieldwork was performed in 2006, 2007, and 2008 and directed inspection staff to begin a process of conducting retrospective reviews of the quality and consistency of these inspections. These account for most of the remaining reports on 2006, 2007 and 2008 inspections to be issued.

REMEDIATION OF QUALITY CONTROL INSPECTION FINDINGS

Many of the PCAOB's inspection reports describe quality control criticisms or potential defects related to a firm's management of its audit practice. The Act requires the Board to keep quality control criticisms nonpublic if a firm addresses them to the Board's satisfaction within 12 months, but permits the Board to make the criticisms or potential defects public if the firm does not do so. This provides what the Board has observed to be a significant incentive for firms to improve the quality of their audit practices. For example, this incentive has prompted management at the highest levels of the large firms to engage with the PCAOB in an ongoing dialogue, with the goal of satisfying the Board that the firms are making substantial, good faith progress to address identified quality control concerns. While this statutorily created framework deliberately restricts the public transparency that the Board may provide regarding the identified concerns, it promotes long-term benefits to investors from the corrective actions the firms undertake to satisfy the Board.

In 2009, the Board made determinations concerning quality control remediation efforts related to 93 inspection reports. With respect to 77 of these reports, the Board made favorable determinations and, therefore, the Board did not publish those nonpublic portions of the inspection reports. A favorable determination reflects the Board's assessment that the firm has demonstrated substantial, good faith progress toward achieving the relevant quality control objectives. It does not necessarily mean that the firm completely and permanently cured any particular quality control defect, or that the firm has eliminated the possibility of any significant audit deficiencies in the future. For the large, annually inspected firms, the PCAOB continues to assess the areas of concern in the next inspection, to evaluate how far the actions taken by the firm go toward addressing the problems identified. These assessments are deeper, and more specific as to what needs to change, each year, because annual inspections allow the PCAOB to test the effectiveness of firms' remedial actions. Thus, whereas in early years firms sometimes tried to reduce the incidence of audit failures with enhanced training, successive inspections that continue to identify audit failures have allowed the PCAOB to press the firms to engage in more rigorous root cause analysis and take more significant steps to address what may be deeply rooted management and cultural impediments to audit quality.

With respect to the remaining 16 reports describing quality control criticisms, the firms either failed to submit any evidence of remediation or the Board determined, after considering the evidence submitted, that the firms had failed to satisfactorily address some or all of the quality control criticisms in the report. Two firms affected by those negative determinations are seeking review by the SEC, and thus the quality control criticisms, as well as criticisms in three reports that the Board determined were not satisfactorily addressed in prior years, remain nonpublic pending those appeals. In the remaining 14 unappealed cases, the Board has expanded the public versions of the reports to disclose the quality control criticisms that were not satisfactorily addressed. The inspection reports on the PCAOB's website are marked to indicate if they have been expanded to include quality control criticisms.

In 2009, the PCAOB conducted 82 non-U.S. inspections in 26 jurisdictions: Argentina, Australia, Belize, Bermuda, Bolivia, Brazil, Canada, the Cayman Islands, Chile, Colombia, Hong Kong, India, Indonesia, Israel, Kazakhstan, the Republic of Korea, Mexico, New Zealand, Papua New Guinea, Panama, Peru, the Philippines, the Russian Federation, Singapore, Ukraine, and United Arab Emirates.

Enforcement

The Act authorizes the PCAOB to investigate auditor conduct that may violate auditing and related professional practice standards, the Act and PCAOB rules, and other laws and rules applicable to preparation and issuance of audit reports for public company audit clients and related obligations and liabilities of accountants. The Act also empowers the Board to impose appropriate disciplinary sanctions on registered firms and associated persons who violate those laws, rules or standards.

The PCAOB's enforcement program pursued investigations and disciplinary proceedings in significant matters. The PCAOB's inventory of enforcement matters included audits of varying sizes and complexity, including matters related to audits by large firms for issuer audit clients involved in the financial crisis. Indeed, due to its workload, including several litigations, the Board significantly increased its 2009 budget for enforcement resources over the preceding year and, during 2009, reassessed its staffing needs and hired 12 additional people. At the end of 2009, headcount in the Division of Enforcement and Investigations (DEI) was 44, including 21 attorneys and 13 experienced forensic accountants.

Some of the enforcement staff added in 2009 were placed in the Board's New York office. The PCAOB decided to locate staff in that office for several reasons, including its ability to recruit highly skilled forensic accountants and legal professionals in that market, the significance of New York to the securities markets, and its working relationship with the SEC's New York office.

INVESTIGATIONS

PCAOB investigations are, by law, confidential and nonpublic. In 2009, the Board initiated 13 formal investigations. In addition, the PCAOB continued to investigate certain matters initiated in prior years, such that at the end of December 2009 the PCAOB was engaged in 17 total formal investigations.

Federal securities laws, including the Act, allow for concurrent enforcement jurisdiction over auditor conduct between the SEC and the PCAOB. Pursuant to the Act and PCAOB rules, the PCAOB closely coordinates its enforcement efforts with those of the SEC. In certain instances, the PCAOB will investigate the auditor's conduct and the SEC will focus its investigation on the public company, its management and other parties. In other cases where the SEC takes responsibility for an investigation, the PCAOB has deferred certain investigations and has refrained from commencing certain disciplinary proceedings at the request of the SEC's Division of Enforcement. In appropriate circumstances, the Act provides that information gathered in PCAOB investigations may be shared with the U.S. Department of Justice, certain federal banking regulators, state attorneys general and appropriate state regulatory authorities.

DISCIPLINARY PROCEEDINGS AND ACTIONS

Investigations may lead the Board to institute disciplinary proceedings to determine whether to impose sanctions on registered firms and their associated persons. Sanctions may involve, among other things, civil monetary penalties, the revocation of a firm's registration, and the barring of an associated person from participating or sharing in the benefits of audits for public companies.

All of the disciplinary proceedings that the Board settles with either a registered firm or an associated person are posted on the Board's website at http://pcaobus.org/Enforcement/Decisions/Pages/default.aspx. The Board issued six public settled disciplinary orders in 2009. These actions revoked the registration of five firms, while granting two of these firms a right to reapply for registration after one year. These actions also barred five individuals from association with any registered public accounting firm, while granting two of these individuals a right to petition the Board to permit association after two years, and suspended two individuals from association with any registered public accounting firm for one year.

Public PCAOB Disciplinary Actions in 2009

Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Clancy and Co., P.L.L.C., Jennifer C. Nipp, CPA, and Judith J. Clancy, CPA (March 31, 2009)
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Drakeford & Drakeford, LLC and John A. DellaDonna, CPA (June 16, 2009)
Order Making Findings and Imposing Sanctions in the Matter of Thomas J. Linden, CPA (August 11, 2009)
Order Making Findings and Imposing Sanctions in the Matter of Lawrence Scharfman CPA PA, and Lawrence Scharfman, CPA (August 11, 2009)
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Moore & Associates, Chartered, and Michael J. Moore, CPA (August 27, 2009)
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of The Blackwing Group, LLC and Sara L. Jenkins, CPA (December 22, 2009)

The Board makes an effort to allocate appropriate and adequate resources to matters involving the risk of significant investor harm, such as misconduct in audits related to large public companies. Although these audits can involve some of the most experienced and best trained auditors in the world, they can also involve immense pressure not to skeptically challenge management's representations and to accede to them. PCAOB disciplinary actions serve as a counterweight to that incentive.

Nevertheless, the PCAOB cannot ignore the harm to investors that can be perpetrated at the other end of the financial spectrum, among certain smaller audit firms that count on not being noticed by regulators, fail to satisfy their audit obligations and may commit fraud in issuing their audit reports. In the seven years since it was established, the Board has observed a demand for low quality audits. In the Board's view, this segment of the auditing profession will require ongoing scrutiny to maintain the appropriate disincentive to providing the investing public unfounded audit opinions.

The nature of firms and issues involved in the PCAOB's disciplinary actions in 2009 reflected this broad spectrum of concerns. At one end, the *Matter of Thomas J. Linden* involved a partner of a large audit firm that audited the financial statements of a large, multinational company. In that case, the Board found that Linden, a partner of Deloitte & Touche, had violated applicable auditing standards by failing to exercise appropriate skepticism and due care in the firm's audits of the 2003 financial statements of Navistar Financial Corporation (NFC) and its parent, Navistar International Corporation (NIC). This conduct occurred in the context of NFC's discovery—shortly before NFC and NIC planned to file their Forms 10-K—of approximately $19.7 million of apparent errors, resulting in an overstatement of NFC's assets, revenues, and earnings. NIC had already publicly announced its fourth-quarter earnings when the overstatement was discovered. Because NFC's financial results were consolidated into NIC's financial statements, correction of the overstatement created the prospect that NIC would have to revise its previously announced earnings. Linden helped NIC avoid the possibility of a revision of its reported results and assisted NIC and NFC to meet their internal deadline for filing their Forms 10-K by (1) initiating an increase of approximately 50 percent in the firm's planned tolerance for misstatements in NFC's reported financial results, (2) authoring, with the assistance of a member of the NFC engagement team, an NFC audit work paper that inaccurately characterized the reasons for and circumstances surrounding the increase, (3) failing to evaluate adequately the risk that NIC's financial statements were materially misstated due to error or fraud; and (4) otherwise failing to act with the requisite due professional care and professional skepticism. Based on these findings, and an offer of settlement from Linden without admitting or denying these findings, the Board barred Linden from associating with any registered firm with a right, after two years, to petition the Board to permit association, and imposed a civil monetary penalty of $75,000.

The Board's action in the *Matter of Moore & Associates, Chartered and Michael J. Moore, CPA* involved an auditor with some of the smallest public company clients. In that case, the Board found, among other things, that the firm and its president violated the antifraud provisions of the federal securities laws by issuing audit reports for public company clients falsely stating that the audits were conducted in accordance with PCAOB standards. Specifically, the firm registered with the Board in 2004 in order to be able to accept public company audit clients. Over the next three years, the firm accepted nearly 300 public company audit engagements, with Moore serving as the auditor with final responsibility on each of them and the remaining audit staff comprised of assistants who had no accounting or auditing education, experience or training. The firm and partner failed to perform or ensure the performance of any audit work for critical aspects of the audit, in violation of PCAOB auditing standards. Based on these findings and offers of settlement from the firm and Moore without admitting or denying the findings, the Board revoked the firm's registration and barred Moore, without providing for a right to petition the Board to permit association in the future. The Board did not impose a monetary sanction based on the fact that in a related matter, Moore had agreed to pay a civil monetary penalty to the SEC.

In each of the 2009 disciplinary actions described in this annual report, the respondents consented to the Board's sanctions. The Board commenced other disciplinary proceedings in 2009, but the respondents in those proceedings have contested the charges. Under the Sarbanes-Oxley Act, contested proceedings are nonpublic unless respondents consent to open them and the Board makes a finding for a good cause. At the end of 2009 a number of such nonpublic proceedings either were being litigated before the PCAOB's hearing officer or were on appeal.

PETITIONS TO TERMINATE BARS

The Board also granted, in 2009, one petition to terminate a previously imposed bar on an associated person, Edward Turner, CPA. The Board had sanctioned Turner in 2006 in a settled order for failing to exercise due professional care, failing to exercise professional skepticism, and failing to obtain sufficient competent evidential matter in performing the audit of the 2003 financial statements of 21st Century Technologies, Inc. Turner agreed to the entry of this order without admitting or denying the Board's findings. Based on information supplied with the petition, representations made, and certain undertakings relating to the PCAOB's rules on such petitions, the Board determined that Turner had met applicable requirements and that he had complied with the December 19, 2006, order barring him from being an associated person of a registered firm.

Standard Setting

The Sarbanes-Oxley Act gave the PCAOB the responsibility to set auditing and attestation, quality control, ethics and independence standards against which to measure the conduct of firms and associated persons in inspections and, as necessary, disciplinary proceedings. To this end, the Board maintains an active standard-setting program to protect investors with auditing and related professional practice standards that strengthen the reliability of public company audits. In doing so, the Board uses a notice-and-comment process similar to the process used by federal agencies, by which the Board proposes standards for public comment, sometimes multiple times and sometimes including public solicitation of comments on a concept release first, before adopting new or amended standards.

In addition, as discussed later in this report in the context of Goal 2, the Board uses a SAG comprised of individuals with backgrounds in investor advocacy, auditing, financial statement preparation, academia and other areas, to advise the Board as it develops standards. Finally, all Board standards must be approved by the SEC before they can become effective. The SEC's approval process generally includes another notice-and-comment process.

During 2009, the Board adopted, proposed, or issued a concept release relating to four significant standard-setting projects. In addition, the PCAOB developed and provided a detailed standard-setting agenda to the SAG at the October 14–15, 2009 meeting. That agenda set projected milestones for several additional projects.

Engagement Quality Review. On July 28, 2009, after considering comments on two rounds of proposals, the Board adopted Auditing Standard No. 7, *Engagement Quality Review* (AS No. 7), and a related conforming amendment. This standard supersedes the interim standard for concurring partner reviews and applies to all audits and interim reviews performed in accordance with PCAOB standards.

AS No. 7 strengthens the requirements from the interim standard to require firms to provide for a more meaningful review of work performed by engagement teams. PCAOB inspections have found serious audit deficiencies, at both large and small firms, each year since it began its inspection program. The new standard requires better engagement quality reviews to catch those deficiencies before the audits are completed. Moreover, the new standard requires better documentation of the reviews, so that PCAOB inspectors will be able to evaluate whether reviewers are doing their jobs. Examination of such reviews, formerly known as concurring partner reviews, was in some cases close to impossible given the poor documentation provided for under the old standard.

AS No. 7 is effective for engagement quality reviews of audits and interim reviews for fiscal years beginning on or after December 15, 2009. PCAOB inspectors will thus evaluate firms' and reviewers' implementation of the new standard in the 2010 inspection cycle.

Audit Confirmation. One of the most widely used substantive tests for obtaining evidence regarding the existence and, to a lesser extent and under certain conditions, the valuation of various accounts, is direct communication by the auditor with third parties independent of management, commonly referred to as confirmation. Confirmation typically involves a request that the third party verify the accuracy of specified financial information that management asserts is true. The profession's auditing standard on confirmations has not been revisited since 1991, when the profession adopted AU Sec. 330, *The Confirmation Process,* which the PCAOB incorporated into its interim auditing standards in 2003. The interim standard may be outdated for a number of reasons, including technological advances.

On April 14, 2009, the Board issued a *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations.* The concept release sought public comment on the potential direction of a standard-setting project on how auditors confirm financial information with third parties, which could result in an amendment to AU Sec. 330 or a new auditing standard that would supersede that standard. The concept release identified possible changes to the existing standard on confirmation, including changes that would reflect the prevalence of electronic confirmation requests and electronic records as well as changes related to the risks of management interception or other intervention in the confirmation process. The comment period ended on May 29, 2009. At the close of 2009, PCAOB staff were considering comments received and developing a proposed standard for the Board's consideration.

Signing the Audit Report. On July 28, 2009, the Board issued a *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*. The idea of requiring the engagement partner, in his or her name, to sign a public company audit report is not new. Signature in the name of a firm has long been the norm in the United States. However, in 2006, consistent with pre-existing practice in some European countries, the European Union's Eighth Directive required the signature of a natural person on audit reports. The Board's SAG discussed the possibility of requiring a partner signature—along with the firm's signature— in 2005, 2007, and 2008. Moreover, in October, 2008, the final report of the Department of the Treasury's Advisory Committee on the Auditing Profession (ACAP) urged the Board to "undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report." The ACAP report states that "the engagement partner's signature on the auditor's report would increase transparency and accountability."

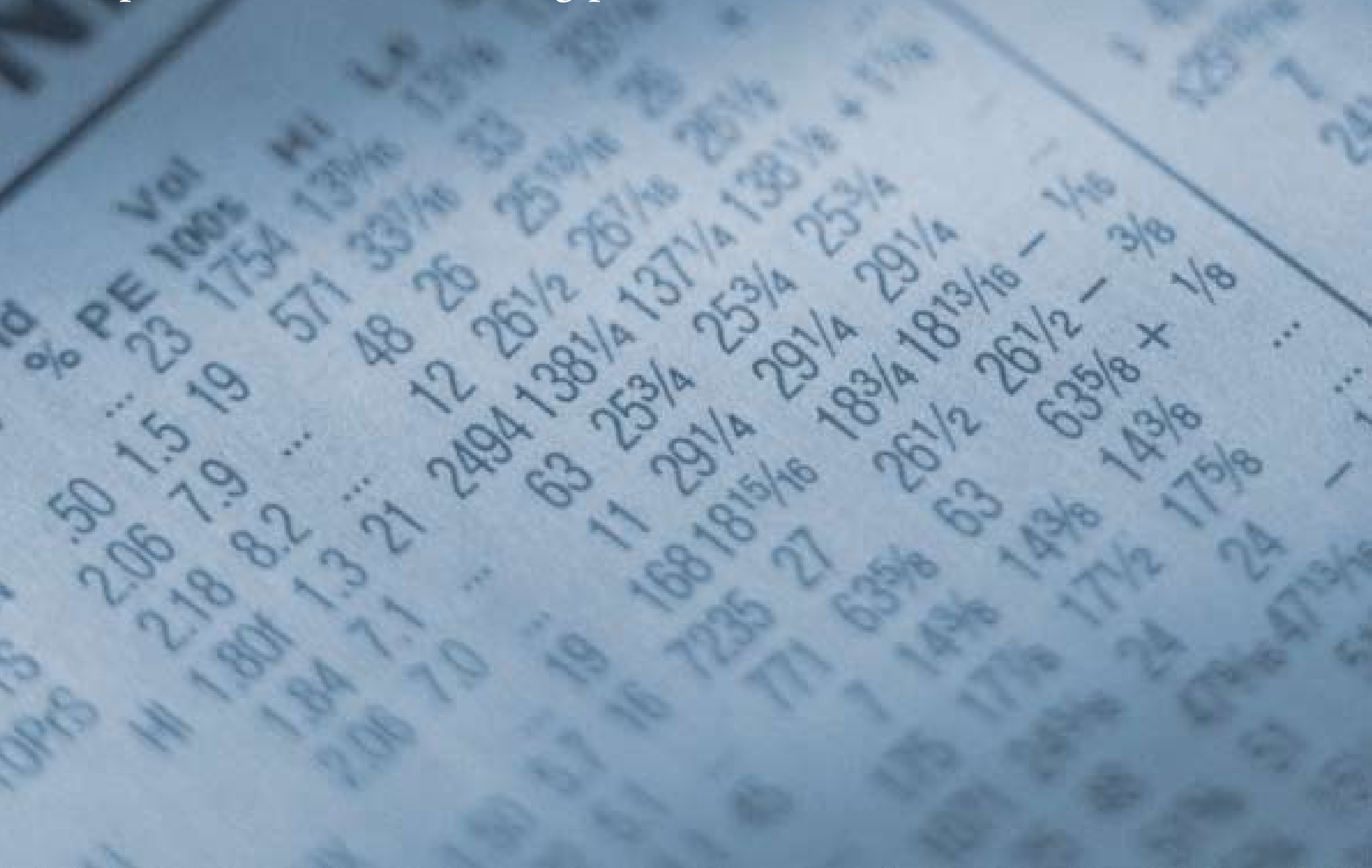
The Board issued a concept release to solicit public comment on whether it should require the engagement partner to sign the audit report, which would be in addition to the PCAOB's current requirement for the registered public accounting firm to sign the audit report. The comment period ended on September 11, 2009. At the close of 2009, staff in the Office of the Chief Auditor (OCA), were preparing a recommendation for the Board to consider in light of comments received.

Assessing and Responding to Risk. On December 17, 2009, the Board re-proposed seven new auditing standards, *Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards* that, collectively, would update the requirements for assessing and responding to risk in an audit. The Board initially proposed these standards on October 21, 2008. The re-proposed standards include changes made in response to comments received on the original proposal and other refinements. The re-proposed standards would supersede the Board's interim auditing standards for audit risk and materiality; audit planning and supervision; consideration of internal control in an audit of financial statements; audit evidence; performing tests of accounts and disclosures before year-end; and evaluating disclosures.

The re-proposed standards are intended to provide for more robust risk assessments and more rigorous procedures to respond to identified risks. The re-proposed standards are also intended to enhance the integration of the audit of financial statements with the audit of internal control over financial reporting. In addition, the re-proposed standards emphasize the auditor's responsibility to consider the risk of fraud throughout the audit and contain new requirements intended to improve an auditor's evaluation of disclosures in financial statements. The re-proposal provided for a 90-day comment period ending on March 2, 2010.

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 2 reflects the Board's intention to engage a broad spectrum of interested parties in its work and to enhance the public benefits of its work through disclosure of information and development of auditor guidance and other educational materials. Two fundamental considerations underlie this goal. First, the Board believes that public awareness and interaction with the PCAOB enhances the effectiveness of the PCAOB's oversight of auditors for the protection of the investing public. Moreover, engagement gives the PCAOB important insights into audit risks and environmental factors than may affect such risks. Second, based on its access to information and its experience, the PCAOB is in a unique position to provide auditor guidance and other educational materials, which may contribute to improving audit quality generally.

In 2009, the PCAOB expanded the information it provides to the public in order to raise public awareness of certain aspects of its oversight of public company auditors. In particular, the PCAOB provided information about the status of its non-U.S. inspection program and the difficulties it was having in gaining the consent of local authorities to conduct those inspections. In addition, the PCAOB provided information about its oversight of registered firms with broker-dealer audit clients. In both cases, the PCAOB's disclosures were intended to facilitate public awareness of the limits of the PCAOB's work and thus reduce the risk of public reliance on inaccurate assumptions.

In addition, as discussed below, in 2009 the PCAOB received SEC approval of its rules requiring registered firms to file annual and special reports and developed and substantially deployed an electronic system to receive and publish such reports on the PCAOB's website. The PCAOB also resolved numerous pending confidential treatment requests, enabling it to release aspects of firms' registration applications that had been nonpublic subject to those requests. The PCAOB also continued ongoing initiatives to issue reports on its inspections and guidance for auditors. The PCAOB also held Forums on Auditing in the Small Business Environment, meetings with the PCAOB's SAG and Audit Risk Working Group, and an Academic Symposium. The PCAOB also established an IAG and an academic fellowship program. The PCAOB monitored legislative developments and sought changes to address identified problems. PCAOB Board members and staff also participated as speakers in a number of forums. Finally, the PCAOB consulted with the SEC and others on developing a national center for the prevention and detection of financial reporting fraud, as recommended by the ACAP.

Disclosure of Information Related to the PCAOB International Inspection Program

On April 7, 2009, the PCAOB published a list of non-U.S. jurisdictions in which there were registered firms that the Board intended to inspect in 2009. The Board stated at the time that its intention in publishing this list was to provide transparency about its international inspection plans for 2009. The Board also committed to making a public announcement explaining why its plans changed for the particular jurisdiction if the Board later removed a jurisdiction from this list. The list is available on the PCAOB's website at http://pcaobus.org/News/Releases/Pages/04172009_InternationalInspections.aspx. Separately, on the same date, the Board published a list of the non-U.S. jurisdictions in which there were registered firms that the Board had inspected in order to inform the public about the Board's progress with respect to international inspections.

On August 12, 2009, the PCAOB published two other lists:

- a list of registered firms that have not yet been inspected by the PCAOB, even though more than four years had passed since the end of the calendar year in which the firm first issued an audit report while registered with the Board; and
- an updated list of jurisdictions in which the Board has conducted inspections of registered non-U.S. firms. As indicated by that list, as of December 31, 2009, the Board had conducted inspections of non-U.S. firms in 33 jurisdictions.[1]

In addition, on the same date, the Board reported its progress in meeting its 2009 target for the inspection of certain non-U.S. firms and committed to provide regular updates going forward to reflect information current as of June 30 and December 31.

Board Statement on PCAOB Registration for Auditors of Broker-Dealers

As discussed earlier, as a result of the expiration of a series of temporary SEC exemption orders, audits of the approximately 5,000 SEC-registered broker-dealers must be performed by an accounting firm that is registered with the Board for fiscal years ending after December 31, 2008.[2] In response, on January 8, 2009, the Board issued a statement providing information for auditors of broker-dealers about the PCAOB's registration process. Subsequently, more than 400 audit firms with broker-dealer audit clients were registered by the Board in 2009.

PCAOB registration of broker-dealer auditors may lead customers of broker-dealers to believe that the PCAOB is exercising oversight of the audit work of those firms, especially as it relates to the auditor's review of procedures the broker employs to protect customer cash and securities. However, the Sarbanes-Oxley Act does not empower the Board to inspect, set standards for, or investigate deficiencies in broker-dealer audits. Therefore, the Board's January 8 statement also warned the public that the Act does not provide for PCAOB oversight of private company audits and that, as a result, audits of broker-dealers, like other private company audits, are not, under existing law, subject to PCAOB inspection and cannot be the basis for PCAOB disciplinary action.

Annual and Special Reporting by Registered Firms

On August 13, 2009, the SEC approved PCAOB rules implementing the requirement of Section 102(d) of the Act that registered firms submit annual and special reports to the PCAOB. These reports are intended to provide more transparency to investors and strengthen the Board's oversight by ensuring that it has current information about registered firms and their audit practices. On the same date, the SEC also approved new PCAOB rules governing when a firm is allowed to succeed to the registration status of a predecessor firm following a merger or change in a firm's legal form. Under these rules, a special filing is required with the Board in order to provide for continuity of registration.

The annual and special reporting rules, and the predecessor firm succession rules, were scheduled to become effective 60 days after SEC approval, on October 12, 2009. On September 30, however, the

1. Versions of these two lists as of December 31, 2009, are included in Appendices 3 and 4 to this report.

2. Every SEC-registered broker or dealer is required by Section 17(e)(1)(A) of the Securities Exchange Act of 1934 (15 U.S.C. 78q(e)(1)(A)), as amended by the Sarbanes-Oxley Act, to file with the SEC a balance sheet and income statement certified by a registered public accounting firm. The SEC issued a series of orders which granted temporary exemptions from the PCAOB registration requirement for auditors of broker-dealers. The last such order extended the exemption to cover financial statements for fiscal years ending before January 1, 2009.

Board postponed the effective date for these rules to December 31, 2009, in order to resolve technical issues related to deploying the PCAOB's new Web-based system for processing and publishing filings on the new forms. The postponement did not affect the timing of the first annual reports required from registered firms, which are due on June 30, 2010 for the 12-month period ending March 31, 2010. The PCAOB's new Web-based reporting system was substantially deployed on December 31, 2009.

Publication of Registration Applications

The Board publishes registration applications to its website after it has either approved or disapproved the application. PCAOB rules allow applicants to request confidential treatment for information contained in those applications and the PCAOB then determines whether to grant those requests. During 2009, the PCAOB made determinations with respect to confidential treatment requests contained in 92 registration applications.

Reports and Guidance

The Board uses various mechanisms to publish information about its oversight work and related guidance for auditors, including public reports on inspection and other information pursuant to PCAOB Rule 4010, as well as staff guidance, audit practice alerts, and questions and answers. On January 23, 2009, the PCAOB published staff guidance on auditing internal control over financial reporting in smaller companies, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies*. This guidance reflected the culmination of a drafting process that involved assistance of a working group of experienced auditors in developing appropriate questions to address and public solicitation of comment on a preliminary draft.

On April 21, 2009, the PCAOB issued Staff Audit Practice Alert No. 4, *Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than-Temporary Impairments,* to inform auditors about the potential audit implications of certain Financial Accounting Standards Board (FASB) Staff Positions.

On September 2, 2009, the PCAOB issued Staff Questions and Answers, *References to Authoritative Accounting Guidance in PCAOB Standards,* to address descriptions of, and references to, authoritative accounting guidance contained in the Board's standards in light of FASB's adoption of its Accounting Standards Codification.

On September 24, 2009, the Board released a report, *Report on the First-Year Implementation of Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*. This report discussed whether auditors were effectively applying a top-down, risk-based audit approach and successfully transitioning to AS No. 5, based on inspection fieldwork performed in 2008.

Forum on Auditing in the Small Business Environment

Each year, the Board hosts a series of Forums on Auditing in the Small Business Environment. These day-long presentations are designed to allow auditors in small firms to learn about the PCAOB's work, provide feedback and ask questions about PCAOB activities, including PCAOB inspections procedures and new auditing standards and guidance. The format promotes an open dialogue among PCAOB representatives and forum participants and, in 2009, for the first time, included case studies presented by staff from the Division of Registration and Inspections (DRI) and the PCAOB's DEI.

In 2009, the PCAOB held forums in New York (January and July), Santa Monica (April), Philadelphia (June), Houston (September), Denver (November) and Orlando (December). The program agenda included a presentation on the current economic environment and focused on emerging accounting and auditing issues. This segment covered auditing fair value determinations, identifying other-than-temporary-impairment (OTTI) of assets and other impairment risks, going concern considerations, issues pertaining to revenue recognition, and other matters. The forums also addressed various auditing standards, including the implementation of AS No. 5 and related guidance for auditors of smaller public companies, the proposed standards on engagement quality review and risk assessment, and the newly adopted annual and special reporting rules. In addition, at these sessions, staff from the SEC's Division of Corporation Finance discussed current financial reporting issues facing smaller issuers.

More information about the PCAOB's Forum on Auditing in the Small Business Environment is available on the PCAOB's website at http://pcaobus.org/Featured/Pages/SmallBusinessForums.aspx.

Standing Advisory Group

Consistent with Section 103 of the Sarbanes-Oxley Act, the Board has convened its SAG to advise the PCAOB on the development of auditing and related professional practice standards. SAG membership is drawn from a cross section of public companies as well as auditors from large and small accounting firms, investors, academics and others. The SAG is an important resource for the Board in identifying emerging standard-setting issues and hearing views on standard-setting initiatives from a broad range of perspectives.

At the close of 2009, the SAG had 31 members with expertise in accounting, auditing, corporate finance, corporate governance and investing. A list of members is available in Appendix 5 of this report. In addition, six organizations have observer status at the meetings of the SAG: the SEC, the FASB, the Government Accountability Office (GAO), the U.S. Department of Labor, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA), and the International Federation of Accountants' (IFAC) International Auditing and Assurance Standards Board (IAASB). All SAG meetings are open to the public and webcast from the PCAOB's website.

At the April 2, 2009, meeting, the SAG discussed audit confirmation and certain aspects of the PCAOB's proposed auditing standard on engagement quality review. The PCAOB considered comments that SAG members made during this meeting in developing its *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations* and its final AS No. 7, *Engagement Quality Review*. The SAG meeting also included a discussion on emerging issues, including the audit implications of recent FASB actions regarding fair value measurements, disclosures, and OTTI, and a panel discussion on the auditor's consideration of a company's ability to continue as a going concern.

At the October 14–15, 2009, meeting, the SAG provided the PCAOB with input and advice on auditing fair value measurements, using the work of a specialist, communications with audit committees, and related parties. The SAG meeting also included an update on the proposed auditing standards relating to the auditor's assessment of and response to risk as well as the Board's *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations* and its *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*.

In addition, at the October meeting, the PCAOB updated the SAG on the Board's standard-setting activities since October 2008 and the status of standard-setting topics previously discussed with the SAG since its inception. To promote transparency, the PCAOB also presented and sought the SAG's input regarding a

24-month forward-looking standard-setting agenda for the following projects:

- Re-proposal of the seven risk assessment standards
- Consideration of proposed standards on:
  - Confirmations
  - Communication with audit committees
  - Fair value measurements
  - Using the work of a specialist
  - Related parties
  - Signing the auditor's report
  - Application of the Act's provision on failure to supervise
  - Global quality control, including control over the work of affiliated firms
  - Principal auditor
  - Going concern
  - Subsequent events
  - Applicability of SEC Practice Section (SECPS) requirements to all registered firms

A full list of the standard-setting priorities can be located on the PCAOB website at http://pcaobus.org/Standards/Pages/CurrentStatus.aspx.

Investor Advisory Group

In 2009, the PCAOB established and announced the membership of an IAG to advise the Board in carrying out its responsibilities. The IAG consists of 18 members who represent a broad spectrum of the investment community as well as individuals who have a demonstrated history of commitment to investor protection. A list of members is available in Appendix 6 of this report. The purpose of the IAG is to provide members' views and advice to the Board on policy issues and other matters that affect investors and are related to the work of the Board. The IAG's charter provides that it will hold one- or two-day semi-annual meetings, which will be chaired by a Board member of the PCAOB designated by the chairman of the PCAOB. In July 2009, former Chairman Mark W. Olson designated Board member Steven B. Harris as chairman of the IAG. The IAG charter is available on the PCAOB's website at http://pcaobus.org/About/Advisory/Pages/Charter.aspx.

Audit Risk Working Group

The PCAOB, through senior staff of its ORA and OCA, continued its periodic Audit Risk Working Group meetings with the lead technical partners of the largest registered firms and rotating representation of smaller registered firms. The PCAOB's objectives for the Audit Risk Working Group are to discuss events and trends that could affect audit risk and the firms' risk assessment and mitigation methodologies.

Academic Symposium

From April 30 through May 1, 2009, the PCAOB held its fifth Academic Symposium, planned jointly by the staff of the PCAOB and members of the Auditing Section of the American Accounting Association. The Symposium was attended by 54 academics, as well as PCAOB Board members and staff, and representatives of the SEC, the FASB and the GAO.

The objectives of the Symposium were to exchange ideas between PCAOB Board members and staff and members of academia regarding matters of mutual interest, stimulate relevant research on topics related to auditing and investor protection, and explore possible methods for preparing students. The 2009 Symposium included presentations by and panel discussions with PCAOB staff on the current activities of the PCAOB's OCA, DRI, and DEI. The Symposium also included two separate presentations and panel discussions conducted jointly with academics and representatives of the auditing profession—a discussion related to the current economic crisis and its impact on the auditing procedures and a discussion of future academic research issues.

Academic Fellowship

In 2009, the PCAOB established an academic fellowship program and solicited candidates for a fellow to serve in the 2010–2011 academic year. The fellowship program is intended to provide analytical support and expertise to the ORA and other PCAOB staff, as well as to facilitate input from the academic community related to the PCAOB's work.

Legislative Initiatives

The PCAOB monitored legislative developments in 2009, including legislative initiatives to give the PCAOB expanded authority to oversee registered firms' audits for broker-dealer audit clients as well as authority to share inspection and other information with the PCAOB's foreign counterparts.[1]

The first initiative would address the risk of a public expectation gap related to PCAOB oversight of auditors with broker-dealer audit clients discussed above. The second initiative would address certain objections to continuing inspections in certain jurisdictions due to the Board's inability under the Sarbanes-Oxley Act to share inspections and investigation information with foreign auditor oversight authorities. While the Act protects PCAOB inspection and investigative processes from public disclosure and from discovery in private legal proceedings, it allows the PCAOB to share information prepared or gathered during those processes with certain U.S. federal and state authorities, but not with its non-U.S. counterparts.

By letter dated July 7, 2009 from former Chairman Olson to the chairmen of the House Financial Services Committee and the Senate Committee on Banking, Housing and Urban Development, the PCAOB expressed support for legislation to provide the PCAOB expanded authority in these two areas. Subsequently, on December 11, 2009, the House of Representatives passed H.R. 4173, the Wall Street Reform and Consumer Protection Act (the "House Reform Act"), by a vote of 223–202. In addition, on November 10, 2009, the Chairman of the Senate Committee on Banking, Housing and Urban Affairs circulated a discussion draft of a financial regulatory reform bill. Both the House Reform Act and the Senate discussion draft included provisions that would provide the PCAOB expanded authority related to information-sharing and oversight of broker-dealer auditors.

Participating in Other Forums

In order to reach a broad cross-section of interested parties, Board members and staff participated in numerous speaking engagements in 2009. These included the AICPA National Conference on SEC and PCAOB Developments, the Council of Institutional Investors' Fall Conference, the SEC and Financial Reporting Institute at the University of Southern California's Leventhal School of Accounting, and the National Association of State Boards of Accountancy's Forum of International Accountancy Regulators. The audiences for these speaking events included auditors, issuers, investors, other regulators, academics and students.

Consultation on Recommendations of the ACAP

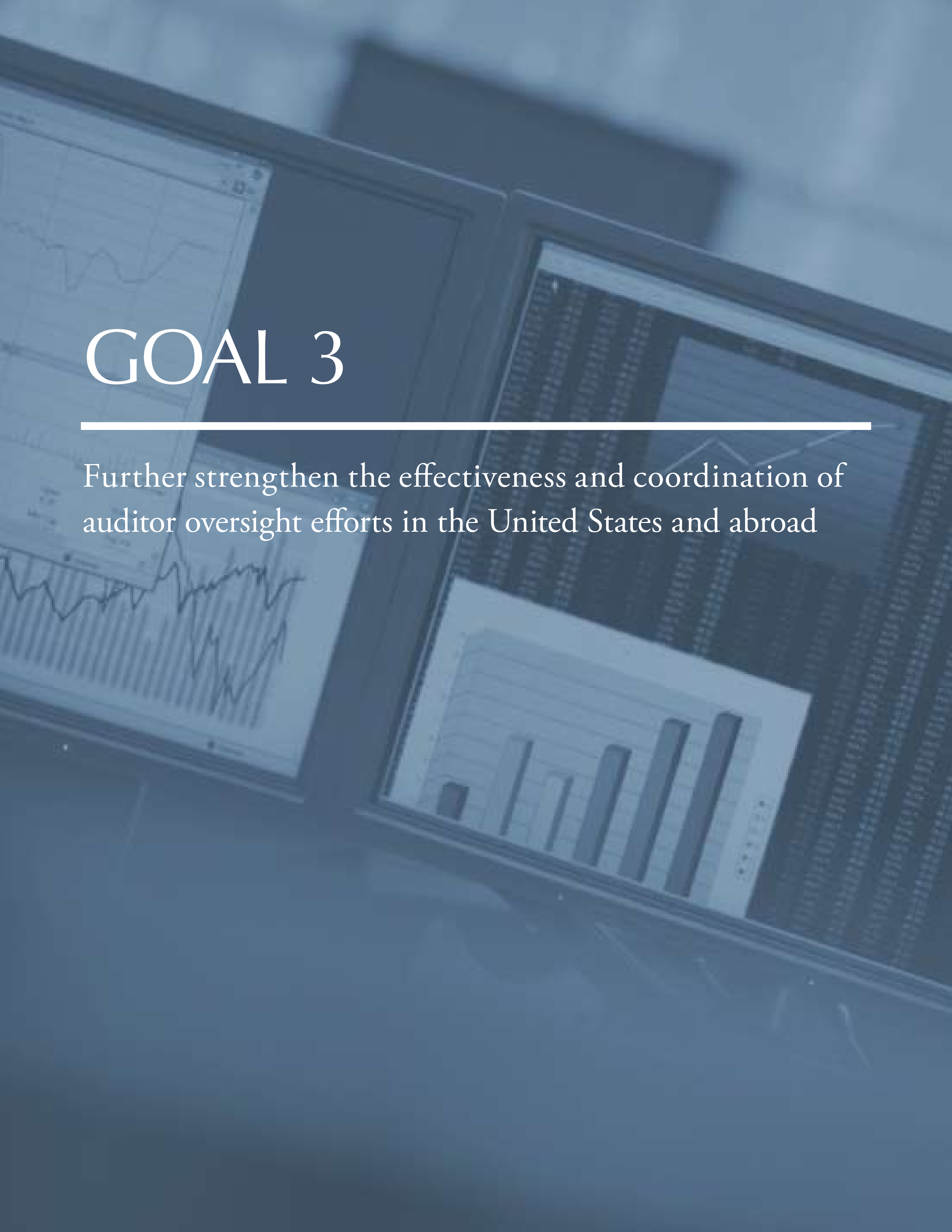
The ACAP's final report, issued on October 6, 2008, included several recommendations related to the PCAOB. For example, as discussed earlier in this report in the context of Goal 1, the ACAP report urged the Board to "undertake a standard-setting initiative

1. The list of authorities that may receive such information is limited to the SEC, the Attorney General of the United States, appropriate Federal functional regulators (such as bank regulators), State attorneys general in connection with criminal investigations, and appropriate State regulatory agencies (such as state boards of accountancy).

to consider mandating the engagement partner's signature on the auditor's report."

The SEC's December 17, 2008 order, which approved the PCAOB's budget and annual accounting support fee for calendar year 2009, stated that the PCAOB should "[c]onsult with the Commission about the PCAOB's plans for implementing the recommendations of the Department of the Treasury's ACAP, including estimated and actual costs for each item proposed to be implemented." Consistent with this order, the Board consulted with the SEC about various recommendations in 2009.

The Board also sought other input on the ACAP recommendations relating to the PCAOB. In addition to the discussion with the SAG described earlier, the PCAOB had discussions, on an informal basis, with various experts to solicit views on the potential scope, structure, and organization of a national center focused on the prevention and detection of financial fraud. Based on these discussions, the PCAOB developed a preliminary outline for the center. The center would (1) maintain a repository of information related to financial reporting fraud, including types of fraud, case histories and lessons learned, current trends and risks, and best practices to identify financial reporting fraud; (2) produce periodic and ad hoc reports on risks related to financial reporting; and (3) publish information to enhance understanding of the risk of financial fraud.



GOAL 3

Further strengthen the effectiveness and coordination of auditor oversight efforts in the United States and abroad

Goal 3 reflects the Board's intention to coordinate its regulatory programs with those of other auditor oversight bodies. Two considerations underlie this goal. First, as discussed in the Overview to this report, the Sarbanes-Oxley Act gives the SEC extensive oversight authority over the PCAOB. In addition, the SEC itself regulates financial reporting and has authority to discipline auditor conduct. Coordination to ensure that the PCAOB's activities are consistent with the SEC's actions is therefore essential. Second, the actions of other regulators can affect auditors subject to PCAOB oversight, and thus can in turn affect the PCAOB's programs.

Domestic Coordination

The PCAOB maintains close contact with the SEC and its staff on all aspects of the PCAOB's work on an ongoing basis, including in the PCAOB's development of standards and other rules, investigations, and consultations on application of applicable accounting standards, as well as other more administrative aspects of the PCAOB's operations. By its nature, much of this coordination takes place outside public view, but in some cases it culminates in public actions by the PCAOB, the SEC or both that manifest the coordination that led to the action.

SEC approval of standards and other rules adopted by the PCAOB is such an action. Under Section 107 of the Sarbanes-Oxley Act, no standard or other rule of the Board is effective without approval of the SEC. In 2009, the SEC acted on several PCAOB rulemaking initiatives. Specifically, on May 28, 2009, the SEC approved a PCAOB amendment of its rule relating to the frequency of inspections, which allowed the PCAOB to postpone certain inspections of non-U.S. registered firms that were otherwise required in 2008. In addition, as discussed earlier in this report in the context of Goal 2, on August 13, 2009, the SEC approved the PCAOB's rules on annual and special reporting by registered firms and its rules on succeeding to the status of a predecessor firm. The SEC also acted, on November 13, 2009, to grant immediate effectiveness to the PCAOB's postponement of the effective date of its rules on annual and special reporting.

As discussed earlier in this report in the context of Goal 1, the PCAOB closely coordinates its enforcement activities with the SEC. In certain instances, the PCAOB investigates the auditor's conduct and the SEC focuses its investigation on the public company, its management, and other parties. In other cases, the SEC's Division of Enforcement takes responsibility for an investigation and requests that PCAOB defer to that investigation. In 2009, this coordination resulted in simultaneous PCAOB and SEC orders relating to the *Matter of Moore & Associates, Chartered and Michael J. Moore, CPA*. These orders resulted in one monetary penalty, which was imposed by the SEC. They also provided comprehensive investor protection by revoking Moore & Associates, Chartered's registration with the PCAOB, barring Michael J. Moore from associating with any other firm registered with the PCAOB, and barring both the firm and Moore from practicing before the SEC as accountants in any capacity, including capacities beyond PCAOB jurisdiction, such as corporate financial reporting. In addition, in 2009 PCAOB enforcement staff conducted several investigations of auditor conduct parallel to SEC enforcement investigations, including investigations related to the financial crisis.

The PCAOB also maintained working relationships with individual state boards of accountancy and other relevant regulatory and law enforcement authorities. Consistent with Section 104(g) of the Sarbanes-Oxley Act, the PCAOB transmitted, in appropriate detail, its inspection reports issued in 2009 to each appropriate state board of accountancy and as appropriate shared inspection and investigation material with the SEC and relevant state boards of accountancy.

The PCAOB also participated in the U.S. Auditing Standards Coordinating Forum with the GAO and the ASB to discuss each standard-setter's respective standard-setting agenda. In addition, the PCAOB participated in regular meetings with the FASB (and the SEC) on relevant accounting and auditing issues.

International Coordination

Approximately 250 non-U.S. firms are subject to regular PCAOB inspection.[1] As of the end of 2009, the Board had inspected 166 non-U.S. firms in 33 jurisdictions, with some firms being inspected more than once. As discussed earlier in this report in the context of Goal 1, in 2009 the PCAOB inspected 82 non-U.S. firms in 26 jurisdictions. Twenty-nine of these 82 inspections were performed on a joint basis with the local auditor oversight authority pursuant to negotiated cooperative arrangements. These authorities included the Australian Securities and Investments Commission, the Canadian Public Accountability Board, the Korean Financial Supervisory Service and the Accounting Regulatory and Corporate Authority in Singapore. In each of the joint inspections, as well as most other foreign inspections not conducted on a joint basis, the PCAOB and its foreign counterpart were able to resolve conflicts of law, sovereignty, and other issues that have arisen in connection with these inspections.

The PCAOB was not able to conduct inspections in the European Union, China, and Switzerland in 2009. In previous years, the PCAOB was able to conduct joint inspections in some EU Member States, but in February 2009, the EU indicated that further joint inspections could not continue pending resolution of the information-sharing issue discussed earlier in this report in connection with Goal 2. As a result, inspections of approximately 20 EU firms scheduled for 2009 did not occur.[2] In the case of Switzerland, Swiss authorities informed the PCAOB in early 2009 that two joint inspections could not go forward. The Swiss objections related in large part to the PCAOB's ability to transfer information gathered during inspections to other U.S. regulators, such as the U.S. Department of Justice.[3] With regard to China, the objection is based primarily on national sovereignty. There, inspections of two mainland Chinese firms were scheduled in 2009 but did not occur, and inspections of six Hong Kong firms were commenced

1. About 930 registered firms are located outside of the United States, in 88 jurisdictions. Not all of these firms are subject to regular, periodic PCAOB inspection. The PCAOB regularly inspects any of those firms that issue audit reports opining on the financial statements of issuers, and might also inspect others of those firms that play a role in the audit of an issuer, such as by auditing a foreign subsidiary. Many of the Board's foreign registrants are members of a global network of firms that share a common name and certain policies, audit methodologies and business interests with firms that operate in the U.S.

2. At the end of 2009, there were 315 firms from 26 countries in the EU (including Norway) registered with the PCAOB. Seventy-six of those firms had issued audit reports for at least one issuer since being registered; 69 of those firms have not issued audit reports for issuers but indicated in their registration applications that they played a substantial role in an audit of an issuer.

3. At the end of 2009, nine Swiss firms were registered with the PCAOB. Four of those firms had issued audit reports for at least one issuer since being registered; one of those firms has not issued audit reports for issuers but indicated in its registration application that it played a substantial role in an audit of an issuer.

in or before 2009 but not completed because the PCAOB was denied access to documents relating to companies operating in mainland China.[1]

The PCAOB's Office of International Affairs (OIA) represents the PCAOB in engaging with non-U.S. governmental authorities to enable the PCAOB to perform inspections of registered non-U.S. firms. In addition to engaging in discussions with authorities in the EU, China, and Switzerland related to those authorities' objections to PCAOB inspections, during 2009 OIA had bilateral contact or discussions with many other jurisdictions, including Australia, Belgium, Brazil, Canada, Chile, China, Finland, France, Germany, Greece, Israel, Japan, the Republic of Korea, Macedonia, Malaysia, the Netherlands, Norway, Panama, Poland, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Taiwan and the United Kingdom.

In addition, in October 2009, the Board hosted approximately 105 representatives from 42 countries at the PCAOB's third International Auditor Regulatory Institute in Washington, D.C. for two days of presentations and meetings.

The PCAOB also continued to participate as a member in meetings and working groups of the International Forum of Independent Audit Regulators (IFIAR). IFIAR's objectives include sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity; promoting collaboration in regulatory activity; and providing a point of contact for other international organizations that have an interest in audit quality.

Finally, in 2009, the PCAOB continued its efforts to monitor various international professional bodies that develop professional standards for auditors. To this end, the PCAOB served as an observer to the IFAC's IAASB, as well as IFAC's International Ethics Standards Board for Accountants. The PCAOB also served as an observer to the two consultative advisory groups of those Boards, as well as the consultative advisory group to IFAC's International Accounting Education Standards Board.

1. At the end of 2009, there were 54 Chinese firms and 59 Hong Kong firms registered with the PCAOB. Twenty-eight of those firms (9 in China and 19 in Hong Kong) had issued audit reports for at least one issuer since being registered; 24 of those firms (15 in China and 9 in Hong Kong) have not issued audit reports for issuers but indicated in their registration applications that they played a substantial role in an audit of an issuer.

GOAL 4

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

Goal 4 acknowledges the Board's public interest mission and in that regard reflects the Board's intention to exercise careful stewardship over its resources. Two considerations underlie this goal. First, the Board's stewardship is subject not only to the SEC's statutory scrutiny, but the PCAOB is also accountable to the public. Second, the PCAOB's resources are limited. Therefore, the Board must prioritize its uses of those resources to maximize its effectiveness in protecting the investing public.

To this end, the Board plans its operations through its budgeting and strategic planning, recruits a highly qualified workforce of experienced accountants, attorneys, analysts and others, and employs information technology to enhance the effectiveness of its programs, operations and initiatives. In addition, in light of its accountability to the SEC and the public, the PCAOB devotes resources to maintaining and assessing the effectiveness of its internal control over financial reporting and monitors its operations through its Office of Internal Oversight and Performance Assurance (IOPA).

Budgeting and Strategic Planning

The PCAOB's budget for 2009, as approved by the Board on November 25, 2008, was $157.6 million. The SEC approved the PCAOB's 2009 budget and related accounting support fee by order dated December 17, 2008. Under the Sarbanes-Oxley Act, the accounting support fee is the amount annually assessed to public companies and other issuers, in proportion to their market capitalization, to fund the Board's activities.

In preparing its budget for 2010, the PCAOB complied with the SEC rule facilitating SEC review and approval of the PCAOB's budget.[1] This rule provides for the Board to transmit a preliminary budget to the SEC by July 31, 2009, and for the PCAOB to address changes in an SEC passback in response. After doing so, on November 30, 2009, the Board approved its 2010 budget and accounting support fee. At the same time, the Board approved a revised strategic plan for the years 2009 through 2013. The SEC subsequently approved the PCAOB's 2010 budget and accounting support fee on December 22, 2009.

Recruiting

As discussed earlier in the context of Goal 1, the PCAOB reevaluated its resource needs in 2009 and reallocated resources to its inspections, enforcement activities, and risk assessment. Overall, the PCAOB increased its staff by 86 in 2009, including 57 inspections staff members, ending the year with a total of 567 staff. To attract new staff for its expanding domestic and international inspections operations, the PCAOB opened satellite offices in five cities: Boston, Charlotte, Detroit, Houston and Tampa. These locations are in addition to its seven current

1. See SEC Release Nos. 33–8724; 34–54168, Amendments to the Informal and Other Procedures; Public Company Accounting Oversight Board Budget Approval Process, 71 Fed. Reg. 41998 (July 24, 2006).

regional offices and the headquarters office in Washington, D.C. The new sites allowed the PCAOB to tap into the existing area market of experienced accountants and auditors committed to protecting investors.

Technology

In 2009, the PCAOB continued to use technology to assist in supporting its program activities and promote efficiencies in its operations. As described earlier in the context of Goal 2, in 2009, the PCAOB developed and substantially deployed a Web-based system to receive and publish registered firms' annual and special reports. In addition, the PCAOB continued work on completing the redesign of its website. The PCAOB also continued to work on implementing an inspections information system to record and analyze information obtained in inspections and on planning a redesign of the PCAOB's risk analysis database system in 2009. With regard to daily operations, the PCAOB continued to seek opportunities to streamline the PCAOB's technological infrastructure while also maintaining reliable and secure information systems.

Financial Reporting Management and Internal Control Over Financial Reporting

The PCAOB's financial reporting management performed an assessment of the PCAOB's internal control over financial reporting and concluded that the PCAOB's internal control over financial reporting was effective as of year-end 2009. The PCAOB also engaged its independent auditor to perform an audit of the PCAOB's internal control over financial reporting, consistent with AS No. 5. The independent auditor's report is provided in this report.

Office of Internal Oversight and Performance Assurance

IOPA conducts performance reviews of PCAOB programs and operations, provides timely quality assurance assessments to the Board, and also may receive and review allegations of wrongdoing by PCAOB employees. IOPA conducts its performance reviews in accordance with the GAO's Government Auditing Standards (Yellow Book).

During 2009, IOPA completed reviews of PCAOB's succession planning, purchase cards, and international inspections. Summaries of these reviews are posted on the PCAOB's website at http://pcaobus.org/InternalOversight/Pages/default.aspx.

FINANCIAL REVIEW

This financial review, together with the 2009 audited financial statements and the accompanying notes, provide financial information and disclosures related to the PCAOB's programs and activities described in the other sections of this annual report.

The PCAOB's primary source of operating revenue is its accounting support fee. Section 109 of the Sarbanes-Oxley Act provides for funding the PCAOB's budget, once approved by the SEC, through an accounting support fee assessed on issuers. The accounting support fee is equal to the PCAOB's budget, less registration fees paid by public accounting firms seeking registration as well as excess funds from the prior year's operations. In 2009, the PCAOB issued invoices to 10,164 issuers for a total accounting support fee of approximately $157.4 million.

The PCAOB's operating expenses in 2009 were approximately $148.9 million, compared to $133.8 million in 2008. This 11 percent ($15.2 million) increase was primarily due to increased headcount and related expenses, as discussed further in this review.

PRESENTATION OF FINANCIAL STATEMENTS

The PCAOB's financial statements are presented in accordance with Accounting Standards Codification No. 958, *Not-for-Profit Entities* (ASC 958). A discussion of the statements of financial position and the accompanying statements of activities follows.

Statements of Financial Position

The PCAOB reported unrestricted net assets of approximately $82.2 million as of December 31, 2009, an increase of approximately $9.1 million compared to December 31, 2008. The change in net assets was primarily due to an increase in accounting support fee revenue, partially offset by an increase in operating expenses. These assets include approximately $1.1 million in collections of civil monetary penalties that are statutorily designated for exclusive use towards a scholarship program by Section 109(c)(2) of the Act. The remainder of the net assets will fund the PCAOB's 2010 operations until funds are received from the 2010 accounting support fee billing cycle. Typically, the majority (approximately 94 percent) of the accounting support fee is collected by the end of the second quarter.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include demand deposits and overnight investment accounts with financial institutions and short-term, highly liquid investments. The PCAOB utilized a sweep service from a financial institution to invest in overnight repurchase agreements in U.S. government-sponsored enterprise securities. The balance also includes cash collected on behalf of the FASB. The Financial Accounting Foundation (FAF) designated the PCAOB as the collection agent for invoicing and collecting the FASB accounting support fee. Cash and cash equivalents include approximately $10,000 and $19,000 of cash collected on behalf of the FASB as of December 31, 2009, and 2008, respectively. Corresponding amounts are included in accounts payable and other liabilities as of December 31, 2009 and December 31, 2008.

As a result of separate disciplinary actions against individuals associated with a registered public accounting firm, the PCAOB collected civil monetary penalties in 2009 and 2008 of $75,000 and $25,000, respectively. As mentioned above, these funds and the associated accrued interest are included with penalties from previous years in the cash and cash equivalents balance and are statutorily designated for exclusive use towards a scholarship program.

SHORT-TERM INVESTMENTS

During 2009, the Board modified its cash and investment strategy to maximize investment return and minimize exposure to credit risk. As a result, the Board moved its investments from U.S. Treasury bills to cash and cash equivalents during the year. The Board had approximately $35.0 million invested in Treasury bills as of December 31, 2008.

NET ACCOUNTS RECEIVABLE

Accounts receivable (less an allowance for doubtful accounts of approximately $186,000 and $58,000 as of December 31, 2009 and 2008, respectively) includes outstanding accounting support fees from issuers of approximately $232,000 and $136,000 as of December 31, 2009, and 2008, respectively. The collection rates for the accounting support fee were approximately 99.7 percent and 99.9 percent for the years ended December 31, 2009 and 2008, respectively.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets were approximately $5.1 million and $3.5 million as of December 31, 2009, and 2008, respectively. The increase of approximately $1.6 million was related to security deposits for new satellite office locations, furniture deposits for additional office space planned for 2010, and increases in prepaid maintenance and employee benefit costs.

NET FIXED ASSETS

Net fixed assets were approximately $9.7 million and $10.6 million as of December 31, 2009 and 2008, respectively. Spending on fixed assets increased from approximately $1.7 million in 2008 to $3.0 million in 2009, primarily related to leasehold improvements and furniture costs for expansion of the Washington, D.C. office due to increased headcount, information technology assets related to an end-of-life asset replacement initiative, and development costs for the registration and annual and special reporting system. This increase was more than offset, however, by the continued depreciation of investments in fixed assets, resulting in a decrease of approximately $900,000 in net fixed assets for 2009.

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist primarily of year-end accruals. This amount increased by approximately $1.0 million from $10.4 million as of December 31, 2008 to $11.4 million as of December 31, 2009, primarily due to an increase in the accrued employee leave liability.

Statements of Activities

OPERATING REVENUE

Total operating revenue increased by approximately $22.8 million in 2009 compared to 2008. Operating revenue includes the accounting support fee and fees from registering accounting firms.

ACCOUNTING SUPPORT FEE

The annual accounting support fee is allocated to equity and investment company issuers based on their relative average monthly U.S. equity market capitalization. Equity issuers with an average monthly market capitalization of $25 million or less and investment company issuers with an average monthly market capitalization, or net asset value, of $250 million or less are allocated a share of the accounting support fee equal to zero. In 2009, equity issuers were assessed approximately 93 percent of the total fees and investment company issuers were assessed the remaining 7 percent.

The PCAOB issued invoices to 10,164 issuers in 2009, compared to 10,966 issuers in 2008. Approximately 46 percent of the issuers billed received invoices for $1,000 or less. The largest 1,000 invoice amounts comprise approximately 84 percent of the total fee.

The following table reflects the distribution of issuers by fee level.

NUMBER OF ISSUERS

Fees	2009	2008
$100–500	2,906	4,002
$501–1,000	1,789	1,711
$1,001–5,000	2,953	2,899
$5,001–10,000	850	824
$10,001–50,000	1,147	1,058
$50,001–100,000	229	208
$100,001–500,000	249	229
$500,001–1,000,000	23	20
$1,000,001–4,000,000	18	15
Total	**10,164**	**10,966**

FEES FROM REGISTERING ACCOUNTING FIRMS

The PCAOB receives a one-time registration fee from public accounting firms that register with the PCAOB. A firm's registration fee is based on the firm's number of public company audit clients, and ranges from $250 for a firm with no public company audit clients to $390,000 for a firm with more than 1,000 public company audit clients. In 2009, the PCAOB collected $169,000 in registration fees and approved the registration of 549 firms.

As of December 31, 2009, 2,349 accounting firms were registered with the PCAOB, compared to 1,874 registered firms at the end of 2008. The increase in the number of registered accounting firms and the fees received from registered firms is primarily due to the requirement that financial statements of broker-dealers filed with the SEC for fiscal years ending after December 31, 2008 be certified by a PCAOB-registered public accounting firm. Previously, by a series of SEC orders, such firms had not been required to register with the PCAOB.

NON-OPERATING REVENUE

Non-operating revenue includes interest income generated from investments, the annual fee assessed to the FASB for serving as its collection agent, and other miscellaneous income, such as civil monetary penalties. The PCAOB received approximately $209,000 in both 2009 and 2008 for serving as FASB's collection agent. Non-operating revenue decreased by approximately $980,000 from 2008 to 2009 due to lower interest rates on investments.

OPERATING EXPENSES

Pursuant to ASC 958, the PCAOB's operating expenses are presented as program and supporting activities in the audited financial statements. The expenses charged to each program or supporting activity are addressed in the discussion below. Because disclosure of functional expenses is a useful complement to this discussion, the following table and accompanying analysis of the PCAOB's functional operating expenses for the years ended December 31, 2009, and 2008 are presented first.

FUNCTIONAL OPERATING EXPENSES	2009	2008
Personnel Costs	$109,255,000	$ 97,676,000
Travel Expenses	7,774,000	6,723,000
Information Technology-Related Expenses	8,438,000	7,230,000
Depreciation	3,969,000	5,093,000
Other Operating Expenses	19,480,000	17,038,000
Total Operating Expenses	**$148,916,000**	**$133,760,000**

Total operating expenses increased by approximately $15.2 million in 2009 to $148.9 million. Personnel costs comprised approximately 73 percent of total operating expenses in both 2009 and 2008. These costs include salaries, employee benefits, training, recruiting and relocation. Increases in staffing levels (from 481 employees at the end of 2008 to 567 employees at the end of 2009) and pay increases in 2009 were primarily responsible for the increase in personnel expenses from approximately $97.7 million in 2008 to $109.3 million in 2009, an increase of $11.6 million.

Travel represents a significant expense for the PCAOB and is impacted by a number of factors, including the cost of accommodations and airfare, the number of trips taken, and the travel destination. Approximately 90 percent of total travel expenses were related to inspection activity. Total travel expenses increased approximately $1.1 million, from $6.7 million in 2008 to $7.8 million in 2009, primarily due to planned increases in inspections activity.

Information technology (IT)-related expenses, which include telecommunications, non-capitalized hardware, data storage, non-capitalized software development, and data security maintenance, increased approximately $1.2 million, from $7.2 million in 2008 to $8.4 million in 2009. The increase was due primarily to increased software development for the new registration system and the PCAOB's website and higher IT maintenance costs in support of higher staff levels.

Other operating expenses, which include administrative expenses (such as subscriptions, office supplies, printing and copying, and insurance), professional and consulting fees, and facilities costs, increased approximately $2.5 million, from $17.0 million in 2008 to $19.5 million in 2009. The increase was due to several factors including higher recruiting costs, increased costs related to translators to support international inspections, expert witnesses to support Enforcement litigations, legal services related to the lawsuit challenging the constitutionality of the PCAOB, and increased facilities costs related to the establishment of five new satellite office locations.

Fixed assets are depreciated under the straight-line method over their useful lives. In its seventh year of operation, a large portion of the PCAOB's initial fixed asset purchases, especially IT-related assets, have now been fully depreciated. This resulted in a decrease in depreciation expense of approximately $1.1 million, from $5.1 million in 2008 to $4.0 million in 2009.

The following discussion on program and supporting activities addresses expenses as presented in the audited financial statements and are grouped by activity classifications in accordance with ASC 958.

PROGRAM ACTIVITIES

The Act gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies or certify broker-dealer[1] financial statements; inspection of registered public accounting firms that audit public companies; establishment of auditing, quality control, ethics, independence and other standards for registered public accounting firms that audit public companies; and investigation and discipline of registered public accounting firms that audit public companies and their associated persons for violations of specified laws or professional standards. These responsibilities are designated as program activities and are reflected as such in the Statements of Activities. The financial statements include two additional program activities: research and analysis, and Board and related activities.

Costs associated with program activities totaled approximately $112.5 million in 2009 (76 percent of total operating expenses) and $100.6 million in 2008 (75 percent of total operating expenses).

REGISTRATION AND INSPECTIONS

During 2009, the PCAOB continued to register and inspect public accounting firms. Operating expenses increased approximately $7.6 million to $77.3 million in 2009 from $69.7 million in 2008, due primarily to increased staff and related expenses and increased travel costs.

1. Although accounting firms that certify broker-dealer financial statements must register with the PCAOB, audits of broker-dealers are not subject to Board standards, inspections or disciplinary action.

ENFORCEMENT

Formal and informal investigations of registered firms continued in 2009 as operating expenses of the DEI increased approximately $3.2 million to $13.1 million from $9.9 million in 2008. This increase was related primarily to increased staff and related expenses and increased consulting and professional fees needed in support of litigation activity.

STANDARD SETTING

OCA assists the Board in its standard-setting. Increased staff resulted in an overall increase in the office's operating expenses from approximately $4.8 million in 2008 to $5.9 million in 2009.

RESEARCH AND ANALYSIS

ORA identifies and analyzes emerging accounting and auditing issues and other risk areas that could contribute to audit failures. For 2009, the office's operating expenses increased approximately $900,000 to $8.1 million from $7.2 million in 2008. The operating expense increase was related primarily to increased staff and related expenses.

BOARD AND RELATED ACTIVITIES

Board and related activities are comprised of the operations of the Board members' offices and the OIA. Operating expenses for Board and related activities decreased approximately $1.0 million from $9.1 million in 2008 to $8.1 million in 2009. The decrease was primarily attributable to a decline in staff due to the departure of the former Chairman and Chief of Staff and to several staff members assuming other positions at the PCAOB.

SUPPORTING ACTIVITIES

As described below, supporting activities included administration and general, communications, and information technology. In 2009, these activities comprised approximately 24 percent of the total operating expenses of the PCAOB compared to approximately 25 percent in 2008. Total operating expenses of the supporting activities increased by approximately $3.2 million from $33.2 million in 2008 to $36.4 million in 2009.

ADMINISTRATION AND GENERAL

Administration and general operating expenses consisted of expenses related to human resources, finance, general counsel, budget office, administration, and internal oversight and performance assurance. Collectively, operating expenses in these areas increased approximately $2.7 million from $14.1 million in 2008 to $16.8 million in 2009. The increase was attributable to recruiting activity to support increased headcount in program areas and increased legal services in the lawsuit challenging the constitutionality of the PCAOB's structure. Increased personnel costs related primarily to annual salary increases also contributed to the variance.

COMMUNICATIONS

Communications included expenses related to external relations initiatives, including public affairs and government relations. Operating expenses increased approximately $700,000 to $3.1 million in 2009 from $2.4 million in 2008, due primarily to increased professional fees related to the redesign of the PCAOB's website.

IT INFRASTRUCTURE, SECURITY AND TELECOMMUNICATIONS

Expenses for information technology infrastructure, security and telecommunications include personnel costs and depreciation that were not directly attributable to program activities. In 2009, operating expenses decreased approximately $300,000 to $16.5 million from $16.8 million in 2008. This reduction was due to a decreased use of consultants and lower depreciation expenses as a large portion of the PCAOB's initial information technology assets became fully depreciated in 2008 and 2009.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD, WASHINGTON, D.C.

We have audited the accompanying statements of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. We have also audited the Board's internal control over financial reporting as of December 31, 2009 based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The PCAOB's financial reporting management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Financial Reporting Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We conducted our audit of the internal control over financial reporting in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Company Accounting Oversight Board as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Public Company Accounting Oversight Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Blum, Shapiro & Company, P.C.

June 22, 2010

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Cash and cash equivalents (Note 2)	$ 85,926,449	$42,174,732
Short-term investments (Note 2)	—	34,993,700
Accounts receivable, net of allowance (Note 4)	232,096	135,763
Prepaid expenses and other assets	5,099,773	3,487,620
Furniture and equipment, leasehold improvements and technology, net (Note 5)	9,715,437	10,629,645
Total Assets	$100,973,755	$91,421,460
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other liabilities	$ 11,400,202	$10,443,202
Obligations under capital leases (Note 6)	114,291	86,598
Deferred rent (Note 7)	7,217,601	7,713,274
Total liabilities	18,732,094	18,243,074
Unrestricted Net Assets		
Undesignated	81,130,512	72,143,895
Statutorily designated for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act (Note 2)	1,111,149	1,034,491
Total Net Assets	82,241,661	73,178,386
Total Liabilities and Net Assets	$100,973,755	$91,421,460

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Changes in Unrestricted Net Assets		
Operating revenue:		
Fees from issuers (Note 2)	$157,133,040	$134,498,200
Fees from registering accounting firms (Note 2)	169,000	27,000
Total operating revenue	157,302,040	134,525,200
Operating expenses:		
Program activities:		
Registration and inspections (Note 2)	77,289,978	69,651,602
Enforcement (Note 2)	13,101,328	9,859,889
Standards setting (Note 2)	5,908,451	4,770,886
Research and analysis (Note 2)	8,073,244	7,199,635
Board and related activities (Note 2)	8,133,869	9,082,752
Supporting activities:		
Administrative and general	16,808,691	14,050,337
Communications	3,122,615	2,369,063
IT infrastructure, security and telecommunications	16,477,871	16,775,974
Total operating expenses	148,916,047	133,760,138
Operating Income	8,385,993	765,062
Nonoperating Revenue		
Interest income and other	600,624	1,623,053
Funds generated from collection of civil monetary penalties (Note 2)	76,658	33,741
Total nonoperating revenue	677,282	1,656,794
Increase in Unrestricted Net Assets	9,063,275	2,421,856
Unrestricted Net Assets—Beginning of Year	73,178,386	70,756,530
Unrestricted Net Assets—End of Year	$ 82,241,661	$ 73,178,386

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities		
Cash received from issuers	$ 157,036,707	$ 134,428,751
Cash received from registering accounting firms	169,000	27,000
Interest income and other	600,624	1,623,053
Funds generated from collection of civil monetary penalties	76,658	33,741
Cash paid to suppliers and employees	(146,097,754)	(128,169,399)
Net cash provided by operating activities	11,785,235	7,943,146
Cash Flows from Investing Activities		
Purchases of furniture and equipment, leasehold improvements and technology	(3,040,607)	(1,696,447)
Proceeds from sale of furniture and equipment	13,389	800
Purchases of short-term investments	(34,997,108)	(144,165,133)
Proceeds from sales of short-term investments	69,990,808	158,866,933
Net cash provided by investing activities	31,966,482	13,006,153
Net Increase in Cash and Cash Equivalents	43,751,717	20,949,299
Cash and Cash Equivalents—Beginning of Year	42,174,732	21,225,433
Cash and Cash Equivalents—End of Year	$ 85,926,449	$ 42,174,732
Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities		
Increase in unrestricted net assets	$ 9,063,275	$ 2,421,856
Reconciliation adjustments:		
Depreciation and amortization	3,969,119	5,092,663
Increase in accounts receivable, net of allowance	(96,333)	(69,449)
(Increase) decrease in prepaid expenses and other assets	(1,612,153)	563,865
Increase in accounts payable and other liabilities	957,000	782,029
Decrease in deferred rent	(495,673)	(847,818)
Net Cash Provided by Operating Activities	$ 11,785,235	$ 7,943,146

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Note 1. Nature of Activities

The PCAOB was established by the Act 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, accurate and independent audit reports. The Act established the PCAOB as a private, non-profit corporation.

Under the Act, the SEC has oversight over the PCAOB, including the appointment of Board members, approval of PCAOB rules and standards, and review of the PCAOB's actions and its operations. The PCAOB's annual budget must be approved by the SEC under the Act. As part of the budget process and pursuant to the Act, the Board establishes and the SEC approves an annual accounting support fee to maintain the operations of the PCAOB.

Note 2. Summary of Significant Accounting Policies

Presentation. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented pursuant to the Accounting Standards Codification No. 958 *Not-for-Profit Entities* (ASC 958). Under ASC 958, the PCAOB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The net assets of the PCAOB are not subject to any donor-imposed restrictions, and, therefore, all have been classified as unrestricted in the accompanying statements. In addition, the PCAOB reports unrestricted net assets that are statutorily designated for specified uses. These assets consist of all funds generated from the collection of civil monetary penalties and any interest earnings thereon. Pursuant to Section 109(c)(2) of the Act, all funds generated from the collection of penalties shall be used, exclusively, to fund a scholarship program.

The PCAOB's unrestricted net assets consist primarily of amounts to fund operations in the subsequent year prior to collection of that year's accounting support fees and the organization's investments in fixed assets, particularly technology hardware and software. The PCAOB's operations consist of program activities and supporting activities. The program activities of the PCAOB are: registration and inspections, enforcement, standard-setting, research and analysis, and Board and related activities. Costs associated with these program activities include salaries, benefits, rent, program-specific technology costs and other direct operating expenses. Indirect costs are not allocated to program activities, but are included in supporting activities.

PROGRAM ACTIVITIES OF THE PCAOB

Registration and Inspections. The Act requires that a public accounting firm be registered with the PCAOB if it prepares or issues, or plays a substantial role in the preparation or issuance of, any audit report with respect to an issuer. The PCAOB reviews the registration application of each public accounting firm that chooses to register with the PCAOB. If the PCAOB Board approves its application, that registered public accounting firm is subject to the PCAOB's rules and continuing program of inspections. This program assesses firms' compliance with the Act, the rules of the PCAOB and the rules of the SEC, as well as professional standards, in connection with firms' performance of audits, issuance of audit reports and related matters involving issuers.

The Act also requires every SEC-registered broker-dealer to have balance sheets and income statements certified by PCAOB-registered public accounting firms. Through a series of orders issued by the SEC, however, registration of such auditors was delayed. As a result of the expiration of those orders, public accounting firms certifying financial statements of non-issuer broker-dealers for fiscal years ending after December 31, 2008 must be registered with the PCAOB. Audits of non-issuers, including non-issuer broker-dealers, are not subject to Board inspection and cannot be the basis for Board disciplinary action. Moreover, a registered firm is not required to perform non-issuer broker-dealer audits pursuant to PCAOB standards.

Enforcement. The Act grants the PCAOB broad investigative authority over registered public accounting firms and persons associated with such firms. The PCAOB has authority to impose disciplinary and remedial sanctions, including civil monetary penalties, when it determines that the laws, rules or standards within the PCAOB's jurisdiction have been violated.

Standard-Setting. The PCAOB establishes auditing, related attestation, quality control, independence and ethics standards to be followed by registered public accounting firms in the preparation and issuance of audit reports.

Research and Analysis. ORA collects, analyzes and assimilates information from multiple sources and provides other PCAOB divisions and offices with assessments of risks that may affect audit quality.

Board and Related Activities. In accordance with the Act, the Board is responsible for carrying out the PCAOB's programs and operations. The Board is responsible for determining the PCAOB's action in each program area, as well as for performing such other duties or functions as the Board (or the SEC, by rule or order) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and their associated persons, or otherwise to carry out the Act. In addition, the Board engages in communication and other outreach efforts with the accounting profession, the investing public, public companies and other U.S. and non-U.S. regulators concerning, among other things, the PCAOB's mission, programs, initiatives and its oversight of the accounting profession. Also included in Board and related activities is the PCAOB's OIA. This office represents the PCAOB in bilateral and multilateral discussions with non-U.S. authorities regarding inspections of foreign registered public accounting firms.

Use of Estimates. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires financial reporting management to make estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Fair Value of Financial Instruments. The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying value due to the short-term nature of these items.

Fees from Issuers. Fees from issuers, which are referred to as the Board's Accounting Support Fee in the Act, are amounts invoiced to certain issuers whose shares are publicly traded and to certain investment companies to fund the operations of the PCAOB. Such fees are recognized as operating revenue in the budget year to which they relate. The amount of fees invoiced to individual issuers is determined as prescribed in the Act and the rules of the PCAOB. The PCAOB reports all fees from issuers as an increase in unrestricted net assets.

Fees from Registering Accounting Firms. Fees from registering accounting firms are amounts collected from each public accounting firm that applies for registration with the PCAOB to recover the costs of processing and reviewing registration applications. These fees are not intended to and do not cover certain registration program expenditures that do not relate solely to processing and reviewing registration applications. The PCAOB reports all fees from registering accounting firms as an increase in unrestricted net assets, and all such fees are recognized as operating revenue in the budget year to which they relate.

Funds Generated from Collection of Civil Monetary Penalties. In August 2009 and October 2008, the PCAOB issued orders that imposed separate civil monetary penalties upon individuals associated with a registered public accounting firm for violations of the PCAOB's standards. These penalties totaled $75,000 and $25,000 for the years ended December 31, 2009 and 2008, respectively. In accordance with Section 109(c)(2) of the Act, all funds generated from the collection of civil monetary penalties are to be used, exclusively, to fund a "merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs." The PCAOB reports all funds generated from the collection of civil monetary penalties (including related interest income) as increases in unrestricted net assets statutorily designated for special uses in Section 109(c)(2) of the Act.

Cash Held for Others under Agency Agreement. The PCAOB served as the collection agent for invoicing and collecting the 2009 and 2008 accounting support fees for the FASB. The PCAOB's fee for acting as the FASB's collection agent was $209,400 in both 2009 and 2008. This amount is included in interest income and other in the accompanying statements of activities. Otherwise, the PCAOB recognizes no revenue or expense related to this relationship and maintains a separate bank account for all fees collected on behalf of the FASB. As of December 31, 2009 and 2008, the PCAOB had $9,914 and $18,519, respectively, included in cash and cash equivalents related to the FASB. Corresponding amounts are included in accounts payable and other liabilities for amounts due to the FASB as of December 31, 2009 and 2008.

Cash and Cash Equivalents. The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits and overnight investment accounts with financial institutions, and short-term, highly liquid investments purchased with a maturity of three months or less. As noted above, in both 2009 and 2008, and in prior years, the PCAOB collected civil monetary penalties related to disciplinary actions. The cash balances related to these collections, including accrued interest, were $1,111,149 and $1,034,491 as of December 31, 2009 and 2008, respectively, and are included in the cash and cash equivalents balance.

Financial reporting management has concluded that the PCAOB's demand deposits are not exposed to any significant credit risks. Additionally, certain demand deposits are invested in overnight repurchase agreements in U.S. government-sponsored enterprise securities.

Short-Term Investments. Short-term investments include investments in U.S. Treasury bills. As of December 31, 2008, the treasury bills were valued at $34,993,700. Income earned on these investments was $37,242 and $1,174,289 during the years ended December 31, 2009 and 2008, respectively. The PCAOB changed its investment strategy during 2009 and holds no U.S. Treasury bills as of year-end.

Depreciation and Amortization. Furniture and equipment, leasehold improvements and technology are stated at cost less accumulated depreciation and amortization, computed under the straight-line method over their useful lives. Furniture and equipment and technology are depreciated over their estimated useful lives of three to five years. Leasehold improvements and assets related to capital leases are amortized over the shorter of their estimated useful lives or the remaining terms of the leases.

Taxes. The PCAOB is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue

Code of 1986, as amended. Therefore, the accompanying financial statements include no provision for federal income taxes. It is the PCAOB's position that because of its status and powers under the Act it is not subject to state and local taxation. The PCAOB has made filings with appropriate state and local taxing authorities to receive formal tax exemptions, where available. In those circumstances where the PCAOB has not received a formal tax exemption and any possible tax liability would be significant, the PCAOB will take appropriate steps to establish that it is not subject to state and local taxes in the relevant jurisdiction, pursuant to the Act.

Subsequent Events. In preparing these financial statements, financial reporting management has evaluated subsequent events through June 22, 2010, which represents the date the financial statements were available to be issued.

Note 3. Fair Value of Financial Instruments

Short-term investments include investments in U.S. Treasury bills with maturities of six months or less from the purchase date. These investments are reported at fair value, which was determined using quoted market prices in active markets for identical assets as shown in the table below:

	2009	2008
Investments in U.S. Treasury Bills:		
Carrying amount	$—	$34,993,700
Quoted prices in active markets for identical assets	—	34,993,700

Note 4. Accounts Receivable

Accounts receivable consists of the following as of December 31, 2009 and 2008:

	2009	2008
Accounts receivable—issuers	$ 412,248	$191,675
Accounts receivable—registered accounting firms	5,750	2,000
	417,998	193,675
Less allowance for doubtful accounts	(185,902)	(57,912)
Accounts receivable, net	$ 232,096	$135,763

Allowances for doubtful accounts are estimates based on management review and the PCAOB's historical experience.

Note 5. Furniture and Equipment, Leasehold Improvements and Technology

These assets consist of the following as of December 31, 2009 and 2008:

	2009	2008
Technology:		
Hardware	$ 11,187,380	$ 12,587,673
Purchased and developed software	29,725,537	27,897,738
Leasehold improvements	10,610,933	9,984,637
Furniture and equipment	7,626,895	6,917,993
Technology development and construction in progress	251,793	915,598
	59,402,538	58,303,639
Accumulated depreciation and amortization	(49,687,101)	(47,673,994)
	$ 9,715,437	$ 10,629,645

Depreciation and amortization expense was $3,969,119 and $5,092,663 for the years ended December 31, 2009 and 2008, respectively.

Note 6. Obligations Under Capital Leases

In 2009, the PCAOB entered into agreements to lease certain office equipment. The PCAOB has accounted for these leases as capital leases in accordance with Accounting Standards Codification No. 840. The cost of the equipment under capital leases is included in the statements of financial position as furniture and equipment, leasehold improvement and technology and was $184,937 and $106,301 at December 31, 2009 and 2008, respectively. Accumulated amortization of the leased equipment at December 31, 2009 and 2008, was $77,978 and $17,717, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

Minimum lease payments due are as follows:

Total minimum lease payments required	$119,596
Less amount representing interest	(5,305)
Present value of minimum lease payments	$114,291

YEAR ENDED DECEMBER 31	
2010	$ 66,803
2011	40,104
2012	12,689
	$119,596

Interest expense related to the capital lease transactions was $6,331 and $3,833 for the years ended December 31, 2009 and 2008, respectively.

Note 7. Lease Commitments

As of December 31, 2009, the PCAOB occupied office space in Washington, DC; New York, NY; Ashburn, VA; San Mateo, CA; Irvine, CA; Atlanta, GA; Dallas, TX; Chicago, IL; Denver, CO; Charlotte, NC; Boston, MA; Houston, TX; Tampa, FL; and Troy, MI, under leases that expire from 2010 to 2017. These operating leases include provisions for scheduled rent increases over the respective terms and several include renewal options at the end of the lease terms, which are subject to approval from both parties.

Rent is being expensed using the straight-line method over the respective lease terms. Rent expense under this method was $9,179,375 and $8,848,848 for the years ended December 31, 2009 and 2008, respectively. Deferred rent that has been expensed but will not be paid until future years totaled $7,217,601 and $7,713,274 as of December 31, 2009 and 2008, respectively, and is being amortized over the remaining lives of the office leases.

Minimum rental commitments under the office leases as of December 31, 2009 are as follows:

YEAR ENDED DECEMBER 31	
2010	$10,139,098
2011	9,854,698
2012	10,021,263
2013	7,884,934
2014	3,544,339
Thereafter	1,774,725
	$43,219,057

Note 8. Retirement Benefit Plan

The PCAOB has a defined contribution retirement plan which covers active employees. During 2008, the PCAOB matched 100% of employee contributions up to 6% of the eligible compensation. Effective January 1, 2009, the PCAOB amended the plan to match 100% of employee contributions up to 7% of the eligible compensation. The PCAOB's contributions become fully vested immediately. The PCAOB's contributions to employees' accounts were $4,991,105 and $4,118,139 for the years ended December 31, 2009 and 2008, respectively.

Note 9. Litigation and Contingencies

In February 2006, the Free Enterprise Fund and Beckstead and Watts, LLP, filed a civil action in the U.S. District Court for the District of Columbia against the PCAOB and its then-current Board members in their official capacities (Case No. 1:06CV00217). This action alleged that "the Board and all power and authority exercised by it violate the Constitution." On March 21, 2007, the District Court granted summary judgment for the defendants and, on March 26, 2007, dismissed the case. The plaintiffs appealed the District Court's decision to the U.S. Court of Appeals for the District of Columbia Circuit (Case No. 07-5127). On August 22, 2008, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the District Court's grant of summary judgment. The plaintiffs' request for a rehearing and rehearing *en banc* was denied on November 17, 2008. On January 5, 2009, the plaintiffs filed a petition for writ of certiorari with the U.S. Supreme Court seeking review of the District of Columbia Circuit's final decision entered on August 22, 2008. On May 18, 2009, the U.S. Supreme Court granted the plaintiffs' petition for writ of certiorari. The U.S. Supreme Court heard oral arguments on December 7, 2009. A decision is expected in 2010.

Financial Reporting Management's Report on Internal Control over Financial Reporting

The PCAOB's financial reporting management, including the Chief Administrative Officer and the Director of Finance, under the direction of the Acting Chairman (collectively, "financial reporting management") are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The PCAOB's financial reporting management assessed the effectiveness of the PCAOB's internal control over financial reporting as of December 31, 2009. In making this assessment, financial reporting management used the criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, the PCAOB's financial reporting management concluded that the organization's internal control over financial reporting is effective as of December 31, 2009.

June 22, 2010

Daniel L. Goelzer
Acting Chairman

Darrell Pauley
Chief Administrative Officer

Bela Daruwala
Director of Finance

Performance Measures

The PCAOB's 2008–2013 Strategic Plan includes a number of performance measures and indicators for its program activities. These measures and indicators, which are organized around the four overarching goals in the strategic plan, are set forth below. The discussion for each measure and indicator includes a brief description of its relevance to the organization and summary of the Board's progress during 2009 with respect to such measure or indicator.

The results demonstrated by the measures and indicators provide insight into the PCAOB's performance, relative to each goal, in addition to numerous other qualitative factors that the Board considers when assessing its overall performance.

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

Measure 1-1(a): Number of Annual and Triennial Inspections

	2009
Projected Number of Annual Inspections	11
Actual Number of Annual Inspections	10
Projected Number of Triennial Inspections	295
Actual Number of Triennial Inspections	277

Relevance of Measure: This measure reflects the Board's performance in fulfilling its statutory requirement to inspect registered firms, annually or triennially. Recognizing its limited inspection resources, the PCAOB scheduled triennial inspections to allow a relatively consistent mix of firms by size and complexity each year.

2009 Results: In 2009, only 10 of the 11 projected number of annual firms were inspected, because one of the annual firms is no longer registered.

In 2009, the PCAOB inspected 277 triennial firms (including 82 non-U.S. firms). As of December 31, 2009, the fieldwork with respect to five of these inspections (including four non-U.S. inspections) was in process. With regard to the one U.S. triennial inspection, the PCAOB had commenced and performed significant inspections fieldwork prior to year-end; however, the PCAOB was unable to complete fieldwork since the firm did not provide all necessary documents and information. With respect to three of the non-U.S. triennial inspections, assertions of legal conflicts by the firms prevented the PCAOB from obtaining all documents and information necessary to complete fieldwork prior to year-end. With regard to the remaining non-U.S. triennial inspection, the inspection team planned to return to the firm location in January 2010 in order to complete fieldwork.

The PCAOB conducted planned inspections of all other U.S. triennial firms. Inspections did not inspect the projected number of triennial inspections in 2009 as planned due to the matters noted in Measure 1-1(b) related to non-U.S. inspections.

Measure 1-1(b): Number of Non-U.S. Inspections

	2009
Projected Number of Non-U.S. Inspections	101
Actual Number of Non-U.S. Inspections	82

Relevance of Measure: This measure, which is a subset of the total number of inspections, reflects the PCAOB's performance in meeting the statutory mandate for non-U.S. registrants.

2009 Results: In 2009, certain non-U.S. triennial inspections that were planned did not occur. The PCAOB expected to conduct inspections of 28 firms in ten European Union countries, China, and Switzerland since these firms were required to be inspected in 2009 pursuant to the inspection frequency requirements of Rule 4003 (and the amendments to Rule 4003 adopted by the Board in 2009[1] would not affect the deadline for those inspections). The PCAOB was unable to conduct such inspections due to asserted conflicts with local law and/or national sovereignty by the firms and/or their home-country regulators. As of December 31, 2009 the asserted conflicts with local law and/or national sovereignty had not been resolved. As a result, certain firms were "pulled forward" and inspected in 2009 that were previously planned to be inspected in years beyond 2009.

In 2009, the PCAOB inspected 82 non-U.S. firms located in 26 jurisdictions. As of December 31, 2009, the fieldwork with respect to four of these inspections was in process. With respect to three of these firms, assertions of legal conflicts by the firms prevented the PCAOB from obtaining all documents and information necessary to complete fieldwork prior to year-end. With regard to the remaining inspection, the inspection team will return to the firm location in January 2010 in order to complete fieldwork.

1. In June 2009, the Board adopted an amendment to Rule 4003 allowing the Board to postpone, for up to three years, the first inspection of any foreign registered public accounting firm that the Board is otherwise required to conduct before the end of 2009 and that is in a jurisdiction in which the Board has not conducted an inspection prior to 2009 (the 2009 amendment). The 2009 amendment was submitted to the Commission for approval on July 2, 2009, and, as of December 31, 2009, was not in effect.

Measure 1-2: Timely Issuance of Inspection Reports

	2009
Projected Average Time to Issue Annual Inspection Reports (in months)	7
Actual Average Time to Issue Annual Inspection Reports (in months)	8
Projected Average Time to Issue Triennial Inspection Reports (in months)	7
Actual Average Time to Issue Triennial Inspection Reports (in months)	11

Relevance of Measure: The PCAOB's goal is to issue inspection reports on a timely basis in order to facilitate firms' ability to promptly initiate efforts to remediate quality control deficiencies and, thereby, improve the quality of their audits. The projected average time to issue an inspection report also reflects the Board's commitment to provide the public with timely information about the performance of registered firms. The projected average time to issue inspection reports may fluctuate each year since the projection takes into consideration the actual reports (related to current or prior inspection years) that will be issued in any given year.

2009 Results: The actual performance measures above relate to inspection reports issued in 2009.[1] The period being measured begins with the completion of primary inspection procedures and ends with the issuance of an inspection report. In 2009, the actual average time to issue inspection reports for annual firms was 8 months as compared to a projection of 7 months. In 2009, the actual average time to issue inspection reports for triennial firms was 11 months as compared to a projection of 7 months. The actual increase in average time to issue reports was due to the complexities and unique circumstances of certain inspection reports.

The Board remains committed to the timely issuance of inspection reports. In 2009, the Board issued 214 inspection reports, including 79 reports on inspections conducted in 2009, 84 reports on inspections conducted in 2008, 46 reports on inspections conducted in 2007 and 5 reports on inspections conducted in 2006. By the close of 2009, the Board had issued inspection reports on 165 of the 171 firm inspections conducted in 2006, 212 of the 236 firm inspections conducted in 2007, 186 of the 255 firm inspections conducted in 2008, and 79 of the 287 firm inspections conducted in 2009.

1. The 2009 Actual Average Time to Issue Annual Reports represents the actual average number of months to issue inspection reports issued in 2009 related to the 2008 inspection year. With respect to Triennial Inspection Reports, the actual average number of months to issue inspection reports issued in 2009 related to the 2006–2009 inspection years. The approach in this measure differs from how this measure was originally designed in the PCAOB's 2008–2013 Strategic Plan, which was based on Actual Average Time to Issue Annual and Triennial inspection reports related to the inspections conducted in 2009. Since inspection reports are often issued in the year subsequent to the inspection year, the Strategic Plan measure would not have resulted in an actual result at year-end.

Measure 1-3: Standard-Setting Activities[1]

	PROJECTED PROPOSAL	PROJECTED ADOPTION	2009 RESULTS
Evaluating Consistency of Financial Statements	2007	2008	Adopted in 2008
Independence Rules 3523 and 3526	2007	2008	Adopted in 2008
Risk Assessment, Including Fraud Risk Assessment	2008	2009	Re-Proposed
Specialists, Including How Specialists Are Used in Fair Value Measurements	2008	2009	Under Consideration
Engagement Quality Review	2008	2008	Re-Proposed; Adopted
Audit Confirmations, Including Consideration of Fraud Risk Factors	2009	2009	Issued Concept Release
Related Parties, Including Consideration of Fraud Risk Factors	2009	2009	Under Consideration

Relevance of Measure: This measure reflects a reasonable expectation of when the Board would propose and adopt the standards, based on its standard-setting experience, and in light of other Board initiatives and responsibilities. The standard-setting process includes, among other things, consideration of the results of the Board's oversight activities, the work of other standard setters, advice from the SAG, research and solicitation of public comment. Priorities can change over time, and the development of a standard is dependent on internal and external factors.

2009 Results: The Board re-proposed for public comment and adopted AS No. 7, *Engagement Quality Review,* issued a *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations* and a *Concept Release on Requiring the Engagement Partner to Sign the Audit Report,* and re-proposed for public comment seven new auditing standards related to the auditor's assessment of and response to risk and related amendments to PCAOB standards.

In addition, the Board issued a concept release for public comment on whether to require the engagement partner signature in the auditor's report. Additionally, the staff issued Staff Audit Practice Alert No. 4, *Auditor Consideration Regarding Fair Value Measurements,* and Staff Questions and Answers, *References to Authoritative Guidance in PCAOB Standards*.

At the October 2009 SAG meeting, the PCAOB presented a 24-month forward-looking standard-setting agenda with key milestones for the following additional projects under consideration: application of the Act's provision on failure to supervise, communications with audit committees, global quality control, principal auditor, going concern, subsequent events, and the applicability of SECPS requirements to all registered firms. A full list of the PCAOB standard-setting priorities can be located on the PCAOB website.

1. The projected milestones are contingent on the Board's determination that the staff should pursue a standard-setting project in each area. The Board's determination is based on its own assessment or comments received.

Measure 1-4: Timely Resolution of Formal Investigations

	2009
Projected Percentage Resolved Within 3 Years of Formal Start of Investigation	66%
Actual Percentage Resolved Within 3 Years of Formal Start of Investigation	69%

Relevance of Measure: 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. This was accomplished by: (1) the institution of disciplinary proceedings to be litigated; (2) the settlement of instituted disciplinary proceedings; or (3) the closure of the formal investigation without a recommendation to institute a disciplinary proceeding. As the PCAOB conducts a greater number of investigations, it will assess whether its target for resolving formal investigations within three years remains the appropriate goal.

2009 Results: The PCAOB exceeded its performance measure goal of 66 percent for the year. Of the formal investigations resolved in 2009, 69 percent were resolved within the three-year time frame.

Measure 1-5: Timely Processing of Registration Applications and Requests for Withdrawal

	2009
Projected Percentage of Received Applications Acted Upon Within the Statutory Time Frame	100%
Actual Percentage of Received Applications Acted Upon Within the Statutory Time Frame	100%
Projected Percentage of Received Withdrawal Requests Acted Upon Within the Time Frame Specified in Board Rule 2107(a)	100%
Actual Percentage of Received Withdrawal Requests Acted Upon Within the Time Frame Specified in Board Rule 2107(a)	100%

Relevance of Measure: This measure reflects the Board's timeliness in acting on registration applications and withdrawal requests. Should there be a significant change in the number of firms seeking to register or withdraw, the Board will adjust its registration resources accordingly.

2009 Results: The PCAOB experienced a significant increase in registration applications during 2009 as a result of the effectiveness of registration requirements for auditors of broker-dealers. The Board supplemented registration staff resources with temporary personnel to meet its goal of processing registration applications and withdrawal requests within the timeframes established by the Act and Board rules.

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

Measure 2-1: Forum on Auditing in the Small Business Environment Feedback

	2009
Projected Percentage of Small Business Forum Sessions Rated 4.0 or Higher out of 5.0	85%
Actual Percentage of Small Business Forum Sessions Rated 4.0 or Higher out of 5.0	100%

Relevance of Measure: This measure shows the percentage of Forum on Auditing in the Small Business Environment (Forums) sessions that 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. This information is used, in turn, to shape the content and focus of future forums.

2009 Results: In 2009, the PCAOB held six Forums. For the year, all the sessions at the Forums were rated 4.0 or higher, exceeding the projected performance measure of 85 percent. A total of 590 people attended the Forums in 2009; 410 attendees responded to a participant survey distributed after each Forum in 2009.

Indicator 2-1: Usage of the PCAOB Website

	2009
Projected Visits to External Website	1.3 million
Actual Visits to External Website	967,000

Relevance of Indicator: This indicator tracks the number of visits to the website by external parties and is an indicator of the level of outside interest in the PCAOB.

2009 Results: There were approximately 967,000 hits to the website in 2009, lower than the projected number of hits of 1.3 million. The amount was lower than originally projected as it was based on the assumption that the PCAOB's redesigned website would be deployed in 2008.

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

Measure 3-1: Number of Countries/Jurisdictions Where the PCAOB Has Established or Made Progress Toward Dialogue and Cooperation

	2009
Projected Number of Countries/Jurisdictions	50
Actual Number of Countries/Jurisdictions	54

Relevance of Measure: This measure shows the number of countries/jurisdictions with which the PCAOB established contact or made progress toward dialogue and cooperation by year-end 2009. The Board develops relationships with non-U.S. regulators to facilitate its inspections of registered non-U.S. firms.

2009 Results: On a cumulative basis since 2003, the PCAOB has established contact or made progress toward dialogue and cooperation with 54 countries/jurisdictions by year-end 2009. From 2005 to 2009, the PCAOB conducted inspections (either PCAOB-only or jointly) in 33 countries/jurisdictions.

Measure 3-2: International Auditor Regulatory Institute Feedback

	2009
Projected Institute Participants That Rated it 4.0 or Higher out of 5.0	85%
Actual Percentage of Institute Participants That Rated it 4.0 or Higher out of 5.0	90%

Relevance of Measure: This measure shows the percentage of participants who strongly agree that the Institute was effective in meeting its learning objectives.

2009 Results: In 2009, 40 of 103 Institute participants completed the post-event survey. Of the respondents, 90% strongly agreed that the Institute was effective. The survey asked whether the respondents believe that the information presented during the Institute was clear, informative and useful, among other things.

Indicator 3-1: Number of Participants and Countries/Jurisdictions That Attend the International Auditor Regulatory Institute

	2009
Projected Number of Participants	132
Actual Number of Participants	103
Projected Number of Countries/Jurisdictions	53
Actual Number of Countries/Jurisdictions	42

Relevance of Indicator: This indicator shows the amount of interest by other countries/jurisdictions in the activities of the PCAOB.

2009 Results: The PCAOB hosted its third annual International Auditor Regulatory Institute for non-U.S. regulators and government officials. Approximately 103 representatives from 42 countries/jurisdictions attended.

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

Measure 4-1: Receive An Unqualified Audit Opinion on the PCAOB's Financial Statements with no Material Weaknesses in its Report on Internal Control Over Financial Reporting

	2009
Projected Receipt of an Unqualified Opinion	Yes
Actual Unqualified Opinion	Yes
Projected Material Weaknesses	0
Actual Material Weaknesses	0

Relevance of Measure: This measure gauges the PCAOB's success in receiving an unqualified audit opinion with no material weaknesses in its internal control over financial reporting (ICFR).

2009 Results: In 2009, the Board achieved its goal of issuing timely and accurate financial statements that received an unqualified opinion from its auditor. In preparing its financial statements, the Board followed the current SEC guidance for the management of public companies to complete its own assessment of ICFR. The Board's external auditor conducted an integrated audit of the PCAOB's financial statements and ICFR pursuant to AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

Measure 4-2: Progress Related to Programmatic Information Technology Initiatives

	IN PROGRESS	PROJECTED COMPLETION	2009 RESULTS
Annual and Special Reporting	2008	2008	Substantially Deployed
Inspections Information System	2008	2009	In Progress
PCAOB Website Redesign	2008	2008	In Progress
Inspection Scheduling System	2008	2008	Deployed

Relevance of Measure: This measure gauges the PCAOB's progress in implementing significant program-related IT initiatives against its implementation plans.

2009 Results: The Board postponed the effective date of the annual and special reporting rules from October 12, 2009, to December 31, 2009, in order to resolve technical issues related to deploying the PCAOB's new Web-based annual and special reporting system. Nevertheless, the Registration and Annual and Special Reporting system was substantially deployed at the end of 2009. In addition, the PCAOB continued work on completing the redesign of its public website. The PCAOB also continued the multi-year project to design and implement an inspections information system to record and analyze information obtained in inspections, and on planning a redesign of the PCAOB's risk analysis database system. Finally, in 2009, the PCAOB deployed the Inspections Scheduling System into production.

Indicator 4-1: Percentage of Staff at the PCAOB for Three or More Years

	2009
Projected Percentage	45–55%
Actual Percentage	60%

Relevance of Indicator: This measure reflects staff retention. It is calculated by dividing the number of employees working at the PCAOB for at least three years by the number of employees on board as of year-end 2009.

2009 Results: The actual percentage of staff at the PCAOB for three or more years was higher than projected. The outcome of this indicator is dependent on a variety of factors, such as general economic conditions and opportunities for career progression and training.

These factors also contributed to the PCAOB's ability to increase its staff, ending 2009 with 117 staff members with tenure of less than one year.

Board Releases and Staff Guidance Issued in 2009

First Quarter

DOCUMENT	DOCUMENT NO.	DATE
Staff Views: An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies	n/a	January 23, 2009
Staff Questions & Answers: Registration of Broker-Dealer Auditors	Supplement to PCAOB Release No. 2003-011B	February 19, 2009
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Clancy and Co., P.L.L.C., Jennifer C. Nipp, CPA, and Judith J. Clancy, CPA	PCAOB Release No. 105-2009-001	March 31, 2009
Order Making Findings and Disapproving Registration Application in re Registration Application of Sam S. Mah Inc.	PCAOB Release No. 102-2009-001	March 31, 2009

Second Quarter

DOCUMENT	DOCUMENT NO.	DATE
Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations	PCAOB Release No. 2009-002	April 14, 2009
Staff Audit Practice Alert No. 4: Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than-Temporary Impairments	n/a	April 21, 2009
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Drakeford & Drakeford, LLC and John A. DellaDonna, CPA	PCAOB Release No. 105-2009-002	June 16, 2009
Rule Amendments Concerning the Timing of Certain Inspections of Non-U.S. Firms, and Other Issues Relating to Inspections of Non-U.S. Firms	PCAOB Release No. 2009-003	June 25, 2009
Order Making Findings and Disapproving Registration Application in re Registration Application of Gris, Hernandez Y Asociados Sociedad Civil	PCAOB Release No. 102-2009-002	June 25, 2009

Third Quarter

DOCUMENT	DOCUMENT NO.	DATE
Adopting Release—Auditing Standard No. 7, *Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards*	PCAOB Release No. 2009-004	July 28, 2009
Concept Release on Requiring the Engagement Partner to Sign the Audit Report	PCAOB Release No. 2009-005	July 28, 2009
Order Making Findings and Imposing Sanctions in the Matter of Thomas J. Linden, CPA	PCAOB Release No. 105-2009-004	August 11, 2009
Order Making Findings and Imposing Sanctions in the Matter of Lawrence Scharfman CPA PA, and Lawrence Scharfman, CPA	PCAOB Release No. 105-2009-005	August 11, 2009
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Moore & Associates, Chartered, and Michael J. Moore, CPA	PCAOB Release No. 105-2009-006	August 27, 2009
Staff Questions & Answers: References to Authoritative Accounting Guidance in PCAOB Standards	n/a	September 2, 2009
Report on First Year of Implementation of Auditing Standard No. 5	PCAOB Release No. 2009-006	September 24, 2009

Fourth Quarter

DOCUMENT	DOCUMENT NO.	DATE
Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards	PCAOB Release No. 2009-007	December 17, 2009
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of The Blackwing Group, LLC and Sara L. Jenkins, CPA	PCAOB Release No. 105-2009-007	December 22, 2009

Jurisdictions in Which the PCAOB has Conducted Inspections

AS OF DECEMBER 31, 2009

The PCAOB has conducted inspections of one or more registered firms located in the following non-U.S. jurisdictions:

Argentina
Australia
Belize
Bermuda
Bolivia
Brazil
Canada
Cayman Islands
Chile
Colombia
Greece
Hong Kong
India
Indonesia
Ireland
Israel
Japan
Kazakhstan
Republic of Korea
Mexico
New Zealand
Norway
Panama
Papua New Guinea
Peru
Philippines
Russian Federation
Singapore
South Africa
Taiwan
Ukraine
United Arab Emirates
United Kingdom

Registered Firms Not Yet Inspected Even Though Four Years have Passed Since Issuance of an Audit Report While Registered

AS OF DECEMBER 31, 2009[1]

With respect to the firms listed below, no PCAOB inspections have been completed even though more than four years have passed since the end of the calendar year in which they first issued an audit report while registered with the PCAOB.[2]

Please Note: Inclusion on this list should not be construed to support any positive or negative inferences about the quality of the firm's audit work, its systems, policies, procedures or practices.

NAME OF FIRM	COUNTRY
KPMG Wirtschaftsprufungs- und Steuerberatungs GmbH	Austria
PwC Wirtschaftsprufung AG	Austria
BV o.v.v.e. CVBA Deloitte Bedrijfsrevisor Reviseurs d'Entreprises SC	Belgium
Klynveld Peat Marwick Goerdeler Bedrijfsrevisoren KPMG	Belgium
PKF Bedrijfsrevisoren BCVBA	Belgium
Baker Tilly China Ltd.	China
Deloitte Touche Tohmatsu CPA Ltd.	China
Grant Thornton Zhonghua	China
PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co.	China
Ernst & Young	Cyprus
Ernst & Young R, s.r.o.	Czech Republic
Deloitte Statsautoriseret Revisionsaktieselskab	Denmark
PricewaterhouseCoopers StatsautRev.Interessentskab	Denmark
PricewaterhouseCoopers Oy	Finland
Barbier Frinault & Cie E&Y	France
Deloitte & Associes	France
Ernst & Young Audit	France
Ernst & Young et Autres	France
KPMG SA	France
MAZARS & GUERARD	France
PricewaterhouseCoopers Audit	France
SALUSTRO REYDEL	France
BDO Deutsche Warentreuhand	Germany
Deloitte & Touche GmbH Wirtschaftsprüfungsgesellsc	Germany
Ernst & Young AG WPG	Germany
Ernst & Young DATAG WPG	Germany
KPMG AG Wirtschaftspruefungsgesellschaft	Germany

1. This list will be updated, at a minimum, in January and July each year.
2. For information concerning the PCAOB's decision to publish this list, see PCAOB Release No. 2008-007, *Rule Amendments Concerning the Timing of Certain Inspections of Non-U.S. Firms, and Other Issues Relating to Inspections of Non-U.S. Firms* (Dec. 4, 2008), and PCAOB Release No. 2009-003, *Final Rule Concerning the Timing of Certain Inspections of Non-U.S. Firms, and Other Issues Relating to Inspections of Non-U.S. Firms* (June 25, 2009).

NAME OF FIRM	COUNTRY
PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft	Germany
PRICEWATERHOUSECOOPERS AUDITING COMPANY SA	Greece
BDO McCabe Lo Limited	Hong Kong
Deloitte Touche Tohmatsu	Hong Kong
Ernst & Young	Hong Kong
Grant Thornton	Hong Kong
KPMG	Hong Kong
PricewaterhouseCoopers	Hong Kong
KPMG Hungaria Kft.	Hungary
PricewaterhouseCoopers Konyvv. es Gazd. Tan. Kft.	Hungary
ERNST & YOUNG	Ireland
BDO Sala Scelsi Farina Societa di Revisione per Azioni	Italy
DELOITTE & TOUCHE S.p.A.	Italy
Reconta Ernst & Young S.p.A.	Italy
KPMG SPA	Italy
PRICEWATERHOUSECOOPERS SPA	Italy
Ernst & Young	Luxembourg
PricewaterhouseCoopers S.a r.l.	Luxembourg
Deloitte Accountants	Netherlands
Ernst & Young Accountants LLP	Netherlands
KPMG Accountants N.V.	Netherlands
PricewaterhouseCoopers Accountants NV	Netherlands
Ernst & Young AS	Norway
KPMG AS	Norway
PricewaterhouseCoopers DA	Norway
PricewaterhouseCoopers Sp. z o.o.	Poland
DELOITTE & ASSOCIADOS, SROC, S.A.	Portugal
KPMG Auditores, S.A.	Portugal
PricewaterhouseCoopers-Auditores e Consultores, Lda	Portugal
BDO Audiberia Auditores, S.L.	Spain
Deloitte, S.L.	Spain
PRICEWATERHOUSECOOPERS AUDITORES, S.L.	Spain
Deloitte & Touche AB	Sweden
Ernst & Young AB	Sweden
KPMG Bohlins AB	Sweden
PricewaterhouseCoopers AB	Sweden
Ernst & Young AG	Switzerland
PricewaterhouseCoopers AG	Switzerland
Cevdet Suner Denetim ve Yeminli Mali Musavirlik AS	Turkey
Chantrey Vellacott DFK	United Kingdom
Garbutt & Elliott Limited	United Kingdom
Alcaraz Cabrera Vazquez KPMG	Venezuela
ESPIEIRA, SHELDON Y ASOCIADOS	Venezuela

2009 Standing Advisory Group Members

AS OF DECEMBER 31, 2009

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The Dow Chemical Company

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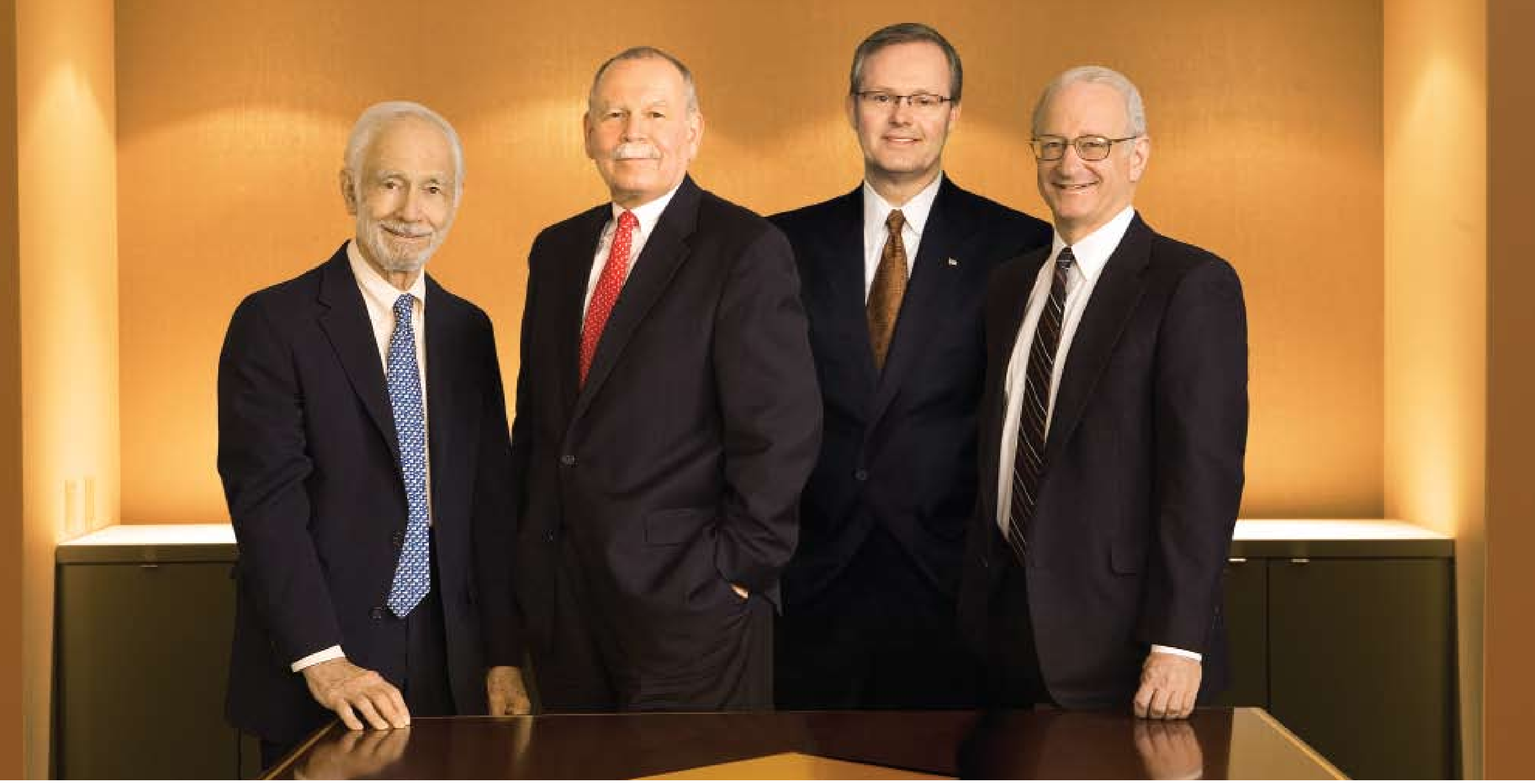
GLOSSARY

ACAP	Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury
Act	Sarbanes-Oxley Act of 2002
AICPA	American Institute of Certified Public Accountants
AS No. 5	PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*
AS No. 7	PCAOB Auditing Standard No. 7, *Engagement Quality Review*
Board	Public Company Accounting Oversight Board
DEI	PCAOB Division of Enforcement and Investigations
DRI	PCAOB Division of Registration and Inspections
EU	European Union
FAF	Financial Accounting Foundation
FASB	The Financial Accounting Standards Board
GAO	U.S. General Accountability Office
IAASB	International Auditing and Assurance Standards Board
IAG	PCAOB Investor Advisory Group
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IOPA	PCAOB Office of Internal Oversight and Performance Assurance
OCA	PCAOB Office of the Chief Auditor
OIA	PCAOB Office of International Affairs
ORA	PCAOB Office of Research and Analysis
PCAOB	Public Company Accounting Oversight Board
SAG	PCAOB Standing Advisory Group
Sarbanes-Oxley Act	Sarbanes-Oxley Act of 2002
SEC	Securities and Exchange Commission
SECPS	SEC Practice Section



Board members as of December 31, 2009

(From left to right)

Bill Gradison; Daniel L. Goelzer, Acting Chairman; Charles D. Niemeier; Steven B. Harris

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