2012 Annual Report 10 Years of Protecting Investors

PCAOB | 10 YEARS

Public Company Accounting Oversight Board

PCAOB
Public Company Accounting Oversight Board

2003 – 2005

2006 – 2007

2008

2009 – 2010

2011

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

James R. Doty	2011–present
Lewis H. Ferguson	2011–present
Jeanette M. Franzel	2012–present
Kayla J. Gillan	2002–2008
Daniel L. Goelzer	2002–2012
Bill Gradison	2002–2011
Jay D. Hanson	2011–present
Steven B. Harris	2008–present
William J. McDonough	2003–2005
Charles D. Niemeier	2002–2011
Mark W. Olson	2006–2009

PCAOB | 10 YEARS

Public Company Accounting Oversight Board

'02

July 30
Sarbanes-Oxley Act signed into law, creating the PCAOB

Oct. 25
First Board members appointed by SEC

'03

Jan. 6
Washington, D.C., office opens

April 16
Board adopts interim standards for auditing public company financial statements

April 25
SEC determines that the PCAOB is appropriately organized, with the capacity to carry out the Act's requirements

May 6
Board adopts registration rules for accounting firms

July 17
Web-based registration system is activated

Sept. 29
Board adopts rules on investigations and adjudications for enforcement of standards and rules

Oct. 7
Board adopts rules for inspecting auditors of publicly traded companies

'04

March 9
Board adopts standard for audits of companies' internal control over financial reporting, as required by Sarbanes-Oxley Act

June 9
Board adopts standards for audit documentation and rules for oversight of non-U.S. auditors

June 21
Board holds first meeting of Standing Advisory Group

Aug. 26
Board issues reports on 2003 limited inspections of Big Four firms

Nov. 30
Board hosts first Forum on Auditing in the Small Business Environment

'05

Jan. 1
PCAOB prepares for first inspections of non-U.S. firms

July 26
Board adopts ethics and independence rules for registered accounting firms' independence, tax services and contingent fees

10 years of fulfilling our mission

The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

'06

March 21
Board issues observations and reports on firms' responses to quality control criticisms in inspection reports

July 28
Disclosures of improper backdating of stock options at public companies prompts PCAOB alert to auditors: *Matters Relating to Timing and Accounting for Option Grants*

'07

Jan. 22
PCAOB issues observations on auditors' implementation of PCAOB standards relating to their responsibilities with respect to fraud

May 2
Board hosts first International Auditor Regulatory Institute

Dec. 5
Board issues report on observations from 497 inspections conducted in 2004, 2005 and 2006 of U.S.-based firms with 100 or fewer public company audit clients

'08

June 10
Board adopts rules for annual and special reporting by registered firms

Dec. 5
As financial crisis unfolds, PCAOB issues alert to auditors: *Audit Considerations in the Current Economic Environment*

Dec. 5
Board issues report on inspections in 2004, 2005, 2006 and 2007 of U.S.-based firms with more than 100 public company audit clients

'09

Jan. 8
Board issues statement on the PCAOB registration process for auditors of brokers and dealers

July 28
Board adopts Auditing Standard No. 7, *Engagement Quality Review,* providing for a rigorous review as a meaningful check on the work performed by the audit engagement team

Sept. 24
Board issues *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*

2012 Board Members (from left) Steven B. Harris, Lewis H. Ferguson, James R. Doty, Chairman, Jeanette M. Franzel, Jay D. Hanson

'10

May 4
Board holds first meeting of Investor Advisory Group

June 28
U.S. Supreme Court issues decision in case of *Free Enterprise Fund v. PCAOB,* making Board members removable by the SEC at will, rather than only for good cause, and leaving unaffected all other aspects of the SEC's oversight, the structure of the PCAOB and its programs

July 21
Dodd-Frank Act is signed, expanding the PCAOB's oversight of the audits of brokers and dealers to include inspections, enforcement and standard-setting authority and authorizing the PCAOB to share confidential information with non-U.S. counterparts

Aug. 5
Board adopts eight auditing standards for assessing and responding to the risks of material misstatement in an audit

Sept. 29
In wake of financial crisis, PCAOB issues report on observations of PCAOB inspectors related to audit risk areas affected by the economic crisis

'11

June 14
Board adopts a temporary rule for an interim inspection program for registered public accounting firms' audits of brokers and dealers

June 21
Board issues concept release seeking comment on potential changes to the auditor's reporting model

July 6
Board announces establishment of the PCAOB Scholarship Program, using monetary penalties resulting from enforcement cases

Aug. 16
Board issues concept release on auditor independence and audit firm rotation

Oct. 3
In response to disclosures about non-U.S. companies trading in U.S. markets, the PCAOB issues alert to auditors: *Audit Risks in Certain Emerging Markets*

'12

Aug. 1
PCAOB issues information for audit committees about its inspection process and the meaning of reported inspection results

Aug. 15
Board adopts Auditing Standard No. 16, *Communications with Audit Committees,* establishing requirements to enhance the relevance and timeliness of communications between the auditor and audit committee

Aug. 20
Board issues report on the progress of the interim inspection program related to audits of brokers and dealers

Dec. 4
PCAOB publishes a Staff Audit Practice Alert on maintaining and applying professional skepticism in audits, focusing on the importance of professional skepticism, the appropriate application of professional skepticism in audits and certain important considerations for audit firms' quality control systems

Dec. 10
PCAOB issues report on observations from 2010 inspections of domestic annually inspected firms regarding deficiencies in audits of internal control over financial reporting

From the Chairman

Our founding Board and tiny staff began work in January 2003, building systems and processes for the registration and inspection of public audit firms, for the development of auditing standards and for the enforcement of the Board's standards and rules. The mission that drove our earliest Board and staff is the same one that inspires our work today: protecting the interests of investors and furthering the public interest in the preparation of informative, accurate and independent audit reports for public companies as well as brokers and dealers.

Our accomplishments in 2012 have their roots in the ground that was prepared 10 years ago and tended by the Board members and staff who have served the PCAOB in the years since. From the beginning, the PCAOB recognized the importance of global audit oversight. In May 2003, the Board decided it *would not* exempt non-U.S. accounting firms from PCAOB oversight.

The importance of that decision, to foster a cross-border inspection regime, has been justified by ensuing events. Investors have suffered losses in the securities of companies based in emerging markets but trading in U.S. markets. In addition, the reliance by multinational corporations on global networks of accounting firms—firms linked by name but registered as individual entities in the countries where they are domiciled—has proven that the ability of the PCAOB to inspect and hold accountable U.S. and non-U.S. firms is a vital component of investor protection.

The model of oversight, independent of the audit profession, has inspired and been taken up by governments and regulators across the globe. Today, the PCAOB and its Board members play a leading role in the International Forum of Independent Audit Regulators. Ten years ago, few bodies would have even qualified for membership in the forum, had it existed then. Yet, in the short time since its founding in 2006, IFIAR has grown to a membership encompassing regulators in 44 countries, facilitating exchanges of information and collaboration that can only expand the umbrella of protection for investors.

Indeed, an exchange of inspections findings among these IFIAR members in 2012 found that many share the primary concerns of the PCAOB: globally, inspections reveal a disturbing number of common deficiencies in the audits of publicly traded companies.

To help address these concerns in 2012, the PCAOB continued its efforts to speed up the delivery of inspections findings to registered firms, and the Board met with representatives of the largest firms to encourage top-down attention to the imperative of accurate and independent audit reports.

To remind auditors of their specific duties under existing standards, the PCAOB published a Staff Audit Practice Alert, *Maintaining and Applying Professional Skepticism in Audits.* Concern for independence, skepticism and objectivity—the behavioral "DNA" of the effective auditor—occupies investors, regulators and capital markets around the world. To add to our own knowledge, the Board hosted three roundtable discussions, centering on our 2011 concept release on auditor independence and audit firm rotation, in which we received a range of information from a wide variety of interested parties, from former regulators to professional investors to corporate executives and leaders of accounting firms.

James R. Doty, *Chairman*

One of the most compelling and persistent themes we heard from participants in those roundtables was the importance of the role of the audit committee in closely monitoring, supervising and even challenging auditors. The role of the audit committee had been a point of focus within the PCAOB, and I was pleased that in 2012 we brought to fruition two projects that should help all audit committees: a new auditing standard requiring enhanced communication between the auditor and the audit committee and a release intended to help audit committees understand the findings of our inspections and tailor their inquiries about our inspection results.

The Board cannot compel an audit firm to disclose information in the nonpublic portion of an inspection report to an audit committee. Beyond the public portion of an inspection report, seeking disclosure by the inspected audit firm is an audit committee's only means of obtaining information concerning a PCAOB inspection. Our release is meant to help audit committees understand our inspection reports and encourage voluntary, meaningful disclosure by firms.

I am immensely proud of what the Board and staff accomplished in 2012, much more of which is described in the pages that follow. At the PCAOB, every inspection, report, international agreement, standard under consideration and enforcement action is done with a singular purpose: to protect investors.

With the support of the SEC, we have worked hard to live up to the vision set out in the acts of Congress that gave us our mandate and to the vision of the Board members who preceded us in the last 10 years. I trust that investors and future Boards will find our efforts worthy.

James R. Doty, *Chairman*
Public Company Accounting Oversight Board
Washington, D.C.
July 1, 2013

Registration

Any accounting firm that prepares or issues an audit report for a public company or an SEC-registered broker or dealer, or plays certain roles in those audits, must be registered with the PCAOB.

The public accounting firms registered with the PCAOB vary in size, ranging from sole proprietorships to large audit firms that are members of extensive global networks, comprising numerous separately registered accounting firms in multiple jurisdictions.

In 2012, the Board considered and approved registration applications of 110 accounting firms, including 41 non-U.S. firms. The Board disapproved three registration applications. The Board also considered and granted 129 requests to withdraw from registration in 2012.

At the end of 2012, there were 2,363 firms registered with the PCAOB, including 1,452 domestic firms and 911 non-U.S. firms located in 87 jurisdictions. Of these registered firms, approximately 800 issued audit reports on the financial statements of brokers and dealers for fiscal periods ended during 2012 that were filed with the SEC.

Firms with More than 100 Public Company Audit Clients in 2011

Inspected in 2012 by the PCAOB

BDO USA, LLP
Crowe Horwath LLP
Deloitte & Touche LLP
Ernst & Young LLP
Grant Thornton LLP
KPMG LLP
MaloneBailey, LLP
McGladrey & Pullen, LLP
PricewaterhouseCoopers LLP

Audit Reports per Registered Firm

Reports for public companies and mutual funds as of Dec. 31, 2012 (used for planning 2013 inspections)

	U.S.	NON-U.S.	TOTAL
Firms that issued no issuer audit reports	999	716	1,715
Firms that issued audit reports for 1-5 issuers	265	144	409
Firms that issued audit reports for 6-10 issuers	66	25	91
Firms that issued audit reports for 11-25 issuers	62	19	81
Firms that issued audit reports for 26-50 issuers	36	4	40
Firms that issued audit reports for 51-100 issuers	15	3	18
Firms that issued audit reports for >100 issuers	9	0	9
TOTALS	*1,452*	*911*	*2,363*

Among the earliest employees of the PCAOB's Division of Registration and Inspections in 2003 were (from left) Patricia Thompson, deputy director, inspections analysis; Hannah Huynh, registration specialist; and Sarah Williams, deputy director, registration.

On May 6, 2003, the Board adopted rules establishing a registration system for public accounting firms, based on deadlines set out in the Sarbanes-Oxley Act. The registration rules required that all U.S. public accounting firms must be registered with the Board if they wish to prepare or issue audit reports on U.S. public companies or to play a substantial role in the preparation or issuance of such reports. The Web-based registration system was activated July 17, 2003, and U.S. firms had until Oct. 22, 2003, to be registered.

Number of Registered Public Accounting Firms by Jurisdiction

(as of Dec. 31, 2012)

JURISDICTION	NUMBER OF REGISTERED FIRMS
United States	1,452
China*	96
India	67
United Kingdom**	63
Canada	46
Australia	42
Germany	41
France	25
Singapore	22
Mexico	20
Chile, Russian Federation, Spain	18 each
Argentina, Israel, Netherlands, Peru	17 each
Brazil, Italy, Japan, Malaysia	16 each
Belgium	15
Ireland, Republic of Korea, Taiwan	13 each
New Zealand, South Africa	12 each
Colombia	10
Indonesia, Philippines, Sweden, United Arab Emirates	8 each
Cayman Islands, Poland, Venezuela	7 each
Austria, Czech Republic, Greece, Hungary, Pakistan, Switzerland	6 each
Costa Rica, Denmark, Finland, Portugal, Thailand, Uruguay	5 each
Bermuda, Egypt, Luxembourg, Paraguay, Romania	4 each
Bahamas, Bolivia, Kazakhstan, Panama, Vietnam	3 each
Dominican Republic, Iceland, Nigeria	2 each
Armenia, Bahrain, Barbados, Belize, Croatia, Curacao, Cyprus, Ecuador, El Salvador, Estonia, Ghana, Haiti, Jamaica, Malta, Mauritius, Nicaragua, Papua New Guinea, Saudi Arabia, Slovakia, Tanzania, Tunisia	1 each
TOTAL	*2,363*

** The number of registered firms in China includes 49 firms located in Hong Kong.*

*** The number of registered firms in the United Kingdom includes firms located in Jersey, Isle of Man and the British Virgin Islands.*

Inspections

Registered firms that issue audit reports for more than 100 public companies and other issuers are required to be inspected annually. In 2012, the PCAOB inspected nine such firms. As part of these inspections, PCAOB inspectors examined portions of more than 290 audits performed by these firms.

Registered firms that issue audit reports for 100 or fewer issuers are, in general, inspected at least once every three years. At any time, the PCAOB may also inspect any other registered firm that plays a role in the audit of an issuer. The PCAOB inspected 244 firms in these categories in 2012, including 77 non-U.S. firms located in 25 jurisdictions. In the course of those inspections, PCAOB staff examined portions of more than 620 audits.

Many firms registered with the Board perform no audit work for issuers, brokers or dealers, and the Board does not inspect those firms.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include an evaluation of the firm's performance in selected audit engagements and evaluation of the design and operating effectiveness of a firm's quality control policies and procedures.

The review of a firm's work on issuer audit engagements typically focuses on the engagements, and areas of those engagements, identified by PCAOB staff as presenting the more significant risks of financial reporting misstatements, related auditing challenges and audit deficiencies.

Evaluation of a firm's system of quality control typically includes review of policies, procedures and practices concerning audit performance, training and compliance with independence requirements; client acceptance and retention; and the establishment of policies and procedures. Other areas reviewed may include the firm's "tone at the top" as it relates to audit quality; partner management, including evaluation, compensation, admission and discipline; use of the work performed by foreign affiliates; and the firm's self-monitoring of its practice through the firm's internal inspections and analyses of, and responses to, identified weaknesses.

The PCAOB prepares a report on each inspection and makes portions of each report publicly available, subject to statutory restrictions on public disclosure. In 2012, the PCAOB issued 257 reports on inspections of firms that audit public companies.

If an inspection report includes criticisms of or identifies potential defects in a firm's system of quality control, the Board is prohibited from publicly disclosing those criticisms if the firm addresses those criticisms to the Board's satisfaction within 12 months of the issuance of the report. Any criticisms that a firm fails to address to the Board's satisfaction in that period are made public. In 2012, the Board published portions of 27 inspection reports relating to quality control criticisms from prior year inspections that were not addressed to the Board's satisfaction.

The Board may, at any time, publish summaries, compilations or other general reports concerning the procedures, findings and results of PCAOB inspections. Such reports may include discussion of criticisms of, or potential defects in, quality control systems of any firm or firms that were the subject of a Board inspection, provided that the report does not identify the firm or firms to which such criticisms relate, or at which such defects were found, unless that information has previously been made public.

In 2012, the PCAOB issued the following reports related to inspections: *a Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers; Information for Audit Committees About the PCAOB Inspection Process;* and *Observations from 2010 Inspections of Domestic Annually Inspected Firms Regarding Deficiencies in Audits of Internal Control Over Financial Reporting.*

On Oct. 7, 2003, the Board adopted rules for inspections of registered public accounting firms, including annual inspections of firms that do the largest volume of audit work and inspections at least once every three years for firms that do some volume of audit work. The rules provide for special inspections that can be conducted at any time deemed necessary or appropriate to address issues that come to the Board's attention. The PCAOB opened its New York office Sept. 8, 2003, to serve as a base for inspections; inspectors are now based in 15 offices across the United States.

Inspections *continued*

Audits of SEC-Registered Brokers and Dealers

The Dodd-Frank Wall Street Reform and Consumer Protection Act gave the PCAOB authority for inspection, standard setting and enforcement over the firms that perform audits of brokers and dealers registered with the SEC. In 2012, under a temporary rule for an interim inspection program, the PCAOB inspected 45 such firms and examined portions of 64 audits of brokers and dealers.

The interim inspection program is carried out under rules that took effect in August 2011. The program enables the Board to assess the compliance of registered firms and their associated persons conducting audits of brokers and dealers with the Sarbanes-Oxley Act; Board and SEC rules; and professional standards. The program will inform the Board's eventual determination about the scope and elements of a permanent inspection program.

Based on inspections of broker-dealer auditors conducted between October 2011 and February 2012, the Board issued a progress report Aug. 20, 2012. PCAOB inspectors reviewed portions of 23 audits of brokers and dealers performed by 10 registered public accounting firms and identified deficiencies in the portions of all 23 audits chosen for inspection.

The audits and firms selected for the reviews covered by the August 2012 report were not necessarily representative of all broker and dealer audits and their auditors. While the results cannot be generalized to all broker and dealer audits, the nature and extent of the findings were of concern to the Board.

The report noted that "all registered public accounting firms that issue audit reports for SEC-registered brokers and dealers should consider whether the audit deficiencies described in this report might be present in audits they currently perform, and should take appropriate action to prevent or correct any such deficiencies identified."

The report discusses deficiencies in three areas: audit deficiencies related to SEC rules for customer protection and net capital rules; audit deficiencies

Douglas Grande (left), associate director in the Denver office, and Paul Bijou, deputy director and inaugural head of the PCAOB's New York office, joined the inspections staff in June 2003.

related to the financial statement audit; and failures to satisfy independence requirements. The full report, including details about the identified deficiencies, is available on the PCAOB's website.

In 2013, the interim inspection program is expected to include inspections of approximately 100 registered public accounting firms covering portions of more than 170 audits. Inspections under the interim inspection program will continue until rules for a permanent inspection program take effect.

In addition to providing insight for the development of a permanent inspection program, the interim inspection program, along with other research and outreach, will inform the Board's future standard-setting activities relevant to the audits of SEC-registered brokers and dealers. At the end of 2012, SEC rules continued to require that audits of brokers and dealers be carried out under GAAS, or generally accepted auditing standards, although the Commission has proposed rule changes that would require those audits to be conducted under PCAOB standards.

During the interim inspection program, the Board will provide annual public reports on its progress and significant issues identified. In the absence of unusual circumstances, the Board will not issue firm-specific inspection reports before inspection work is performed under the permanent program and will not issue firm-specific inspection reports on any firms that are eventually excluded from the scope of the permanent program. The PCAOB did not issue firm-specific reports in 2012 under the interim inspection program for auditors of brokers and dealers.

In conformance with the Dodd-Frank Act, the Board proposed amendments Feb. 28, 2012, to tailor certain of its rules to the audits and auditors of SEC-registered brokers and dealers. The proposed amendments would include references to audits and auditors of brokers and dealers in relevant Board rules and call for relevant information about broker and dealer audit clients on registration, withdrawal and reporting forms filed with the PCAOB.

Inspections *continued*

The proposed amendments would also require that registered firms that audit brokers and dealers comply with the Board's auditing and certain of the Board's professional practice standards. The proposals would also update a number of Board rules and forms in light of administrative experience and make certain amendments to the Board's Ethics Code.

In 2012, the PCAOB hosted four broker-dealer forums to provide registered public accounting firms with observations from the Board's interim inspection program, developments in Board standard-setting initiatives and updates from the SEC and the Financial Industry Regulatory Authority. The forums drew 506 auditors to day-long sessions in Chicago, Houston, Jersey City and San Diego.

Information for Audit Committees about the PCAOB Inspection Process

The PCAOB issued a release Aug. 1, 2012, with a goal of better equipping audit committees of public company boards of directors to engage in meaningful discussion with PCAOB-registered audit firms about the results of inspections.

The release provides information about the meaning and significance of PCAOB inspection findings in the context of both engagement reviews and quality control reviews. The release also suggests specific approaches that an audit committee might consider for initiating or enhancing inspection-related discussions with an audit firm. The full release is available on the PCAOB's website.

Under the Sarbanes-Oxley Act, the Board cannot disclose to an audit committee the nonpublic portion of an inspection report or other nonpublic inspection information—including whether the inspection identified deficiencies in the audit that the audit committee oversees—and the Board cannot compel an audit firm to disclose such information to an audit committee.

Beyond the public portion of an inspection report, voluntary disclosure by the inspected audit firm is an audit committee's only means of obtaining information concerning a PCAOB inspection.

During public meetings on auditor independence and audit firm rotation and other forums, members of audit committees indicated that it would be helpful for the PCAOB to provide more information about the PCAOB inspection process and the meaning of reported inspection results.

Specifically, the Board has heard from audit committee members about some instances in which they received from their audit firm nonpublic inspection information that was significant to the audit committee in its oversight role, and the Board has also heard, from those and other audit committee members, that audit committees would benefit from access to more inspection information.

The release highlights certain areas of inquiry that audit committees may wish to address with their auditors. These include: whether the audit overseen by the audit committee was selected by the PCAOB for an inspection and whether any findings were made; potentially relevant inspection findings on other audits performed by the firm; the firm's response to PCAOB findings; and the firm's remedial efforts in light of any quality control deficiencies that may have been identified by the PCAOB.

The PCAOB encourages auditors to communicate this information to their audit clients. In the Board's view, an audit firm's candid discussion of its PCAOB inspection results with an audit committee can have value for an audit committee not only in relation to the audit committee's oversight and evaluation of the audit engagement generally, but also in relation to the audit committee's role in the oversight of the company's financial reporting process.

Audits of Internal Control Over Financial Reporting

The PCAOB released a report Dec. 10, 2012, summarizing observations drawn from inspections of 309 audits of internal control over financial reporting at public companies.

The report stated the Board's concern about the number and significance of deficiencies identified in firms' audits of internal control during the inspections, which generally involved reviews of the integrated audits of financial statements and internal control for issuers' fiscal years ending in 2009.

The report describes the most pervasive deficiencies identified during PCAOB inspections in 2010 in firms' auditing of internal control and includes information on the potential root causes of the deficiencies. The full report is available on the PCAOB's website.

The deficiencies identified do not mean the issuers' financial statements were materially misstated or that the issuers' internal controls were inadequate. Generally, the deficiencies related to execution issues on the part of individual engagement teams that did not meet the requirements of the firms' methodologies.

The firms whose internal control audits were covered by the report are BDO USA, LLP; Crowe Horwath LLP; Deloitte & Touche LLP; Ernst & Young LLP; Grant Thornton LLP; KPMG LLP; McGladrey LLP; and PricewaterhouseCoopers LLP.

In an audit of internal control over financial reporting, the auditor's objective is to express an opinion on the effectiveness of the company's internal control over financial reporting.

An audit of internal control includes, among other things, assessing the risk that material weaknesses exist; testing important entity-level controls and important controls over significant financial statement accounts and disclosures based on the assessed risks; and evaluating whether identified deficiencies in internal control are material weaknesses. Deficiencies in the testing and assessment of internal control may increase the risk of the auditor failing to identify a material misstatement since the level of substantive testing is predicated on the auditor's assessment of the effectiveness of the issuer's internal controls.

In 46 of the 309 integrated audit engagements (approximately 15 percent) that were inspected in 2010, the PCAOB found that the firm, at the time it issued its audit report, had failed to obtain sufficient audit evidence to support its audit opinion on the effectiveness of internal control due to one or more deficiencies identified by the PCAOB. In 39 of those 46 engagements (approximately 85 percent) in which the firm did not have sufficient evidence to support the internal control opinion (representing approximately 13 percent of the 309 integrated audit engagements that were inspected), the firm also failed to obtain sufficient audit evidence to support the financial statement audit opinion.

Deputy Director George Botic (left) and Senior Deputy Director Chris Mandaleris joined the PCAOB inspections team in 2003 and participated in the limited inspections of the four largest accounting firms that year.

The PCAOB began dialogue early in 2003 with many of its non-U.S. counterparts concerning the development of a cooperative arrangement for the oversight of accounting firms that audit companies whose securities trade in public markets. In October 2003, the Board released a briefing paper describing a framework to permit varying degrees of reliance on a firm's home country system of inspections, based on a sliding scale: the more independent and robust a home country system, the higher the reliance on that system.

International Oversight

Public companies, whether located in the U.S. or abroad, access U.S. capital markets by complying with certain U.S. legal requirements, including the requirement to periodically file audited financial statements with the Securities and Exchange Commission. Their auditors, whether located in the U.S. or abroad, must be registered with and inspected by the PCAOB.

The PCAOB has conducted inspections in 40 non-U.S. jurisdictions since non-U.S. inspections began in 2005. In many jurisdictions, the PCAOB is able to conduct inspections without having to enter into a cooperative agreement; however, in a number of jurisdictions, such as the European Union member states, cooperative agreements are a prerequisite for carrying out inspections.

In 2012, the PCAOB reached cooperative agreements with auditor oversight authorities in Germany and Spain, bringing the total number of cooperative agreements reached with non-U.S. auditor oversight authorities to 14. The PCAOB made significant progress on such agreements with authorities in a considerable number of other jurisdictions in the European Union and elsewhere, setting the stage for completion of additional agreements in 2013. In February 2013, the PCAOB announced cooperative agreements with authorities in Finland and France.

These cooperative agreements generally provide a basis for cooperation in the oversight, including inspections and investigations, of firms subject to the jurisdiction of both parties to the agreement. Many of the PCAOB's cooperative agreements also permit the PCAOB to exchange confidential information with its non-U.S. counterparts, under authority granted to the PCAOB by the Dodd-Frank Act.

The PCAOB in 2012 remained unable to conduct inspections of registered firms in certain European Union member states and China, due to asserted restrictions under local law or objections based on national sovereignty. Due to the position taken by the authorities in China, the PCAOB also was prevented from conducting inspections of registered firms in Hong Kong to the extent that their audit clients had operations in China.

Discussions with auditor oversight authorities in non-U.S. jurisdictions, including China, regarding cross-border audit oversight continued in 2012. In May 2012, Chairman James R. Doty served as one of 19 U.S. delegates who participated in the fourth annual U.S.-China Strategic and Economic Dialogue, held in Beijing. In October 2012, as a step intended to promote further cooperation, PCAOB staff observed Chinese audit regulators conduct a quality control inspection of a PCAOB-registered firm in China.

Transparency of Non-U.S. Auditor Oversight and Audit Risks

The PCAOB continued to focus in 2012 on providing greater transparency to investors with respect to the status of, and observations from, the PCAOB's international inspection program, as well as potential audit risks in the global market. To provide investors with easier access to information about the PCAOB's international program, a revised international section of the PCAOB website was launched in 2012 with enhanced capabilities on certain pages to search by firm name, company name and country.

The Board makes public on its website:

- A list of registered non-U.S. firms that have not yet been inspected by the PCAOB, even though more than four years have passed since the end of the calendar year in which the firm first issued an audit report while registered with the Board.

- A list of approximately 400 U.S.-traded companies whose financial statements were audited by registered firms in jurisdictions where the PCAOB was denied access to conduct inspections. The list was derived from annual reports filed with the PCAOB, in which registered firms identified audit reports they issued between April 1, 2010, and March 31, 2012. The list includes U.S.-traded companies that were audited by firms in China, Hong Kong and certain EU member states.

International Oversight *continued*

- An updated list of the jurisdictions in which the Board has conducted inspections of registered non-U.S. firms since the inception of the PCAOB's non-U.S. inspection program.

Investor Safeguards Related to Registration of Non-U.S. Firms

In 2012, the Board continued to apply its approach, adopted in 2010, to registration applications from firms in non-U.S. jurisdictions where, because of asserted legal restrictions or objections of local authorities, the Board is denied access to information that is necessary to inspect those firms. The Board determined that its consideration of new applications from firms in those jurisdictions will no longer be premised on an expectation that such obstacles will be resolved without undue delay to any necessary PCAOB inspection of a firm.

Accordingly, with respect to registration applications from such firms, the Board will request information from the firm and, if applicable, from the local authority, about whether a PCAOB inspection of the firm would be allowed. In the absence of confirmation that inspections are possible, the Board will not approve the registration application without a hearing on the question of whether registration would be consistent with the interests of investors and the public.

International Outreach

Dialogue with non-U.S. audit and securities regulators has been a priority for the Board since its earliest days and is seen as a vital means to achieve protection for investors in the U.S. and around the world. Indeed, the Board's first public roundtable discussion, held March 31, 2003, focused on the PCAOB's oversight of non-U.S. auditors and included many representatives of non-U.S. financial regulators. Such interaction continues.

In November 2012, the PCAOB convened its sixth International Auditor Regulatory Institute, drawing almost 80 representatives of auditor oversight bodies and government agencies from 37 non-U.S. jurisdictions. The institute provides a forum for regulators from around the world to share experiences and discuss approaches to auditor oversight and improvements to audit quality.

The 2012 institute included seminars on the structure of PCAOB auditor oversight programs; current topics in enforcement and standard setting; audit reform proposals in the European Union; and the challenges facing an audit regulator in the emerging economy of South Africa. The institute also included a panel discussion on joint inspections led by representatives of the PCAOB's international counterparts from Canada, Germany, Switzerland and the United Kingdom.

The PCAOB 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, with a focus on inspections of auditors and audit firms; promoting collaboration in regulatory activity; and providing a platform for dialogue with other international organizations that have an interest in audit quality. In 2012, IFIAR conducted its first global survey of audit inspection findings, in addition to holding various meetings of working groups to facilitate knowledge-sharing among the 46 member organizations.

In 2012, Board member Lewis H. Ferguson served as Vice Chair of IFIAR; he took office as Chair in April 2013. Board member Steven B. Harris represents the Board as Chair of IFIAR's Investor Working Group, a position he has held since 2009.

The PCAOB continued its efforts in 2012 to monitor the activities of various international professional bodies that develop professional standards for auditors. The PCAOB served as an observer to three consultative advisory groups of certain standard-setting boards affiliated with the International Federation of Accountants: the International Auditing and Assurance Standards Board, the International Ethics Standards Board for Accountants and the International Accounting Education Standards Board.

Office of Research and Analysis

The Office of Research and Analysis supports the Board by providing information critical to regulatory oversight, performing analyses of risks affecting registered public accounting firms and performing economic and accounting analysis to support the Board's regulatory activities.

To fulfill these responsibilities, the Office is organized around three programs: business intelligence, risk analysis and economic and accounting analysis.

The enactment of the Jumpstart Our Business Startups Act, or JOBS Act, April 5, 2012, underscored the importance of the Office's efforts to conduct economic analysis in support of the Board's rule making. In collaboration with the Office of the Chief Auditor and the Office of the General Counsel, the Office has continued to support the evaluation of the potential impact of the Board's rulemaking projects.

The Office also provides risk analysis to support the PCAOB registration and inspections staff. It provides tools and analysis to assist the inspections teams in screening issuers, brokers and dealers whose audits may be candidates for inspection, identifying higher risk issuers and audit areas for inspection consideration, including providing an analysis of industry/sector risk. As part of this process, the Office also analyzed historical inspection findings.

In 2012, to maximize its effectiveness and efficiency to utilize information obtained from oversight activities and external sources, the Office of Research and Analysis, in coordination with the Office of Information Technology, continued development of a data management and analysis system.

Greg Scates, deputy chief auditor, joined the PCAOB's Office of Chief Auditor in June 2003.

Standards

Developing and maintaining high-quality auditing and related professional standards is a key priority of the PCAOB. The PCAOB regularly monitors audit risks, challenges and the prevailing economic environment as it maintains and adjusts its standard-setting agenda.

The standard-setting agenda is determined based on consideration of, among other things, the results of the PCAOB's oversight of registered public accounting firms; monitoring of the economic environment; consultation with the Board's Standing Advisory Group (SAG); input from the Board's Investor Advisory Group (IAG); and discussions with the Securities and Exchange Commission staff.

PCAOB standards are rules of the Board. The Board uses a notice-and-comment process similar to the process used by federal agencies and other standard setters, under which the Board proposes standards for public comment before adopting new standards or amendments to existing standards in a public meeting. All Board standards must be approved by the Securities and Exchange Commission before they can become effective.

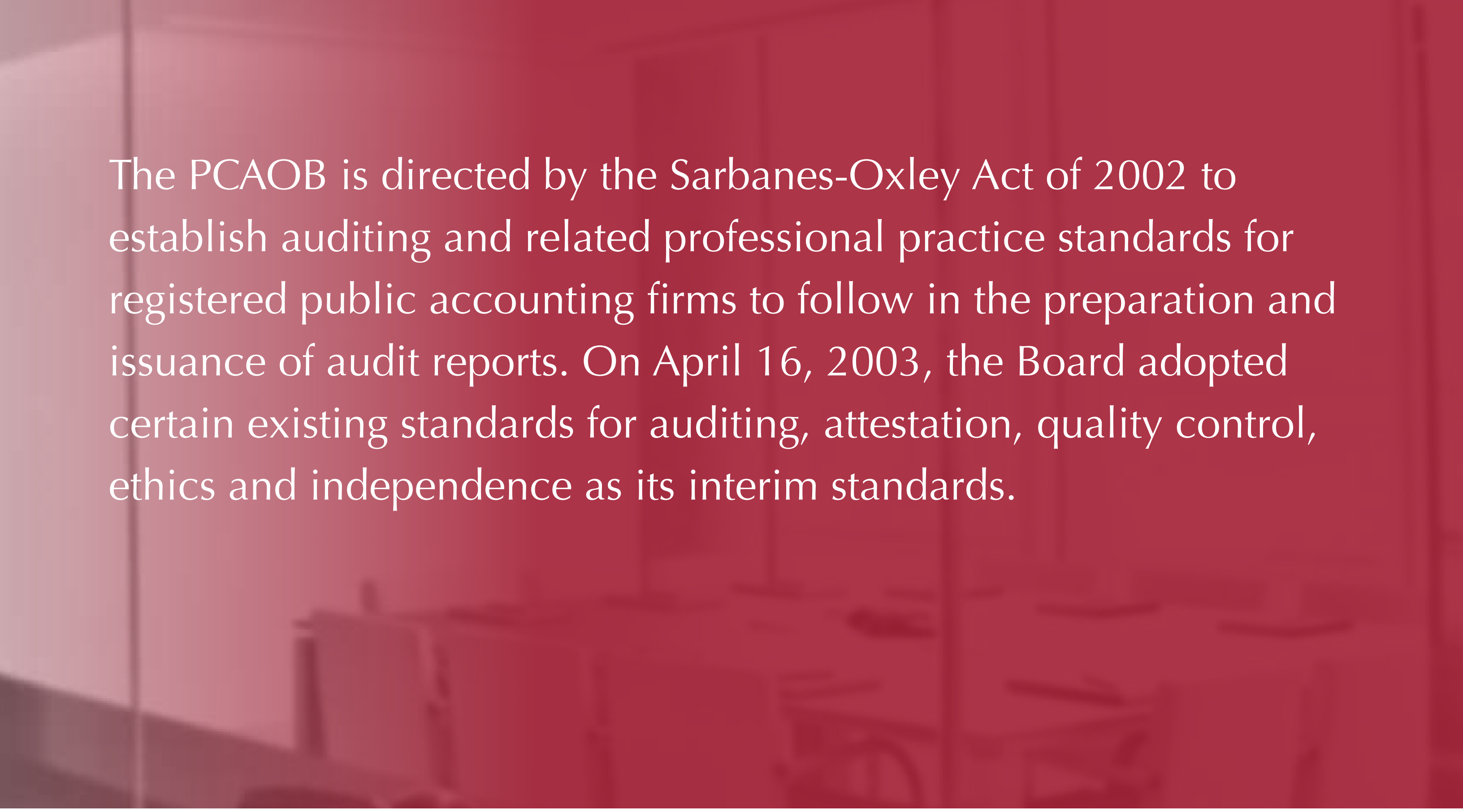
In addition to proposing new standards and amendments to existing standards, the PCAOB issues concept releases and hosts public discussions to obtain feedback on possible auditing standards and related professional standards from investors, auditors, representatives of public companies and other interested parties.

The PCAOB also publishes Staff Audit Practice Alerts to highlight new, emerging or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws.

Economic Considerations Relating to PCAOB Standards

The Board's processes for standard setting and rulemaking have historically incorporated certain elements of economic analysis, such as consideration of advantages, disadvantages and potential unintended consequences of proposed rules.

In early 2012, the PCAOB began exploring ways to further incorporate economic considerations throughout the



The PCAOB is directed by the Sarbanes-Oxley Act of 2002 to establish auditing and related professional practice standards for registered public accounting firms to follow in the preparation and issuance of audit reports. On April 16, 2003, the Board adopted certain existing standards for auditing, attestation, quality control, ethics and independence as its interim standards.

standard-setting process commensurate with the potential significance of the rule under consideration.

While this work was underway, the Jumpstart Our Business Startups Act, or JOBS Act, became law April 5, 2012. The JOBS Act amended the Sarbanes-Oxley Act, in part, by providing that any standards or rules adopted by the Board after April 5, 2012, "shall not apply to an audit of any emerging growth company, unless the [Securities and Exchange] Commission determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation."

This new requirement had an impact on standard setting in 2012 as the PCAOB carefully considered the criteria prescribed in the provisions and began to perform the analyses and provide information to help the Commission determine whether new standards should apply to audits of emerging growth companies.

Communications with Audit Committees

With the adoption of Auditing Standard No. 16, *Communications with Audit Committees,* the Board issued new requirements intended to enhance the relevance and timeliness of the communications between a public company's auditor and its audit committee, encouraging constructive dialogue between the two on significant audit and financial statement matters.

Auditing Standard No. 16 is aligned with the requirements of the Sarbanes-Oxley Act, which placed the audit committee at the center of the relationship between a public company and its auditor. The standard requires the auditor to communicate certain significant matters regarding the audit and the financial statements to the audit committee, which should assist the audit committee in fulfilling its oversight responsibilities regarding the financial reporting process. Effective two-way communication between the auditor and the audit committee on such relevant matters also will benefit the auditor in performing an effective audit.

The Board approved the standard Aug. 15, 2012. The SEC approved Auditing Standard No. 16 and related

Standards *continued*

amendments to other PCAOB standards Dec. 17, 2012. The standard and related amendments became effective for public company audits of fiscal periods beginning on or after Dec. 15, 2012.

The standard was the first adopted by the Board after the enactment of the JOBS Act. In developing the final standard, the PCAOB worked closely with the SEC in considering the type of data and analyses that would aid the Commission in making the necessary determination under the JOBS Act. The SEC determined that the standard and related amendments will apply to audits of emerging growth companies under the JOBS Act.

Auditor Independence, Objectivity and Professional Skepticism

Observations from the PCAOB's oversight activities continue to raise concerns about whether auditors consistently and diligently apply professional skepticism in their audits of public company financial statements.

The Board hosted three public meetings in 2012 to solicit comment on ways to enhance auditor independence, objectivity and professional skepticism, including through mandatory rotation of audit firms. Mandatory rotation would limit the number of consecutive years for which a registered public accounting firm could serve as the auditor of a public company. The meetings were held in Washington, San Francisco and Houston.

The discussions were based on a concept release, *Auditor Independence and Audit Firm Rotation,* issued by the Board Aug. 16, 2011, and featured a total of 97 panelists, including investors and investor advocates; former regulators (including former chairmen of the SEC), senior executives and audit committee chairs of major corporations; chief executive officers of audit firms; academicians; and other interested parties. Panelists' statements are posted on the PCAOB's website.

On Dec. 4, 2012, the PCAOB published Staff Audit Practice Alert No. 10, *Maintaining and Applying Professional Skepticism in Audits,* to remind auditors of the requirement to appropriately apply professional skepticism throughout their audits.

PCAOB standards define professional skepticism as an attitude that includes a questioning mind and a critical assessment of audit evidence. The standards also state that professional skepticism should be exercised throughout the audit process. While professional skepticism is important in all aspects of the audit, it is particularly important in those areas of the audit that involve significant management judgments or transactions outside the normal course of business.

Professional skepticism also is important as it relates to the auditor's consideration of fraud in an audit. When auditors do not appropriately apply professional skepticism, they may not obtain sufficient appropriate evidence to support their opinions or may not identify or address situations in which the financial statements are materially misstated.

The Staff Audit Practice Alert describes certain circumstances that can impede the appropriate application of professional skepticism and allow unconscious biases to prevail, including incentives and pressures resulting from certain conditions inherent in the audit environment, scheduling and workload demands or an inappropriate level of confidence or trust in management. The Staff Audit Practice Alert reminds audit firms and individual auditors to be alert for these impediments and take appropriate measures to assure that professional skepticism is applied appropriately throughout all audits performed under PCAOB standards.

Related Parties and Significant Unusual Transactions

On Feb. 28, 2012, the Board issued for public comment a proposed auditing standard, *Related Parties;* amendments to certain PCAOB auditing standards regarding significant unusual transactions; and other amendments to PCAOB auditing standards.

The auditor's evaluation of a company's identification of, accounting for and disclosure about its relationships and transactions with related parties is important to the protection of the interests of investors and to the preparation of informative, accurate and independent audit reports. Transactions with related parties can pose significant risks of material misstatement, as their substance might differ materially from their form.

Likewise, significant transactions that are outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature can create complex accounting and financial statement disclosure issues and, in some instances, have been used to engage in fraudulent financial reporting.

In addition, incentives and pressures for executive officers to meet financial targets can result in risks of material misstatement to a company's financial statements. Such incentives and pressures can be created by a company's financial relationships and transactions with its executive officers (e.g., executive compensation, including perquisites, and any other arrangements).

The proposed standard and proposed amendments address the following areas for auditors: (1) evaluating a company's identification of, accounting for and disclosure of relationships and transactions with related parties; (2) identifying and evaluating a company's significant unusual transactions; and (3) obtaining an understanding of a company's financial relationships and transactions with its executive officers as part of the auditor's risk assessment.

The proposed standard and proposed amendments were discussed with the SAG May 17, 2012.

On May 7, 2013, the Board issued for public comment a reproposed auditing standard and reproposed amendments addressing the same areas that the February 2012 proposal did. The reproposal included certain changes in response to comments received on the proposal. The reproposal was discussed with the SAG May 15, 2013.

Future Standard Setting

In addition to the proposed standard on related parties and the project on auditor independence, objectivity, and professional skepticism, projects on the Board's standard-setting agenda as of March 2013 included:

Reorganization of PCAOB Auditing Standards. On March 26, 2013, the Board issued for public comment a potential framework for reorganizing the Board's existing interim and PCAOB-issued auditing standards into a topical structure with a single integrated numbering system, along with certain implementing amendments to its rules and standards. The proposed reorganization is intended to present the standards in a logical order that generally follows the flow of the audit process and is intended to help users navigate the standards more easily.

Auditor's Reporting Model. The Board issued a concept release for public comment June 21, 2011, on alternatives for potential changes to the auditor's reporting model that could increase its transparency and relevance to financial statement users. The concept release was preceded by several discussions with the PCAOB's SAG and IAG, in addition to extensive outreach by PCAOB staff in 2010 and 2011. The Board solicited further comment at a roundtable discussion Sept. 15, 2011.

Auditors' Responsibilities with Respect to Other Accounting Firms, Individual Accountants and Specialists. The PCAOB is considering possible revisions to standards related to audits involving other accounting firms, individual accountants and specialists. The project is intended to improve the planning, supervision and other aspects of such audits.

Audit Transparency—Identification of the Engagement Partner. On Oct. 11, 2011, the Board proposed amendments to its standards and rules that would improve the transparency of public company

Standards *continued*

audits by requiring that audit reports disclose the name of the engagement partner. The amendments also would require registered public accounting firms to disclose the name of the engagement partner for each audit report listed on the firms' annual filings with the PCAOB.

Audits of Brokers and Dealers. In June 2011, the SEC proposed to amend its rules to require that certain audit and attest reports filed by SEC-registered brokers and dealers be prepared by PCAOB-registered auditors using standards established by the PCAOB. On July 12, 2011, the Board proposed attestation standards for auditors of brokers and dealers tailored to the SEC-proposed rule amendments. The Board also proposed a standard for audits of supplemental information accompanying audited financial statements that would apply to audits of brokers and dealers and audits of issuers. Further action on the Board's proposals is dependent on the SEC's adoption of the proposed amendments to its rules.

Going Concern. The PCAOB is considering possible revisions to the auditing standard on the auditor's evaluation of a company's ability to continue as a going concern. Among other things, the PCAOB is considering how to enhance the auditor's evaluation process and the usefulness of the auditor's communication to investors regarding going concern uncertainty. The PCAOB also is monitoring the activities of the FASB and IASB in this area. Any new auditing standard would take into consideration any relevant changes to the accounting standards proposed by the FASB and/or IASB.

Audit Transparency—Identification of Other Public Accounting Firms or Persons Not Employed by the Auditor. On Oct. 11, 2011, the Board proposed amendments to its standards that would improve the transparency of public company audits by requiring that audit reports disclose the names of other independent public accounting firms and other persons that took part in the audit.

Quality Control Standards. The PCAOB is developing a concept release to explore potential improvements to the existing quality control standards, including the SEC Practice Section requirements. This project also includes consideration of potential improvements to the quality control standards regarding firm supervisory responsibilities.

Auditing Accounting Estimates, Including Fair Value Measurements and Related Disclosures. The PCAOB is considering possible revisions to the auditing standards on accounting estimates, including fair value measurements and related disclosures. This project is being informed by input from the PCAOB Pricing Sources Task Force, which has focused on the auditing of the fair value of financial instruments that are not actively traded and on the use of third-party pricing sources.

Confirmation. The Board proposed a standard July 13, 2010, to update and expand requirements related to auditors' use of confirmations—the direct communications between an auditor and a third party about a particular item affecting a company's financial statements.

Subsequent Events. The PCAOB is also evaluating potential improvements to the auditing standards related to events or transactions that occur subsequent to the balance-sheet date.

Advisory Groups

One of the Board actions taken during the earliest months of the PCAOB's operations was adoption of a rule for the formation of advisory groups, authorized by the Sarbanes-Oxley Act "to make recommendations concerning the content (including proposed drafts) of auditing, quality control, ethics, independence, or other standards..."

The Board proposed Rule 3700 on Advisory Groups April 18, 2003, and adopted the rule June 30, 2003, with the announcement of the creation of the Standing Advisory Group. In July 2009, the Board created the Investor Advisory Group.

Members of advisory groups are selected by the Board based on nominations, including self-nominations, received from any person or organization. Membership in an advisory group is personal to the individuals selected. A member's functions and responsibilities, including attendance at meetings, may not be delegated to others.

Members of the SAG provide views and advise the PCAOB on the development of auditing and related professional practice standards and on other aspects of the Board's programs. The advisory group includes experts in the fields of accounting, auditing, financial reporting, corporate finance and corporate governance, as well as experts on investment in public companies. The SAG has held 24 meetings since it first convened in 2004.

At its May 17, 2012, meeting, the SAG received updates on PCAOB developments and the standard-setting agenda and provided input on potential standards on the auditor's evaluation of a company's ability to continue as a going concern; auditors' evaluations of companies' transactions with related parties and significant unusual transactions; and the auditor's reporting model.

At the SAG meeting Nov. 15-16, 2012, members participated in break-out discussion groups on the auditor's reporting model, as well as the PCAOB's consideration of outreach and research regarding the auditor's approach to detecting financial statement fraud.

Members of the Investor Advisory Group provide views and advice to the Board on broad policy issues and other matters that affect investors and are related to the work of the Board.

The IAG held its third meeting March 28, 2012, and provided input based on reports from its working groups on the role, relevancy and value of the audit; going concern and related global initiatives; audit firm practice and transparency; and the independence, objectivity and professional skepticism of auditors.

Briefing papers, slide presentations and recordings of the SAG and IAG meetings are available on the PCAOB's website.

Outreach

Given its role to protect investors, the PCAOB devotes time and effort to inform and educate the public, including investors, auditors, the academic community and others. The PCAOB also values input and feedback from the public.

The Board believes that public awareness and interaction with its members and staff enhances the effectiveness of its oversight of auditors by providing the PCAOB with insight into audit risks and environmental factors that may affect such risks. The interaction also enables the PCAOB to provide guidance that may contribute to improving audit quality.

Forums on Small Business and Broker-Dealer Auditing

In 2012, the Board continued its Forums on Auditing in the Small Business Environment and Forums on Auditing Smaller Broker-Dealers. The Board hosted seven day-long presentations to provide information on recent Board actions and industry trends to auditors from smaller firms and solicit feedback from attendees.

In 2012, 693 people attended small business forums in San Francisco, Minneapolis, Atlanta, New York, Denver, San Diego and Fort Lauderdale. Staff of the SEC also participated in the small business forums.

The PCAOB doubled the number of broker-dealer forums from two in 2011 to four in 2012. In 2012, 506 people attended broker-dealer forums in Chicago, Houston, Jersey City and San Diego. Staff of the SEC and the Financial Industry Regulatory Authority also participated in the broker-dealer forums.

Academic Conference

In April 2012, the PCAOB hosted its eighth Academic Conference, planned jointly by the staff of the PCAOB and the staff of the Auditing Section of the American Accounting Association, whose mission is to foster excellence in the teaching, research and practice of auditing and assurance services.

The conference provides an opportunity for the exchange of ideas among PCAOB representatives and members of the academic community regarding matters of mutual interest, including PCAOB standard-setting projects and other Board initiatives.

The conference was attended by 83 members of the academic community, as well as Board members and staff from the PCAOB and representatives of the SEC, Financial Accounting Standards Board, and Government Accountability Office.

Encouraging Future Auditors

Under the Sarbanes-Oxley Act of 2002, civil monetary penalties collected from Board disciplinary actions must be used to fund merit scholarships for students in accredited accounting degree programs.

In 2012, the PCAOB continued its scholarship program, awarding $10,000 each to 43 students across the U.S. who demonstrated high ethical standards and an interest and aptitude in accounting and auditing.

The PCAOB also hosted numerous groups of students in its offices and visited colleges and universities in various states. In addition, 45 students served internships in PCAOB offices in Washington, D.C., and New York in 2012.

Participation in Other Forums

The PCAOB participated in a variety of forums and conferences in 2012 to provide information and obtain feedback about the PCAOB's standards and other initiatives. Audiences for these events included investors, auditors, issuers and other regulators.

Conference hosts included many universities, the American Institute of Certified Public Accountants, the American Accounting Association, the National Association of State Boards of Accountancy, the National Association of Corporate Directors, the Association of Audit Committee Members, the American Law Institute—American Bar Association and the Practising Law Institute.

Enforcement

The Board uses its investigative authority to address serious audit deficiencies that pose significant risks to investors. The Board uses its disciplinary authority to demonstrate that auditors who run afoul of their professional obligations will face real consequences. The Board also takes disciplinary action against auditors who threaten the Board's regulatory processes, such as by failing to cooperate in a Board inspection or investigation.

The Board issued eight settled disciplinary orders in 2012, imposing sanctions on auditors ranging from censures to monetary penalties to bars on their association with registered accounting firms. In all, the Board disciplined four registered accounting firms and 11 associated persons in those proceedings. In all of the settled proceedings, the firms and the associated persons neither admitted nor denied the Board's findings.

Failures to Comply with PCAOB Rules and Auditing Standards

In a settled disciplinary order announced Feb. 8, 2012, the Board imposed a $2 million civil monetary penalty against Ernst & Young LLP—the largest monetary penalty imposed by the Board in its first 10 years of operation. The Board also censured the firm and sanctioned four of its current and former partners for violating PCAOB rules and standards.

The order related to three Ernst & Young audits of Medicis Pharmaceutical Corp. and a consultation stemming from an internal Ernst & Young audit quality review of one of the audits.

In the audits of Medicis's Dec. 31, 2005, 2006 and 2007 financial statements, the Board found that Ernst & Young and its partners failed to properly evaluate the company's sales returns reserve, a material component of the company's financial statements.

During a 2008 inspection of Ernst & Young's audits of Medicis, PCAOB staff questioned the firm's acceptance of the company's accounting for its sales returns reserve. Ernst & Young ultimately concluded that Medicis's reserving for its sales returns was not in conformity with U.S generally accepted accounting principles. The company corrected its accounting for its sales returns reserve and filed restated financial statements with the Securities and Exchange Commission as a result.

The Board also found that, in auditing the company's Dec. 31, 2005, financial statements, Ernst & Young and its responsible partners violated PCAOB standards by accepting the company's basis for reserving at replacement cost when the auditors knew, or should have known, that it was not supported by the audit evidence.

The Board further found that two months later, during an internal audit quality review of the Dec. 31, 2005, audit, Ernst & Young personnel not associated with the audit identified the rationale as conflicting with both GAAP and Ernst & Young's internal accounting guidance. Rather than appropriately addressing this material departure from GAAP, Ernst & Young and its personnel decided that another flawed accounting rationale supported the company's existing practice of reserving for most of its product returns at replacement cost.

The Board also found that Ernst & Young and its responsible partners violated PCAOB standards in auditing the company's new methodology for calculating its year-end product returns reserve estimates for 2006 and 2007. The Board found that they failed to sufficiently audit key assumptions and placed undue reliance on management's representation that those assumptions were reasonable.

In addition to the censure and fine of Ernst & Young, the Board barred Ernst & Young partner Jeffrey S. Anderson from associating with a PCAOB-registered accounting firm, with the right to petition to remove the bar after two years, and imposed a $50,000 civil monetary penalty against him. Anderson was the lead partner for the Dec. 31, 2005, and 2007 audits.

Section 105 of the Sarbanes-Oxley Act granted the Board broad investigative and disciplinary authority over registered public accounting firms and persons associated with such firms. The Act also directed the Board to establish, by rule, fair procedures for the investigation and discipline of registered public accounting firms and associated persons. The Board adopted rules relating to investigations and adjudications Sept. 29, 2003.

Enforcement *continued*

The Board barred former Ernst & Young partner Robert H. Thibault from associating with a PCAOB-registered accounting firm, with the right to petition to remove the bar after one year, and imposed a $25,000 civil monetary penalty against him. Thibault was the independent review partner for the Dec. 31, 2005, and 2006 audits.

The Board censured Ernst & Young partner Ronald Butler Jr., and imposed a $25,000 civil monetary penalty against him. Butler was the second partner, supervised by Anderson, on the Dec. 31, 2005, audit, and he led the Dec. 31, 2006, audit. The Board also censured Ernst & Young partner Thomas A. Christie, who was the second partner, supervised by Anderson, on the Dec. 31, 2007, audit.

Failures to Comply with PCAOB Rules, Auditing Standards and Quality Control Standards

In three settled cases announced Sept. 7, 2012, the Board took disciplinary action against Jewett, Schwartz, Wolfe & Associates, P.L., based in Hollywood, Fla., and the firm's two partners who performed audits of public companies.

The Board found that Jewett, Schwartz, Wolfe & Associates violated PCAOB rules, quality control standards and auditing standards in connection with the audits of four public companies. The Board found that the firm failed to establish, implement and communicate quality control policies and procedures sufficient to provide the firm with reasonable assurance that the work performed by engagement personnel met applicable professional standards.

The Board also found that the quality control violations resulted in or contributed to numerous and repeated violations of PCAOB auditing standards in connection with the audits. In addition, the Board found that Jewett, Schwartz, Wolfe & Associates, P.L. violated PCAOB rules by failing to pay its annual fee to the Board in 2011.

Based on its findings and in response to an offer of settlement from Jewett, Schwartz, Wolfe & Associates, the Board censured the firm and revoked its registration, with the right to reapply for registration after five years.

In a related case, the Board found that Lawrence H. Wolfe, the partner of

John Abell (left) and Ray Hamm, accountants in the Division of Enforcement and Investigations, joined the PCAOB in 2003.

Jewett, Schwartz, Wolfe & Associates who was responsible for the four audits, violated PCAOB rules and auditing standards; violated the anti-fraud provision of the federal securities laws in connection with one company's audit; and directly and substantially contributed to the firm's violation of PCAOB quality control standards.

Based on these findings and in response to an offer of settlement from Wolfe, the Board censured Wolfe and permanently barred him from being an associated person of a registered public accounting firm.

In a related settled proceeding, the Board found that Uma D. Basso, a partner in Jewett, Schwartz, Wolfe & Associates' audit practice, violated PCAOB rules and auditing standards in connection with the audits of two public companies for which she served as audit manager.

Based on these findings and in response to an offer of settlement from Basso, the Board censured Basso, and for a period of two years, limited her activities in connection with audits by prohibiting her from serving in the role of engagement partner or engagement quality reviewer. In addition, the Board required Basso to complete 40 additional hours of continuing professional education in subjects that are directly related to the audits of issuer financial statements under PCAOB standards.

Failures in Connection with Audits of Non-U.S. Companies

The PCAOB's focus on audits of non-U.S. companies advances the Board's mission to improve audit quality and protect investors in the global marketplace.

In a settled case announced May 22, 2012, the Board found that Buffalo, N.Y.-based Brock, Schechter & Polakoff, LLP violated PCAOB rules, quality control standards and auditing standards in connection with the audits of three China-based and Taiwan-based companies traded in U.S. markets. In a related case, the Board found that the firm's former director of accounting and auditing, James R. Waggoner, CPA, violated PCAOB rules and auditing standards in connection with the audits of the companies.

The Board found that when Brock, Schechter & Polakoff began auditing the financial statements of public

Enforcement *continued*

companies located in Taiwan and China, the firm had no prior experience auditing public companies pursuant to PCAOB auditing standards and had no prior experience auditing companies based in Taiwan or China.

The Board found that Brock, Schechter & Polakoff failed to comply with PCAOB quality control standards because the firm had not developed policies and procedures sufficient to provide it with reasonable assurance that the firm undertook only those public company audit engagements that it reasonably could expect to complete with professional competence.

In addition, the Board found that Brock, Schechter & Polakoff failed to comply with PCAOB auditing standards related to the planning, performance and supervision of the audits. The Board also found that the firm failed to gather sufficient competent evidential matter and failed to use due care and exercise professional skepticism in the course of the audits.

Based on these findings and in response to an offer of settlement from Brock, Schechter & Polakoff, the Board censured and revoked the firm's registration, with the right to reapply for registration after two years, and imposed a $20,000 civil monetary penalty against the firm.

The Board found that Waggoner, at the time he had final responsibility for the audits, failed to properly supervise and review the work of two audit firms, one located in Taiwan and one located in China, responsible for planning and performing the audits of the non-U.S. companies.

The Board also found that Waggoner improperly created, added and altered audit working papers after the relevant documentation completion dates for two audits shortly before a PCAOB inspection.

Based on these findings and in response to an offer of settlement from Waggoner, the Board censured and barred him from associating with a PCAOB-registered accounting firm with the right to petition to remove the bar after three years.

In a settled disciplinary order announced Sept. 7, 2012, the Board imposed sanctions against Michael T. Studer, CPA and the New York-based firm Michael T. Studer, CPA, P.C. for violating PCAOB rules, auditing standards and quality control standards.

The Board found that Studer and the firm failed to comply with PCAOB auditing standards in auditing management's assessment of the effectiveness of internal control over financial reporting and the financial statements of an issuer client based in France.

The Board found that the firm, at Studer's direction, issued an unqualified audit report on the client's internal control over financial reporting as of Dec. 31, 2008, without sufficient basis for the opinion expressed in the report. The firm issued the report despite Studer and the firm's failure to perform required audit procedures including, among others, identification and testing of the issuer's internal controls. The firm concurrently issued an unqualified audit report (with a going concern explanatory paragraph) on the issuer's financial statements as of and for the year ended Dec. 31, 2008.

In conducting audits of two China-based issuers, the Board found that the firm used assistants based in Canada to perform field work in China and that these assistants conducted a significant portion of the firm's audit procedures. The Board also found that Studer and the firm failed to direct the efforts of these assistants or review the work they performed in order to ensure that the firm's audit documentation would be prepared in accordance with PCAOB standards.

Based on these findings and in response to an offer of settlement from Studer and the firm, the Board censured Studer and the firm and required the firm to retain an independent monitor. The Board also imposed specific limitations on the activities, functions and operations of Studer and the firm, subject to the issuance of a certificate of compliance by the independent monitor.

How Investigations Begin

The PCAOB enforcement staff conducts informal inquiries as well as formal investigations that arise from several sources including:

- PCAOB inspections of registered firms
- PCAOB research and analysis
- Other regulators, including the Securities and Exchange Commission
- Public disclosures of restatements and auditor changes
- News reports
- Confidential tips provided to 800-741-3158 or tips@pcaobus.org

Failures to Comply with the Board's Rules and Non-Cooperation with Board Processes

The PCAOB also focuses on auditors' failures to comply with the laws and rules governing the Board's processes, including failures to cooperate with inspections and violations of Board orders and rules.

On Nov. 13, 2012, the PCAOB announced settled disciplinary orders against three auditors of the firm McGladrey & Pullen, LLP after finding that, shortly before a PCAOB inspection, the three improperly created, added and altered audit documentation.

Based on these findings, the Board accepted offers of settlement from partner Dale A. Hotz, director Jyothi N. Manohar and former manager Michael J. Fadner. The Board censured and barred Hotz from associating with a PCAOB-registered accounting firm with the right to petition to remove the bar after two years. The Board censured and suspended Manohar from being an associated person of a registered public accounting firm for a period of one year. The Board censured Fadner.

Adjudicated Disciplinary Orders and Opinions

Under the Sarbanes-Oxley Act, any person sanctioned by the Board may seek review by the SEC in accordance with SEC rules, and any such application for review operates as a stay of the sanction. The Sarbanes-Oxley Act prohibits the Board from reporting the sanction to the public unless and until the SEC lifts the stay of the sanction. Because of the stay, the Board does not publish Board orders and opinions before the SEC review has occurred or the opportunity to seek SEC review has passed. In addition, because of the stay, the effective date of the sanctions imposed by the Board is different from the date of the Board action imposing the sanctions.

On Jan. 10, 2012, the SEC sustained the Board's final decision and order of Oct. 6, 2010, imposing sanctions against Texas-based R.E. Bassie & Co. and R. Everett Bassie after finding that Bassie and his firm had engaged in conduct constituting noncooperation with an investigation.

A PCAOB hearing officer had previously issued a decision permanently revoking the firm's registration with the Board and permanently barring

Enforcement *continued*

Bassie from association with any registered public accounting firm for failing to cooperate in a PCAOB investigation. Based on a de novo review of the record, the Board found that the firm and Bassie failed to produce documents in response to investigative demands and the Board permanently barred Bassie from being associated with a registered accounting firm, revoked the firm's registration and imposed a $75,000 civil monetary penalty against Bassie.

Bassie and the firm filed an application for SEC review of the disciplinary action, which stayed the effect of the Board's sanctions. On Jan. 10, 2012, the Commission sustained the findings of violation and sanctions imposed by the Board, and the sanctions took effect that day.

In 2012, the Board issued final decisions and orders imposing sanctions against two firms for the firms' failure to timely file annual reports with the PCAOB and/or to pay annual fees. The Board suspended the registration of Pennsylvania-based Buckno Lisicky & Company, P.C. for one year and imposed a $5,000 monetary penalty, while permanently revoking the registration of New York-based Paul Gaynes and imposing a $5,000 monetary penalty.

Confidentiality of PCAOB Disciplinary Actions

In each enforcement case in which litigation is initiated, the PCAOB is prohibited by the Sarbanes-Oxley Act from publicly disclosing the allegations and proceedings. Even after a disinterested hearing officer has found that the alleged violations occurred, the matter may still remain unknown to the public at least until the case is appealed to the SEC or the opportunity for SEC review has passed.

As a result, for substantial periods, investors are unaware that companies in which they may have invested are being audited by accountants who have been charged, or even sanctioned, by the Board. As of Dec. 31, 2012, Board disciplinary proceedings involving formal allegations of misconduct involving 23 firms and individual auditors were pending, but could not be publicly disclosed by the Board because of the statutory restriction.

In testimony and correspondence, members of the Board have urged Congress to amend the Sarbanes-Oxley Act to allow PCAOB disciplinary proceedings to be public. Chairman James R. Doty described the detriments of nonpublic proceedings in testimony March 28, 2012, before the Subcommittee on Capital Markets and Government Sponsored Enterprises of the U.S. House Committee on Financial Services.

Administration

The PCAOB endeavors to use its resources responsibly to protect investors and serve the public interest. The PCAOB maintains this effort through its daily operations.

The Sarbanes-Oxley Act of 2002 established the PCAOB as a nonprofit, non-governmental organization. As a result, the PCAOB does not receive federal appropriations for its operations. Under the provisions of the Sarbanes-Oxley Act and the Dodd-Frank Act, the PCAOB is primarily funded by fees collected from public companies, mutual funds and brokers and dealers registered with the Securities and Exchange Commission.

In light of its accountability to the SEC and the public, the PCAOB devotes resources to analyzing the impacts of its standards and rules; maintaining and assessing the effectiveness of its internal control over financial reporting; and monitoring its operations through its Office of Internal Oversight and Performance Assurance.

SEC Oversight

The Sarbanes-Oxley Act gives the SEC oversight authority over the PCAOB. The SEC is responsible for appointing and removing Board members. On Feb. 3, 2012, the SEC announced the appointment of Jeanette M. Franzel to succeed Board member Daniel L. Goelzer, whose term had expired. Board member Franzel began her term March 5, 2012.

The PCAOB is subject to rules and orders promulgated by the SEC. PCAOB rules, including its auditing and related professional practice standards, are not effective unless approved by the SEC. In addition, adverse PCAOB inspection reports, remediation determinations and disciplinary actions against registered firms and their associated persons are subject to review by the SEC. The SEC also is responsible for approving the PCAOB's annual budget and accounting support fee.

Budget and Funding

The PCAOB's budget for 2012, as approved by the Board Nov. 30, 2011, was $227.7 million. Each year, the PCAOB's budget-setting process is subject to SEC oversight, including review, comment and approval. The SEC approved the budget and accounting support fee Jan. 11, 2012.

The 2012 budget was 11.4 percent above the PCAOB's 2011 budget, largely attributable to staffing and associated expenses, such as travel, for inspections. The additional resources accommodated an increase in the number of non-U.S. inspections, while maintaining the scope and pace of U.S.-based inspections and implementing the oversight of the audits of SEC-registered brokers and dealers.

On Nov. 28, 2012, the Board approved a budget of approximately $245.6 million for 2013 along with a strategic plan for 2012–2016, which reaffirmed and updated the plan adopted Nov. 30, 2011. The strategic plan guides the PCAOB's operations and programs, as well as development of its budget and its initiatives to enhance the relevance, credibility and transparency of the audit to better serve investors. The Chairman's message accompanying the strategic plan sets forth the Board's near-term priorities including improving the timeliness, content and readability of inspection reports, the timeliness of remediation determinations, a project to identify audit quality measures and enhancing PCAOB's outreach to and interaction with audit committees.

Under the Sarbanes-Oxley Act, as amended by the Dodd-Frank Act, the PCAOB budget provides the foundation for the assessment of an accounting support fee paid by public companies and mutual funds, together referred to as "issuers" as well as SEC-registered brokers and dealers.

The Board's funding rules are based on two principles: that the issuer and broker-dealer accounting support fees must be allocated in a manner that reflects the proportionate sizes of issuers, brokers and dealers, and those

Administration *continued*

fees must be allocated in an equitable manner. The principles are based on the premise that the size of an entity may serve as an indication of the complexity of an audit, which could be an equitable measure on which to base the allocation of the fee.

The total accounting support fee for 2012 was approximately $215 million, with $196.8 million allocated to issuers and $18.2 million allocated to SEC-registered brokers and dealers.

Issuer Accounting Support Fee

The issuer accounting support fee is allocated annually to public companies and mutual funds based on their relative average, monthly U.S. equity market capitalization during the preceding calendar year.

The allocation of the 2012 issuer accounting support fee was based on amendments to the PCAOB's funding rules that were approved by the Board in 2011. The amendments increased the average, monthly market capitalization thresholds for entities eligible to be assessed a portion of the fee and resulted in a large reduction in the number of smaller public companies and mutual funds being assessed a portion of the issuer accounting support fee in 2012. The amendments also revised the basis for calculating an issuer's market capitalization to include the market capitalization of all classes of an issuer's voting and non-voting common equity rather than just its common stock.

In 2012, public companies with an average, monthly market capitalization greater than $75 million during the preceding calendar year and mutual funds with an average monthly market capitalization, or net asset value, greater than $500 million during the preceding calendar year were invoiced a proportionate share of the accounting support fee. In 2012, public companies were assessed approximately 93.3 percent of the total issuer accounting support fee, and mutual funds were assessed the remaining 6.7 percent, similar to the allocations in 2011.

Issuer Accounting Support Fee

	NUMBER OF ISSUERS	
ISSUER FEE RANGES	2012	2011*
$100–500	191	2,138
$501–1,000	1,481	1,752
$1,001–5,000	3,037	3,054
$5,001–10,000	922	900
$10,001–50,000	1,331	1,321
$50,001–100,000	279	279
$100,001–500,000	329	285
$500,001–1,000,000	31	30
$1,000,001+	26	25
TOTAL	*7,627*	*9,784*

* *Fees in 2011 were allocated among equity issuers with an average, monthly market capitalization greater than $25 million and investment company issuers with an average, monthly market capitalization, or net asset value, greater than $250 million. The equity issuer and investment company thresholds were raised for the 2012 allocations to $75 million and $500 million, respectively.*

The PCAOB invoiced 7,627 issuers in 2012, compared to 9,784 issuers in 2011. The reduction in the number of issuers invoiced was mainly due to the increased threshold for the average, monthly market capitalization used to allocate the issuer accounting support fee. Approximately 21.9 percent of the issuers billed received invoices for $1,000 or less.

Broker-Dealer Accounting Support Fee

The PCAOB invoiced 687 brokers and dealers approximately $18.2 million in 2012, compared to 681 brokers and dealers that received invoices totaling $14.4 million in 2011, the first year they were required to pay a portion of the broker-dealer accounting support fee. In 2012, approximately 33.2 percent of the brokers and dealers billed received invoices for $1,000 or less, and the largest 100 invoice amounts comprised approximately 91.4 percent of the total fee.

As authorized by the Dodd-Frank Act, the broker-dealer accounting support fee was allocated to brokers and dealers with an average quarterly tentative net capital greater than $5 million during the preceding calendar year.

Registration and Annual Fees from Accounting Firms

The Sarbanes-Oxley Act directs the PCAOB to assess and collect a registration fee and an annual fee from each registered public accounting firm, in amounts that are sufficient to recover the costs of processing and reviewing applications and annual reports.

In 2012, the PCAOB assessed annual fees totaling approximately $1.65 million to 2,366 registered accounting firms based on the firms' headcount and the number of issuer audit clients.

In 2012, the PCAOB collected approximately $54,000 in registration application fees from 108 firms, compared to $71,000 in registration fees collected from 143 firms in 2011.

Broker-Dealer Accounting Support Fee

	NUMBER OF BROKERS AND DEALERS	
BROKER-DEALER FEE RANGES	2012	2011
$100-500	74	100
$501-1,000	154	159
$1,001-5,000	263	250
$5,001-10,000	69	65
$10,001-50,000	81	65
$50,001-100,000	12	17
$100,001-500,000	24	16
$500,001-1,000,000	5	6
$1,000,001+	5	3
TOTAL	*687*	*681*

Administration *continued*

Annual Fees from Accounting Firms

	NUMBER OF ACCOUNTING FIRMS	
FEE AMOUNT	2012	2011
$100,000	4	4
$25,000	3	3
$500	2,359	2,399
TOTAL	*2,366*	*2,406*

Staffing

In 2012, the PCAOB's staff grew by a net increase of 76, including 64 staff in registration and inspections, ending the year with 766 staff. More than 60 percent of PCAOB staff work in registration and inspections in Washington and in 14 regional and satellite offices, which allow for certain savings in travel, relocation and real estate expenses.

Information Technology

Under an enhanced IT governance framework, the PCAOB established an IT governance program, drafted and began to implement an IT strategic plan and began work on an enterprise architecture program.

Projects designed to enhance collaboration and workforce mobility in 2012 included development and launch of an intranet site; enhanced wireless capability in PCAOB offices; and technology support for space sharing. Program-related projects also continued, including progress on developing an improved data management and analysis system.

Office of Internal Oversight and Performance Assurance

The Office of Internal Oversight and Performance Assurance performs a role similar to that of an inspector general in a government agency. 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).

In 2012, IOPA completed reviews of the PCAOB's Enforcement and Investigations Program; Technology in Support of Business Continuity Planning at the PCAOB; and the PCAOB's Office of Research and Analysis. Summaries of the reviews were sent to the Chairman of the SEC and are posted on the PCAOB's website.

PCAOB OFFICES

HEADQUARTERS

Washington, D.C.
Ashburn, Virginia
Philadelphia

REGIONAL AND SATELLITE OFFICES

Atlanta
Fort Lauderdale, Florida
Tampa, Florida
Charlotte, North Carolina
Chicago
Denver
Irvine, California
Los Angeles
Irving, Texas
Houston
New York
Boston
San Mateo, California

Financial Review

This financial review, together with the 2012 audited financial statements and the accompanying notes, provides financial information and disclosures related to the PCAOB's programs and activities described in the other sections of this annual report.

The PCAOB is a nonprofit corporation established in 2002 under federal law to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. Since 2010, the PCAOB also oversees the audits of SEC-registered brokers and dealers, including compliance reports filed pursuant to federal securities laws, to further promote investor protection.

The additional responsibilities for oversight of broker-dealer audits, along with inspection accessibility to a greater number of non-U.S. accounting firms, drove the need for more inspections personnel and larger travel expenditures in 2012. Total staff increased from 690 as of Dec. 31, 2011, to 766 as of Dec. 31, 2012. Of the net 76 new staff, 64 joined the Division of Registration and Inspections. Personnel costs rose from $141.7 million in 2011 to $161.5 million in 2012, and travel expenses rose from $10.9 million in 2011 to $14.9 million in 2012.

Presentation of Financial Statements

The PCAOB's financial statements are presented in accordance with accounting principles generally accepted in the United States of America using the standards applicable to not-for-profit entities. A discussion of the statements of financial position and the statements of activities follows.

STATEMENTS OF FINANCIAL POSITION

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits in non-interest bearing accounts maintained with a major financial institution. The amounts maintained in these accounts were fully insured under Section 343 of the Dodd-Frank Act, which provided temporary insurance coverage through Dec. 31, 2012. With the expiration of this coverage, commencing in January 2013, the PCAOB reinstated a sweep service from a financial institution to invest in overnight repurchase agreements in U.S. Treasury or agency securities.

The PCAOB's monthly cash outflows increased steadily throughout the year due to the effects of hiring to support the inspections of broker-dealer audits and non-U.S. based audits of issuers. Cash inflows were cyclical because the majority of cash was collected in the second quarter of the year from the assessments of the issuer accounting support fee and annual fees from registered firms. As in prior years, the timing of the cash inflows requires the PCAOB to maintain a substantial cash balance sufficient to fund its operations for the first several months of the subsequent year. As such, with the anticipated expanded operations and increases in hiring, cash and cash equivalents increased from $23.9 million at Dec. 31, 2011, to $49.8 million at Dec. 31, 2012. Included in cash and cash equivalents is $3.9 million and $2.2 million at Dec. 31, 2012 and 2011, respectively, which are statutorily designated funds for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act (see note 8).

Financial Review *continued*

Short-term Investments

The PCAOB continued its cash and investment strategy in 2012 to maximize investment return and minimize exposure to credit risk. As a result, the Board continued investing in U.S. Treasury bills during 2012 as well as U.S. Treasury notes. The Board had approximately $75.0 million invested in U.S. Treasury bills and notes as of Dec. 31, 2012.

Net Accounts Receivable

Net accounts receivable consist of uncollected accounting support fees from issuers and brokers and dealers, and annual fees from registered accounting firms, less an allowance for doubtful accounts. Net accounts receivable decreased from approximately $13.9 million in 2011 to $0.4 million in 2012. The decrease was primarily due to the timing of the 2012 and 2011 broker-dealer accounting support fee invoicing. The 2012 fee was invoiced on Oct. 19, 2012, while the 2011 fee was invoiced on Dec. 15, 2011.

Leasehold Incentives and Deferred Rent

Leasehold incentives represent amounts owed to the PCAOB by its landlords, who have contractually agreed to reimburse the PCAOB for the cost, or a portion of the cost, of leasehold improvements to be made by the PCAOB. In November 2011, the PCAOB amended its leases for its headquarters office space in Washington, D.C., to extend through July 2028. As part of these lease amendments, the PCAOB's landlord agreed to provide leasehold incentives totaling approximately $9.7 million over four years. The PCAOB intends to use these incentives for remodeling and renovations. These incentives contributed to the overall increase in deferred rent of approximately $3.3 million in 2012 and $6.5 million in 2011. The increase was partially offset by the continued amortization of pre-existing incentives from regional office leases.

Furniture and Equipment, Leasehold Improvements and Technology

Net fixed assets were approximately $8.3 million and $10.6 million as of Dec. 31, 2012, and 2011, respectively. Spending on fixed assets decreased from approximately $4.8 million in 2011 to $2.6 million in 2012. Major investments in fixed assets included the replacement of certain information technology hardware components at the end of their projected lives and leasehold improvements and furniture for various office expansions.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist primarily of payroll-related liabilities, such as accrued employee leave, annual performance awards and vendor payables. The account balance increased by approximately $2.9 million from $18.9 million as of Dec. 31, 2011, to $21.8 million as of Dec. 31, 2012, primarily due to increases in employee-related accruals.

Statutorily Designated Net Assets (Scholarship Funds)

In accordance with Section 109(c)(2) of the Sarbanes-Oxley 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. In 2012 and 2011, the PCAOB imposed civil monetary penalties of $2.1 million and $1.6 million, and the PCAOB awarded 43 and 52 scholarships of $10,000 each, respectively.

STATEMENTS OF ACTIVITIES

Net Operating Revenue

Total net operating revenue increased by approximately $12.8 million in 2012 compared to 2011 due to the increase in the annual accounting support fee primarily to support a larger budgeted staff, including those additional staff required to meet the Board's responsibilities for oversight of audits of brokers and dealers. Net operating revenue for 2012 and 2011 includes the issuer and broker-dealer accounting support fees and registration and annual fees from accounting firms.

Operating Expenses

Operating expenses are presented as program and supporting activities in the financial statements. The expenses charged to each program or supporting activity are addressed in the discussion that follows. 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 Dec. 31, 2012, and 2011, are presented below.

FUNCTIONAL OPERATING EXPENSES	2012	2011
Personnel Costs	$161,453,000	$141,712,000
Occupancy/Rent	15,520,000	11,537,000
Travel Expenses	14,885,000	10,903,000
Information Technology-Related Expenses	9,193,000	8,183,000
Other Operating Expenses	16,634,000	17,700,000
TOTAL OPERATING EXPENSES	$217,685,000	$190,035,000

Total operating expenses increased by approximately $27.7 million in 2012 to $217.7 million. Personnel costs increased by $19.7 million, accounting for 71 percent of the net increase in operating expenses. Increases in staffing levels from 690 employees at the end of 2011 to 766 employees at the end of 2012 were primarily responsible for the increase in personnel expenses. The increases in staffing levels were driven by the Board's new responsibilities for inspecting auditors of brokers and dealers as well as expanded inspections access in non-U.S. jurisdictions.

Occupancy/rent costs increased from approximately $11.5 million in 2011 to $15.5 million in 2012 due to expansions in existing office locations and increased capacity in satellite office locations.

Travel for inspections of registered public accounting firms accounted for approximately 91 percent of the PCAOB's total travel expenses. An increase in international inspections activity was the primary reason for the $4.0 million increase in travel from $10.9 million in 2011 to $14.9 million in 2012.

Information technology-related (IT) expenses, which include telecommunications, non-capitalized hardware and maintenance, data storage, non-capitalized software development and data security maintenance, increased approximately $1.0 million from $8.2 million in 2011 to $9.2 million in 2012. This was primarily due to an increase in network and telecommunication expense associated with supporting the growth in staffing during the year.

Other operating expenses consist of the following:

OTHER OPERATING EXPENSES	2012	2011
Professional Services and Consulting	$ 6,045,000	$ 7,592,000
Administrative Expenses	5,528,000	5,237,000
Depreciation	4,989,000	4,771,000
Miscellaneous	72,000	100,000
TOTAL OTHER OPERATING EXPENSES	$16,634,000	$17,700,000

Financial Review *continued*

Other operating expenses, which include professional and non-IT consulting fees, administrative expenses (such as subscriptions, office supplies, printing and copying, and business insurance), and depreciation, decreased from approximately $17.7 million in 2011 to $16.6 million in 2012. Expenses for professional services and consulting decreased $1.6 million from $7.6 million to $6.0 million primarily due to lower spending in professional services such as legal and litigation support during the year.

The following are descriptions of program and supporting activity expenses that experienced significant changes between 2012 and 2011.

Program Activities

The Sarbanes-Oxley Act, as amended, gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies or brokers or dealers; inspection of registered public accounting firms that audit public companies or brokers or dealers; establishment of auditing, quality control, ethics, independence and other standards for registered public accounting firms; and investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards. These statutorily granted responsibilities are designated as program activities and are reflected as such in the Statements of Activities. The financial statements include two additional program activities: (1) Office of Research and Analysis and (2) Board and related activities, which include the Office of International Affairs (OIA).

Costs associated with program activities totaled approximately $174.1 million in 2012 (80 percent of total operating expenses) and approximately $148.1 million in 2011 (78 percent of total operating expenses).

Registration and Inspections

Expenses increased approximately $23.1 million to $126.4 million in 2012 from $103.3 million in 2011, due primarily to increased staffing and the related personnel, travel and other expenses. The 22.3 percent increase in expenses in 2012 was primarily due to a larger inspections staff, which was required to meet new responsibilities for inspecting the auditors of brokers and dealers as well as expanded access to conduct inspections of registered firms in international jurisdictions.

Enforcement

Expenses of the Division of Enforcement and Investigations increased to approximately $19.1 million in 2012 from $17.9 million in 2011. This approximate $1.2 million increase was related primarily to increased staffing and related personnel expenses.

Standard Setting

The Office of the Chief Auditor experienced an increase in expenses of approximately $1.3 million from $7.1 million in 2011 to $8.4 million in 2012. This increase is primarily related to increased staffing and the related personnel, travel and other expenses.

Research and Analysis

The expenses of the Office of Research and Analysis decreased to approximately $10.0 million in 2012 from $10.1 million in 2011. The decrease was primarily related to reduced staffing and related personnel expenses, consulting and subscription expenses, which were partially offset by increased spending on the development of software for internal use.

Supporting Activities

Supporting activities include administration and general expenditures, communications and IT infrastructure, security and telecommunications. In 2012, these activities comprised approximately 20 percent of the total operating expenses of the PCAOB compared to approximately 22 percent in 2011. Total operating expenses of the supporting activities increased by approximately $1.6 million to $43.5 million in 2012 from $41.9 million in 2011. This increase was primarily due to increases in administration and general expenses of $0.7 million and information technology infrastructure, security and telecommunications expenses of $0.9 million, required to support the headcount growth associated with the program activities.

Operating (Loss) Income

The PCAOB incurred an operating loss of approximately $1.1 million in 2012 compared to operating income of approximately $13.7 million in 2011. The PCAOB's net operating revenues are derived primarily from the PCAOB's accounting support fee (ASF), which, in turn, is derived from the 2012 budget amount approved to fund the PCAOB's operations and any adjustments required to maintain a five-month working capital fund for the subsequent year. At the end of 2011, as a result of the lower than budgeted spending, the working capital fund balance was greater than the five-month amount required and the 2012 ASF was reduced accordingly. The 2012 operating loss of approximately $1.1 million is a result of a 15 percent increase in the 2012 operating expenditures versus only a 6 percent increase in the 2012 ASF.

Other Revenue (Expenses)

Other revenue includes interest income generated from investments, the annual fee assessed to the Financial Accounting Standards Board for serving as its collection agent, and other miscellaneous income, such as civil monetary penalties and reimbursements for the PCAOB's role in supporting the secretariat role of the International Forum of Independent Audit Regulators. In 2012, the PCAOB imposed civil monetary penalties totaling approximately $2.1 million. Other expenses include approximately $0.4 million to fund the merit scholarships awarded to undergraduate and graduate students enrolled in accredited accounting degree programs.

Uncertainties Surrounding the 2013 Budget

Sequestration and Impact on 2013 Operations

The Office of Management and Budget (OMB), in a report to Congress March 1, 2013, determined that the PCAOB's budget and scholarship program are subject to sequestration in accordance with the Balanced Budget and Emergency Deficit Control Act, 2 U.S.C. § 901a. Specifically, OMB calculated that the U.S. government's sequestration mechanism requires reductions of 5.1 percent of the Board's 2013 budget ($12.0 million) and 5 percent of the scholarship program (approximately $0.1 million). The PCAOB disagrees with OMB's determination that the Board's resources should be subject to sequestration and has consulted the Department of Justice on the legal issue of whether the PCAOB is properly subject to sequestration. Pending resolution of this issue, the Board will comply with OMB's determination that the PCAOB's resources are subject to sequestration.

The sequestration will reduce the PCAOB's 2013 spending in operating expenses. The sequestration will not affect the amounts to be billed for the 2013 issuer accounting support fee due from public companies and other issuers, the broker-dealer accounting support fee due from SEC-registered brokers and dealers or the annual fee due from accounting firms registered with the PCAOB. Any amounts collected from the 2013 accounting support fees in excess of the reduced spending imposed by the sequestration will be retained pending resolution of this issue.

Financial Reporting Management and Internal Control over Financial Reporting

The PCAOB's financial reporting management—comprising the chairman, chief administrative officer, deputy chief administrative officer and director of finance—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 2012. The Board also engaged its independent auditor to perform an audit of the PCAOB's internal control over financial reporting, consistent with PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting that Is Integrated with An Audit of Financial Statements.*

Independent Auditor's 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, 2012, and 2011, and the related statements of activities and cash flows for the years then ended. We have also audited the PCAOB's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control—Integrated Framework* (1992 version) issued by the Committee on 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 the accompanying 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 the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 acquisition, 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 PCAOB as of December 31, 2012, and 2011, 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 PCAOB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control—Integrated Framework* (1992 version) issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO).

Blum, Shapiro + Company, P.C.

West Hartford, Connecticut
July 1, 2013

Statements of Financial Position

December 31, 2012, and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 49,801,436	$ 23,944,823
Short-term investments	75,045,830	79,996,950
Accounts receivable, net of allowance	371,712	13,877,409
Prepaid expenses and other assets, net of allowance	6,532,609	6,135,747
Leasehold incentives	9,749,950	7,715,835
Furniture and equipment, leasehold improvements and technology, net	8,285,774	10,613,862
Total Assets	$149,787,311	$142,284,626
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other liabilities	$ 21,814,177	$ 18,940,115
Obligations under capital leases	3,557	41,768
Deferred rent	16,015,037	12,666,731
Total Liabilities	37,832,771	31,648,614
Unrestricted Net Assets		
Undesignated	108,093,701	108,481,950
Statutorily designated for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act	3,860,839	2,154,062
Total Net Assets	111,954,540	110,636,012
Total Liabilities and Net Assets	$149,787,311	$142,284,626

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

Statements of Activities

For the years ended December 31, 2012, and 2011

	2012	2011
Changes in Unrestricted Net Assets		
Net operating revenue:		
Issuer accounting support fee	$196,701,737	$187,704,262
Broker-dealer accounting support fee	18,208,000	14,365,600
Registration and annual fees from accounting firms	1,639,000	1,685,000
Total net operating revenue	216,548,737	203,754,862
Operating expenses:		
Program activities:		
Registration and inspections	126,417,664	103,339,096
Enforcement	19,115,365	17,877,680
Standard-setting	8,410,958	7,091,446
Research and analysis	9,974,617	10,131,129
Board and related activities	10,227,082	9,677,024
Supporting activities:		
Administration and general	21,732,732	21,007,615
Communications	2,475,361	2,493,489
Information technology infrastructure, security and telecommunications	19,331,196	18,417,146
Total operating expenses	217,684,975	190,034,625
Operating (Loss) Income	(1,136,238)	13,720,237
Other Revenue (Expenses)		
Interest income and other	747,989	800,142
Net civil monetary penalties and interest	2,130,750	1,562,865
Scholarship payments	(423,973)	(520,000)
Total other revenue, net of expenses	2,454,766	1,843,007
Increase in Unrestricted Net Assets	1,318,528	15,563,244
Unrestricted Net Assets—Beginning of Year	110,636,012	95,072,768
Unrestricted Net Assets—End of Year	$111,954,540	$110,636,012

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

Statements of Cash Flows

For the years ended December 31, 2012, and 2011

	2012	2011
Cash Flows from Operating Activities		
Cash received from issuers	$ 196,709,642	$ 187,913,100
Cash received from broker-dealers	31,736,613	354,900
Cash received from registered public accounting firms	1,637,863	1,660,500
Interest income and other	718,305	800,142
Cash received from civil monetary penalties and interest	2,135,750	1,562,865
Cash paid to fund scholarships	(423,973)	(520,000)
Cash paid to suppliers and employees	(209,232,374)	(182,833,584)
Net cash provided by operating activities	23,281,826	8,937,923
Cash Flows from Investing Activities		
Purchases of furniture, equipment and leasehold improvements and technology	(2,338,122)	(4,694,129)
Purchases of short-term investments	(165,048,880)	(149,979,301)
Proceeds from the sale of short-term investments	170,000,000	149,968,551
Net cash provided by (used in) investing activities	2,612,998	(4,704,879)
Cash Flows from Financing Activities		
Payment of installment note payable	—	(822,890)
Payment of capital lease obligations	(38,211)	(63,882)
Net cash used in financing activities	(38,211)	(886,772)
Net Increase in Cash and Cash Equivalents	25,856,613	3,346,272
Cash and Cash Equivalents—Beginning of Year	23,944,823	20,598,551
Cash and Cash Equivalents—End of Year	$ 49,801,436	$ 23,944,823
Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities		
Increase in unrestricted net assets	$ 1,318,528	$ 15,563,244
Reconciliation adjustments:		
Depreciation and amortization	4,988,504	4,770,662
(Increase) decrease in accounts receivable, net of allowance	13,505,697	(13,836,201)
Increase in prepaid expenses and other assets, net of allowance	(388,102)	(1,512,694)
Increase in leasehold incentives	(2,144,310)	(7,640,880)
Increase in accounts payable and other liabilities	2,661,963	5,089,508
Increase in deferred rent	3,339,546	6,504,284
Net Cash Provided by Operating Activities	$ 23,281,826	$ 8,937,923
Supplemental Schedule of Non-cash Investing and Financing Activities		
Fixed asset purchases acquired but not paid as of year-end	$ 212,098	$ 63,053

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

Notes to the Financial Statements

NOTE 1. Nature of Activities

The Public Company Accounting Oversight Board was established by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), as amended, to oversee the auditors of public companies and registered broker-dealers in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The Sarbanes-Oxley Act established the PCAOB as a private, nonprofit corporation. Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, amended the Sarbanes-Oxley Act to provide the PCAOB with the authority to oversee auditors of brokers and dealers registered with the U.S. Securities and Exchange Commission including inspections, enforcement and standard-setting authority. All references in these statements to "brokers" or "dealers" are to SEC-registered brokers and dealers.

Under the Sarbanes-Oxley Act, the SEC has oversight over the PCAOB, including the appointment of Board members, approval of PCAOB rules and standards, review of the PCAOB's actions and its operations, and review and approval of the PCAOB's annual budget. As part of the annual budget process and pursuant to the Sarbanes-Oxley Act, the Board establishes and the SEC approves an annual accounting support fee to fund the operations of the PCAOB.

NOTE 2. Summary of Significant Accounting Policies

Presentation. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States and are presented pursuant to the Accounting Standards Codification Topic 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 pursuant to Section 109(c)(2) of the Sarbanes-Oxley Act. These assets consist of all funds generated from the collection of civil monetary penalties and any interest earnings thereon, which are to be used, exclusively, to fund the PCAOB's scholarship program.

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, including certain occupancy and depreciation costs, are allocated to program and supporting activities proportionately based on numbers of personnel.

Program Activities of the PCAOB

Registration and Inspections. Under the Sarbanes-Oxley Act and the PCAOB's rules, no accounting firm may prepare or issue an audit report for an issuer or an SEC-registered broker or dealer, or play certain roles in those audits, without being registered with the PCAOB. The PCAOB reviews the registration application of each public accounting firm that seeks to register with the PCAOB. If the Board approves its application, that registered public accounting firm is subject to the PCAOB's rules and program of inspections. This program assesses firms' compliance with the Sarbanes-Oxley 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

Notes to the Financial Statements *continued*

of audit reports and related matters involving issuers. A registered firm may also be subject to inspection in the Board's interim inspection program of auditors of brokers and dealers.

Enforcement. The Sarbanes-Oxley 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 and rules to be followed by registered public accounting firms in the preparation and issuance of audit reports.

Research and Analysis. The PCAOB's Office of Research and Analysis 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 Sarbanes-Oxley 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 Sarbanes-Oxley Act. Also, included in Board and Related Activities is the PCAOB's Office of International Affairs. This office represents the PCAOB in bilateral and multilateral discussions with non-U.S. authorities primarily 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.

Accounting Support Fee. The Sarbanes-Oxley Act provides for funding of the PCAOB's operations through an accounting support fee assessed on certain issuers whose shares are publicly traded and investment companies (collectively referred to as "issuers") and certain brokers and dealers. The accounting support fee is established annually by the Board based upon the PCAOB's operating budget for each calendar year and any additional amounts required to fund the PCAOB's operations until the subsequent year's accounting support fee is collected, and is subject to SEC approval. The accounting support fee is recognized as operating revenue in the budget year to which it relates.

The PCAOB equitably allocates its annual accounting support fee between issuers and brokers and dealers. The resulting portions of the accounting support fee are then allocated to eligible issuers and brokers and dealers based on the PCAOB Funding Rules. Fees from issuers and brokers and dealers are recognized as operating revenue in the budget year to which they relate.

Fees from Accounting Firms. All public accounting firms registered with the PCAOB are required to file annual reports, file timely special reports if certain events occur, and pay an annual fee. The annual fee covers all costs related to the review and processing of the annual reports and any costs related to processing and reviewing registration applications not covered by registration application fees. Annual fees are recognized as operating revenue in the year they are assessed.

Application fees from registering accounting firms are applied to cover 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. Application fees are recognized as operating revenue in the year in which the registrations are approved by the Board.

The PCAOB reports all application fees and annual fees from accounting firms as an increase in unrestricted net assets.

Net Civil Monetary Penalties and Scholarship Payments. PCAOB sanction orders may impose civil monetary penalties pursuant to the Board's authority under Section 105 of the Sarbanes-Oxley Act. The civil monetary penalties imposed totaled approximately $2.1 million and $1.6 million for the years ended Dec. 31, 2012, and 2011, respectively. Where applicable, the PCAOB records an allowance against civil monetary penalties ordered, but not yet collected. The allowance for civil monetary penalties was approximately $0.2 million as of Dec. 31, 2012 and 2011 and is included within prepaid expenses and other assets on the accompanying statements of financial position.

The PCAOB reports all funds generated from the collection of civil monetary penalties (including interest income, net of bank fees and bad debt expenses) as increases in unrestricted net assets statutorily designated for specified uses in Section 109(c)(2) of the Sarbanes-Oxley Act, and all funding for the merit scholarships is reported as decreases in unrestricted net assets statutorily designated for specified uses in Section 109(c)(2) of the Sarbanes-Oxley Act. In 2012 and 2011, the PCAOB awarded 43 and 52 scholarships of $10,000 each for undergraduate and graduate students enrolled in accredited accounting degree programs, respectively. The scholarship program is administered by an independent third-party. Refer to note 8 for further information.

Cash Held for Others under Agency Agreement. The PCAOB served as the collection agent for invoicing and collecting the 2012 and 2011 accounting support fee for the Financial Accounting Standards Board. The PCAOB's fee for acting as the FASB's collection agent was approximately $0.2 million in both 2012 and 2011. This amount is included in interest income and other in the accompanying statements of activities. Other than this, the PCAOB recognizes no revenue related to this relationship and maintains a separate bank account for all fees collected on behalf of the FASB. As of Dec. 31, 2012, and 2011, the PCAOB had $28,960 and $70,647, 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 Dec. 31, 2012, and 2011.

Cash and Cash Equivalents. The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in non-interest bearing accounts, allowing for full insurance coverage by the Federal Deposit Insurance Corporation per Section 343 of the Dodd-Frank Act. Section 343 of the Dodd-Frank Act provided temporary unlimited insurance coverage for non-interest bearing transactions accounts at all FDIC-insured depository institutions. This temporary insurance coverage ended on Dec. 31, 2012. Cash and cash equivalents included approximately $3.9 million and $2.1 million as of Dec. 31, 2012, and 2011, respectively, to be used for merit scholarships.

Notes to the Financial Statements *continued*

The PCAOB maintained substantially all its cash and cash equivalents in non-interest bearing transaction accounts with a major financial institution. Under its arrangement with this financial institution, the PCAOB earned monthly bank rebates that offset various monthly bank fees.

Short-term Investments. Short-term investments consist of investments in U.S. Treasury bills and notes. As of Dec. 31, 2012, and 2011, the Treasury bills were valued at approximately $75.0 million and $80.0 million, respectively. Interest income earned on these investments was $111,072 and $44,383, during the years ended Dec. 31, 2012, and 2011, respectively.

Leasehold Incentives. Leasehold incentives represent amounts that the PCAOB's landlords have contractually agreed to reimburse the PCAOB for the costs or portions of the costs of leasehold improvements to be made by the PCAOB. These incentives are recognized as an asset when the PCAOB obtains control of the leased space to which the incentives relate. As construction is completed, the amounts are capitalized as leasehold improvements. The incentive receivable is reduced as the related construction amounts are paid or reimbursed by the landlord.

Furniture and Equipment, Leasehold Improvements and Technology. Furniture and equipment, leasehold improvements and technology are stated at cost less accumulated depreciation and amortization, computed under the straight-line method over their estimated useful lives utilizing a half-year convention. 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 a term that includes required lease periods and renewals that are deemed to be reasonably assured (as used in the context of the definition of lease term) at the date the leasehold improvements are purchased, which range from one to 16 years. Costs to acquire or develop internal-use software that are incurred subsequent to the preliminary project stage are capitalized. Capitalized costs related to internal-use software are amortized over a three-year useful life.

Deferred Rent. The PCAOB recognizes rent on a straight-line basis over the life of its leases. The differences between rent expense recognized and rental payments made as stipulated in the leases are recognized as increases or decreases to deferred rent.

In addition, leasehold incentives obligated to the PCAOB under facilities leases are recorded as deferred rent when the PCAOB obtains control of the leased space to which the leasehold incentives due from the landlord relate. Deferred rent related to leasehold incentives is amortized on a straight-line basis over the lease term as a reduction of rent expense.

Unrestricted Net Assets, Undesignated. Unrestricted net assets, undesignated at the end of each year, represent the working capital reserve that the PCAOB maintains to fund its operations during the five-month period prior to the invoicing and collection of the accounting support fee for the subsequent year. The amount of reserve includes the residual amount of the annual accounting support fee collected from issuers and brokers and dealers; under spending from budgeted expenditures for the calendar year; and the differences in estimated expenditures due to timing and other factors. Through the annual budget process, unrestricted net assets, undesignated in excess of the necessary working capital reserve are used to reduce that budget year's total accounting support fee.

Taxes. The PCAOB is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The accompanying financial statements include no provision for income taxes.

Reclassification. Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported operating income or unrestricted net assets.

Subsequent Events. In preparing these financial statements, financial reporting management has evaluated subsequent events through July 1, 2013, which represents the date the financial statements were available to be issued.

NOTE 3. Fair Value of Financial Instruments

The fair values of cash and cash equivalents, short-term investments, accounts receivable, leasehold incentives and accounts payable approximate their carrying values due to the short-term nature of these items. Short-term investments include investments in U.S. Treasury bills and notes with maturities of nine months or less from the purchase date. Total investments, measured at fair value using quoted market prices in active markets for identical assets (level 1), were approximately $75.0 million and $80.0 million as of Dec. 31, 2012, and 2011, respectively.

NOTE 4. Accounts Receivable

Accounts receivable consist of the following as of Dec. 31, 2012, and 2011:

	2012	2011
Accounts receivable—Issuer Accounting Support Fee due from public companies and other issuers	$ 145,806	$ 125,837
Accounts receivable—Broker-Dealer Accounting Support Fee due from SEC-registered broker-dealers	382,859	14,010,700
Accounts receivable—Annual Fee due from accounting firms	77,637	79,000
	606,302	14,215,537
Less allowance for doubtful accounts	(234,590)	(338,128)
Accounts receivable, net	$ 371,712	$13,877,409

The allowance for doubtful accounts is an estimate based on financial reporting management's review, specific identification, and, to the extent applicable, the PCAOB's historical experience.

Notes to the Financial Statements *continued*

NOTE 5. Furniture and Equipment, Leasehold Improvements and Technology

These assets consist of the following as of Dec. 31, 2012, and 2011:

	2012	2011
Technology		
Hardware	$ 10,473,068	$ 10,197,933
Purchased and developed software	30,184,913	30,410,063
Leasehold improvements	14,187,994	13,170,731
Furniture and equipment	8,911,457	8,687,375
Technology development and construction in process	2,155,727	873,681
Total	65,913,159	63,339,783
Accumulated depreciation and amortization	(57,627,385)	(52,725,921)
	$ 8,285,774	$ 10,613,862

Depreciation and amortization expense was approximately $5.0 million and $4.8 million for the years ended Dec. 31, 2012, and 2011, respectively.

NOTE 6. Lease Commitments

As of Dec. 31, 2012, the PCAOB occupied office space in Washington, D.C.; New York, N.Y.; Ashburn, Va.; San Mateo, Calif.; Irvine, Calif.; Atlanta, Ga.; Irving, Texas; Chicago, Ill.; and Denver, Colo. All of these offices, other than the Washington, D.C. office, are under leases that expire from 2013 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 by both parties. In 2011, the PCAOB entered into lease agreements that increased its office space and extended its stay at the Washington, D.C. office through 2028. Subsequent to Dec. 31, 2012, the PCAOB exercised the option to lease additional space at the Washington D.C. office, which extends through 2028. Additionally, the PCAOB entered into an agreement to lease additional space for its New York regional office, which commences July 2013 and expires in October 2028 and will require lease payments totaling $48.7 million over the duration of the lease term. The PCAOB is also entitled to receive incentives from the landlord, in the form of reimbursement of the cost of leasehold improvements in the amount of approximately $1.3 million.

The PCAOB also occupied temporary office space in Charlotte, N.C.; Boston, Mass.; Houston, Texas; Tampa, Fla.; Fort Lauderdale, Fla.; and Los Angeles, Calif., under leases that expire in 2013. Subsequent to Dec. 31, 2012, the PCAOB entered into an agreement to occupy temporary office space in Philadelphia, Pa., which expires in 2013 and requires lease payments of $0.1 million.

Rent is being expensed using the straight-line method over the respective lease terms. Rent expense under this method was $13.5 million and $11.0 million for the years ended Dec. 31, 2012, and 2011, respectively. Deferred rent arises from leasehold incentives previously reimbursed or relate to future amounts from the PCAOB's landlord for reimbursements of leasehold improvement costs as well as the difference each month between the cash rent payment due and the amount that is recorded as straight-lined rent expense. Deferred rent totaled $16.0 million and $12.7 million as of Dec. 31, 2012, and 2011, respectively, and is being recognized over the remaining terms of the office leases.

Under its lease extensions for the Washington, D.C. office, the PCAOB is entitled to receive incentives from the landlord, in the form of reimbursement of the cost of leasehold improvements and certain other costs, in the amount of $9.9 million. Leasehold incentives of $2.2 million and $7.7 million were recognized in 2012 and 2011, respectively as the related space came into the PCAOB's control. These lease agreements limit the amount of expenses which may be reimbursed by the landlord to $3.0 million in 2012, $3.1 million in 2013, $1.8 million in 2014 and $1.8 million in 2015. Any unutilized leasehold incentives may be applied to reimburse qualifying expenditures until August 1, 2021. Any unused incentives as of August 1, 2021, up to $1.4 million, can be applied toward future rent becoming due under the lease. During 2012, approximately $110,000 of capital expenditures was reimbursed by the landlord.

Minimum rental commitments under the office leases as of Dec. 31, 2012, including the rental commitments for temporary office spaces having remaining lease terms of one year or less, are as follows:

2013	$ 14,263,811
2014	12,242,567
2015	9,706,749
2016	9,299,045
2017	9,186,969
Thereafter	110,513,268
	$165,212,409

Remaining obligations under capital lease obligations are not significant and will be fully repaid in 2013.

NOTE 7. Retirement Benefit Plan

The PCAOB has a defined contribution retirement plan which covers all eligible employees. For the years ended Dec. 31, 2012, and 2011, the PCAOB matched 100 percent of employee contributions up to 7 percent of the eligible compensation. The PCAOB's contributions vest immediately. The PCAOB's contributions to employees' accounts were $7.5 million and $6.5 million for the years ended Dec. 31, 2012, and 2011, respectively.

NOTE 8. Statutorily Designated Funds for Specific Uses in Section 109(c)(2) of the Sarbanes-Oxley Act

In 2011, the PCAOB Scholarship Program was established in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act, which provides that funds generated from the collection of monetary penalties imposed by the PCAOB must be used to fund a merit scholarship program for students of accredited accounting degree programs. In July 2011, the Board launched the PCAOB Scholarship Program and awarded 43 and 52 merit-based scholarships of $10,000 each to eligible students for the 2012–2013 and 2011–2012 academic years, respectively. The activity of the statutorily designated funds for the years ended Dec. 31, 2012, and 2011, is as follows:

Statutorily designated funds, as of December 31, 2010	$1,111,197
Net civil monetary penalties and interest collected	1,562,865
Less scholarship payments for the 2011–2012 academic year	(520,000)
Statutorily designated funds, as of December 31, 2011	$2,154,062
Net civil monetary penalties and interest collected	2,130,750
Less scholarship payments for the 2012–2013 academic year	(423,973)
Statutorily designated funds, as of December 31, 2012	$3,860,839

Notes to the Financial Statements *continued*

NOTE 9. Sequestration

The Office of Management and Budget (OMB), in a report to Congress March 1, 2013, determined that the PCAOB's budget and scholarship program are subject to sequestration in accordance with the Balanced Budget and Emergency Deficit Control Act, 2 U.S.C. § 901a. Specifically, OMB calculated that the U.S. government's sequestration mechanism requires reductions of 5.1 percent of the Board's 2013 budget ($12.0 million) and 5 percent of the scholarship program (approximately $0.1 million). The PCAOB disagrees with OMB's determination that the Board's resources should be subject to sequestration and has consulted the Department of Justice on the legal issue of whether the PCAOB is properly subject to sequestration. Pending resolution of this issue, the Board is complying with OMB's determination that the PCAOB's resources are subject to sequestration.

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

The PCAOB's financial reporting management, including the Chief Administrative Officer, Deputy Chief Administrative Officer, and the Director of Finance, under the direction of the 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 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 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, 2012. In making this assessment, financial reporting management used the criteria established in *Internal Control—Integrated Framework* (1992 version), 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, 2012.

July 1, 2013

James R. Doty
Chairman

Darrell R. Pauley
Chief Administrative Officer

William F. Wiggins
Deputy Chief Administrative Officer

Bela Daruwala
Director of Finance

Board Releases and Staff Guidance Issued in 2012

First Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Notice of Finality of Initial Decision in the Matter of Paul Gaynes	PCAOB File No. 105-2011-006	Jan. 3, 2012
Notice of Finality of Initial Decision in the Matter of Buckno Lisicky & Company, P.C.	PCAOB File No. 105-2011-004	Jan. 9, 2012
Final Decision and Order Imposing Sanctions in the Matter of R.E. Bassie & Co. and R. Everett Bassie, CPA	PCAOB File No. 105-2009-001	Jan. 10, 2012
Frequently Asked Questions Regarding Issues Related to Non-U.S. Accounting Firms	N/A	Jan. 18, 2012
Order Making Findings and Imposing Sanctions in the Matter of Ernst & Young LLP, Jeffrey S. Anderson, CPA, Ronald Butler Jr., CPA, Thomas A. Christie, CPA, and Robert H. Thibault, CPA	PCAOB Release No. 105-2012-001	Feb. 8, 2012
Proposed Auditing Standard—Related Parties, Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions and Other Proposed Amendments to PCAOB Auditing Standards	PCAOB Release No. 2012-001	Feb. 22, 2012
Proposed Amendments to Conform the Board's Rules and Forms to the Dodd-Frank Act and Make Certain Updates and Clarifications	PCAOB Release No. 2012-002	Feb. 28, 2012

Second Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Order Making Findings and Disapproving Registration Application in re Registration Application of Deloitte & Touche LLP (Guam)	PCAOB Release No. 102-2012-001	April 24, 2012
Order Making Findings and Disapproving Registration Application in re Registration Application of Dr. Winfried Heide Wirtschaftspruefer & Steuerberater	PCAOB Release No. 102-2012-002	April 24, 2012
Frequently Asked Questions: The Issuer Accounting Support Fee and the Funding Process	N/A	April 20, 2012
Order Making Findings and Disapproving Registration Application in re Registration Application of BDO AG	PCAOB Release No. 102-2012-003	May 22, 2012
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Brock, Schechter & Polakoff, LLP	PCAOB Release No. 105-2012-002	May 22, 2012
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of James R. Waggoner, CPA	PCAOB Release No. 105-2012-003	May 22, 2012

Board Releases and Staff Guidance Issued in 2012 *continued*

Third Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Frequently Asked Questions Regarding Issues Relating to Non-U.S. Accounting Firms	N/A	July 20, 2012
Information for Audit Committees About the PCAOB Inspection Process	PCAOB Release No. 2012-003	Aug. 1, 2012
Auditing Standard No. 16—Communications with Audit Committee; Related Amendments to PCAOB Standards; and Transitional Amendments to AU Sec. 380	PCAOB Release No. 2012-004	Aug. 15, 2012
Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers	PCAOB Release No. 2012-005	Aug. 20, 2012
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Jewett, Schwartz, Wolfe & Associates, P.L.	PCAOB Release No. 105-2012-004	Sept. 7, 2012
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Lawrence H. Wolfe, CPA	PCAOB Release No. 105-2012-005	Sept. 7, 2012
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Uma D. Basso, CPA	PCAOB Release No. 105-2012-006	Sept. 7, 2012
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Michael T. Studer, CPA, P.C. and Michael T. Studer, CPA	PCAOB Release No. 105-2012-007	Sept. 7, 2012

Fourth Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
FAQ: The Broker-Dealer Accounting Support Fee and the Funding Process	N/A	Oct. 19, 2012
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Dale Arnold Hotz, CPA, Jyothi Nuthulaganti Manohar, CPA and Michael Jared Fadner, CPA	PCAOB Release No. 105-2012-008	Nov. 13, 2012
Staff Audit Practice Alert No. 10: Maintaining and Applying Professional Skepticism in Audits	N/A	Dec. 4, 2012
Observations from 2010 Inspections of Domestic Annually Inspected Firms Regarding Deficiencies in Audits of Internal Control Over Financial Reporting	PCAOB Release No. 2012-006	Dec. 10, 2012

Standing Advisory Group

As of December 31, 2012

Martin F. Baumann, Chair	*Chief Auditor and Director of Professional Standards*	Public Company Accounting Oversight Board
John L. Archambault	*Senior Partner, Professional Standards and Global Public Policy*	Grant Thornton LLP
Dennis R. Beresford	*Ernst & Young Executive Professor of Accounting* *Public company board member*	Terry College of Business The University of Georgia
Hon. Richard C. Breeden	*Chairman and CEO*	Breeden Capital Management LLC
Steven E. Buller	*Managing Director*	BlackRock Inc.
Loretta V. Cangialosi	*Senior Vice President and Controller*	Pfizer, Inc.
Peter C. Clapman	*Chairman and President* *Public company board member*	Governance for Owners LLP
Walton T. Conn Jr.	*U.S. Partner and Global Head of Audit Methodology and Implementation*	KPMG LLP
J. Michael Cook	*Public company board member*	
Wallace R. Cooney	*Vice President—Finance and Chief Accounting Officer*	The Washington Post Co.
James D. Cox	*Brainerd Currie Professor of Law*	School of Law Duke University
Jerry M. de St. Paer	*Senior Advisory Partner*	Grail Partners LLC
Michael J. Gallagher	*Assurance Partner and U.S. Assurance National Office Leader*	PricewaterhouseCoopers LLP
Paul L. Gillis	*Professor of Practice and Co-Director of the International MBA Program*	Guanghua School of Management Peking University
Robert L. Guido	*Public company board member*	
Gaylen R. Hansen	*Audit Partner and Director of Accounting and Auditing Quality Assurance*	EKS&H, LLLP
Robert H. Herz	*CEO* *Executive-in-Residence*	Robert H. Herz LLC Columbia Business School Columbia University

Robert B. Hirth Jr.	*Chairman*	Committee of Sponsoring Organizations of the Treadway Commission
Bruce J. Jorth	*Chief Risk Officer, National Office of Risk Management*	McGladrey, LLP
Jean M. Joy	*Director of Professional Practice and Director of Financial Institutions Practice*	Wolf & Company, P.C.
Gary R. Kabureck	*Vice President and Chief Accounting Officer*	Xerox Corp.
Wayne A. Kolins	*Partner* *Global Head of Audit and Accounting*	BDO USA, LLP BDO International Limited
Robyn S. Kravit	*Co-founder and CEO* *Public company board member*	Tethys Research LLC
Jeffrey P. Mahoney	*General Counsel*	Council of Institutional Investors
Elizabeth F. Mooney	*Analyst*	The Capital Group Companies
Richard H. Murray	*CEO*	Liability Dynamics Consulting, LLC
Jennifer Paquette	*Chief Investment Officer*	Public Employees' Retirement Association of Colorado
William T. Platt	*Deputy Managing Partner, Professional Practice, and Chief Quality Officer—Attest*	Deloitte & Touche LLP
Kevin B. Reilly	*Americas Vice Chair, Professional Practice and Risk Management*	Ernst & Young LLP
Walter G. Ricciardi	*Partner*	Paul, Weiss, Rifkind, Wharton & Garrison, LLP
Barbara L. Roper	*Director of Investor Protection*	Consumer Federation of America
Lisa M. Roth	*President*	Monahan & Roth, LLC
Kurt N. Schacht	*Managing Director*	CFA Institute
Charles V. Senatore	*Head of Corporate Compliance*	Fidelity Investments
D. Scott Showalter	*Professor of Practice, Department of Accounting*	Poole College of Management North Carolina State University

Standing Advisory Group *continued*

Damon A. Silvers	*Director of Policy and Special Counsel*	AFL-CIO
Brian D. Thelen	*General Auditor and Chief Risk Officer*	General Motors LLC
Roman L. Weil	*Professor Emeritus* *Visiting Professor of Accounting*	Booth School of Business University of Chicago Rady School of Management University of California, San Diego
John W. White	*Partner, Corporate Department*	Cravath, Swaine & Moore LLP

Seven organizations have observer status at the meetings of the SAG: the Securities and Exchange Commission, the Financial Accounting Standards Board, the Government Accountability Office, the Department of Labor, the Auditing Standards Board of the American Institute of Certified Public Accountants, the International Federation of Accountants' International Auditing and Assurance Standards Board and the U.S. Federal Financial Institution Regulatory Agencies.

Investor Advisory Group

As of March 1, 2013

Steven B. Harris, Chairman	*Board Member*	Public Company Accounting Oversight Board
Brandon Becker	*Executive Vice President and Chief Legal Officer*	TIAA-CREF
Robert T. Buettner	*Managing Director*	Newbrook Capital Advisors
Mercer E. Bullard	*Associate Professor of Law and Jessie D. Puckett Jr. Professor* *Vice President* *Founder and President*	University of Mississippi School of Law Plancorp LLC Fund Democracy Inc.
Curtis L. Buser	*Managing Director and Chief Accounting Officer*	The Carlyle Group
Joseph V. Carcello	*Ernst & Young Professor, Department of Accounting and Information Management, and Co-Founder and Director of Research, Corporate Governance Center*	University of Tennessee
Norman J. Harrison	*Senior Managing Director*	FTI Consulting
Michael J. Head	*Managing Director of Corporate Audit*	TD AMERITRADE Holding Corp.
W. Howard Morris	*President and Chief Investment Officer*	The Prairie & Tireman Group
Peter H. Nachtwey	*Chief Financial Officer*	Legg Mason, Inc.
Barbara L. Roper	*Director of Investor Protection*	Consumer Federation of America
Lawrence M. Shover	*Chief Investment Officer*	Solutions Funds Group
Damon A. Silvers	*Director of Policy and Special Counsel*	AFL-CIO
Anne Simpson	*Senior Portfolio Manager, Global Equity*	California Public Employees' Retirement System
Tony Sondhi	*President*	A.C. Sondhi & Associates, LLC
Judge Stanley Sporkin	*Retired*	U.S. District Court
Robert M. Tarola	*President*	Right Advisory LLC
Lynn E. Turner	*Managing Director*	LitiNomics
Gary G. Walsh	*Principal and Portfolio Manager*	Luther King Capital Management
Ann L. Yerger	*Executive Director*	Council of Institutional Investors

JAMES R. DOTY

LEWIS H. FERGUSON

JEANETTE M. FRANZEL

JAY D. HANSON

STEVEN B. HARRIS

Members of the Board

As of April 1, 2013

James R. Doty
Chairman

Steven E. Richards
Special Advisor

Samantha E. Ross
Special Counsel

Lewis H. Ferguson
Board Member

Zoe Sharp
Special Counsel

Jeanette M. Franzel
Board Member

Francis Dymond
Special Counsel

Jay D. Hanson
Board Member

Karen B. Dietrich
Special Counsel

Steven B. Harris
Board Member

Nina Mojiri-Azad
Special Counsel

Division and Office Leaders

As of April 1, 2013

Office of the General Counsel
J. Gordon Seymour, General Counsel

Office of the Secretary
Phoebe W. Brown, Secretary

Office of the Chief Auditor
Martin F. Baumann, Chief Auditor and Director of Professional Standards

Division of Enforcement and Investigations
Claudius B. Modesti, Director

Office of International Affairs
S. Bruce Wilson, Director

Division of Registration and Inspections
Helen A. Munter, Director

Office of Research and Analysis
Gregory J. Jonas, Director

Office of Administration
Darrell Pauley, Chief Administrative Officer

Office of Internal Oversight and Performance Assurance
Peter Schleck, Director

Office of Outreach and Small Business Liaison
Mary M. Sjoquist, Director

Office of Government Relations
Kent Bonham, Director

Office of Public Affairs
Colleen Brennan, Director

Group photo of 2012 Board members by Jonathan Shimmons,
PCAOB Office of Research and Analysis

PCAOB | 10 YEARS
Public Company Accounting Oversight Board

1666 K Street, NW, Washington, DC 20006-2803 (202) 207-9100
www.pcaobus.org