PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

2020 Annual Report

ABOUT THE PCAOB

The Public Company Accounting Oversight Board (PCAOB or "the Board") is a nonprofit corporation established by Congress to oversee the audits of public companies. The PCAOB also oversees the audits of brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC).

The five members of the Board are appointed to staggered five-year terms by the SEC, after consultation with the Chair of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. The SEC has oversight authority over the PCAOB, including the approval of the Board's rules, standards, and budget.

Mission

The PCAOB oversees the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

Vision

The PCAOB will be a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight. At all times, we will act with integrity, pursue excellence, operate with effectiveness, embrace collaboration, and demand accountability.

Values

Integrity

We adhere to the highest standards of ethical and professional conduct. We engage internally and externally in a manner that is consistent, honest, and fair.

Excellence

We pursue excellence in all we do. We are committed to further developing the many talents of our people so that we can improve our oversight and operations.

Effectiveness

We manage our resources effectively and efficiently. We respond to a changing environment by implementing relevant, timely, and innovative solutions to achieve our mission.

Collaboration

We are dedicated to a culture of collaboration and inclusiveness, which we foster by encouraging openness, accessibility, trust, and respect. We embrace a diverse set of experiences, skills, perspectives, and backgrounds, which enriches our work and enhances the effectiveness of our efforts.

Accountability

We depend on the diligence and dedication of our people to accomplish our mission and implement our vision. We owe each other our very best effort and expect to be held accountable. We recognize and reward outstanding performance.

PCAOB by the Numbers 2020

1,726

Total number of PCAOB-registered
public accounting firms

$54.35 trillion

Global market capitalization of the

7,493

U.S. public companies
that file financial statements with the SEC and that are audited by PCAOB-registered firms

577

PCAOB-registered
firms that audit (or play a substantial role in the audits of)

12,567

issuers filing financial statements with the SEC

359

PCAOB-registered firms that audit (or play a substantial role in the audits of)

3,498

SEC-registered broker-dealers

As of December 31, 2020

CONTENTS

MESSAGE FROM THE CHAIRMAN

The PCAOB's annual report summarizes our operations and financial results from fiscal year 2020. The PCAOB continues to pursue its five-year strategic plan—first adopted by the Board in 2018 and affirmed annually thereafter. Our plan emphasizes the need to transform our organization into a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight.

As discussed in more detail in this report, in 2020, we built on the progress of the transformative efforts we started in 2018. Significant steps included (1) becoming more proactive and innovative in our oversight, (2) expanding our stakeholder engagement activities and improving our communications, (3) maturing our internal operations by streamlining our business processes and improving our risk posture, (4) enhancing our organizational culture, and (5) cultivating a high-performing workforce.

In retrospect, our strategic efforts had another benefit: preparing us for the major and unexpected challenges that arose in 2020 with the COVID-19 pandemic. When the pandemic hit, we were prepared not only to transition our entire workforce to a remote environment, but also to adapt our oversight activities to address the financial reporting and auditing risks that arose out of the pandemic.

As we have adapted to the changing circumstances, two fundamental considerations have guided us: (1) the health and safety of our employees and those with whom we interact and (2) our statutory mission to promote audit quality. Despite the challenges of the COVID-19 pandemic, we carried out our mission and advanced our strategic vision. Thanks to a dedicated and talented staff, we continued to make strides in an unquestionably difficult year.

As the PCAOB's Chairman, I look forward to continuing to work collaboratively with my fellow Board members, the SEC, and the PCAOB staff to drive continuous improvement in audit quality.

Respectfully,

William D. Duhnke III
Chairman
Public Company Accounting Oversight Board
Washington, DC, April 27, 2021

OUR STRATEGIC PLAN

Each year, the PCAOB adopts a Strategic Plan with a five-year outlook. The Board is working to achieve the plan's five strategic goals and corresponding objectives through a series of initiatives aimed at transforming how we conduct our programs and operations to effectively fulfill our mandate. This annual report discusses many of these initiatives, which include programmatic reviews, process redesigns, enhancements to our organizational culture, and innovation in technology. Our initiatives align with our five core values—integrity, excellence, effectiveness, collaboration, and accountability—which we expect our behaviors, work, and outcomes to demonstrate.

Our Strategic Goals

GOAL ONE

Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation.

GOAL TWO

Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.

GOAL THREE

Enhance transparency and accessibility through proactive stakeholder engagement.

GOAL FOUR

Pursue operational excellence through efficient and effective use of our resources, information, and technology.

GOAL FIVE

Develop, empower, and reward our people to achieve our shared goals.

EXECUTION OF OUR STRATEGIC PLAN IN 2020

GOAL ONE

Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation.

Goal One of our Strategic Plan flows from the core of our organization's vision. We succeed when our oversight promotes continuous improvement in audit quality. Thus, we focus on not only detecting audit deficiencies, but also preventing them from occurring in the first place through a proactive, forward-looking approach to the design and conduct of our oversight.

In 2020, highlights of our progress under Goal One included the following:

- **Adjusting our inspections schedule to allow firms to confront risks presented by the COVID-19 pandemic:** At the onset of the pandemic, we provided PCAOB-registered audit firms an optional 45-day relief period from inspections. This opportunity gave audit firms the time, resources, and flexibility to work through significant matters with their public company and broker-dealer clients, with the overall goal of enhancing audit quality in a period of significant market disruption.
- **Adjusting our inspections program to be responsive to the COVID-19 pandemic:** Following the onset of the pandemic, we adjusted our 2020 inspections approach to enhance and accelerate our understanding of the impact of the COVID-19 crisis on the audits of public companies. Specifically, for the U.S. affiliate firms of the largest global networks, we took steps to understand the firms' consideration of the effect of the COVID-19 crisis on audits and reviews of interim financial information, and we reviewed firms' publications and internal guidance. We also selected a sample of completed reviews of interim financial information, made inquiries, and reviewed documentation to understand auditors' responses to the impact of the pandemic. Finally, we accelerated our selection and review of a sample of audits of public companies with fiscal years ended primarily between March 31 and June 30, 2020 so that we could understand sooner how audits were being performed during the pandemic.
- **Providing resources and insights related to the COVID-19 crisis:** As we adjusted our inspections program to face the challenges of the pandemic, we developed and published related resources. In April 2020, we released a staff Spotlight, *COVID-19: Reminders for Audits Nearing Completion*, to provide important reminders to auditors of public companies and broker-dealers. In December 2020, we built on that work with a follow-on Spotlight reiterating important reminders and highlighting select staff observations from recent inspections of reviews of interim financial information and audits.

Goal One Objectives

1. Conduct inspection activities to facilitate more timely and relevant feedback to our stakeholders.
2. Better leverage economic and risk analysis to more effectively set standards, rules, and guidance.
3. Enforce accountability and deter improper conduct by addressing violations of PCAOB standards and rules, and related federal securities laws.
4. Determine, develop, and communicate indicators of audit quality.

- **Enhancing the clarity and usefulness of our inspections information:** In June 2020, we issued inspection reports for the six largest U.S. audit firms in a redesigned format. The new format marked one of the most significant changes in PCAOB inspection reports in 15 years. Among other changes, the new format streamlined the reports' content to enhance readability, used new charts and graphs to make the information more digestible, and included new information not previously communicated in inspection reports to enhance transparency. To introduce and acclimate stakeholders to the redesigned reports—and to gather feedback on the redesign—we issued a *Guide to Reading the PCAOB's New Inspection Report*.

- **Refining our planned quality control (QC) procedures:** The challenges in 2020 prompted us to supplement our planned QC procedures—in particular for the larger firms—with a specific focus on the effects on and changes in the elements of the firms' QC systems. In addition, we continue to refine how we identify, evaluate, and communicate QC deficiencies.

- **Making progress on our project to modernize the PCAOB QC standards, including gathering stakeholder input:** In response to our issuance of a QC concept release in December 2019, we received comment letters from stakeholders including investors, audit firms, companies, other regulators, and academics. In 2020, we analyzed these responses and continued to develop a new proposed standard.

- **Assessing the impact of our critical audit matter (CAM) requirements:** Our October 2020 interim analysis report (and accompanying white papers) provided perspectives on the initial impact of the CAM requirements. Our Office of Economic and Risk Analysis (ERA) conducted extensive stakeholder outreach and performed large-sample statistical analysis to provide an initial understanding of audit firm and audit engagement team responses to the CAM requirements, investor use of CAM communications, and audit committee and preparer experiences related to CAM implementation.

PCAOB by the Numbers 2020: Inspections

219

Number of audit firms reviewed by our inspectors, which includes:

- **11** U.S. firms with more than 100 issuer audit clients
- **103** U.S. firms with 100 or fewer issuer audit clients
- **66** U.S. firms that audit broker-dealers
- **39** Non-U.S. firms in over 19 jurisdictions

750+

Unique audit engagements reviewed by the PCAOB as part of our inspections

As of December 31, 2020

- **Enforcing compliance with our standards and rules:** In 2020, the PCAOB sanctioned 13 firms and 18 individuals in settled matters. Our Division of Enforcement and Investigations continued to focus its attention on significant audit violations, significant independence violations, and failures to comply with the Board's oversight processes (e.g., non-cooperation with PCAOB inspections or enforcement). Our investigative pipeline remained consistent with prior years. (*For more enforcement statistics, see "PCAOB by the Numbers" on page 10.*)
- **Providing information on emerging growth companies (EGCs):** In November 2020, ERA published its latest white paper summarizing the characteristics of EGCs and the firms that audit their financial statements. The data and insights provided in this paper contribute to the economic analysis that supports the PCAOB's rulemaking activities.

Board Viewpoint

Despite the economic uncertainties and operational complexities of the COVID-19 pandemic for both auditors and public companies, it remained critical for auditors to comply fully with our auditing standards. Indeed, crises like these are occasions for auditors to stand tall—to exercise the objectivity and the professional skepticism that are fundamental to the profession.

Duane M. DesParte
Board Member

PCAOB by the Numbers 2020: Enforcement

17
Settled
disciplinary orders issued

18
Individuals
sanctioned

13
Audit firms
sanctioned

12
Orders
involving U.S. auditors

5
Orders
involving non-U.S. auditors

2
Orders
involving the six largest global accounting firm networks

15
Orders
involving smaller accounting firms

For the 12 months ended December 31, 2020

GOAL TWO

Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.

Goal Two of our Strategic Plan reflects the reality that audit firms operate in a business environment that is continually evolving. Today, the pace of change for auditors is accelerating, particularly as technological advances affect the timing, nature, preparation, and use of financial information. Some audit firms are investing significantly to expand their use of technology-based audit tools and are leveraging their investments to address challenges related to COVID-19. The Board's strategic commitment to addressing the ever-changing technology landscape—along with corresponding risks and opportunities—was evident in the following 2020 efforts:

- **Sharing our observations on emerging technology:** In May 2020, PCAOB staff released *Data and Technology Research Project Update*, a Spotlight publication providing insights informed by our outreach activities and input from our Data and Technology Task Force. The Spotlight shared some of our observations on the use of technology as it relates to the requirements within certain PCAOB standards, specifically those relating to identifying and assessing risks of material misstatement and audit evidence. It also summarized certain observations regarding policies and procedures that some firms have established regarding the use of technology-based tools and techniques in the audit.
- **Highlighting cryptoassets:** When performing inspections of auditors of some smaller public companies, PCAOB staff has observed situations where transactions involving cryptoassets were material to the financial statements. In May 2020, we released a Spotlight, *Audits Involving Cryptoassets: Information for Auditors and Audit Committees*, highlighting considerations for addressing certain responsibilities under PCAOB standards for auditors of public companies transacting in or holding cryptoassets.

Goal Two Objectives

1. Assess and address the impact of emerging technologies on the quality of audit services.
2. Understand and consider investors' audit expectations.
3. Assess the changing information security environment and understand the related risks.

Board Viewpoint

Our data and technology research project is broad and complex. Reflecting input from our Data and Technology Task Force and based on what we are learning from our oversight activities, we have prioritized data analytics and artificial intelligence. However, we also continue to monitor other evolving uses of technology, like distributed ledger technology and digital assets. We have worked with the Task Force to take a deeper dive into our evidence and our risk assessment standards, with a view to how technology can drive quality and to evaluate the need for changes to our standards.

Megan Zietsman
Board Member

Updating Our Research and Standard-Setting Agendas

As part of the Board's ongoing efforts to enhance transparency and provide more timely and relevant information to our stakeholders, we modernized our approach to managing our **research and standard-setting agendas** in the Office of the Chief Auditor. In September 2020, we announced our intention to only include in our agendas those specific projects where we anticipate we will have a public milestone (e.g., a proposal, a staff publication, or a concept release) in the next 12 to 18 months.

Consistent with our new approach—and to align the research and standard-setting agendas with our current priorities—we made the following changes in 2020:

- We added Auditor Independence to the standard-setting agenda to make targeted amendments to existing PCAOB independence standards and rules to align with recent changes to the SEC independence rules. Our related rulemaking was completed in early 2021, with SEC approval of the amended rules.
- We added a project on Audit Evidence to our research agenda to consider whether standard setting or staff guidance is needed, given the increasing (1) prevalence of technology-based tools used in performing audits and (2) use of information from sources external to the company, both in the financial reporting process and as audit evidence.
- We removed Going Concern from our standard-setting agenda and Other Information and Noncompliance with Laws and Regulation from our research agenda. Following significant work on these projects, we concluded that there was not a need at that time to change our standards or take other action on these topics.
- Projects on Quality Control, Other Auditors, and Data and Technology remained on our agendas as priorities of the Board.

Although we removed certain topics from our research and standard-setting agendas, we continue to monitor the application of the requirements in the relevant standards, particularly in light of the challenges posed by the COVID-19 pandemic, as well as other relevant developments on these and many other topics. Our monitoring activities—along with prior research, new challenges, or other issues that may arise—could result in the addition of new projects to our agendas in the future.

GOAL THREE

Enhance transparency and accessibility through proactive stakeholder engagement.

Goal Three of our Strategic Plan underscores our commitment to external engagement that extends beyond the audit profession. Our ongoing discussions with investors, audit committees, preparers, and others allow us to enhance stakeholders' understanding of the PCAOB's work and to have a robust exchange of ideas on areas of mutual interest and importance. Despite the challenges brought about by the COVID-19 pandemic, we continued to engage in dialogue with our stakeholders and provided responsive and timely information regarding our oversight activities, as shown in the following highlights from 2020:

Goal Three Objectives

1. Improve the timeliness, usefulness, and clarity of PCAOB information.
2. Cultivate an effective and dynamic dialogue with stakeholders.

- **Connecting with stakeholders in new ways:** Even as the COVID-19 pandemic paused in-person interaction, we continued our efforts to engage with stakeholders through virtual events, including one-on-one engagement. We conducted our first virtual roundtables for investors and preparers in the fall, held our first-ever audit committee webinar in July 2020, and switched to an online format for our annual forums for auditors of small businesses and auditors of broker-dealers. We also maintained our commitment to connect with the audit committee chairs of nearly every company whose audit we inspect, having one-on-one conversations with approximately 280 audit committee chairs in 2020. In October 2020, our seventh annual Conference on Auditing and Capital Markets took place virtually for the first time. With a record number of attendees from academia and regulatory agencies, the conference offered eight panels and 21 presenters. (*For more stats on our stakeholder engagement, see "PCAOB by the Numbers" on page 15.*)

- **Providing perspectives for stakeholders:** Alongside our engagement, we produced new audience-specific publications that shared perspectives based on what we heard. In July 2020, we released *Conversations with Audit Committee Chairs: COVID-19 and the Audit*, which reported on insights we received from audit committees on topics such as how the pandemic had affected communications with their auditors. We also issued targeted publications on how the PCAOB uses economic analysis, as well as key considerations for audit committees on our new and amended standards on estimates and the auditor's use of specialists.

- **Engaging internationally:** Our international outreach took place on many fronts in 2020. One important venue for engagement was the International Forum of Independent Audit Regulators (IFIAR), an organization where PCAOB staff play an active role and Board members hold key leadership roles. For example, we hosted IFIAR's 14th Annual Inspection Workshop in early 2020, providing an opportunity both to offer important subject matter expertise and to learn about key experiences from other audit regulators from around the world. As the year progressed and travel restrictions were imposed, we worked with regulatory counterparts and non-U.S. audit firms to develop effective ways to enable the performance of remote international inspections for the first time. Additionally, we collaborated with the Canadian Public Accountability Board on a virtual joint roundtable for audit committees. Held in October 2020, the roundtable was our first-ever event with an international counterpart focused on audit committee outreach.

- **Supporting future leaders of the accounting and auditing profession:** The Sarbanes-Oxley Act of 2002, as amended ("the Sarbanes-Oxley Act"), requires that funds generated from the collection of PCAOB monetary penalties be used to fund a merit scholarship program for students in accredited accounting degree programs. In 2020, we awarded $2.34 million in scholarships under this program to 234 students from 218 institutions. Additionally, our efforts to enhance and transform the PCAOB Scholars Program by making it accessible to a more diverse range of nominees continued to yield results. Our survey of 2020 recipients showed, for example, that 41% of our 2020 PCAOB Scholars self-identified as non-white, up from 32% in 2017, while 69% were female, versus 57% in 2017.
- **Modernizing our brand and relaunching our website:** In 2020, we modernized our brand and design. The comprehensive brand refresh included a new PCAOB logo and color scheme, as well as updated designs for PCAOB publications and other materials. With our new brand in place, we relaunched our website in December 2020. Advancing the Board's priority of enhancing transparency and accessibility, the website offers visitors more intuitive design, better access to timely information, enhanced search capabilities, and new features for stakeholders.

Board Viewpoint

A strategic priority for the PCAOB is to drive improvement in audit quality proactively with a more preventative mindset. We can accomplish that, in part, by providing more relevant, timely, and clear information and insights for stakeholders. Through outreach, we can help stakeholders understand where we're seeing issues, so that when they engage with auditors, they can be thinking about those issues as well.

William D. Duhnke III
Chairman

PCAOB by the Numbers 2020: Outreach and Engagement

315
Academics
and other attendees who registered for the 2020 Conference on Auditing and Capital Markets

580
Audit committee members
that we engaged with either in one-on-one conversations or virtually through our webinar for audit committee members

4,000+
Views of resources
presented as part of the PCAOB's virtual Forums on Auditing in the Small Business Environment and on Auditing Broker-Dealers

$26 trillion+
Assets under management
held by investors represented in one-on-one meetings and at PCAOB-hosted investor roundtables

40,000+
Followers
of the PCAOB's LinkedIn page

As of December 31, 2020

GOAL FOUR

Pursue operational excellence through efficient and effective use of our resources, information, and technology.

Goal Four of our Strategic Plan stems from our belief that investors and the public interest are best served by an efficient and effective PCAOB. In 2020, we pursued operational excellence on several fronts:

- **Managing risks:** We stood up our Office of Enterprise Risk Management (OERM) in 2019 to advance the Board's strategic objective of enhancing the PCAOB's risk management processes and capabilities. Key efforts for this office in 2020 included implementing a Risk Event Reporting Program and developing a database of risk events. OERM also refined enterprise risk reporting, to facilitate Board-level risk discussions, and applied best practices to further mature the PCAOB's information security program.
- **Focusing on business continuity:** As the COVID-19 crisis took hold, OERM activated its Business Continuity Program. Under the program, each PCAOB division or office identified a risk liaison to serve as a first point of contact to help communicate information across the organization, assess operations, and identify unique challenges and opportunities brought on by the pandemic. The risk liaisons have performed a critical role during the pandemic, including assisting OERM with gathering information and providing updates on the staff's well-being and the operational status of divisions and offices.
- **Transforming the PCAOB's use of data and technology:** In 2020, we made significant progress on our initiative to use data and information technology assets to increase productivity, strengthen collaboration, and drive continuous improvement across the PCAOB. We launched a new organizational model for our Office of Data, Security, and Technology, focusing our efforts on data security and analytical capabilities. We also adjusted our technology delivery model, with foundational improvements to our enterprise architecture, agile practices in project management, mobility, and cloud computing.
- **Strengthening the PCAOB's internal audit function:** 2020 saw continued progress in our ability to internally assess the effectiveness of PCAOB operations. Our Office of Internal Oversight and Performance Assurance (IOPA) committed to new initiatives, such as the adoption of agile auditing practices and greater use of data analytics. In 2020, IOPA also completed the process of adopting the auditing standards of the Institute of Internal Auditors.
- **Tracking our strategic progress more effectively:** As part of our data strategy, we launched an Analytics Measures Registry, an internal portal allowing our divisions and offices to enter and update enterprise performance measures electronically. Previously, these strategic targets and results had been collected and maintained manually. Centralizing these processes into a portal has expanded their use and helped to standardize how we measure strategic accomplishments.

Goal Four Objectives

1. Enhance our risk management and operational processes and capabilities.
2. Collect, manage, and use data to improve our internal processes and better inform our decision-making.
3. Increase and optimize our information technology investments to strengthen our capabilities.
4. Strengthen protection of our sensitive and proprietary data.

- **Improving internal understanding of information sensitivity:** In 2020, we continued to develop a draft standard for classifying and handling PCAOB data and information based on their sensitivity, an important milestone in the Board's data strategy. The standard is anticipated to give our Board and staff a common framework to identify, protect, and handle sensitive data.
- **Building knowledge capabilities:** We continued implementation of a new, centralized library services platform to streamline staff access to leading business and finance research tools for auditing, economic, and legal topics. The platform provides a "one-stop shop" for library information resources, as well as updates on new tools and training opportunities.

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Board Viewpoint

The PCAOB serves a critical function in our capital markets. Our oversight gives the investing public confidence that they can rely on financial information provided to them. I'm proud of our staff and what we have accomplished in the mandatory work-from-home environment. We have a statutory mandate, and we have upheld that mandate during the pandemic.

Rebekah Goshorn Jurata
Board Member

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GOAL FIVE

Develop, empower, and reward our people to achieve our shared goals.

Goal Five of our Strategic Plan drives our efforts to reinforce a culture that expects integrity, pursues excellence, operates with effectiveness, embraces collaboration, and demands accountability. Our 2020 steps in developing, empowering, and rewarding our people included the following:

- **Prioritizing safety during the pandemic:** As the COVID-19 crisis unfolded, we prioritized the safety of our workforce and launched efforts to keep our staff informed and engaged during this unprecedented period. We shared updates and content through internal pages dedicated to COVID-19 and well-being resources. Additionally, to answer questions and address concerns, our Office of Human Resources conducted outreach to all staff during our mandatory work-from-home period, which began in March 2020 and continued through the end of the year. We also gave staff the chance to provide feedback via an anonymous survey and online form.
- **Focusing on culture, diversity, and inclusion:** In 2020, we made progress on our ongoing initiatives to continue to promote an inclusive culture at our organization. The importance of these efforts became all the more clear in the spring and summer of 2020, when the country entered a period of turmoil, reckoning, and introspection around society's progress in matters of diversity, equity, and inclusion. Against this backdrop, our organization leaned on our core values of accountability, integrity, and collaboration to foster necessary conversations, to support individuals across our organization, and to provide our leaders with the guidance to help them engage constructively. We offered new unconscious bias training to all PCAOB employees and launched PCAOB Voices, a series of employee-centric conversations on key topics related to diversity and inclusion. Meanwhile, in keeping with our belief that diverse backgrounds enrich our work and

Goal Five Objectives

1. Cultivate a high performing workforce through effective recruitment, retention, training, performance management, and leadership development.
2. Reward teamwork and eliminate organizational barriers to collaboration, transparency, and engagement.
3. Create a culture of inclusion that leverages the diversity of experience and perspectives of our people.

PCAOB by the Numbers 2020: Our People

819

Number of employees

9

Regional offices
across the United States of America

As of December 31, 2020

enhance the effectiveness of our efforts, we continued to mark events such as Black History Month and National Hispanic Heritage Month by celebrating the personal stories, leadership, and accomplishments of our colleagues.

- **Developing leadership skills:** Our Office of Human Resources worked with outside partners to provide division and office leaders and managers with courses on leadership roles, critical practices for leading teams, and building trust.
- **Refining performance management and our compensation philosophy:** Our overall approach to performance management is to reward our employees based on their contribution to both organizational and divisional goals. In 2020, we introduced a new "cascading goals" system to better ensure that (1) our division and office leaders set team goals that track closely with our Strategic Plan and (2) people in those divisions and offices align their individual goals accordingly.

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Board Viewpoint

Our people continue to transform the PCAOB through collaboration, engagement, and hard work. While we have made progress by developing, empowering, and rewarding our people, much work remains to be done. With high expectations, we intend to stay the course.

William D. Duhnke III
Chairman

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FINANCIAL REVIEW

This financial review, together with the 2020 audited financial statements and the accompanying notes, provides financial information related to our programs and activities. Our financial statements are presented in accordance with accounting principles generally accepted in the United States of America and reflect the specific reporting requirements of not-for-profit organizations. The following is a discussion of the highlights of our activities and financial position as presented in the accompanying audited financial statements.

Financial Highlights

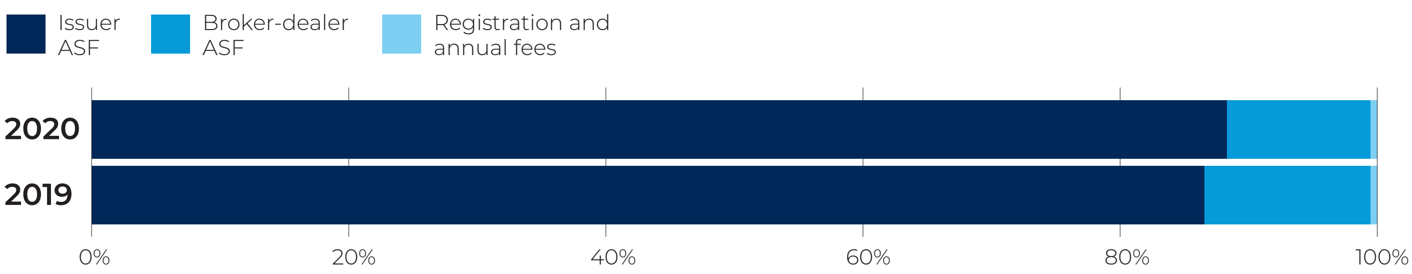
In 2020, we took a number of actions in response to the COVID-19 pandemic to allow us to continue to fulfill our mission and maintain our operations without significant disruptions. Some of those changes included conducting all inspections remotely and adjusting our inspections approach to consider the impact of COVID-19 on the audits of public companies. Other than a reduction in travel expenses, the pandemic had no material impact on our financial results or internal control over financial reporting.

Results of Operations

Operating Revenue

The majority of our revenue is generated from the accounting support fee (ASF), which is assessed annually on issuers and SEC-registered broker-dealers. The ASF is subject to review and approval by the SEC, concurrent with each annual budget.

Percentage of operating revenues by type 2020 vs. 2019



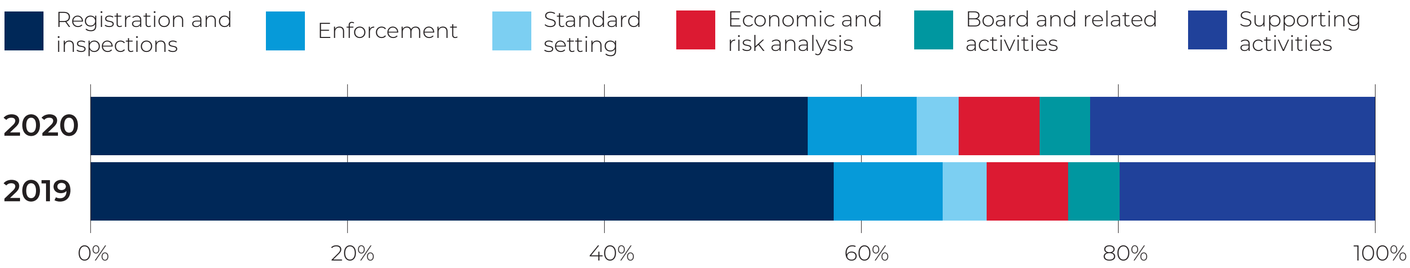
Net operating revenue increased by approximately $7.3 million, or 3%, from prior year due to the increase in the ASF in 2020. The table below presents our net operating revenue by line item for each of the years ended December 31, 2020 and 2019:

($ in millions)	**2020**	**2019**
Issuer accounting support fee	$239.6	$228.5
Broker-dealer accounting support fee	30.5	34.3
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4
Total net operating revenue	**$271.5**	**$264.2**

The ASF is calculated during the annual budget process based on an estimate of annual expenses and an estimate of expenses for the first five months of the subsequent year, net of cash on-hand and certain other adjustments. The increase in our 2020 budget, and correspondingly the ASF, primarily related to higher compensation costs resulting from planned headcount and annual compensation increases, in addition to increased business insurance costs and higher information technology-related costs.

Operating Expenses

Percentage of operating expenses by functional classification 2020 vs. 2019



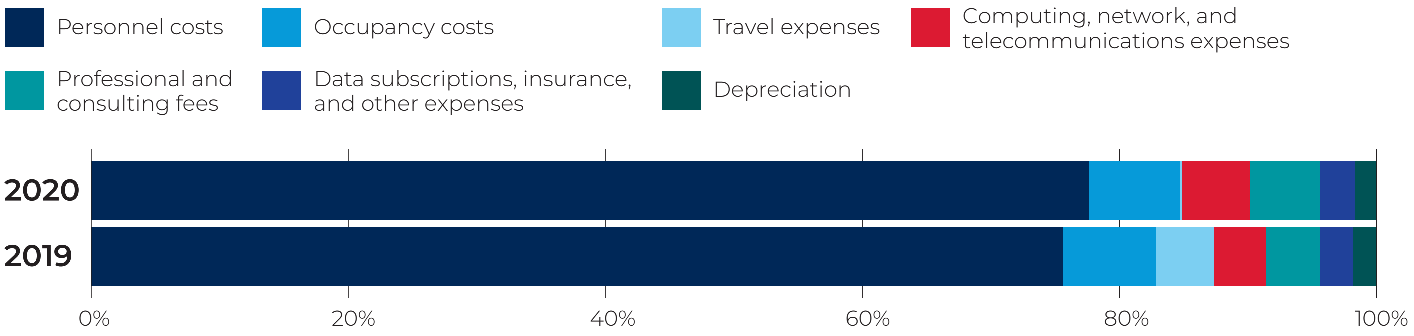
Our people are our most important asset, and our investments in human capital enable us to fulfill our statutory mission. Personnel costs continued to represent three-fourths of our operating expenses, with more than half of these costs related to our Registration and Inspections program.

Overall, operating expenses increased by approximately $7.2 million, or 3%, from the prior year. Higher personnel costs combined with spending on initiatives directly related to our Office of Data, Security and Technology increased the cost of our supporting activities. Program services in total were largely consistent year over year, with increases related to higher personnel costs offset by a decrease in travel and translation services as a result of our decision to suspend both international and domestic travel in response to the COVID-19 pandemic. See Note 8 for additional detail of expenses by program services and supporting activities.

The table below presents operating expenses (by program services and supporting activities) for each of the years ended December 31, 2020 and 2019:

($ in millions)	2020	2019
Program services:		
Registration and inspections	$147.8	$149.1
Enforcement	22.6	21.8
Standard setting	8.6	8.8
Economic and risk analysis	16.7	16.4
Board and related activities	10.4	10.3
Supporting activities:		
Administration and general	44.4	39.5
Information technology	14.4	11.8
Total operating expenses	**$264.9**	**$257.7**

Percentage of operating expenses by natural classification 2020 vs. 2019



The table below presents operating expenses (by natural classification) for each of the years ended December 31, 2020 and 2019:

($ in millions)	2020	2019
Personnel costs	$205.6	$194.7
Occupancy costs	18.8	18.7
Travel expenses	0.4	11.6
Computing, network, and telecommunications expenses	13.9	10.6
Professional and consulting fees	14.5	10.8
Data subscriptions, insurance, and other expenses	7.2	6.5
Depreciation	4.5	4.8
Total operating expenses	**$264.9**	**$257.7**

Personnel costs increased by approximately $10.9 million, or 6%, in 2020. The increase in costs was due primarily to annual compensation and merit increases, an increase in headcount, and higher benefits costs.

Travel expenses decreased by approximately $11.2 million or 97% compared to the prior year due to our decision to suspend both international and domestic travel starting in March 2020 due to the COVID-19 pandemic.

Computing, network, and telecommunications expenses increased by approximately $3.3 million or 31%, primarily due to our implementation of a new enterprise resources planning system and our continued efforts to improve our information security, disaster preparedness, business continuity, and monitoring capabilities.

Professional and consulting fees increased by approximately $3.7 million or 34% as a result of spending on initiatives directly related to our Office of Data, Security and Technology (such as change management and compliance, coaching, training, and leadership development), offset by a decrease in spending on legal and translation services in 2020.

Occupancy costs; data subscriptions, insurance and other expenses; and depreciation remained generally consistent as compared to the prior year.

Other Revenue (Expenses)

The table below presents components of other revenue (expenses) for each of the years ended December 31, 2020 and 2019:

($ in millions)	2020	2019
Interest income and other	$1.0	$3.7
Monetary penalties, net	1.7	2.1
Scholarship payments, net of amounts unused and returned	(2.2)	(2.0)
Total other revenue	**$0.5**	**$3.8**

Interest income and other decreased by approximately $2.7 million or 73% compared to the prior year primarily due to lower investment returns and lower interest rates compared to prior year.

Monetary penalties, net, decreased by approximately $0.4 million or 19%. Revenue from monetary penalties depends on the number of disciplinary orders imposing monetary penalties and the amount of monetary penalties imposed in disciplinary orders in a given year.

Scholarship payments, net of amounts unused and returned, increased by approximately $0.2 million or 10% compared to the prior year. The PCAOB awarded 234 merit-based scholarships of $10,000 each in 2020, as compared to 207 awarded in 2019, which was partially offset by approximately $0.2 million of refunded scholarship awards that were unused from prior years. The increase in the number of scholarships awarded this fiscal year was primarily attributable to a Board decision to increase the number of scholarships for students transferring from community college, extended nomination deadlines, and the Office of External Affairs performing additional outreach with colleges and universities.

Balance Sheet

Since inception, our primary goal for managing our balance sheet has been to maintain liquidity. Our net assets without donor restrictions increased by $7.1 million, or 5%. This change is the result of an increase in total assets of $9.2 million, or 5%, from the prior year, primarily due to lower than expected spending in 2020 compared to budgeted costs, which resulted in additional cash and cash equivalents and restricted cash and cash equivalents as of December 31, 2020. This was partially offset by an increase in total liabilities of approximately $2.1 million, or 4%, which is discussed below.

The table below presents total assets by type as of December 31, 2020 and 2019, respectively:

($ in millions)	2020	2019
Cash and cash equivalents	$166.3	$16.2
Restricted cash and cash equivalents	12.9	2.5
Short-term investments	-	136.7
Restricted short-term investments	-	11.0
Accounts and other receivables, net	2.3	1.0
Prepaid expenses and other assets	12.9	14.6
Furniture and equipment, leasehold improvements, and technology, net	15.2	18.4
Total assets	**$209.6**	**$200.4**

Assets

Cash and cash equivalents increased by $150.1 million from the prior year primarily due to the transition in 2020 from U.S. Treasury securities (presented as short-term investments) to U.S. Treasury money market funds. In addition, cash and cash equivalents included approximately $16.8 million of sequestered funds (cash) that were invested in U.S. Treasury securities in the prior year.

Restricted cash and cash equivalents totaled $12.9 million and $2.5 million as of December 31, 2020 and 2019, respectively, and consisted primarily of funds designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act. As part of our decision to invest directly in U.S. Treasury money market funds during 2020, we did not hold any restricted short-term investments as of December 31, 2020.

Accounts and other receivables, net, increased by approximately $1.3 million compared to the prior year primarily due to the timing of broker-dealer ASF payments, which lagged behind historical payment patterns.

Prepaid expenses and other assets decreased by approximately $1.7 million, or 12%, from the prior year primarily due to prepayments for fewer in-person trainings and lower prepaid travel expenses due to precautions related to the COVID-19 pandemic.

Furniture and equipment, leasehold improvements, and technology, net, decreased by $3.2 million, or 17%, from the prior year, which primarily related to depreciation and amortization expenses of $4.5 million, partially offset by fixed asset additions.

Liabilities

Our total liabilities increased by approximately $2.1 million, or 4%, between 2020 and 2019. This was primarily related to an increase in accrued payroll and related benefits due to higher unused leave balances compared to the prior year across the organization. This was offset by a decrease in deferred rent due to the amortization of our lease incentives. The table below presents total liabilities by type as of December 31, 2020 and 2019, respectively:

($ in millions)	2020	2019
Accrued payroll and related benefits	$27.1	$23.2
Accounts payable and accrued expenses	1.5	1.8
Deferred rent	20.6	22.1
Total liabilities	**$49.2**	**$47.1**

Liquidity

We are primarily funded by ASF assessed on issuers and SEC-registered broker-dealers, with certain assets being subject to statutory restrictions for scholarships and sequestration, or contractual restrictions under an agency agreement. The primary goal of our liquidity management policy is to structure our financial assets to maintain liquidity to meet our general expenditures, liabilities, and other obligations as they become due. Due to the timing to complete the billings and collections of the ASF, we maintain a working capital reserve to cover our estimated expenditures in the first five months of the fiscal year. We otherwise rely primarily on cash flows to fund our operations.

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

To the Board of the
Public Company Accounting Oversight Board

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying statement of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2020, and the related statements of activities and cash flows for the year ended December 31, 2020, and the related notes (collectively referred to as the financial statements). We also have audited the PCAOB's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control— Integrated Framework (2013)*, as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America. Additionally, in our opinion, the PCAOB maintained—in all material respects—effective internal control over financial reporting as of December 31, 2020, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

The financial statements of the PCAOB for the year ended December 31, 2019, were audited by another independent auditor, who—in their report dated March 24, 2020—expressed an unqualified opinion on those statements and an unqualified opinion on the effectiveness of the PCAOB's internal control over financial reporting as of December 31, 2019.

Basis for Opinions

The PCAOB's 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 the PCAOB's financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits. We are required to be independent with respect to the PCAOB in accordance with the relevant ethical requirements relating to our audits.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement—whether due to error or fraud—and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements—whether due to error or fraud—and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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 generally accepted accounting principles and that both the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company.

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. Additionally, 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.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the Board and that:

1. Relate to accounts or disclosures that are material to the financial statements.

2. Involved especially challenging, subjective, or complex judgments.

We determined that there are no critical audit matters.

We have served as the PCAOB's auditor since 2021.

COTTON & COMPANY LLP

Alan Rosenthal

Alan Rosenthal, CPA, CFE
Engagement Partner
Alexandria, Virginia
April 27, 2021

FINANCIAL STATEMENTS

Statements of Financial Position

December 31, 2020 and 2019

($ in millions)	**2020**	**2019**
Assets		
Cash and cash equivalents	$166.3	$16.2
Restricted cash and cash equivalents	12.9	2.5
Short-term investments	-	136.7
Restricted short-term investments	-	11.0
Accounts and other receivables, net	2.3	1.0
Prepaid expenses and other assets	12.9	14.6
Furniture and equipment, leasehold improvements, and technology, net	15.2	18.4
TOTAL ASSETS	**$209.6**	**$200.4**
Liabilities and net assets without donor restrictions		
Liabilities		
Accrued payroll and related benefits	27.1	23.2
Accounts payable and accrued expenses	1.5	1.8
Deferred rent	20.6	22.1
Total liabilities	**49.2**	**47.1**
Net Assets without donor restrictions		
Undesignated	130.6	122.8
Statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act	13.0	13.5
Statutorily designated for sequestration	16.8	17.0
Total net assets without donor restrictions	**160.4**	**153.3**
TOTAL LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS	**$209.6**	**$200.4**

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

Statements of Activities

For the years ended December 31, 2020 and 2019

($ in millions)	**2020**	**2019**
Changes in net assets without donor restrictions		
Net operating revenue		
Issuer accounting support fee	$239.6	$228.5
Broker-dealer accounting support fee	30.5	34.3
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4
Total net operating revenue	**271.5**	**264.2**
Operating expenses		
Program services		
Registration and inspections	147.8	149.1
Enforcement	22.6	21.8
Standard setting	8.6	8.8
Economic and risk analysis	16.7	16.4
Board and related activities	10.4	10.3
Supporting activities		
Administration and general	44.4	39.5
Information technology	14.4	11.8
Total operating expenses	**264.9**	**257.7**
Operating income	6.6	6.5
Other revenue (Expenses)		
Interest income and other	1.0	3.7
Monetary penalties, net	1.7	2.1
Scholarship payments, net of amounts unused and returned	(2.2)	(2.0)
Total other revenue	**0.5**	**3.8**
Increase in net assets without donor restrictions	**7.1**	**10.3**
Net assets without donor restrictions—Beginning of year	**153.3**	**143.0**
Net assets without donor restrictions—End of year	**$160.4**	**$153.3**

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

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

($ in millions)	**2020**	**2019**
Cash flows from operating activities		
Cash received from issuers	$238.2	$228.4
Cash received from broker-dealers	29.5	34.7
Cash received from registered public accounting firms	1.3	1.4
Interest income and other	1.1	1.7
Cash received from monetary penalties, net	1.7	2.1
Cash paid to fund scholarships (net of amounts unused and returned)	(2.2)	(2.0)
Cash paid for operating expenses	(254.7)	(256.2)
Net cash provided by operating activities	**14.9**	**10.1**
Cash flows from investing activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(2.1)	(2.2)
Purchases of short-term investments	(17.0)	(239.3)
Purchases of restricted short-term investments	-	(10.9)
Proceeds from maturity of short-term investments	153.6	221.4
Proceeds from maturity of short-term investments - restricted	11.0	-
Net cash provided by (used in) investing activities	**145.5**	**(31.0)**
Increase (Decrease) in cash and cash equivalents, and restricted cash and cash equivalents	**160.4**	**(20.9)**
Cash and cash equivalents, and restricted cash and cash equivalents—Beginning of year	**18.8**	**39.7**
Cash and cash equivalents, and restricted cash and cash equivalents—End of year	**$179.2**	**$18.8**

Supplemental disclosures:		
Fixed asset purchases acquired but not paid for as of year-end	$0.1	$0.5
Cash received (paid) during the year for unrelated business income taxes	$0.2	$(0.2)

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1—Organization

The Public Company Accounting Oversight Board is a District of Columbia nonprofit corporation established by the Sarbanes-Oxley Act to oversee the audits of public companies and SEC-registered broker-dealers in order to protect investors and further the public interest in the preparation of informative, accurate and independent audit reports.

We are overseen by the SEC, which has the authority to appoint Board members and to approve our rules, standards, and budget. The Sarbanes-Oxley Act established funding for our activities primarily through an ASF assessed on issuers that is based on their relative average monthly market capitalization and on broker-dealers that is based on their relative average quarterly tentative net capital. The annual ASF is approved by the SEC.

Our operations consist of program services and supporting activities. Our program services for financial reporting purposes are: registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Our supporting activities are administration and general activities and information technology activities. Refer to Note 8 for additional details related to our program services and supporting activities.

Throughout 2020 we assessed and closely monitored the impact of the COVID-19 pandemic on all aspects of our operations and financial results. Other than a reduction in travel expenses, the pandemic had no material impact on our financial statements or internal control over financial reporting.

Note 2—Summary of Significant Accounting Policies

Presentation—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and are presented pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities* (ASC 958).

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 with a domestic high-credit-quality financial institution, money market funds, and investments in securities made pursuant to an overnight automated investment sweep agreement. All non-restricted highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

Money market funds—Our money market funds are available on demand and valued using quoted prices in active markets and consist primarily of high-quality investments in U.S. Treasury securities and/or repurchase agreements secured by U.S. government obligations. We consider these money market funds to be Level 1 financial instruments.

Automated Investment Sweep—Pursuant to the sweep agreement, we invest excess cash at the end of each business day in a money market fund that invests in high-quality money market instruments (primarily U.S. Treasury securities and repurchase agreements). Purchased money market fund shares are held by the financial institution, as agent, on an overnight basis and are liquidated by the financial institution on the next business day at an agreed-upon price. In the event of the financial institution's failure or default, we could experience a delay in disposing of such securities.

Restricted Cash and Cash Equivalents—The term restricted cash and cash equivalents, as used in the accompanying financial statements, consists primarily of cash or money market funds that are expected to be used to fund our Scholarship Program, established pursuant to Section 109(c)(2) of the Sarbanes-Oxley Act, as well as funds held for the FASB under an agency agreement.

Investments—The term investments, as used in the accompanying financial statements, consists primarily of short-term investments and restricted short-term investments in U.S. government securities that mature within one year of purchase. At December 31, 2019, short-term investments consisted of funds designated for sequestration, and restricted short-term investments consist of funds statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act. See Note 7 – Net Assets without Donor Restrictions for additional discussion of funds statutorily designated for sequestration. See Note 10 - Subsequent Events with respect to a January 6, 2021 investment of cash and cash equivalents in a U.S. Treasury Bill and which included funds designated for sequestration. Our investments are recorded at fair value. We estimate fair value based on pricing from observable trading activity for similar securities or from a third-party pricing service; accordingly, we have classified these instruments as Level 2 fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income and net gains and losses are recorded on an accrual basis and are included in "Interest income and other" on the accompanying Statements of Activities.

Concentration of Credit Risk—Our cash and cash equivalents are held in accounts with a single domestic high-credit-quality financial institution. Amounts held in these accounts that exceed the Federal Deposit Insurance Corporation insurable limit are uninsured. We mitigate this risk in two ways. We invest directly in multiple money market funds that consist primarily of high-quality investments in U.S. Treasury securities and/or repurchase agreements secured by U.S. government obligations. Remaining cash balances are secured by daily overnight investment sweep agreements that invest in money market funds comprised primarily of U.S. Government/Agency obligations and repurchase agreements.

Accounts and Other Receivables—Accounts and other receivables are carried at the amount billed or accrued, net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on management's review, specific identification and, to the extent applicable, historical experience.

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

Furniture and Equipment, Leasehold Improvements, and Technology, Net—Furniture and equipment, leasehold improvements, and technology, net are stated at cost, less accumulated depreciation and amortization, computed using the straight-line method utilizing a half-year convention. Furniture and equipment and technology are depreciated over their estimated useful lives of three to five years. Leasehold improvements are amortized over the lesser of the term of the lease or the life of the asset. Costs incurred during the application development stage for internal-use software are capitalized and amortized using the straight-line amortization method over the estimated useful life of the applicable software. Repairs and maintenance are charged to expense when incurred.

Deferred Rent—We recognize rent on a straight-line basis over the lease term. 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 under facilities leases are recorded as deferred rent when we obtain 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.

Revenue Recognition—The Sarbanes-Oxley Act established funding for our activities primarily through the ASF assessed on issuers and broker-dealers. The annual ASF is approved by the SEC. We also assess and collect registration and annual fees and may impose monetary penalties as prescribed by the Sarbanes-Oxley Act.

Annual ASF—The annual ASF is assessed on issuers, as defined in the Sarbanes-Oxley Act, and on broker-dealers registered with the SEC. The purpose of the fees is to fund our mission to oversee the audits of public companies and SEC-registered broker-dealers to protect the interests of investors and further the public interest in informative, accurate and independent audit reports. The ASF is established annually by the Board based on our approved operating budget for each calendar year and adjusted to reflect amounts estimated to fund our operations for the first five months of the subsequent year, as well as other adjustments. The ASF is recognized as operating revenue in the year in which it is assessed.

Registration Fees—Each public accounting firm must pay a registration fee when it applies for registration with us. Registration fees are recognized as operating revenue in the year the application is submitted.

Annual Fees—All registered public accounting firms are required to file annual reports with us and pay annual fees to us. Annual fees are recognized as operating revenue in the year they are assessed.

Monetary Penalties, Net—Our sanctions may include monetary penalties imposed pursuant to Section 105 of the Sarbanes-Oxley Act. Monetary penalties are recognized as other revenue generally in the year (1) disciplinary orders are settled or (2) adjudicated final Board actions imposing sanctions in disciplinary proceedings are effective.

Monetary Penalties, Net and Scholarship Payments, Net of Amounts Unused and Returned—Amounts collected from monetary penalties are required to be used to fund merit scholarships awarded to students of accredited accounting degree programs, after congressional appropriation for such use of the monetary penalties. Amounts not paid out as of year-end are included in restricted cash and cash equivalents (2020) and restricted short-term investments (2019) in the Statements of Financial Position. In the Statements of Financial Position, the net change in penalties assessed and paid out as merit scholarships is reported as an increase or decrease in net assets without donor restrictions statutorily designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act.

Cash Held for Others under Agency Agreement—We serve as the collection agent for invoicing and collecting the FASB ASF. Balances not remitted to the FASB by year-end are included in restricted cash and cash equivalents with a corresponding amount included in accounts payable and accrued expenses. Fees for serving as the collection agent are included in "Interest income and other" in the accompanying Statements of Activities and Statements of Cash Flows. Under this agreement, we collected $31.4 million and remitted $31.0 million in 2020, and in 2019, collected $29.3 million and remitted $29.1 million.

Taxes—We are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (IRC). Effective January 1, 2018, IRC Section 512(a)(7) required tax-exempt organizations to include qualified transportation benefits provided to their employees as unrelated business taxable income. As a result of providing such benefits, we paid and recorded a provision for unrelated business income taxes of approximately $0.2 million as part of administration and general expenses in the Statements of Activities for the year ended December 31, 2018, and made payments related to unrelated business taxable income totaling approximately $0.2 million during 2019. On December 20, 2019, the Taxpayer Certainty and Disaster Tax Relief Act of 2019 retroactively repealed IRC Section 512(a)(7). Pursuant to the new legislation, Section 512(a)(7) was repealed retroactive to the date of its enactment. We recorded a receivable of approximately $0.4 million in our 2019 financial statements and filed a refund claim in 2020. As of December 31, 2020, we had received a refund of approximately $0.2 million from the IRS, and approximately $0.2 million remained in accounts and other receivables, net, in our Statements of Financial Position as of December 31, 2020.

Use of Estimates—The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements and accompanying notes. These estimates and assumptions are based on management's best knowledge of current and future events. Estimates and assumptions are used in accounting for, among other items, the allowance for doubtful accounts, useful lives of property and equipment, and allocation of expenses to program services and supporting activities. Actual results could differ from these estimates.

Statements of Cash Flows—We use the direct method of reporting net cash provided by or used in operating activities in the Statements of Cash Flows.

Cash and cash equivalents of approximately $166.3 million, and restricted cash and cash equivalents of approximately $12.9 million reported within the Statements of Financial Position sum to the total of the same such amounts shown in the Statements of Cash Flows (approximately $179.2 million) as of December 31, 2020. As discussed in Note 7 of the financial statements, $16.8 million is statutorily designated for sequestration. Cash and cash equivalents of approximately $16.2 million, and restricted cash and cash equivalents of approximately $2.5 million reported within the Statements of Financial Position sum to the total of the same such amounts shown in the Statements of Cash Flows (approximately $18.8 million) as of December 31, 2019.

Accounting Pronouncements Issued But Not Yet Adopted—In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with GAAP, the recognition, measurement and presentation of expenses and cash flows will depend on its classification as a finance or operating lease. With the issuance of ASU 2020-05 in June 2020, the new standard will be effective for our 2022 fiscal year. We are currently evaluating the effect that this ASU will have on our financial statements. Upon adoption of the ASU, right-of-use assets and corresponding liabilities are expected to be material.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. The guidance aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract ("cloud computing arrangement") with the requirements for capitalizing implementation costs incurred for an internal-use software license. The new standard will be effective for our 2021 fiscal year. We are currently evaluating the effect that this ASU will have on our financial statements.

Note 3—Accounts and Other Receivables, Net

Accounts receivables and other receivables consist of the following as of December 31, 2020 and 2019:

($ in millions)	2020	2019
Accounts receivable—issuer and broker-dealer accounting support fees and annual fees	$3.3	$1.4
Accounts receivable—other	0.2	0.6
Other receivables—monetary penalties	0.6	0.6
Accounts and other receivables, gross	4.1	2.6
Less: allowance for doubtful accounts	(1.8)	(1.6)
Accounts and other receivables, net	$2.3	$1.0

Note 4—Furniture and Equipment, Leasehold Improvements, and Technology, Net

Furniture and equipment, leasehold improvements, and technology, net consist of the following as of December 31, 2020 and 2019:

($ in millions)	2020	2019
Technology		
Hardware	$10.6	$10.9
Purchased and developed software	11.4	12.8
Leasehold improvements	21.9	22.2
Furniture and equipment	8.3	8.2
Technology development and construction in process	0.6	0.9
Furniture and equipment, leasehold improvements, and technology, gross	52.8	55.0
Less: accumulated depreciation and amortization	(37.6)	(36.6)
Furniture and equipment, leasehold improvements, and technology, net	$15.2	$18.4

Depreciation and amortization expense was approximately $4.5 million and $4.8 million for each of the years ended December 31, 2020 and 2019, respectively.

Note 5—Lease Commitments

As of December 31, 2020, we had long-term leases for office space that expire at various dates through 2028. Most of these leases contain escalation clauses and an option to renew at prevailing market rental values.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense for each of the years ended December 31, 2020 and 2019 was $16.3 million and $16.4 million, respectively.

Minimum rental commitments for our office leases exceeding one year as of December 31, 2020 are as shown in the table accompanying this Note.

($ in millions)	
Year ending December 31,	
2021	$17.2
2022	17.6
2023	18.0
2024	17.1
2025	15.6
Thereafter	41.9
Total minimum lease payments	**$127.4**

The PCAOB had short-term leases which expired on various dates in the fourth quarter of 2020 in Newton, Massachusetts; Houston, Texas; Tampa, Florida; Fort Lauderdale, Florida; and Los Angeles, California, respectively. The PCAOB did not renew any of these leases in 2020.

Note 6—Retirement Benefit Plan

We have a defined contribution retirement plan that covers all eligible employees. For each of the years ended December 31, 2020 and 2019, we matched 100% of employee contributions up to 7% of eligible compensation. Our contributions vest immediately. Our contributions to employees' accounts were $9.9 million and $9.3 million, for each of the years ended December 31, 2020 and 2019, respectively.

Note 7—Net Assets Without Donor Restrictions

Our net assets are not subject to any donor-imposed restrictions. Our net assets include a working capital reserve that we maintain to fund our operations during the five-month period prior to the collection of the ASF for the current year. Our net assets also include funds designated for specific uses, as described below.

Designated for the PCAOB Scholarship Program—The Statements of Financial Position include funds statutorily designated for the PCAOB Scholarship Program, established by Section 109(c)(2) of the Sarbanes-Oxley Act. The Sarbanes-Oxley Act authorizes us to impose monetary penalties and requires us to use those penalties to award merit scholarships to students of accredited accounting degree programs, after congressional appropriation for such use. We awarded 234 and 207 merit-based scholarships of $10,000 each to eligible students for the 2020-2021 and 2019-2020 academic years, respectively. Restricted cash and cash equivalents included approximately $12.9 million and $2.5 million as of December 31, 2020 and December 31, 2019, respectively, and restricted short-term investments included approximately $11.0 million as of December 31, 2019, to be used for merit scholarships.

The activity of the statutorily designated funds for the years ended December 31, 2020 and 2019, was as follows:

($ in millions)	
Statutorily designated funds, as of December 31, 2018	$13.4
Monetary penalties assessed in 2019, net	2.1
Less scholarship payments for the 2019–2020 academic year, net of amounts unused and returned	(2.0)
Statutorily designated funds, as of December 31, 2019	$13.5
Monetary penalties assessed in 2020, net	1.7
Less scholarship payments for the 2020–2021 academic year, net of amounts unused and returned	(2.2)
Statutorily designated funds, as of December 31, 2020	$13.0

Of the statutorily designated funds as of both December 31, 2020 and 2019, there was approximately $7.2 million not yet appropriated by Congress and therefore not yet available for scholarships distribution.

Designated for Sequestration—The Statements of Financial Position include funds statutorily designated for sequestration. In March 2013, the Office of Management and Budget (OMB) determined that we are subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. In November 2013, OMB determined that our sequestered funds represent temporary reductions, such that funds that are sequestered in one year become available in subsequent years.

On March 18, 2019, OMB issued a report, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2020," specifying that 5.9% of our approved 2020 budget funds were subject to sequestration, which calculates to $16.8 million. These sequestered funds were invested in short-term investments during 2020 which matured on December 31, 2020. The proceeds were unspent as of December 31, 2020, and are included in cash and cash equivalents in the accompanying Statements of Financial Position. In a separate report issued on February 10, 2020, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2021," OMB specified that our sequestration percentage in 2021 was 5.7% of our approved 2021 budget, which calculates to $16.4 million. In 2021, we will use the $16.8 million sequestered in 2020 to offset the $16.4 million sequestered in 2021. The excess reduces our 2021 ASF by $0.4 million from what it otherwise would have been. The scholarship funds were not subject to sequestration in 2020 or 2019.

Note 8—Expenses by Program Services and Supporting Activities

The Statements of Activities reflect program services related to registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Program services consist of the following:

- Registration and Inspections (DRI) executes the Board's registration and inspections authority under the Sarbanes-Oxley Act. DRI processes and makes recommendations to the Board on applications from public accounting firms to register with the PCAOB. DRI also inspects registered public accounting firms to assess compliance with the Sarbanes-Oxley Act, the rules of the Board and the

SEC, and professional standards, in connection with the performance of audits, issuance of audit reports, and related matters involving issuers and broker-dealers audited by the registered firms.

- Enforcement conducts investigations and recommends instituting disciplinary proceedings concerning registered public accounting firms and their associated persons related to possible violations of the Sarbanes-Oxley Act, the rules of the Board and the SEC, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations of accountants with respect to audit reports, or professional standards.
- Standard setting advises the Board on establishing or amending auditing, quality control, ethics, independence, and attestation standards applicable to registered public accounting firms in the preparation and issuance of audit reports as required by the Sarbanes-Oxley Act or the SEC, or as may be necessary for the protection of investors and the public interest.
- Economic and risk analysis conducts economic analysis and research, risk assessment, and data analysis to inform our other program services.
- Board and related activities primarily consists of the programmatic activities of the Board and the Office of International Affairs (OIA). Supported by the other program services, the Board issues inspection reports on registered public accounting firms; approves registration applications of public accounting firms; initiates formal investigations and enforcement actions; and establishes or amends auditing, quality control, ethics, independence and attestation standards for registered public accounting firms. Under the direction and supervision of the Board, OIA promotes our mission internationally by developing and fostering bilateral relationships and negotiating bilateral cooperative arrangements with non-U.S. regulators to facilitate our international inspections and investigations.

Program expenses include salaries, benefits, occupancy, program-specific technology costs, and other direct and indirect operating expenses. The Statements of Activities also reflect costs associated with supporting activities such as accounting and finance, legal, human resources, and information technology. Indirect costs, including certain occupancy and depreciation costs, are allocated to program services and supporting activities proportionately based on numbers of personnel.

The Statements of Activities report certain categories of expenses that are attributable to more than one program service or supporting activity. To reflect this fact, these expenses are allocated on a reasonable basis that is consistently applied. In particular, these expenses have been allocated to program services and supporting activities based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of headcount or other measures such as time and effort. The expenses that are allocated in this manner include: personnel costs, including fringe benefits and payroll taxes; occupancy costs; computing, network and telecommunications expenses; and depreciation.

For the year ended December 31, 2020
($ in millions)

	Program services						Supporting activities			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs subtotal	Administration and general	Information technology	Supporting subtotal	Total
Personnel costs	$121.7	$18.2	$7.1	$11.5	$8.5	$167.0	$30.5	$8.1	$38.6	$205.6
Occupancy costs	9.9	1.9	0.7	1.2	1.2	14.9	2.9	1.0	3.9	$18.8
Travel expenses	0.3	-	-	-	-	0.3	0.1	-	0.1	$0.4
Computing, network, and telecommunications expenses	6.8	1.1	0.2	1.0	0.2	9.3	3.4	1.2	4.6	$13.9
Professional and consulting fees	6.0	0.8	0.2	0.4	0.1	7.5	3.7	3.3	7.0	$14.5
Data subscriptions, insurance, and other expenses	1.0	0.3	0.1	2.3	0.2	3.9	3.0	0.3	3.3	$7.2
Depreciation	2.1	0.3	0.3	0.3	0.2	3.2	0.8	0.5	1.3	$4.5
Total operating expenses	**$147.8**	**$22.6**	**$8.6**	**$16.7**	**$10.4**	**$206.1**	**$44.4**	**$14.4**	**$58.8**	**$264.9**

For the year ended December 31, 2019
($ in millions)

	Program services						Supporting activities			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs subtotal	Administration and general	Information technology	Supporting subtotal	Total
Personnel costs	$116.4	$17.3	$7.2	$11.9	$8.2	$161.0	$26.8	$6.9	$33.7	$194.7
Occupancy costs	10.0	2.0	0.7	1.3	1.0	15.0	2.9	0.8	3.7	18.7
Travel expenses	10.5	0.2	0.1	0.1	0.3	11.2	0.3	0.1	0.4	11.6
Computing, network, and telecommunications expenses	5.5	0.8	0.2	0.8	0.3	7.6	1.7	1.3	3.0	10.6
Professional and consulting fees	3.5	0.5	0.1	0.2	0.1	4.4	4.3	2.1	6.4	10.8
Data subscriptions, insurance, and other expenses	1.1	0.6	0.1	1.7	0.2	3.7	2.6	0.2	2.8	6.5
Depreciation	2.1	0.4	0.4	0.4	0.2	3.5	0.9	0.4	1.3	4.8
Total operating expenses	**$149.1**	**$21.8**	**$8.8**	**$16.4**	**$10.3**	**$206.4**	**$39.5**	**$11.8**	**$51.3**	**$257.7**

Note 9—Liquidity

We are primarily funded by ASF, with certain assets being subject to statutory restrictions or contractual restrictions under an agency agreement. The primary goal of our liquidity management policy is to structure our financial assets to be available as our general expenditures, liabilities, and other obligations come due.

At December 31, 2020, we held financial assets, comprised of cash and cash equivalents ($149.5 million), which were available on demand to pay general expenditures. The remaining amount of cash and cash equivalents ($16.8 million) is designated for sequestration, which will be used to offset the $16.4 million sequestered in 2021 (as discussed in Note 7 of the financial statements). At December 31, 2020, $5.7 million of restricted cash and cash equivalents were available to pay for future scholarship awards, with an additional $7.2 million being subject to congressional appropriation prior to their use to fund scholarships (as discussed in Note 7 of the financial statements).

Note 10—Subsequent Events

We have evaluated subsequent events through April 27, 2021, which represents the date the audited financial statements were available to be issued. On January 6, 2021, we invested approximately $16.4 million (the amount of our funds that are statutorily designated for sequestration for 2021) of the cash and cash equivalents reported in the December 31, 2020 Statement of Financial Position ($166.3 million), in a U.S. Treasury Bill.

FINANCIAL REPORTING MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The PCAOB's financial reporting management, including the Chief Financial Officer and Acting Chief Administrative Officer, under the direction of the Chairman (collectively, "financial reporting management"), is 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 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 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, 2020. In making this assessment, financial reporting management used the criteria established in *Internal Control—Integrated Framework* (2013 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 was effective as of December 31, 2020.

April 27, 2021

William D. Duhnke III
Chairman

Holly Wheaton Greaves
Chief Financial Officer and Acting
Chief Administrative Officer