

PCAOB

Public Company Accounting Oversight Board

2006 BUDGET

**Public Company Accounting Oversight Board
2006 Budget**

OPERATING EXPENSES

Personnel	
Salaries/1	78,622,000
Employee benefits/2	8,214,000
Payroll taxes/3	4,098,000
Training/4	1,850,000
Recruiting and relocation expenses/5	4,231,000
Total personnel expenses	97,015,000
Administrative expenses/6	4,155,000
Consulting and professional fees/7	3,107,000
Facilities/8	6,945,000
Information technology/9	9,900,000
Travel and related expenses/10	6,379,000
Total Operating Expenses	30,486,000

CAPITAL EXPENDITURES

Information technology development and infrastructure/9	1,592,000
Facilities build-out/11	1,851,000
Total Capital Expenditures	3,443,000

TOTAL OUTLAYS **130,944,000**

LESS: 2006 Net Interest Receipts/12 2,568,000

TOTAL OUTLAYS LESS INTEREST RECEIPTS **128,376,000**

LESS: Excess to Working Capital Reserve/13 19,000,000

NET OUTLAYS **109,376,000**

LESS: 2005 Registration Fees/14 69,000

ACCOUNTING SUPPORT FEE/15 **109,307,000**



NOTES TO 2006 BUDGET

The 2006 budget for the Public Company Accounting Oversight Board ("PCAOB" or the "Board") is based on the best information available as of the date of this budget. Budgeted amounts are subject to change as conditions warrant. The following notes relate to specific line items in the budget and are referenced by number.

1. **Salaries** – The Board continues its efforts to establish a staff to assist the Board in achieving its mandates under the Sarbanes-Oxley Act of 2002 (the "Act"), and it expects to continue to be so engaged throughout 2006. The Board expects to begin 2006 with approximately 427 employees and to increase that number up to 537 by the end of the year. A majority of the new employees are expected to be experienced auditors who will conduct the Board's program of inspections to assess the degree of compliance by registered public accounting firms with the Act, the rules of the Board, the rules of the Commission, and auditing and related professional practice standards, in connection with those firms' audits of the financial statements of public companies. The 2006 budget for salaries includes salaries and related expenses for merit and other salary adjustments and awards.
2. **Employee benefits** – Estimated expenses for employee benefits include costs associated with health care, retirement, and other employee welfare-related items.
3. **Payroll taxes** – Estimated payroll taxes include Social Security, Medicare and unemployment taxes.
4. **Training** – Expected training expenses include training in professional competencies in accounting and auditing, law and other fields, to fulfill the Board's commitment to maintaining a highly qualified staff in order effectively to achieve the Board's statutory mandates. Training expenses are also expected to include costs for training in using the Board's IT infrastructure and applications and on Board policies and procedures.
5. **Recruiting and relocation** – Estimated recruiting and relocation expenses are expected to cover the cost of recruiting a highly qualified, experienced staff in a tight employment market for auditors and forensic accountants.

6. **Administrative expenses** – Estimated administrative expenses include costs for office supplies, printing, photocopying, telecommunications, postage and insurance, including premiums for general property and casualty insurance as well as directors' and officers' liability insurance.
7. **Consulting and professional fees** – Estimated consulting and professional fees include costs associated with developing certain initiatives related to the Board's programs that call for highly-specialized skills and services required for a limited period of time. These fees also include costs for services related to investigation and litigation support, such as court reporters, translators, and document and database management, in addition to other legal and advisory services.
8. **Facilities** – Estimated facilities expenses are expected to cover the cost of lease and other payments related to the Board's office space. The Board currently has leased office space at its headquarters in Washington, D.C., and its technology center in Dulles, Virginia, in addition to office space to support its inspections staff in New York, New York; Atlanta, Georgia; Dallas, Texas; Orange County and San Francisco, California; Denver, Colorado; and Chicago, Illinois.
9. **Information technology** – The Board continues to invest in information technology to enable it to fulfill its statutory responsibilities under the Act. As it did in 2005, the Board expects to continue to execute its information technology strategy in two primary areas: IT applications and IT infrastructure. IT applications include (1) maintaining existing systems, such as the Board's registration, funding, inspection, standards, enforcement and risk management support systems; and (2) adding capabilities and components to existing systems such as the Board's registration, inspection, enforcement and risk management support systems.

IT infrastructure, the second component, consists of (1) deploying networks, security and other systems required to support new or expanding office spaces, field operations during inspections, and new employees; (2) expanding existing internal operational systems, including those needed to support new employees expected in 2006; and (3) completing core infrastructure deployments and providing the additional infrastructure required to support new IT application initiatives.
10. **Travel and related expenses** – Estimated travel and related expenses are expected to support travel to perform inspections in the offices of registered public accounting firms. As of November 21, 2005, there were 946 registered

public accounting firms located in the United States, many of which have multiple offices, and 640 non-U.S. firms in 81 countries. In addition, the Board expects to incur travel and related expenses associated with the participation of Board members and professional staff in speaking and other outreach activities away from the Board's offices.

11. **Facilities build-out** – The Board expects to incur capital expenditures in 2006 to expand existing office space and renovate new office space to support increases in staff.
12. **Interest** – Estimated interest income for 2006 is based on average cash balances invested in Treasury instruments and related repurchase agreements yielding an estimated 3% APR, netted against estimated bank charges incurred.
13. **Excess to working capital reserve** – The Board expects to utilize an excess to its working capital reserve to reduce the 2006 accounting support fee. The Board believes that the remaining working capital reserve will provide funds necessary to cover its anticipated 2006 first quarter expenditures, as well as provide a degree of assurance that the Board will have funds to continue operations in the event that expenditures not included in the 2006 budget are necessary.
14. **Registration and annual fees** – Under Section 102 of the Act, public accounting firms applying for registration with the Board must pay registration fees in an amount sufficient to cover the costs of processing and reviewing their registration applications. Section 109 of the Act directs that any registration fees collected in one calendar year must be used to reduce the recoverable budget expenses for the next calendar year (i.e., the year after the year in which they are received). Therefore, registration fees estimated to be collected for 2005 have been allocated to the 2006 budget to produce the 2006 accounting support fee. Similarly, registration fees collected for 2006 will be allocated to the 2007 budget to produce the 2007 accounting support fee.

Under Section 102 of the Act, annual fees cover the costs of processing and reviewing annual reports submitted by registered public accounting firms. Registered public accounting firms are not currently required to submit annual reports, and therefore are not required to pay annual fees. As contemplated by the Act, the Board intends to require annual reporting, and, when it does so, the Board will also assess annual fees to cover the costs of processing and reviewing such reports. To the extent such fees are assessed in 2006,

under Section 109 of the Act they will be allocated to the 2007 budget to produce the 2007 accounting support fee.

15. **Accounting support fee** – Pursuant to Section 109 of the Act and the rules of the PCAOB, the budget of the Board, reduced by any registration or annual fees received for the preceding calendar year, is to be funded by an annual accounting support fee. The 2006 budget offsets the anticipated interest earned on cash balances (see note 12, above), as well as excess to the Board's working capital reserve (see note 13, above), against total outlays. This amount, minus the estimated registration fees collected for 2005 (see note 14, above), produces the 2006 accounting support fee.