



Public Company Accounting Oversight Board

Overview of Activities

October 11, 2016

PCAOB

Public Company Accounting Oversight Board



Disclaimer

The views expressed are those of the speakers and do not necessarily reflect the views of the Board, its Members, or other staff of the PCAOB.



Topics

- PCAOB Mission
- Organizational Structure
- Division of Registration and Inspections
- Common Areas with Inspection Findings
- Division of Enforcement and Investigations
- Office of the Chief Auditor
- PCAOB Information and Activities



PCAOB Mission

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



Organizational Structure

- Governed by a five member board
 - Two members shall be or have been U.S. certified public accountants
- Multiple offices and divisions, including among others
 - Division of Registration and Inspections
 - Division of Enforcement and Investigations
 - Office of the Chief Auditor
 - Office of International Affairs
 - Office of Research and Analysis
- Regional and satellite offices are located throughout the United States (offices outside of Washington, D.C. primarily house inspection staff)



Organizational Structure

- Distinct from American Institute of Certified Public Accountants (“AICPA”), a professional organization for certified public accountants in the United States
- Nonprofit corporation – not a government agency
- But subject to the oversight of the U.S. Securities & Exchange Commission (“SEC”)
 - ❑ Appoints members of the PCAOB Board
 - ❑ Approves annual budget and rules
 - ❑ Hears appeals



Registration

Inspections

PCAOB Functions

Enforcement

Standard-
setting

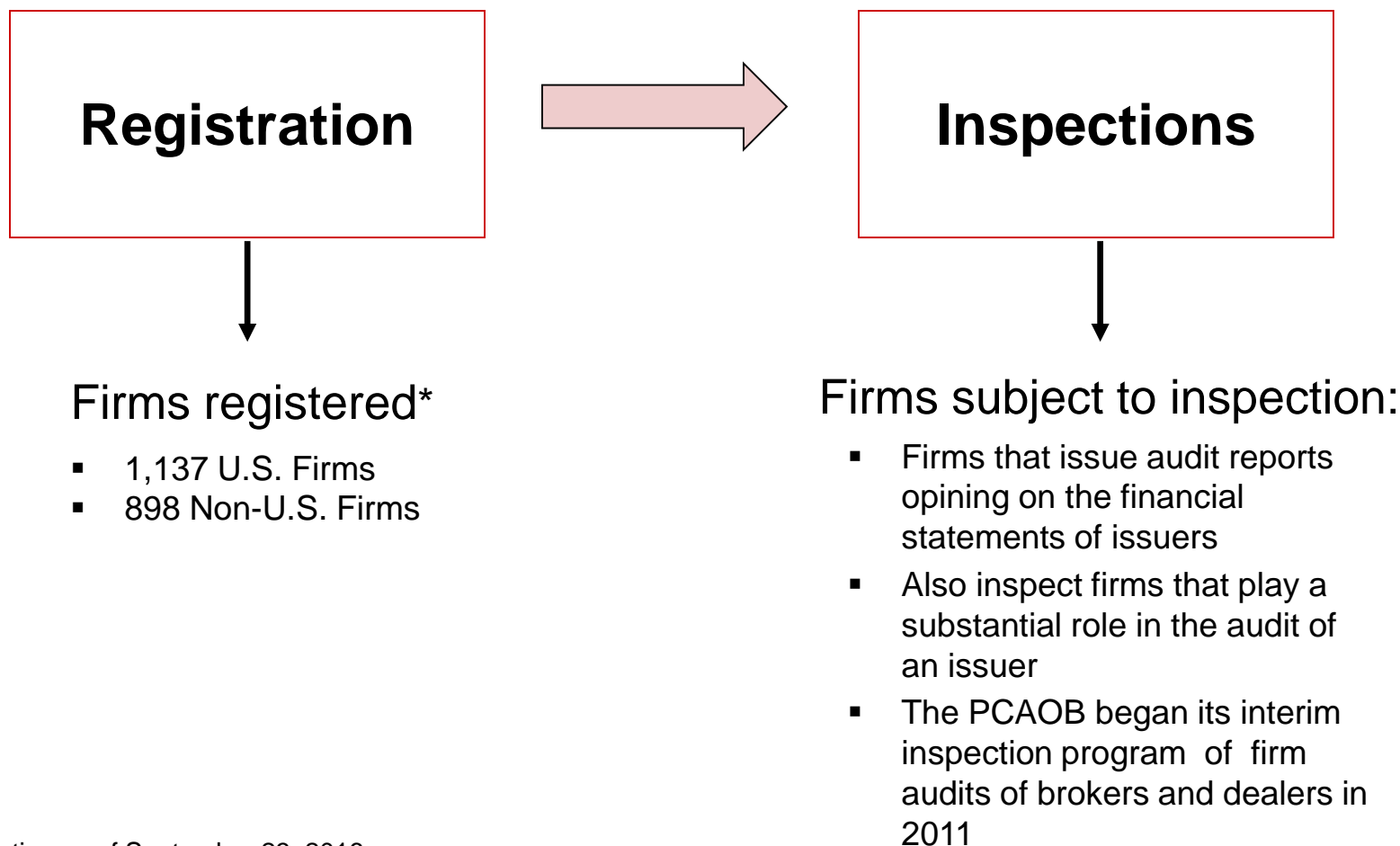


Division of Registration and Inspections

Registration

- ❑ Firms make the voluntary decision to register with the PCAOB
- ❑ Firms must be registered with the PCAOB before they may:
 - prepare or issue an audit report opining on the financial statements of an issuer
 - play a substantial role in the preparation or furnishing of such a report
 - certify the financial statements of registered broker-dealers
- ❑ Registration subjects firms to PCAOB oversight

Division of Registration and Inspections



* Information as of September 23, 2016.

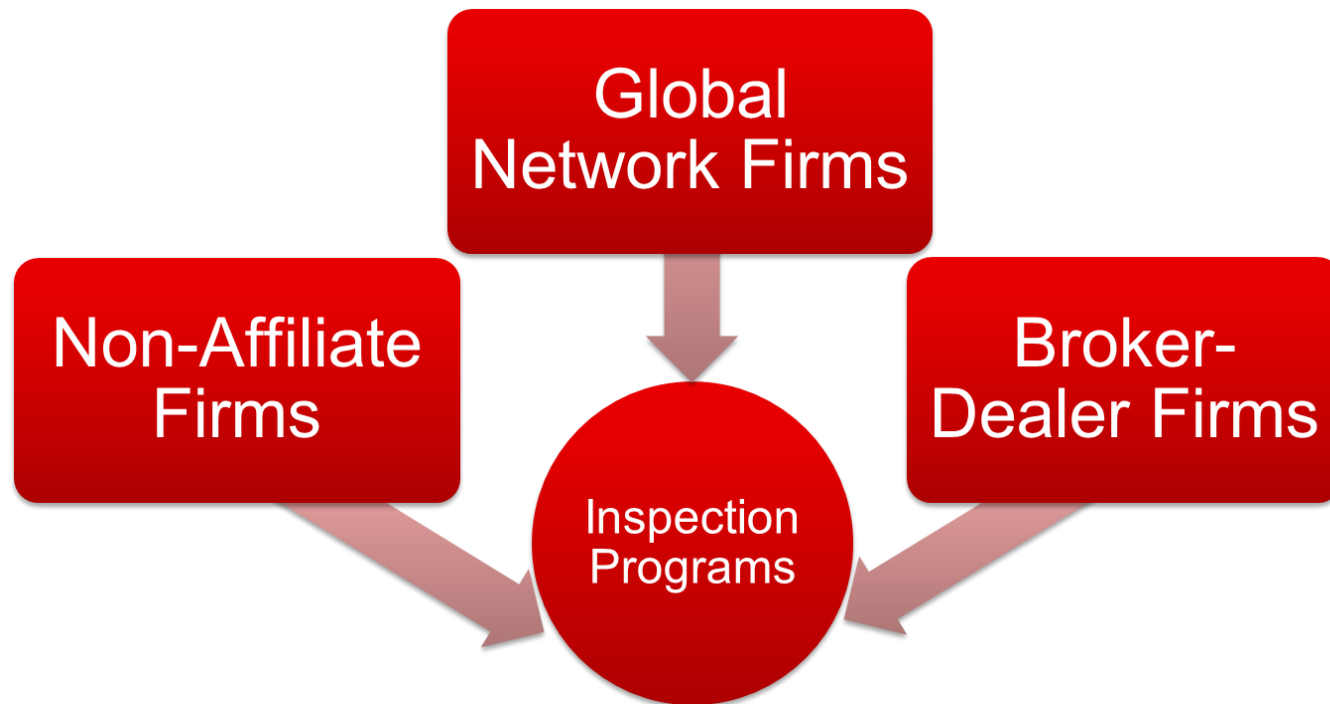


Division of Registration and Inspections

Frequency of Inspections

- Annually for firms that issue audit reports for more than 100 issuers
- At least once every three years for firms that issue audit reports for 100 or fewer issuers
- Special inspections may be authorized by the Board or requested by the SEC at any time

Division of Registration and Inspections





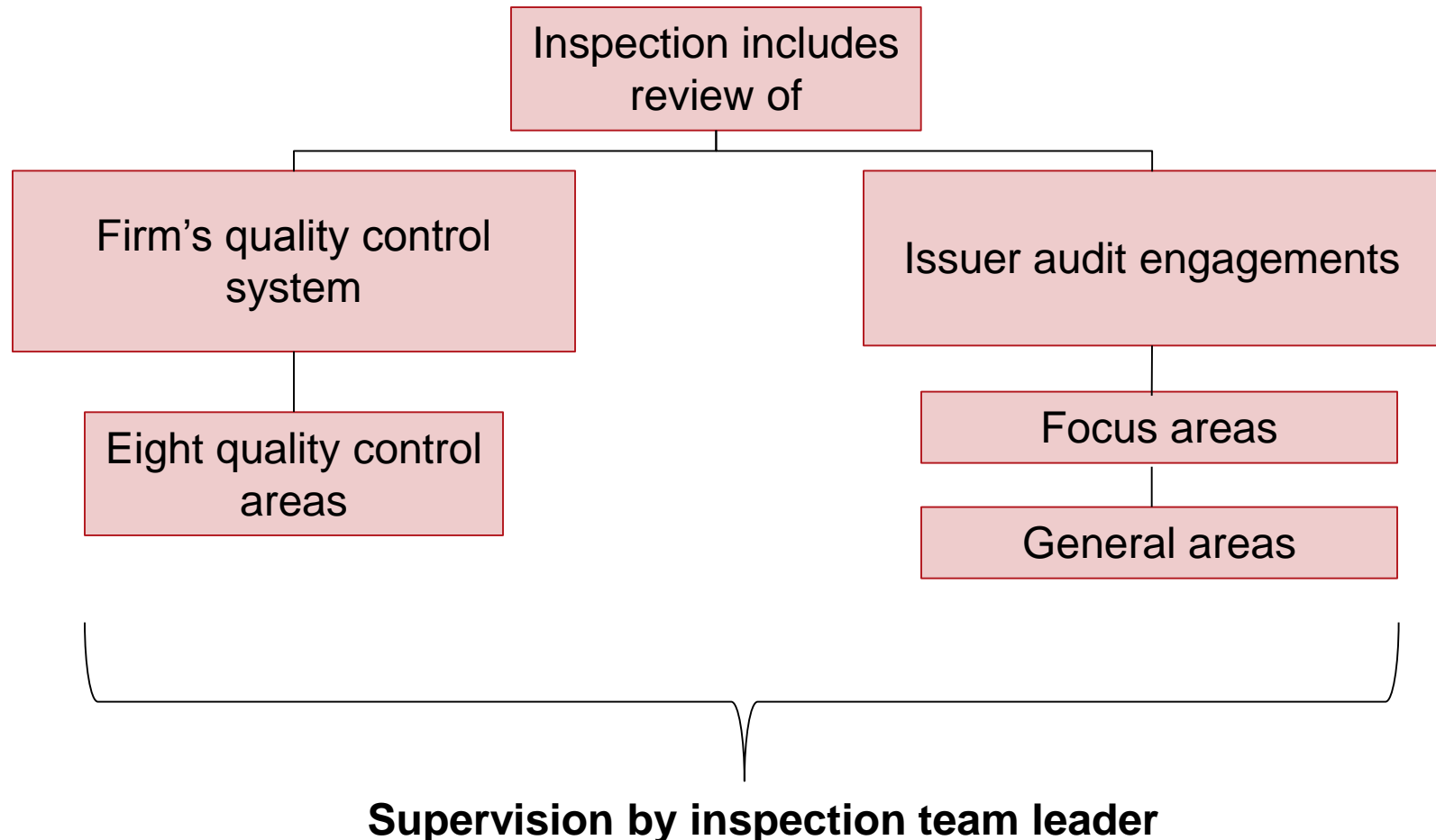
Division of Registration and Inspections

Inspection Approach

- Purpose of an inspection
 - Assess the compliance of the firm, and its associated persons, with the Act, the rules of the Board and the SEC, and professional standards
- Primary focus on inspections of issuer auditors
 - Firm's system of quality control and issuer audit engagements performed by the firm
- Inspection methodology and approach are scaled appropriately to size and complexity of firms and issuer audit practice

Division of Registration and Inspections

Inspection Approach





Division of Registration and Inspections

Inspection Approach

- Eight quality control areas examined
 - ❑ Tone at the top
 - ❑ Practices for partner evaluation, compensation, admission, promotion, assignment of responsibilities and disciplinary actions
 - ❑ Independence
 - ❑ Client acceptance and continuance
 - ❑ Internal inspections program (Monitoring Program)
 - ❑ Practices for establishment and communication of audit policies, procedures, and methodologies, including training
 - ❑ The supervision by firms' audit engagement teams of the work performed by other auditors (including affiliates and non-affiliates of the firm)
 - ❑ Consultations

Note: Depending on specific facts and circumstances, additional areas may be considered.



Division of Registration and Inspections

Non-U.S. Firm Inspections Conducted

Conducted non-U.S. firm inspections in 48 jurisdictions*

- Two types of international inspections
 - PCAOB only – performed solely by PCAOB inspection teams
 - Joint inspection – executed jointly with home country regulator's independent inspectors (who cannot be practicing auditors)
- Conducted joint inspections with regulators in 19 non-U.S. jurisdictions*

* Information as of June 30, 2016.

Division of Registration and Inspections

Non-U.S. Firm Inspections Conducted

Conducted inspections of one or more registered firms located in the following non-U.S. jurisdictions as of June 30, 2016:

1	Argentina	16	Hong Kong	31	Nicaragua	46	Ukraine
2	Australia	17	Hungary	32	Norway	47	United Arab Emirates
3	Belize	18	India	33	Panama	48	United Kingdom
4	Bermuda	19	Indonesia	34	Papua New Guinea		
5	Bolivia	20	Ireland	35	Peru		
6	Brazil	21	Israel	36	Philippines		
7	Canada	22	Jamaica	37	Russian Federation		
8	Cayman Islands	23	Japan	38	Singapore		
9	Chile	24	Kazakhstan	39	South Africa		
10	Colombia	25	Republic of Korea	40	Spain		
11	Denmark	26	Luxembourg	41	Sweden		
12	Finland	27	Malaysia	42	Switzerland		
13	France	28	Mexico	43	Chinese Taipei (Taiwan)		
14	Germany	29	Netherlands	44	Thailand		
15	Greece	30	New Zealand	45	Turkey		

Division of Registration and Inspections

Firm Inspections Conducted

	2012	2013	2014	2015
Issuer Firm Inspections				
Domestic Annual	9	9	9	10
Domestic Triennial	167	166	153	142
Non-U.S. Triennial	77	53	57	63
Total Issuer Firm Inspections	253	228	219	215
Brokers-Dealer Firm Inspections	45	60	66	75



Division of Registration and Inspections

Inspection Reports

- Inspection reports contain both public and nonpublic portions
 - Inspection reports **do not** identify an issuer by name
 - The public portion of an inspection report summarizes significant engagement deficiencies, if any, and is posted on the PCAOB's web site
 - The nonpublic portion of a report may describe additional detail or discuss other issues, including any quality control criticisms or potential defects identified in the inspection



Division of Registration and Inspections Remediation

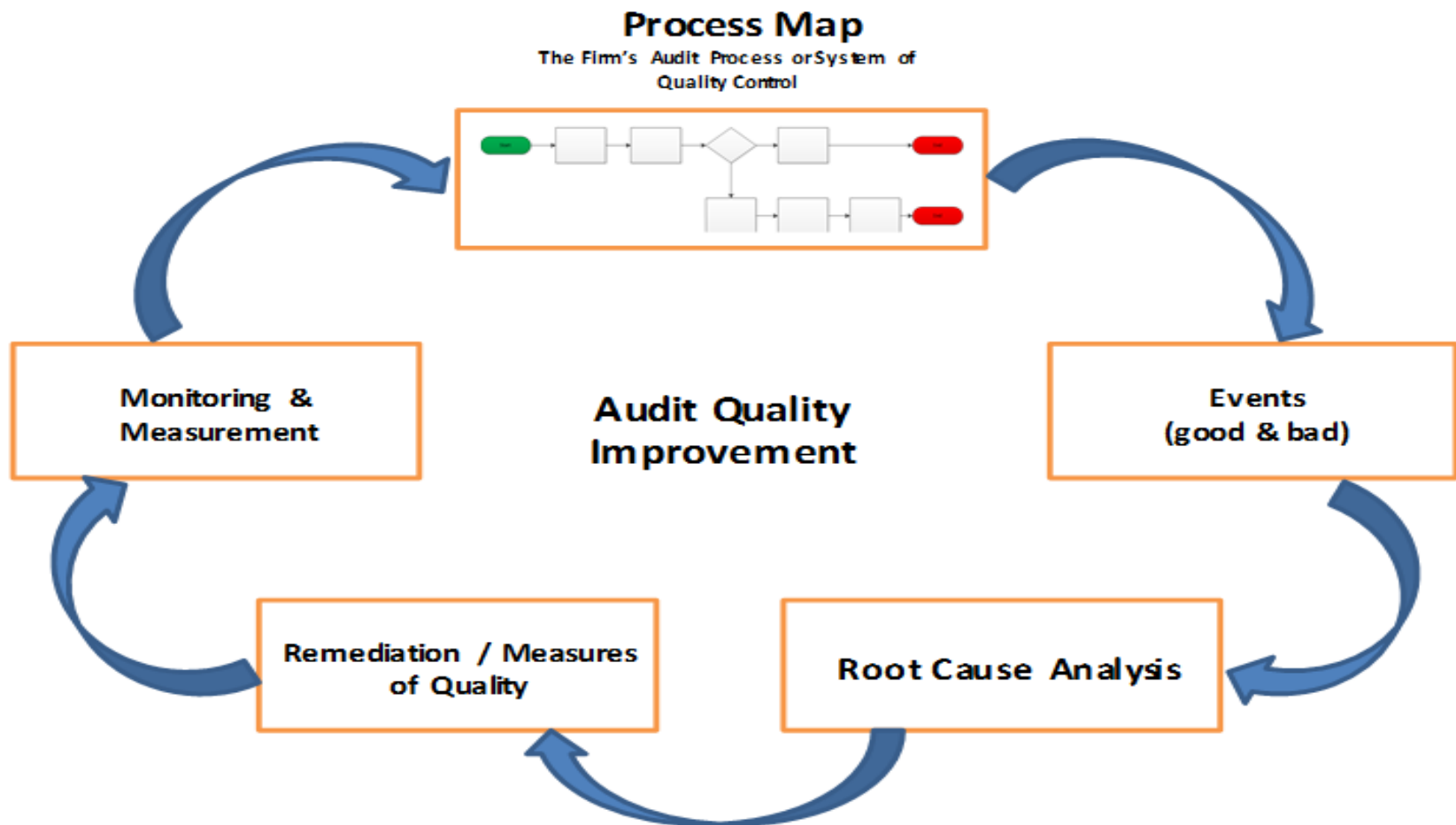
- Firms have 12 months after the report is issued to remediate quality control deficiencies
 - ❑ Criticisms or potential defects will remain nonpublic if they are satisfactorily remediated
 - ❑ Individual criticisms or potential defects are made public if they are not remediated
- Remediation determination
 - ❑ Has the firm made progress that is sufficient to merit the result that the criticisms remain nonpublic
 - ❑ Results from subsequent inspections may inform the Board's determination
 - ❑ PCAOB's 2006 release on the remediation process (PCAOB Release No. 104-2006-077); staff guidance issued in 2013



Division of Registration and Inspections Remediation

- Common remedial actions taken by firms
 - Modifications to audit methodology
 - Revisions to audit program guides, work paper templates, and the development of other tools and practice aids
 - Additional training provided to partners and staff
 - Modifications to firm-wide policies and procedures
 - Increased monitoring

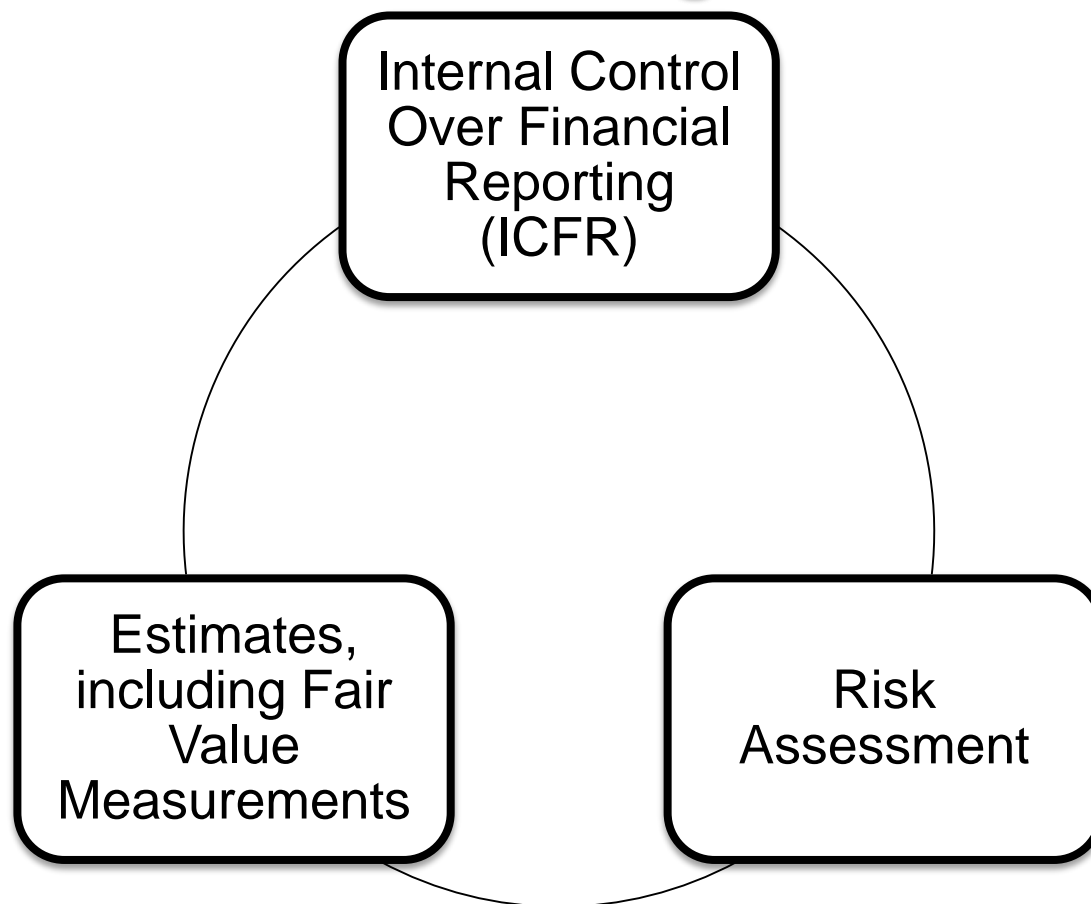
Continuous Audit Quality Improvement





Common Areas with Inspection Findings

Common Areas with Inspection Findings





Internal Control Over Financial Reporting

Commonly identified deficiencies include failures to:

- Identify and sufficiently test controls that address the risks of material misstatement
- Sufficiently test the design and operating effectiveness of controls that are used to monitor the results of operations (“management review controls”)
- Sufficiently test controls over the system-generated data and reports that support important controls



Assessing and Responding to Risk

Commonly identified deficiencies include failures to:

- Perform substantive procedures, including tests of details, that were specifically responsive to fraud risks and other significant risks that were identified
- Sufficiently test the design and operating effectiveness of controls to support their planned level of control reliance
- Take into account relevant audit evidence that appeared to contradict certain assertions in the financial statements
- Sufficiently evaluate the presentation of the financial statements, including the accuracy and completeness of the disclosures



Auditing Estimates, including Fair Value Measurements

Commonly identified deficiencies include failures to:

- Evaluate the reasonableness of the significant assumptions used by management in developing accounting estimates
- Perform procedures beyond inquiry of management
- Test the accuracy and completeness of the underlying data used in developing accounting estimates



Matters Related to Auditor Independence

- Non audit services
- Auditor personal independence
- Audit committee communications



Registration

Inspections

PCAOB Functions

Enforcement

Standard-
setting



Division of Enforcement and Investigations

- The Board may investigate possible violations by registered public accounting firms or their associated persons of
 - Any provision of the Act
 - The rules of the Board
 - The provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or
 - Professional standard
- The Board may impose appropriate sanctions if violations are found
- Separate process from Inspections
 - Separate division
 - Different staff



Division of Enforcement and Investigations

- Prompted by inspections, referrals from other regulatory agencies, public announcements or filings and tips
- Anonymous tip hotline (telephone and email)
- Sanctions can be appealed to the SEC and then to the federal courts; if appealed to SEC, sanctions do not take effect and are not made public by the Board unless SEC orders that sanctions take effect



Division of Enforcement and Investigations

- Range of possible sanctions
 - ❑ Suspend or permanently revoke a firm's registration
 - ❑ Suspend or permanently bar an individual from association with a registered public accounting firm
 - ❑ Temporarily or permanently limit the activities, functions or operations of a firm or associated person
 - ❑ Civil monetary penalty
 - ❑ Impose a censure, require additional professional education or training, or impose any other sanction provided in the rules of the Board



Registration

Inspections

PCAOB Functions

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Office of Chief Auditor

- Previously controlled by the profession through AICPA's Auditing Standards Board (ASB)
- Now exclusive authority of PCAOB (subject to SEC approval)
 - ❑ GAAS reference changed to "PCAOB standards"
 - ❑ Includes auditing, quality control, ethics, independence, and attestation standards
 - ❑ Excludes accounting standards
 - ❑ On April 16, 2003, PCAOB adopted AICPA's standards as its interim standards



Office of Chief Auditor

- Standard-Setting Activities
 - ❑ Transparency
 - ❑ Supervision of Other Auditors
 - ❑ The Auditor's Reporting Model
 - ❑ Reorganization of the Standards



Office of Chief Auditor

- Other Standard Setting Projects
 - Going Concern
 - Auditing Accounting Estimates, Including Fair Value Measurements
 - The Auditor's Use of the Work of Specialists
 - Quality Control Standards



PCAOB Information and Activities

PCAOB
Public Company Accounting Oversight Board



Public Reports


- Staff Inspection Brief Vol. 2016/1: Preview of Observations from 2015 Inspections of Auditors of Issuers – April 2016
- Staff Inspection Brief Vol. 2016/2: Preview of Observations from 2015 Inspections of Auditors of Brokers and Dealers – April 2016
- Staff Inspection Brief Vol. 2016/3: Information about 2016 Inspections – July 2016
- Staff Inspection Brief Vol. 2016/4: Information about 2016 Inspections of Auditors of Brokers and Dealers – July 2016
- Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers - August 2016
- Staff Audit Practice Alert: Improper Alteration of Audit Documentation

Keeping Current with PCAOB Activities

- PCAOB website – <http://www.pcaobus.org>
 - Division of Registration and Inspections information, including final inspection reports
 - Office of the Chief Auditor
 - PCAOB standards and related rules, including interim standards
 - PCAOB proposed standards
 - Staff Questions and Answers
 - Staff Audit Practice Alerts
 - Standing Advisory Group
- Sign up for the PCAOB Updates service to receive a notification via e-mail that briefly describes significant new postings to our Web site at:
<http://pcaobus.org/About/Pages/Subscribe.aspx>



Questions



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