

PROTECTING  
INVESTORS



PCAEOB  
Public Company Accounting Oversight Board

2014 ANNUAL REPORT

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



The PCAOB performs its work for the benefit of investors through four program areas:

## REGISTRATION

Registration with the PCAOB is a fundamental requirement for accounting firms that perform or play certain roles in the audits of public companies, brokers and dealers. Registration subjects each firm to the oversight activities assigned to the PCAOB. At the end of 2014, there were 2,201 firms registered with the PCAOB, including 1,300 domestic firms and 901 non-U.S. firms located in 89 jurisdictions.



## INSPECTIONS

PCAOB inspections assess registered accounting firms' compliance with applicable laws, rules and professional standards in the portions of audits selected for inspection and in the firms' systems of quality control. In 2014, the PCAOB examined portions of more than 780 audits of public companies performed by 219 accounting firms. Under an interim inspection program, the PCAOB examined portions of 118 audits of brokers and dealers performed by 66 firms.



## STANDARDS

The PCAOB sets auditing and related professional practice standards to strengthen the reliability of audits for investors and other interested parties. In 2014, the PCAOB's standard-setting activities included the adoption of Auditing Standard No. 18, *Related Parties*; a public roundtable on the Board's proposal for a new auditor's reporting model; and the issuance of staff guidance for the auditors of brokers and dealers.



## ENFORCEMENT

The PCAOB uses its investigative authority to identify serious audit deficiencies that pose risks to investors and uses its disciplinary authority to impose sanctions and penalties for those deficiencies. In 2014, the PCAOB made public 24 settled disciplinary orders, revealing sanctions on auditors ranging from censures to monetary penalties to revocations of registration and bars on association with registered accounting firms.



# From the Chairman

Over the last 12 years, the PCAOB has built a robust and insightful auditor oversight program to promote high-quality, independent audits.

As a statutorily established institution, we have an overriding responsibility to serve the investing public by setting auditing and related professional practice standards, inspecting individual audits and firms' quality control systems against those standards and, when necessary, disciplining auditors and firms that fail to comply with them.

We use these programs to focus auditors on their role as the gatekeepers protecting investors, not just in an initial public offering, but in the quarters and years that follow.

To that end, 2014 was a busy year at the PCAOB. We pressed forward on many near- and long-term initiatives.

We issued staff audit practice alerts in critical areas of concern related to revenue recognition and the going concern assumption.

A new PCAOB standard on auditing related party and significant, unusual transactions was issued in 2014.

We also issued staff guidance for auditors of SEC-registered brokers and dealers on the SEC's amended Rule 17a-5 on broker-dealer filings and the PCAOB's related new attestation standards. The staff guidance reflects insights from our interim inspection program, about which we issued our third public report in August.

We held hearings to seek public comment on challenges in auditing fair value and other management estimates and potential improvements to the auditor's reporting model.

We held public meetings with our advisory groups on these and other topics, including audit quality indicators and fraud.

We also sought comment on an overall reorganization of our standards in order to make them more accessible to auditors and others who use them.

We are doing more in the way of outreach, especially to audit committees, with a view to help raise awareness of audit risks and challenges.

The Sarbanes-Oxley Act provided audit committees enhanced responsibility in the hiring, firing, compensating and oversight of the auditor. Next to establishing the PCAOB, this express authority may be the most significant of the Sarbanes-Oxley reforms.

To help audit committees to provide oversight of the audit, the PCAOB aims to better equip them with information about the audit process, our inspection reports and the auditor's strengths and weaknesses. We continue to seek ways to raise audit committee awareness of audit trends and risks.

I believe the profession has a bright future. Society's needs for assurance are expanding. At the same time, the profession faces both old and new challenges that will have to be dealt with to achieve that bright future.

The PCAOB is acutely focused on helping the profession build public confidence in the audit. Our work is fact-based, founded on what we learn in our oversight and in our outreach.

We've got to enhance the relevance and reliability of the audit, and that takes auditors fiercely committed to investor protection.

It is easy to focus on the burdens of being bonded to a rigorous, high quality system. For our part, the PCAOB spends

“I believe our work demonstrates that the PCAOB continues to be the essential oversight body that Congress envisioned.”



James R. Doty, *Chairman*

considerable time and effort considering these burdens, and how to minimize associated costs.

We have been considering economic impacts, including costs and benefits, for some time. But to advance this work further, in May 2014, the PCAOB released staff guidance on the use of economic analysis in PCAOB standard setting.

The guidance builds on the PCAOB’s existing rulemaking process by establishing an analytical framework for staff to evaluate the economic implications of standard-setting projects that are presented for Board consideration. It is a thoughtful process – dependent on facts, iterative analysis and debate – both deliberate and deliberative.

We also embarked on a much broader initiative to enhance the use of economic analysis throughout our programs by forming a Center for Economic Analysis. Through the Center, I hope to enlist top economic thinkers for economic research on the role of auditing in capital markets and capital formation to inform our work.

The Center is also working on several internal projects to help our programs use economic analysis and other empirical tools. They include developing a post-implementation review program to evaluate the effectiveness of new auditing and professional practice standards in promoting reliable audits.

We have been reviewing our processes, especially in light of our goal to understand and analyze the economic impact of any potential rulemaking. The staff consultation paper is one new tool in our processes.

The first staff consultation paper, on auditing estimates and fair value measures, was a vehicle to elicit meaningful information before the Board considered any potential rulemaking. We received dozens of comment letters, valuable insight for deciding how to move ahead. The paper also enabled a special meeting of our Standing Advisory Group to further explore the pros and cons of rulemaking in this critical area.

Re-evaluating our processes, like any good organization does, is a constructive effort. We should issue new rules only after thoughtful assessment of the need to improve audit quality and evaluating the economic impact of any rule-making. But once we decide that any such improvement is appropriate, we want the organization, from staff to Board, to be nimble in our execution.

I believe our work, summarized here and in the pages that follow, demonstrates that the PCAOB continues to be the essential oversight body that Congress envisioned and reflects our unflagging commitment to the core values that investors expect and deserve in audits: independence, integrity, accuracy, accountability and transparency.

A handwritten signature in black ink, appearing to read 'James R. Doty', written over a horizontal line.

**James R. Doty, Chairman**  
*Public Company Accounting Oversight Board*  
Washington, D.C.  
April 1, 2015

# REGISTRATION



No accounting firm may prepare or issue an audit report for a public company or an SEC-registered broker or dealer, or play certain roles in those audits, without being registered with the PCAOB.

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

In 2014, the Board considered and approved registration applications of 71 accounting firms, including 28 non-U.S. firms. The Board disapproved four registration applications, revoked the registration of eight firms and suspended the registration of two firms. During the year, 181 firms withdrew from registration.

At the end of 2014, there were 2,201 firms registered with the PCAOB, including 1,300 domestic firms and 901 non-U.S. firms located in 89 jurisdictions.

## Firms with More than 100 Public Company Audit Clients in 2013

*Inspected in 2014 by the PCAOB*

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

## Audit Reports per Registered Firm\*

*Reports for public companies and mutual funds as of Dec. 31, 2014 (used for planning 2015 inspections)*

	U.S.	Non-U.S.	Total
Firms that issued no issuer audit reports	895	707	1,602
Firms that issued audit reports for 1–5 issuers	241	144	385
Firms that issued audit reports for 6–10 issuers	58	26	84
Firms that issued audit reports for 11–25 issuers	51	16	67
Firms that issued audit reports for 26–50 issuers	33	4	37
Firms that issued audit reports for 51–100 issuers	12	4	16
Firms that issued audit reports for >100 issuers	10	0	10
<b>Totals</b>	<b>1,300</b>	<b>901</b>	<b>2,201</b>

*\*Includes opinions signed by firms with a registration status of Currently Registered, Withdrawal Pending and Registration Suspended as of Dec. 31, 2014.*

# INSPECTIONS



The PCAOB regularly inspects registered accounting firms that perform audits of public companies and other issuers. In 2014, the PCAOB inspected 219 such firms and examined portions of more than 780 audits.

The PCAOB also conducts an interim program of inspections of firms that audit brokers and dealers registered with the Securities and Exchange Commission. In 2014, the PCAOB inspected 66 firms, covering portions of 118 audits, and issued its third progress report on the interim inspections.

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

For firms that audit public companies and other issuers, the PCAOB prepares a report on each inspection and makes portions of each report publicly available, subject to statutory restrictions on public disclosure. In 2014, the PCAOB issued 258 reports on inspections of individual firms.

The PCAOB also issues general reports that are not firm-specific but provide information and analysis concerning specific audit issues or a summary and analysis of results from inspections of a specified category of firms over a particular period.

Inspection reports, whether firm-specific or general, are intended to drive improvement in audit quality among registered firms. They may also offer valuable insights for investors, audit committees and other users of audited financial statements.

With that benefit in mind, the Board continues its efforts to improve the timeliness, content and readability of inspection reports. Starting in 2014, deficiencies identified in the public portions of PCAOB inspection reports began to include references to specific PCAOB auditing standards.

## **Audits of Public Companies and Other Issuers**

Registered firms that issue audit reports for more than 100 public companies and other issuers are required to be inspected

annually. In 2014, the PCAOB inspected nine such firms. As part of these inspections, PCAOB inspectors examined portions of more than 310 audits performed by these firms.

Registered firms that issue audit reports for 100 or fewer issuers are, in general, inspected at least once every three years. At any time, the PCAOB may also inspect any other registered firm that plays a role in the audit of an issuer. The PCAOB inspected 210 firms in these categories in 2014, including 57 non-U.S. firms located in 23 jurisdictions. In the course of those inspections, PCAOB staff examined portions of more than 470 audits.

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

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

## **Quality Control Policies, Procedures and Practices**

Evaluation of a firm's system of quality control during inspections typically includes review of the design and implementation of policies, procedures and practices concerning audit performance, training and compliance with independence requirements, as well as client acceptance and retention.

Other areas reviewed may include the firm's "tone at the top" as it relates to audit quality; partner management, including evaluation, compensation, admission and discipline; use of the work performed by foreign affiliates; and the firm's self-monitoring of its practice through the firm's internal inspections and analyses of the underlying causes of, and responses to, identified weaknesses.

If an inspection report includes criticisms of or identifies potential defects in a firm's system of quality control, the Board is prohibited from publicly disclosing those criticisms if the firm addresses those criticisms to the Board's satisfaction within 12 months

of the issuance of the report. Any criticisms that a firm fails to address to the Board's satisfaction in that period are made public.

In 2014, the Board published portions of 23 inspection reports relating to quality control criticisms from prior year inspections that were not addressed to the Board's satisfaction.

### Broker or Dealer Audits per Registered Firm

*For Fiscal Years that Ended During 2013 (most recent year available)*

Number of Broker or Dealer Audits per Firm	Number of Firms
1	355
2 to 20	360
21 to 50	22
51 to 100	7
More than 100	6
<b>Total</b>	<b>750</b>

### Audits of Brokers and Dealers

On Aug. 18, 2014, the PCAOB released its third progress report on its interim inspection program for auditors of SEC-registered brokers and dealers. The report covered 2013 inspections of 60 firms and 90 audits of brokers and dealers and also summarized inspection findings from the inception of the interim inspection program through 2013.

In the 2013 inspections, the PCAOB identified audit deficiencies or independence findings at 56 of the 60 audit firms inspected, and in 71 of the 90 audits selected for inspection. In 21 of the 90 audits selected, it appeared to inspections staff that, contrary to the requirements of SEC independence rules, auditors were involved in the preparation of the financial statements they audited.

The most frequent audit deficiencies were noted in financial statement audit areas, including auditing revenue recognition, the auditor's response to the risk of material misstatement due to fraud and audit procedures to rely on records and reports from service organizations, as well as areas specific to the audits of brokers and dealers, including auditing the net capital computation and the audit work performed for the auditor's report on material inadequacies.

Since its inception through the end of 2013, the interim inspection program identified audit deficiencies or independence findings in portions of 151 of the 173 audits selected for inspection (87 percent). The 22 audits without observations came from 12 firms, of which 11 also audited public companies.

Independence findings were found in 45 of the 173 audits selected for inspection (26 percent). Inspection staff noted a significant portion of these findings, 89 percent, came from the firms that did not audit public companies or other issuers.

The interim program enables the Board to assess the compliance of registered firms and their associated persons conducting

audits of brokers and dealers with the Sarbanes-Oxley Act, PCAOB and SEC rules and professional standards. This program also helps inform the Board's eventual determinations about the scope and elements of a permanent inspection program. The interim inspection program to date has not included the issuance of firm-specific public inspection reports.

On July 30, 2013, the SEC approved amendments to Exchange Act Rule 17a-5 that affect certain annual reporting, audit and notification requirements for brokers and dealers. These amendments include the requirement that the audits of brokers and dealers be conducted in accordance with PCAOB standards for fiscal years ending on or after June 1, 2014.

Prior to the amendments, the audits of brokers or dealers—including those examined by the PCAOB through the end of 2013—were required to be conducted under generally accepted auditing standards issued by the American Institute of Certified Public Accountants.

In addition, PCAOB Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*; Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*; and Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements* were approved by the SEC Feb. 11, 2014, and became effective for audit and attestation engagements for fiscal years ending on or after June 1, 2014.

On June 26, 2014, the PCAOB released staff guidance to help auditors of SEC-registered brokers and dealers to plan and perform audits in accordance with PCAOB standards. The staff guidance highlights relevant requirements for SEC-registered broker or dealer audits and attestation engagements, and provides guidance on the application of PCAOB standards to these engagements, particularly for audits of smaller broker-dealers with less complex operations. In addition, the publication highlights some of the significant provisions of Exchange Act Rule 17a-5 and PCAOB standards and rules applicable to audits of brokers and dealers.

To provide additional information about standards, independence rules and inspections to auditors of brokers and dealers, the PCAOB hosted four public forums in 2014, drawing 673 participants. Staff of the SEC and the Financial Industry Regulatory Authority also participated in the forums.

During 2014, the PCAOB performed inspections at five registered public accounting firms covering portions of five audit and attestation engagements of brokers and dealers that were required to be conducted for the first time in accordance with PCAOB standards. Inspections staff observed deficiencies in all five of the audits included in these inspections and in four of the five attestation engagements. On Jan. 28, 2015, the Board issued a report summarizing these inspection findings and reminding firms of the recent changes to applicable auditing standards.



# INTERNATIONAL OVERSIGHT

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

The PCAOB has conducted inspections in 44 non-U.S. jurisdictions since non-U.S. inspections began in 2005. In many jurisdictions, the PCAOB is able to conduct inspections without having to enter into a cooperative agreement with the local audit regulator; however, in a number of jurisdictions, such as the European Union member states, such cooperative agreements are a prerequisite for carrying out inspections of PCAOB-registered auditors from those jurisdictions.

The PCAOB announced cooperative agreements with audit oversight authorities in Sweden and Denmark in March 2014 and July 2014, respectively, bringing the total number of cooperative agreements reached with non-U.S. auditor oversight authorities to 18. The PCAOB also made significant progress on such agreements with authorities in a considerable number of other jurisdictions in the European Union and elsewhere. The PCAOB expects to conclude a number of these agreements in 2015.

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

The PCAOB in 2014 remained unable to conduct inspections of registered firms in certain European Union member states and China, due to asserted restrictions under local law or objections based on national sovereignty. Due to the position taken by the authorities in China, the PCAOB also was prevented from conducting inspections in 2014 of any registered firm in Hong Kong and one firm each in Singapore and Taiwan to the extent that their audit clients had operations in China.

The PCAOB continued discussions in 2014 with the China Securities Regulatory Commission and China's Ministry of Finance regarding inspections of PCAOB-registered audit firms based in China that audit Chinese companies listed on U.S. exchanges or the Chinese operations of U.S. companies listed on U.S. exchanges. As of Dec. 31, 2014, 91 audit firms in China were registered with the PCAOB, including 45 audit firms in Hong Kong. In addition to a number of bilateral meetings between the staffs of the PCAOB, CSRC and MOF, PCAOB

Chairman James R. Doty participated in the U.S.-China Strategic and Economic Dialogue in Beijing in July 2014.

## **International Outreach**

In November 2014, the PCAOB convened its eighth International Auditor Regulatory Institute, drawing more than 60 representatives from auditor oversight bodies and government agencies in 30 non-U.S. jurisdictions and five international organizations. The Institute provides attendees the opportunity to enhance cross-border cooperation while sharing ideas and strategies for successful audit oversight.

In addition to updates on PCAOB activities from a panel of Board members and from PCAOB staff, the institute included panel discussions of the use of the audit in combating global corruption; internal controls over financial reporting; issues facing regulators in small and/or emerging markets, initiatives to improve audit quality; and the auditor reporting model.

A panel of investor representatives from the United States and the U.K. focused on what audit regulators can do to enhance investor protection.

In 2014, the PCAOB continued its leadership roles with the International Forum of Independent Audit Regulators (IFIAR). Composed of 51 independent audit regulators from around the world, IFIAR was formed in September 2006 to provide a forum for regulators to share knowledge of the audit market environment and the practical experience gained from their independent audit regulatory activity.

Board member Lewis H. Ferguson continued his term as Chair of IFIAR, and Board member Steven B. Harris continued as Chair of IFIAR's Investor and Other Stakeholders Working Group. Claudius Modesti, Director of the PCAOB's Division of Enforcement and Investigations, served as Vice-Chair of IFIAR's Enforcement Working Group.

In April 2014, the PCAOB hosted the plenary meeting of IFIAR in Washington, D.C., drawing delegates from more than 40 independent audit regulators around the world. Discussion topics included audit quality indicators; risk assessment; and the economic model of audit firm networks.

The PCAOB continued its efforts in 2014 to monitor the activities of various international professional bodies that develop professional standards for auditors. The PCAOB served as an observer to three consultative advisory groups of certain standard-setting boards affiliated with the International Federation of Accountants: the International Auditing and Assurance Standards Board, the International Ethics Standards Board for Accountants and the International Accounting Education Standards Board.

## Number of Registered Public Accounting Firms by Jurisdiction

(as of Dec. 31, 2014)

Jurisdiction	Number of Registered Firms
United States	1,300
China*	91
India	66
United Kingdom**	55
Australia	43
Canada	41
Germany	40
France	27
Mexico, Singapore	23 each
Peru	21
Netherlands	20
Chile	19
Spain, Turkey	18 each
Argentina, Brazil, Israel	17 each
Russian Federation	16
Japan, Malaysia	15 each
Italy	14
Ireland, Republic of Korea, South Africa, Taiwan	13 each
Belgium	11
Colombia, New Zealand	10 each
Sweden, United Arab Emirates	9 each
Indonesia, Philippines, Ukraine	8 each
Cayman Island, Poland, Switzerland, Venezuela	7 each
Austria, Czech Republic, Greece, Hungary, Pakistan,	6 each
Costa Rica, Denmark, Finland, Norway, Portugal	5 each
Bermuda, Luxembourg, Nigeria, Panama, Thailand, Uruguay, Vietnam	4 each
Bahamas, Bolivia, Egypt, Kazakhstan, Paraguay, Romania, Saudi Arabia	3 each
Bahrain, Barbados, Dominican Republic, Iceland	2 each
Armenia, Belize, Croatia, Curacao, Cyprus, Ecuador, El Salvador, Estonia, Ghana, Guatemala, Haiti, Jamaica, Kuwait, Libya, Malta, Mauritius, Papua New Guinea, Slovakia, Tanzania, Tunisia	1 each
<b>Total</b>	<b>2,201</b>

\*The number of registered firms in China includes 45 firms located in Hong Kong.

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

# CENTER FOR ECONOMIC ANALYSIS

The Center for Economic Analysis began operations in 2014 to study and advise the Board and staff on the role of the audit in capital formation and investor protection as well as the effect of potential PCAOB actions intended to enhance the relevance and reliability of audits to better serve financial markets.

The Center is intended to render advice on how economic theory and analysis can be used and further developed to enhance the effectiveness of PCAOB programs; support economic analysis in standard setting; foster economic research on audit-related topics, including the role and relevance of the audit in capital markets; and develop empirical tools for use in the PCAOB's oversight programs.

During 2014, the Center led efforts to more effectively access data collected during inspections for internal programmatic use and economic research. It also supported the work of the Office of Research and Analysis on developing audit quality indicators.

On Feb. 27, 2014, the PCAOB announced economic research fellowships for the 2014-2015 academic year. Two researchers joined the Center during September as part of the first cohort of

economic research fellows. The call for fellows for the 2015–2016 academic year was made Oct. 14, 2014. Up to four fellows will be chosen each academic year from candidates with an active interest in auditing, the capital markets and regulatory oversight matters to conduct research within the Center for Economic Analysis.

In parallel, the Center established an Inspections Fellowship Program to offer experienced staff from the PCAOB's Division of Registration and Inspections the opportunity to interact with economic research fellows, sharing their knowledge of auditing while learning and developing new skills. During the fall of 2014, two inspections fellows were selected and joined the Center.

On Oct. 27, 2014, the center, in conjunction with the *Journal of Accounting Research*, hosted an economic conference on auditing and capital markets. The conference, held in Washington, D.C., was attended by more than 120 researchers from around the world.

Six working papers were selected from more than 80 submissions, based on a double-blind review conducted with a panel of editors of the *Journal* and other academic experts.

# OFFICE OF RESEARCH AND ANALYSIS

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

Specifically, the office analyzes risks within industries, markets and the economy for consideration in the selection of audits for inspection by the PCAOB. The office also analyzes historical and emerging audit risks and trends for consideration in inspections and standard setting.

The office is leading a project on the creation and usage of a set of potential audit quality gauges, referred to as "audit quality indicators." The project reflects a premise that identifying measures for analyzing key aspects behind the quality of public company auditing can provide additional insight for audit committees, investors and others and thus encourage audit firms to compete on the basis of audit quality. Such measures can also inform the Board's policy and inspection decisions, aid work of other regulators and assist audit firms in quality control efforts.

## Transparency of non-U.S. Auditor Oversight and Audit Risks

The Board makes public on its website:

- A list of registered non-U.S. firms that have not yet been inspected by the PCAOB even though four or more years have passed since issuance of an audit report while registered.
- A list of U.S.-traded companies whose financial statements were audited by registered firms not inspected by the PCAOB because they were in jurisdictions where the PCAOB was denied access to conduct inspections.
- An updated list of the jurisdictions in which the Board has conducted inspections of registered non-U.S. firms.

# STANDARDS



Developing and maintaining high-quality auditing and related professional practice standards is a key priority of the PCAOB.

In 2014, the PCAOB's standard-setting activities included the adoption of Auditing Standard No. 18, *Related Parties*; a supplemental request for comment regarding the reorganization of PCAOB auditing standards; a public roundtable on the Board's proposal for a new auditor's reporting model; and the issuance of staff guidance to help auditors of brokers and dealers who are new to PCAOB standards plan and perform audits.

The PCAOB issued two staff audit practice alerts on important areas of the audit (auditing revenue and the auditor's consideration of a company's ability to continue as a going concern) and issued a staff consultation paper to obtain data and views on possible changes to the Board's standards on the auditing of accounting estimates, including fair value estimates.

## **Standard-Setting Process**

The PCAOB's standard-setting agenda is determined based on consideration of the results of the oversight of registered public accounting firms; monitoring of the economic environment; consultation with the Board's Standing Advisory Group; input from the Board's Investor Advisory Group; discussion with the Securities and Exchange Commission; and other factors.

The PCAOB's standard-setting process also takes into consideration the work of other standard setters, including the Financial Accounting Standards Board, International Accounting Standards Board, and International Auditing and Assurance Standards Board.

The development of new or modified auditing standards reflects economic considerations, including the potential costs and benefits of new requirements. As part of the process, the PCAOB assesses whether new standards should apply to audits of "emerging growth companies," as those are defined in the Jumpstart Our Business Startups Act.

The PCAOB updates its standard-setting agenda quarterly to alert the public regarding the matters on the Board's schedule for consideration.

## **Economic Considerations Relating to PCAOB Standards**

On May 15, 2014, the PCAOB released its Staff Guidance on Economic Analysis in PCAOB Standard Setting to provide guidance to PCAOB staff involved in rulemaking. It sets forth four main elements of economic analysis of regulation: (1) the need for the rule; (2) the baseline for measuring the rule impacts; (3) the alternatives considered; and (4) the economic impacts of the rule (and alternatives), including the benefits and costs.

The guidance allows for the analysis to be adapted to the specific needs of any particular standard-setting project and, in part, formalizes practices the PCAOB had already begun to implement.

## **ADOPTED STANDARDS, AMENDMENTS AND RULES**

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

## **Related Parties**

On June 10, 2014, the Board adopted a new auditing standard and amendments to other auditing standards to strengthen auditor performance requirements in three critical areas of the audit: related party transactions, significant unusual transactions and a company's financial relationships and transactions with its executive officers. Auditing Standard No. 18, *Related Parties*, requires specific audit procedures for the auditor's evaluation of a company's identification of, accounting for and

disclosure of transactions and relationships between a company and its related parties. The new standard supersedes the Board's interim auditing standard, AU sec. 334, *Related Parties*.

The Board also adopted amendments regarding significant unusual transactions, including specific audit procedures that are designed to improve the auditor's identification and evaluation of such transactions and to enhance the auditor's understanding of their business purposes.

Additional amendments include specific audit procedures requiring the auditor to obtain, during the risk assessment process, an understanding of a company's financial relationships and transactions with its executive officers.

The new standard and amendments were approved Oct. 21, 2014, by the SEC and became effective for audits of financial statements for fiscal years beginning on or after Dec. 15, 2014, including reviews of interim financial information within these fiscal years.

### **Audits of Brokers and Dealers**

On Oct. 10, 2013, the Board adopted Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*; Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*; and Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*. The standards and related amendments were approved by the SEC Feb. 11, 2014, and became effective for audit and attestation engagements for fiscal years ending on or after June 1, 2014.

On June 26, 2014, the PCAOB released staff guidance to help auditors of SEC-registered brokers and dealers to plan and perform audits in accordance with PCAOB standards. The staff guidance highlights relevant requirements for SEC-registered broker or dealer audits and attestation engagements, and provides guidance on the application of PCAOB standards to these engagements, particularly for audits of smaller broker-dealers with less complex operations. Additionally, the publication highlights some of the significant provisions of Exchange Act Rule 17a-5 and PCAOB standards and rules applicable to audits of brokers and dealers.

### **Framework for Reorganization of PCAOB Auditing Standards**

On March 31, 2015, the Board adopted a reorganization of PCAOB auditing standards based on a framework originally proposed in March 2013.

PCAOB auditing standards previously consisted of two types of authoritative auditing standards: (i) standards originally issued by the Auditing Standards Board of the American Institute of Certified Public Accountants and adopted by the Board on

an interim, transitional basis in April 2003 and (ii) standards issued by the Board.

The reorganization is intended to present both types of standards together in a logical order that generally follows the flow of how one conducts an audit. The reorganization also is intended to help users navigate the standards more easily.

## **PROPOSED STANDARDS, AMENDMENTS AND RULES**

### **Auditor's Reporting Model**

The Board held a public meeting on April 2–3, 2014, to discuss the Board's two proposed two auditing standards and related amendments on the auditor's report and the auditor's responsibilities regarding other information in certain documents containing audited financial statements. The proposed changes would provide additional information to investors and other financial statement users regarding the audit and the auditor.

The public meeting included 10 panels representing investors, public company executives and board members, auditors and regulators. Panel discussion topics included critical audit matters related to audits of both large and small companies; auditor tenure and other basic elements of the auditor's report; auditor responsibilities for other information outside the financial statements; considerations specific to investment companies and brokers and dealers; and international developments on the auditor's report, including specific experiences in the U.K. The PCAOB staff is analyzing the comments received on the proposal and at the public meeting and is drafting a reproposal for the Board's consideration.

### **STAFF AUDIT PRACTICE ALERTS**

Staff audit practice alerts highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws.

PCAOB inspections staff continue to observe frequently significant audit deficiencies in which auditors did not perform sufficient auditing procedures with respect to revenue. In light of the inspections observations, on Sept. 9, 2014, the PCAOB issued Staff Audit Practice Alert No. 12, *Matters Related to Auditing Revenue in an Audit of Financial Statements*, which discusses the application of certain requirements in PCAOB standards when auditing revenue.

Changes to U.S. generally accepted accounting principles prompted the issuance on Sept. 22, 2014, of Staff Audit Practice Alert No. 13, *Matters Related to the Auditor's Consideration of a Company's Ability to Continue as a Going Concern*, to remind

auditors to continue to follow existing PCAOB standards when evaluating a company's ability to continue as a going concern.

### **FUTURE STANDARD SETTING**

The PCAOB regularly assesses the need for new standards or amendments to existing standards and updates its plans for addressing those areas. Among the areas under consideration are:

**Auditing Accounting Estimates, Including Fair Value Measurements and Related Disclosures.** On Aug. 19, 2014, the PCAOB issued for public comment a staff consultation paper on standard-setting activities related to auditing accounting estimates and fair value measurements.

The staff sought comment on current audit practice, the potential need for changes to PCAOB standards and possible alternative actions related to auditing accounting estimates and fair value measurements, as well as derivative instruments and securities.

The issues have been discussed on numerous occasions with the Standing Advisory Group, including a special SAG meeting Oct. 2, 2014. The staff consultation paper advances those discussions by describing the staff's preliminary views on a potential approach to changing the PCAOB's existing standards and seeking views and other information on that approach.

**Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits.** On Dec. 4, 2013, the Board repropoed amendments to its auditing standards that would increase the transparency of audits by requiring (1) disclosure in the auditor's report of the name of the engagement partner and (2) disclosure in the auditor's report of the names, locations and extent of participation of certain other independent public accounting firms that took part in the audit and the locations and extent of participation of certain other persons not employed by the auditor that took part in the audit. PCAOB staff is drafting for the Board's consideration a supplemental request for comment that takes into account comments received on the reproposal, including comments related to liability and an alternative location for the disclosure, such as a reporting form filed with the PCAOB.

**Supervision of Other Auditors and Multi-location Audit Engagements.** The roles of other accounting firms and individual accountants in audits (collectively, "other auditors") have taken on greater significance with the increasingly global operations of companies. The lead auditor often involves other auditors at various locations of the company in areas of high risk of material misstatement in the financial statements. The staff is drafting, for the Board's consideration, a proposal that would address this need by improving the auditing standards that

govern the planning, supervision and other aspects of audits involving other auditors and multi-location audit engagements.

**Use of Specialists.** The role of specialists continues to take on greater significance in audits due to the increased number of accounting estimates, including fair value measurements, in financial statements. Further, companies are increasingly using the work of specialists in high-risk areas of the financial statements. Observations from the Board's oversight activities indicate, among other things, a need for improvement in audit procedures performed by the auditor with respect to specialists. The staff plans to issue a staff consultation paper to seek public comment on certain matters related to the use of specialists, including key potential audit requirements.

**Going Concern.** The auditor's evaluation of a company's ability to continue as a going concern is an important part of an audit under PCAOB standards and the federal securities laws. The staff is currently evaluating potential revisions to the existing PCAOB standard on the auditor's going concern evaluation in light of changes in the relevant accounting requirements and concerns raised by investors and others regarding the effectiveness of the auditor's going concern evaluations and reporting. The staff is developing a consultation paper, based on considerations raised by input from the IAG and the SAG, as well as academic research. Through the issuance of the staff consultation paper, the staff plans to seek public comment on potential approaches to update and improve the performance and reporting requirements in the existing standard.

**Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities.** The PCAOB's inspection staff routinely identifies audit deficiencies that should have been detected and remedied before the audit report was issued. Improvements of the firms' systems of quality control could have significant potential to improve audit quality by not only detecting more audit deficiencies prior to the issuance of the audit report, but also by preventing and deterring the occurrence of many such deficiencies. The staff is exploring whether changes to PCAOB standards—including improvements related to assignment and documentation of firm supervisory responsibilities—could prompt firms to improve their systems of quality control. This project is considering academic research, input from the SAG, observations from the Board's oversight activities and activities of international audit regulators, as well as feedback from other PCAOB outreach efforts. As a result, the staff is developing a staff consultation paper to seek public comment on approaches to improving the quality control standards and their potential specific impacts on large and small domestic and international firms.

# ADVISORY GROUPS

The Sarbanes-Oxley Act authorizes the Board to convene expert advisory groups “to make recommendations concerning the content (including proposed drafts) of auditing, quality control, ethics, independence or other standards....”

Under that authority, the Board created the Standing Advisory Group in June 2003 and the Investor Advisory Group in July 2009.

## **Standing Advisory Group**

Members of the SAG provide views and advise the PCAOB on the development of auditing and related professional practice standards and on other aspects of the Board’s programs. The advisory group includes experts in the fields of accounting, auditing, financial reporting, corporate finance and corporate governance, as well as experts on investment in public companies.

Three SAG meetings were held in 2014. Briefing papers and presentations for SAG meetings are available on the PCAOB’s website.

At its June 24–25, 2014, meeting, the SAG received updates on PCAOB developments and the standard-setting agenda and provided input on three PCAOB initiatives to improve audit quality: an analysis of the underlying causes of audit deficiencies, referred to as the root cause analysis project; the development of audit quality indicators—a portfolio of measures of audit quality that may provide information and tools to generate greater insight into audit quality; and enhancements to PCAOB quality control standards.

The SAG meeting also included a discussion of FASB’s accounting standards update on disclosure of uncertainties about an entity’s ability to continue as a going concern and its potential effects on audits; a panel discussion regarding FASB’s recently adopted standard on the recognition of revenue from

contracts with customers and related audit considerations; as well as cybersecurity issues and their potential implications for financial reporting and auditing.

At the Oct. 2, 2014, SAG meeting, panelists discussed the staff consultation paper on the potential need for changes to PCAOB standards for auditing accounting estimates and fair value measurements. Panelists included investors, auditors, academics, valuation experts and other standard setters.

At its Nov. 19–20, 2014, meeting, the SAG participated in panel discussions on the auditor’s responsibilities for fraud, including discussions of auditor incentives and behavior-related considerations regarding fraud detection; lessons learned from other disciplines; and auditor knowledge and skills regarding fraud detection.

SAG members also received updates on PCAOB developments, including the comments received on the staff consultation paper on auditing accounting estimates and fair value measurements and the staff practice alert regarding revenue recognition.

## **Investor Advisory Group**

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

The IAG met Oct. 20, 2014, and provided input from its working groups on the audit firm business model and incentives; how to improve audit quality and the relevancy of the audit; the auditor’s relationship to and role with the audit committee.

Reports, briefing papers and a transcript of the IAG meetings are available on the PCAOB’s website.

# OUTREACH

Dialogue with outside groups—including investors, auditors, students and audit committees—is a priority for the PCAOB. Such interaction allows the Board and staff of the PCAOB to both provide and receive information that can lead to improvements in auditor oversight and investor protection.

In 2014, the PCAOB announced a new webinar initiative to reach stakeholders on important, time-sensitive issues and to make receiving PCAOB updates more efficient and cost-effective for auditors, investors, audit committee members and others. The first webinars, for smaller auditors of brokers and dealers, were held Jan. 14 and 15, 2015. At least 325 people participated in the webinars.

## **Forums on Small Business and Broker-Dealer Auditing**

In 2014, the PCAOB Forums on Auditing in the Small Business Environment reached their 10th anniversary. During the first 10 years, cumulative attendance at these forums reached about 6,350. These forums have provided, and continue to provide, the opportunity for smaller firm auditors to learn about the Board's recent actions, to interact with PCAOB Board members and staff, and to provide feedback to the PCAOB.

In 2014, the Board hosted seven day-long small business forums which were attended by 779 participants. These forums were held in Dallas, Chicago, New York, Vancouver, Atlanta, Miami and Las Vegas. Staff of the Securities and Exchange Commission also participated in the small business forums.

The PCAOB also hosted four broker-dealer forums in 2014, drawing 673 participants to Chicago, Jersey City, Miami and Las Vegas. The broker-dealer forums have been held for four years with a total attendance of 2,034. These forums provide attendees with updates on findings from the PCAOB's interim inspection program and also updates on auditing standards applicable to auditors of smaller broker-dealers. Staff of the SEC and the Financial Industry Regulatory Authority also participated in the broker-dealer forums.

## **PCAOB/AAA Annual Meeting**

In April 2014, the PCAOB hosted its 10th annual meeting with members of the academic community, planned jointly by the staff of the PCAOB and the staff of the Auditing Section of the American Accounting Association, whose mission is to foster excellence in the teaching, research and practice of auditing and assurance services.

The PCAOB/AAA Annual Meeting, previously known as the Academic Conference, provides an opportunity for the

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

The meeting was attended by 85 members of the academic community, as well as Board members and staff from the PCAOB and representatives of the SEC, the Financial Accounting Standards Board, the Government Accountability Office and the Canadian Public Accountability Board.

## **Encouraging Future Auditors**

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

In 2014, the PCAOB awarded \$10,000 each to 102 students across the U.S. who demonstrated an interest and aptitude in accounting and auditing and also demonstrated high ethical standards.

The PCAOB also hosted numerous groups of students in its offices in 2014. Board members and PCAOB staff made presentations to students and faculty in accounting and related academic programs at colleges and universities throughout the United States. In addition, 44 students served internships in PCAOB offices in Washington, D.C., and New York in 2014.

## **Audit Committee Outreach**

Consistent with the Board's priority to enhance its outreach to members of audit committees of publicly traded companies, Board members in 2014 participated individually and in groups in a variety of meetings with chairs and members of audit committees. In light of the shared objective to enhance audit quality, the meetings were intended to provide audit committees with information about Board activities and perspective and elicit questions and feedback from audit committee members.

## **Participation in Other Forums**

The PCAOB participated in a variety of forums and conferences in 2014 to provide information and obtain feedback about the PCAOB's standards and other initiatives. Audiences for these events included investors, auditors, issuers, audit committee members and other regulators.

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



# ENFORCEMENT



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

In each enforcement case in which litigation is initiated, the PCAOB is prohibited by the Sarbanes-Oxley Act from publicly disclosing the allegations and proceedings unless the Board finds good cause to make them public and all parties consent to open them to the public. The PCAOB's Division of Enforcement and Investigations routinely seeks the consent of the parties to litigated disciplinary proceedings to make the proceedings public. To date, no party has provided such consent.

Even after the PCAOB's hearing officer issues an initial ruling that the alleged violations occurred, and the Board has acted on an appeal, if any, the matter may still remain unknown to the public at least until the case is appealed to the Securities and Exchange Commission or the opportunity for SEC review has passed.

As a result, for substantial periods, investors are unaware that companies in which they may have invested are being audited by accountants who have been charged, or even sanctioned, by the Board. As of Dec. 31, 2014, Board disciplinary proceedings involving formal allegations of misconduct involving 16 firms and individual auditors were pending but could not be publicly disclosed by the Board because of the statutory restriction.

The Board made public 24 settled disciplinary orders in 2014, imposing sanctions on auditors ranging from censures to monetary penalties to revocations of a firm's registration and bars on an individual's association with registered accounting firms. One of these proceedings involved alleged violations of the antifraud provisions of the Securities Exchange Act of 1934. Eleven of the settlements occurred after the PCAOB had initiated nonpublic disciplinary proceedings; the remaining 13 cases were initiated and settled concurrently.

In all of the settled proceedings, the firms and the associated persons neither admitted nor denied the Board's findings.

The final outcome in one adjudicated disciplinary proceeding was also made public in 2014. This proceeding resulted in a permanent revocation of a firm's registration and the imposition of a \$10,000 penalty.

## Summary of 2014 PCAOB Disciplinary Orders

Date	Firm or Individual	Nature of Primary Violation	Sanctions and Notes
<b>Settled Disciplinary Orders</b>			
<b>Orders Related to Performance of Audits of Issuers</b>			
Feb. 13, 2014	PCAOB Release No. 105-2014-001 Labrozzi & Co., P.A. and Douglas A. Labrozzi, CPA Miami, Fla.	<p>Repeated failures to cooperate in a Board investigation and violations of audit documentation standards. The firm and Labrozzi failed to produce documents in response to formal investigative demands until after the Board instituted disciplinary proceedings against them.</p> <p>Labrozzi refused to appear for testimony in response to a formal investigative demand until after the Board instituted disciplinary proceedings against him.</p> <p>The firm and Labrozzi added, altered and backdated audit documentation for three audits before providing this documentation to Board staff in connection with a formal investigation.</p>	Firm: Revocation of registration; censure Individual: Bar; censure
Mar 6, 2014	PCAOB Release No. 105-2014-002 Patrick Rodgers, CPA, PA and Patrick E. Rodgers, CPA Altamonte Springs, Fla.	<p>Repeated failures to comply with PCAOB rules and auditing standards in connection with four audits of one issuer.</p> <p>Repeated failures to perform any audit procedures to determine whether payments and stock issuances were related party transactions, despite being aware of information indicating that these payments and stock issuances were being made to, or on behalf of, officers of the issuer.</p>	Firm: Revocation of registration with right to reapply after two years; censure Individual: Bar (with right to petition for consent to associate after two years); censure
May 6, 2014	PCAOB Release No. 105-2014-003 Berman W. Martinez y Asociados and Berman W. Martinez Managua, Nicaragua	<p>Numerous and repeated violations of federal securities laws and PCAOB rules and auditing standards in connection with three audits of one issuer. Falsely stated that audits had been conducted in accordance with PCAOB standards.</p> <p>Failure to establish and implement sufficient quality control policies and procedures. Individual substantially contributed to the firm's violations of PCAOB quality control standards.</p> <p>Failure to file an annual report with the PCAOB and pay an annual fee to the PCAOB (2013).</p>	Firm: Revocation of registration; censure Individual: Bar; censure
May 6, 2014	PCAOB Release No. 105-2014-004 Henry Mendoza, CPA San Clemente, Calif.	<p>Repeated failures to cooperate in a Board inspection and violation of audit documentation standards by managing partner of firm. Mendoza directed staff to alter, add to and backdate work papers provided to Board staff in connection with an inspection.</p> <p>Failure to cooperate in a Board investigation by Mendoza directing firm staff to provide misleading work papers to Board staff in connection with a formal investigation.</p>	Bar (with right to petition for consent to associate after five years); censure

Date	Firm or Individual	Nature of Primary Violation	Sanctions and Notes
<b>Settled Disciplinary Orders</b> <b>Orders Related to Performance of Audits of Issuers</b>			
May 6, 2014	PCAOB Release No. 105-2014-005 Jeffrey & Company and Robert G. Jeffrey, CPA Wayne, N.J.	Repeated violations of independence provisions of securities laws and PCAOB rules and standards in connection with the audits of three issuers.  Failure to be independent with respect to the audits of two issuers by Jeffrey serving as the lead audit partner for more than five consecutive years. Failure to be independent with respect to the audit of a third issuer by Jeffrey serving as the lead audit partner during the five consecutive year period after Jeffrey finished serving as the lead audit partner for the maximum permitted period of time. Individual substantially contributed to the firm's violations.	Firm: Revocation of registration with right to reapply after three years; censure  Individual: Bar (with right to petition for consent to associate after three years); censure
May 6, 2014	PCAOB Release No. 105-2014-006 Paul W. Marchant, CPA Wayne, N.J.	Failure to cooperate in a Board investigation and violation of audit documentation standards by improperly altering and creating audit documentation, and providing this audit documentation to Board staff in connection with a formal investigation.  False investigative testimony by Marchant that audit documentation was created at the time of the underlying audits.	Bar (with right to petition for consent to associate after three years); censure
July 7, 2014	PCAOB Release No. 105-2014-007 Randall A. Stone, CPA Austin, Texas	Violations of PCAOB rules and auditing standards by former partner of PricewaterhouseCoopers LLP in connection with issuer audit. Stone ignored or failed properly to address numerous indicators of improperly recognized revenue in significant, unusual transactions with one of the issuer's largest distributors. Violations of PCAOB rules and auditing standards in auditing accounting for acquisition of distributor.  Violations of PCAOB rules and auditing standards by failing to complete a reasonable subsequent events investigation before authorizing PwC to consent to the issuer incorporating a previously issued audit report with a registration statement filed with the SEC.	Bar (with right to petition for consent to associate after three years); \$50,000 penalty; censure
Dec. 17, 2014	PCAOB Release No. 105-2014-024 Akiyo Yoshida, CPA Tokyo, Japan	Multiple violations of PCAOB rules and auditing standards by the partner responsible for auditing the Japanese subsidiary of an issuer. The subsidiary's revenue was material to the consolidated financial statements of the issuer. Failures compromised the ability of the audit to detect improperly accelerated sales.  Multiple failures to take sufficient audit steps in consideration of known risks of material misstatement. Multiple failures to take sufficient audit steps in consideration of the results of audit testing, which indicated that the Japanese subsidiary may have been improperly accelerating revenue recognition for equipment sales.	Suspension from associating with registered firms for one year, followed by a limitation on activities for one year; required completion of professional education courses; censure

Summary of 2014 PCAOB Disciplinary Orders *continued*

<b>Date</b>	<b>Firm or Individual</b>	<b>Nature of Primary Violation</b>	<b>Sanctions and Notes</b>
<b>Adjudicated Disciplinary Orders</b>			
June 18, 2014	PCAOB Release No. 105-2013-006 P.S. Yap & Associates Malaysia	Failure to file annual reports with the PCAOB and pay annual fees to the PCAOB (2010–2013).	Permanent revocation of registration; \$10,000 penalty  Respondent failed to appear in proceeding.
<b>Orders Relating to Non-Compliance with Annual Reporting and Fee Requirements</b>			
Nov. 4, 2014	PCAOB Release No. 105-2014-008 BeachFleischman PC Tucson, Ariz.	Failure to timely file annual reports with the PCAOB and timely pay annual fees to the PCAOB (2013–2014).	\$1,000 penalty; censure
Nov. 4, 2014	PCAOB Release No. 105-2014-009 Reginald G. Campos, CPA, P.C. Hurricane, Utah	Failure to timely file annual reports with the PCAOB and pay annual fees to the PCAOB (2010–2014).	Revocation of registration; censure
Nov. 4, 2014	PCAOB Release No. 105-2014-010 Carney, Delplato LLC West Orange, N.J.	Failure to timely file annual reports with the PCAOB and timely pay annual fees to the PCAOB (2010–2014).	\$3,000 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-011 Appelrouth, Farah & Co., P.A. Coral Gables, Fla.	Failure to timely file annual reports with the PCAOB (2013–2014).	Suspension of registration for one year; \$1,000 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-012 Iftikhar A. Dar, CPA Valley Stream, N.Y.	Failure to timely file annual reports with the PCAOB (2012–2014) and timely pay annual fee to the PCAOB (2014).	\$1,000 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-013 Riley and Company PLLC Houston, Texas	Failure to timely file annual reports with the PCAOB and timely pay annual fees to the PCAOB (2013–2014).	\$1,000 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-014 Southwest CPA, LLC Bradenton, Fla.	Failure to timely file annual reports with the PCAOB and pay annual fees to the PCAOB (2012–2014).	Revocation of registration; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-015 Timpson Garcia, LLP Oakland, Calif.	Failure to timely file annual reports with the PCAOB (2012–2014).	Suspension of registration for one year; \$1,000 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-016 Walker & Associates, CPA, PA Charlotte, N.C.	Failure to timely file annual reports with the PCAOB and pay annual fees to the PCAOB (2013–2014).	Revocation of registration; censure

<b>Date</b>	<b>Firm or Individual</b>	<b>Nature of Primary Violation</b>	<b>Sanctions and Notes</b>
<b>Orders Relating to Audits of Brokers and Dealers</b>			
Dec. 8, 2014	PCAOB Release No. 105-2014-017 Alexander Thompson Arnold PLLC Tennessee and Kentucky	Violation of SEC independence criteria by preparing financial statements for a registered broker-dealer audit client, auditing the financial statements and issuing an audit report on the financial statements.	Required remedial measures to ensure compliance with independence criteria; \$2,500 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-018 Dean Dorton Allen Ford, PLLC Lexington and Louisville, Ky.	Violation of SEC independence criteria by preparing financial statements for a registered broker-dealer audit client, auditing the financial statements and issuing an audit report on the financial statements.	Required remedial measures to ensure compliance with independence criteria; \$2,500 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-019 Goldman & Company CPAs P.C. Marietta, Ga.	Violation of SEC independence criteria by preparing financial statements for a registered broker-dealer audit client, auditing the financial statements and issuing an audit report on the financial statements.	Required remedial measures to ensure compliance with independence criteria; \$2,500 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-020 Lederman Zeidler Gray & Co., LLP Beverly Hills, Calif.	Violation of SEC independence criteria by preparing financial statements for a registered broker-dealer audit client, auditing the financial statements and issuing an audit report on the financial statements.	Required remedial measures to ensure compliance with independence criteria; \$2,500 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-021 Leonard Rosen & Company, P.C. New York, N.Y.	Violation of SEC independence criteria by preparing financial statements for a registered broker-dealer audit client, auditing the financial statements and issuing an audit report on the financial statements.	Required remedial measures to ensure compliance with independence criteria; \$2,500 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-022 Raines and Fischer LLP New York, N.Y.	Violation of SEC independence criteria by preparing portions of financial statements for a registered broker-dealer audit client, auditing the financial statements and issuing an audit report on the financial statements	Required remedial measures to ensure compliance with independence criteria; \$2,500 penalty; censure
Dec. 8, 2014	PCAOB Release No. 105-2014-023 Raphael and Raphael LLP Massachusetts and New Jersey	Violation of SEC independence criteria by preparing financial statements for a registered broker-dealer audit client, auditing the financial statements and issuing an audit report on the financial statements.	Required remedial measures to ensure compliance with independence criteria; \$2,500 penalty; censure

# ADMINISTRATION

The PCAOB endeavors to use its resources responsibly throughout its daily operations to protect investors and serve the public interest.

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

The PCAOB is focused on the careful stewardship of its resources. Toward this end, the PCAOB devotes substantial effort to promoting workplace excellence, integrity and accountability; maintaining and assessing the effectiveness of its internal control over financial reporting; and monitoring its operations through the activities and reviews of its Office of Internal Oversight and Performance Assurance.

Each year, the PCAOB develops a strategic plan that guides the PCAOB's operations and programs, as well as the development of its budget. The PCAOB's strategic plan for 2014–2018 focused on, among other areas, integration of economic analysis into the programs of the PCAOB and interaction with audit committees in areas of common interest, including auditor independence and audit quality.

The strategic plan also set forth the Board's near-term priorities, including improvements in the effectiveness of the PCAOB's standard-setting process and enhancing processes and systems to improve analysis and usefulness of PCAOB inspection findings.

## **SEC Oversight**

The Sarbanes-Oxley Act gives the SEC oversight authority over the PCAOB. PCAOB rules, including its auditing and related professional practice standards, are not effective unless approved

by the SEC. The SEC is also responsible for appointing and removing Board members.

In addition, adverse PCAOB inspection reports and disciplinary actions against registered firms and their associated persons are subject to review by the SEC. The SEC also is responsible for reviewing and approving the PCAOB's annual budget and accounting support fee.

## **Budget**

The PCAOB's budget for 2014, as approved by the Board on Nov. 25, 2013, was \$258.4 million. The 2014 budget was 5.2 percent above the Board's 2013 budget of \$245.6 million, largely due to staffing and associated expenses related to a growing broker-dealer auditor inspection program and other inspection-related activities. The SEC approved the PCAOB's 2014 budget and accounting support fee Feb. 5, 2014.

## **Funding**

The PCAOB's funding is derived from accounting support fees, registration fees and annual fees.

Under the Sarbanes-Oxley Act, as amended by the Dodd-Frank Act, the PCAOB budget provides for the assessment of an accounting support fee paid by public companies and other issuers, as well as SEC-registered brokers and dealers. The total accounting support fee for 2014 was approximately \$252.0 million, with \$225.4 million allocated to issuers and \$26.6 million allocated to SEC-registered brokers and dealers.

The Sarbanes-Oxley Act, as amended, requires the PCAOB to assess and collect a registration fee and an annual fee from each registered public accounting firm in amounts that are sufficient to recover the costs of processing and reviewing applications and annual reports. Those fees totaled \$1.6 million in 2014.

### Issuer Accounting Support Fee

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

In 2014, public companies with an average, monthly market capitalization greater than \$75 million during the preceding calendar year and investment companies with an average, monthly market capitalization, or net asset value, greater than \$500 million during the preceding calendar year were allocated shares of the issuer accounting support fee. In 2014, public companies were assessed approximately 93.3 percent of the total issuer accounting support fee, and investment companies were assessed the remaining 6.7 percent, similar to the allocations in 2013.

The PCAOB invoiced 8,217 issuers approximately \$225.4 million in 2014, compared to 7,681 issuers invoiced approximately \$207.5 million in 2013. Approximately 24.4 percent of the issuers billed in 2014 received invoices for \$1,000 or less.

### Issuer Accounting Support Fee

Assessment Ranges	Number of Issuers	
	2014	2013
\$100–500	347	154
\$501–1,000	1,659	1,505
\$1,001–5,000	3,066	3,056
\$5,001–10,000	922	927
\$10,001–50,000	1,487	1,361
\$50,001–100,000	314	282
\$100,001–500,000	352	333
\$500,001–1,000,000	40	37
\$1,000,001+	30	26
<b>Total</b>	<b>8,217</b>	<b>7,681</b>

### Broker-Dealer Accounting Support Fee

The broker-dealer accounting support fee is allocated annually to SEC-registered brokers and dealers based on their relative average, quarterly tentative net capital during the preceding calendar year. In 2014, SEC-registered brokers and dealers with average, quarterly tentative net capital greater than \$5 million during the preceding calendar year were allocated shares of the broker-dealer accounting support fee.

The PCAOB invoiced 656 brokers and dealers approximately \$26.6 million in 2014, compared to 658 brokers and dealers invoiced approximately \$26.5 million in 2013. In 2014, approximately 21.2 percent of the brokers and dealers billed received invoices for \$1,000 or less, and the largest 100 invoice amounts comprised approximately 92.4 percent of the total broker-dealer accounting support fee.

### Broker-Dealer Accounting Support Fee

Assessment Ranges	Number of Brokers and Dealers	
	2014	2013
\$100–500	0	0
\$501–1,000	139	137
\$1,001–5,000	288	292
\$5,001–10,000	77	75
\$10,001–50,000	93	98
\$50,001–100,000	20	17
\$100,001–500,000	28	28
\$500,001–1,000,000	3	3
\$1,000,001+	8	8
<b>Total</b>	<b>656</b>	<b>658</b>

### Registration and Annual Fees from Accounting Firms

In 2014, the PCAOB assessed annual fees totaling approximately \$1.6 million to 2,265 registered public accounting firms, compared to \$1.6 million to 2,342 registered firms in 2013. Annual fees are determined based on each firm's headcount and the number of issuer audit clients.

### Annual Fees from Accounting Firms

Fee Amount	Number of Accounting Firms	
	2014	2013
\$100,000	4	4
\$25,000	3	2
\$500	2,258	2,336
<b>Total</b>	<b>2,265</b>	<b>2,342</b>

In 2014, the PCAOB collected approximately \$42,000 in registration application fees from 84 firms, compared to \$50,000 in registration fees collected from 100 firms in 2013.

### Staffing

The PCAOB's staff totaled 809 as of Dec. 31, 2014, and worked in 16 offices, including the headquarters in Washington, D.C. More than 60 percent of the PCAOB's staff work in registration and inspections.

### Information Technology

In 2014, the PCAOB continued to improve its information technology processes and systems to provide efficient support for PCAOB operations. The PCAOB deployed enhanced remote access and collaboration capabilities for staff; a new case management system for use by the Division of Enforcement and Investigations; and an enhanced analytics capability for use by the Center for Economic Analysis, the Office of the Chief Auditor and the Office of Research and Analysis. Progress on

**Administration** *continued*

other program-related projects included continued rollout of a new human resources management system and improvements to the PCAOB's inspections information system and data management and analytics system.

**Internal Oversight and Performance Assurance**

The Office of Internal Oversight and Performance Assurance (IOPA) performs a role similar to that of an inspector general in a government agency. IOPA conducts performance reviews of PCAOB programs and operations, provides timely quality assurance assessments to the Board and reviews allegations of wrongdoing by PCAOB employees that it may receive. IOPA conducts its performance reviews in accordance with the GAO's Government Auditing Standards (Yellow Book), which provide a framework for conducting high quality audits with competence, integrity, objectivity and independence.

In 2014, IOPA completed reviews of the PCAOB's plan to conclude evaluations of registered firms' responses to criticisms of quality control after PCAOB inspections and the business process in the PCAOB's Office of General Counsel. Summaries of the reviews were sent to the Chair of the SEC and are posted on the PCAOB's website.

**PCAOB Offices**

Headquarters	Regional and Satellite Offices
Washington, D.C.	Atlanta, Ga.
<i>Ashburn, Va.</i>	<i>Fort Lauderdale, Fla.</i>
<i>Philadelphia, Pa.</i>	<i>Tampa, Fla.</i>
	Charlotte, N.C.
	Chicago, Ill.
	Denver, Colo.
	Irvine, Calif.
	<i>Los Angeles, Calif.</i>
	Irving, Texas
	<i>Houston, Texas</i>
	New York, N.Y.
	<i>Boston, Mass.</i>
	San Mateo, Calif.



# FINANCIAL REVIEW

## Overview

This financial review, together with the 2014 audited financial statements and the accompanying notes, provides financial information related to the PCAOB's programs and activities described in other sections of this annual report.

The PCAOB is a nonprofit corporation established under the Sarbanes-Oxley Act of 2002 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 SEC-registered brokers and dealers, including examination of compliance reports filed pursuant to federal securities laws, to further promote investor protection.

The Sarbanes-Oxley Act, as amended, gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies or brokers or dealers; inspection of registered public accounting firms that audit public companies or brokers or dealers; establishment of auditing, quality control, ethics, independence and other standards for registered public accounting firms; and investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards. In

the Statements of Activities, the registration and inspection responsibilities are presented together as one program activity. The other program activities presented are: enforcement, standard setting, research and analysis, and Board and related activities. Board and related activities include the Office of International Affairs and the Center for Economic Analysis.

In addition to the aforementioned program activities, the Statements of Activities include the following supporting activities: administration and general, communications, and information technology and telecommunications. "Administration and general" includes costs associated with the Office of Administration, the Office of the General Counsel and the Office of the Chief Hearing Officer, and the Office of Internal Oversight and Performance Assurance. "Communications" includes costs associated with the Office of Outreach and Small Business Liaison, the Office of Government Relations and the Office of Public Affairs. "Information technology and telecommunications" includes costs of the Office of Information Technology.

The PCAOB obtains its funding from three sources: accounting support fees assessed on issuers and SEC-registered brokers and dealers; annual fees paid by registered public accounting firms; and registration fees paid by firms seeking registration with the PCAOB.

## Summary of Operations

The following table provides an overall summary of the PCAOB's operations for the years ended Dec. 31, 2014, and 2013:

<i>(in millions)</i>	<b>2014</b>	<b>2013</b>
Net revenues	\$ 253.6	\$ 235.5
Total operating expenses	(234.4)	(223.4)
Operating income	19.2	12.1
Interest income	0.2	0.2
Net other income (expense)	0.5	0.5
Net civil monetary penalties and interest	0.1	2.0
Scholarship payments	(1.0)	(0.8)
Increase in unrestricted net assets	\$ 19.0	\$ 14.0

Net revenues grew by \$18.1 million or 7.7%. This is due to a larger accounting support fee for 2014 as compared to 2013. The accounting support fee is calculated based on an estimate of annual expenses and an estimate of expenses for the first five months of the subsequent year, net of certain adjustments. The estimate used to calculate the 2014 accounting support fee reflected the PCAOB's plans to increase its workforce in 2014. Those plans contemplated increases in the workforce in multiple programs and supporting activities, with the largest growth planned for the inspections program.

Expenses increased by \$11.0 million or 4.9%. This increase is primarily driven by personnel-related costs, which include compensation, benefits, training, recruitment and relocation. The increase is also driven by increases in consulting and professional services and travel expenses. Expenses increased by a lower percentage than revenues because actual 2014 expenses were lower than the estimate of such expenses used to calculate the 2014 accounting support fee, largely because the PCAOB was unable to reach its hiring goals.

The Office of Management and Budget (OMB) determined that both the PCAOB's budget and scholarship program

were subject to sequestration in 2013 and that the PCAOB's budget was subject to sequestration in 2014, pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. OMB also determined that the PCAOB's sequestered budget funds represent temporary reductions, such that funds that are sequestered in one year become available for spending in subsequent years.

As of Dec. 31, 2014, and Dec. 31, 2013, the PCAOB had sequestered funds related to its budget of \$18.0 million and \$12.1 million, respectively; and as of Dec. 31, 2013, the PCAOB had sequestered \$0.1 million of its scholarship funds. As of Dec. 31, 2014, no scholarship funds were subject to sequestration.

### STATEMENTS OF FINANCIAL POSITION

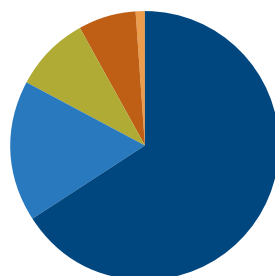
As of Dec. 31, 2014, the PCAOB had net assets of approximately \$145.0 million, as compared to net assets of approximately \$126.0 million at Dec. 31, 2013. The PCAOB has not incurred any debt, however, there are operating lease obligations with future minimum lease payments totaling approximately \$212.9 million through 2028.

### ASSETS

#### Assets by Type

As of December 31, 2014

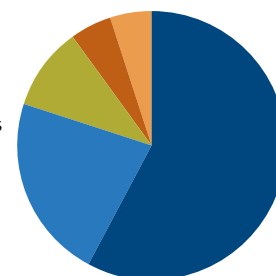
- 66% Short-term investments
- 17% Cash and cash equivalents
- 9% Other assets
- 7% Property and equipment
- 1% Accounts receivable



#### Assets by Type

As of December 31, 2013

- 58% Short-term investments
- 22% Cash and cash equivalents
- 10% Other assets
- 5% Property and equipment
- 5% Accounts receivable



Assets by Type as of Dec. 31, 2014 and 2013:

(in millions)

	2014	2013
Cash and cash equivalents	\$ 32.5	\$ 34.6
Short-term investments	122.0	95.0
Accounts receivable, net	2.3	8.4
Prepaid expenses and other assets	6.2	6.3
Leasehold incentives	11.5	9.7
Furniture and equipment, leasehold improvements, and technology, net	13.5	8.9
<b>Total assets</b>	<b>\$188.0</b>	<b>\$162.9</b>

The PCAOB's total assets increased by \$25.1 million from \$162.9 million at Dec. 31, 2013, to \$188.0 million at Dec. 31, 2014, primarily due to increases in short-term investments, furniture and equipment and leasehold incentives.

#### Cash and Cash Equivalents

The PCAOB's cash inflows are cyclical because the majority of cash is generally collected in the second quarter of the year from assessments of the issuer allocation of the

accounting support fee and annual fees paid by registered firms. Assessments of the broker-dealer allocation of the accounting support fee generally occur in the fourth quarter of the year, and as discussed under “Accounts Receivable” below, the timing of the collection of this fee varies and may cross fiscal years. The timing of cash inflows requires the PCAOB to maintain a sufficient cash balance to fund its operations for the first five months of the subsequent year.

Cash and cash equivalents decreased \$2.1 million from \$34.6 million at Dec. 31, 2013, to \$32.5 million at Dec. 31, 2014. This decrease is largely due to more frequent investments in U.S. government securities.

At Dec. 31, 2014 and 2013, cash and cash equivalents include \$4.2 million and \$5.1 million, respectively, which have been statutorily designated for scholarships in accordance with Section 109(C)(2) of the Sarbanes-Oxley Act.

### Short-term Investments

The PCAOB’s short-term investments represent the largest portion of total assets, approximately 66.0% as of Dec. 31, 2014, and 58% as of Dec. 31, 2013. As of Dec. 31, 2014, the PCAOB held \$122.0 million in investments in U.S. government securities. This represents an increase of \$27.0 million from the \$95.0 million invested in U.S. government securities as of Dec. 31, 2013.

The increase is driven by the larger accounting support fee, the timing of the invoicing of the broker-dealer accounting support fee assessment, and lower than expected spending during the year, all of which resulted in more available cash that was invested as of

Dec. 31, 2014. Sequestration also had an impact on the increase, as the amount of sequestered budget funds, which are held in short-term investments, increased from \$12.1 million at Dec. 31, 2013, to \$18.0 million at Dec. 31, 2014.

### Accounts Receivable

Accounts receivable consist of uncollected accounting support fees from issuers and brokers and dealers, and annual fees from registered accounting firms, less an allowance for doubtful accounts. Accounts receivable decreased from approximately \$8.4 million as of Dec. 31, 2013, to \$2.3 million as of Dec. 31, 2014. The decrease results from a difference in the timing of when the 2014 and 2013 broker-dealer allocation of the accounting support fee was assessed. The 2014 fee was assessed and invoiced on Oct. 29, 2014, while the 2013 fee was assessed and invoiced on Nov. 22, 2013.

### Prepaid Expenses and Other Assets

Prepaid expenses and other assets remained relatively flat year over year. This is because the timing of certain types of payments, such as office rent, business insurance, and health insurance premiums remained consistent since the prior year, although the amounts of these payments vary.

### Furniture and Equipment, Leasehold Improvements and Technology

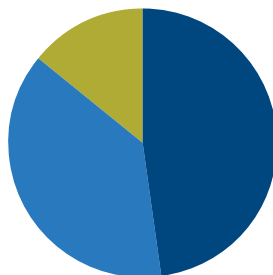
Property and equipment increased from \$8.9 million at Dec. 31, 2013, to \$13.5 million at Dec. 31, 2014. The increase relates primarily to investments in technology, leasehold improvements, and furniture for various offices, including the San Mateo, New York and Irvine offices.

## LIABILITIES

### Liabilities by Type

As of December 31, 2014

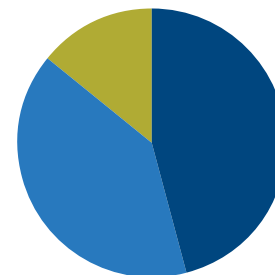
- 48% Deferred liabilities
- 38% Other liabilities
- 14% Accrued personnel and benefit costs



### Liabilities by Type

As of December 31, 2013

- 46% Deferred liabilities
- 40% Other liabilities
- 14% Accrued personnel and benefit costs



Liabilities by Type as of Dec. 31, 2014 and 2013:

<i>(in millions)</i>	<b>2014</b>	<b>2013</b>
Accounts payable and other liabilities	\$22.3	\$20.1
Deferred rent	20.8	16.8
<b>Total liabilities</b>	<b>\$43.1</b>	<b>\$36.9</b>

The PCAOB’s total liabilities increased from \$36.9 million at Dec. 31, 2013, to \$43.1 million at Dec. 31, 2014,

primarily due to increases in deferred rent and vendor and payroll-related liabilities.

### Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist primarily of vendor payables and payroll-related liabilities. Accounts payable and other liabilities increased by approximately \$2.2 million, from \$20.1 million as of Dec. 31, 2013, to \$22.3 million as of Dec. 31, 2014, primarily due to an increase in the amount of payroll-related liabilities.

### Deferred Rent

Deferred rent was approximately \$20.8 million as of Dec. 31, 2014, and \$16.8 million as of Dec. 31, 2013. The increase of approximately \$4.0 million is largely due to the commencement of new lease terms that included tenant improvement allowances of approximately \$3.3 million for the Atlanta, Dallas, San Mateo, Irvine and New York City offices. The additional component of the deferred rent increase relates to the recognition of rent of \$1.8 million offset by amortization of leasehold improvement allowances of \$1.1 million.

### Designated Net Assets

The PCAOB's net assets are not subject to any donor-imposed restrictions, and are therefore considered unrestricted. However, the PCAOB's net assets include funds designated for specific uses, as described below.

**Designated for Scholarship Funds.** In accordance with Section 109(c)(2) of the Sarbanes-Oxley Act, all funds generated from the collection of civil monetary penalties are to be used

exclusively to fund a merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs. As of Dec. 31, 2014, the PCAOB had \$4.2 million designated for scholarship funds. This represents a decrease of approximately \$0.9 million from the \$5.1 million designated for scholarship funds as of Dec. 31, 2013. The net decrease results from the PCAOB's imposition of civil monetary penalties of approximately \$86,000 offset by \$1.0 million in scholarships awarded during 2014.

**Designated for Sequestration.** The statements of financial position include unrestricted net assets designated for sequestration, including interest earned. OMB determined that the PCAOB's budget and scholarship program are subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. On April 10, 2013, OMB issued a report, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014," specifying that \$18.0 million of the PCAOB's 2014 budget funds were subject to sequestration. These sequestered funds remained unspent as of Dec. 31, 2014, and are included in short-term investments in the accompanying statements of financial position.

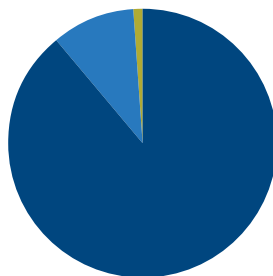
### STATEMENTS OF ACTIVITIES

Overall, revenues for 2014 increased by \$18.1 million or 7.7% compared to 2013, as a result of the larger accounting support fee paid by issuers and broker-dealers.

### REVENUES

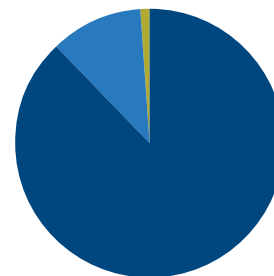
#### Operating Revenue 2014

- 89% Issuer ASF
- 10% Broker-Dealer ASF
- 1% Registration and annual fees



#### Operating Revenue 2013

- 88% Issuer ASF
- 11% Broker-Dealer ASF
- 1% Registration and annual fees



Components of operating revenue in 2014 and 2013:

<i>(in millions)</i>	<b>2014</b>	<b>2013</b>
Issuer accounting support fee	\$225.4	\$207.4
Broker-dealer accounting support fee	26.6	26.5
Registration and annual fees from PCAOB-registered public accounting firms	1.6	1.6
<b>Total operating revenue</b>	<b>\$253.6</b>	<b>\$235.5</b>

The PCAOB assesses an accounting support fee on equity issuers, investment company issuers, and SEC-registered brokers and dealers. This fee funds the expenses and other cash requirements necessary to support the Board's activities as reflected in the PCAOB's annual budget that is approved by the SEC. The issuer portion of the PCAOB's accounting support fee for 2014 and 2013 was \$225.4 million and \$207.4 million, respectively, and the broker-dealer portion for 2014 and 2013 was \$26.6 million and \$26.5 million,

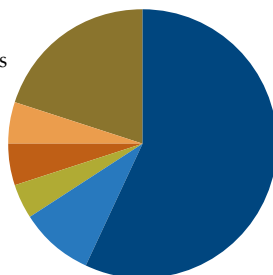
respectively. The 2014 accounting support fee increased to support the PCAOB's plans to increase its workforce in 2014, primarily in the area of inspections.

All public accounting firms registered with the PCAOB are required to file annual reports and pay annual fees. The annual fees cover costs related to the review and processing of annual reports. The PCAOB also assesses registration application fees. The \$1.6 million in registration and annual fees assessed in 2014 were generally consistent with the fees assessed in 2013.

## EXPENSES

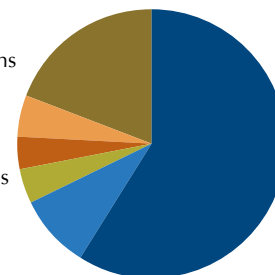
### Expenses 2014

- 57% Registration and inspections
- 9% Enforcement
- 4% Standard-setting
- 5% Research and analysis
- 5% Board and related activities
- 20% Supporting activities



### Expenses 2013

- 59% Registration and inspections
- 9% Enforcement
- 4% Standard-setting
- 4% Research and analysis
- 5% Board and related activities
- 19% Supporting activities



The PCAOB's expenses are largely driven by employee-related costs. Overall, operating expenses increased by approximately \$11.0 million, or 4.9% from 2013 to 2014.

This increase is discussed below, from both a programmatic and functional perspective.

Expenses in 2014 and 2013:

<i>(in millions)</i>	<b>2014</b>	<b>2013</b>
Program Activities:		
Registration and inspections	135.7	\$131.7
Enforcement	20.2	20.0
Standard setting	9.4	8.5
Research and analysis	10.6	9.7
Board and related activities	11.9	10.2
Supporting Activities	46.6	43.3
<b>Total expenses</b>	<b>\$234.4</b>	<b>\$223.4</b>

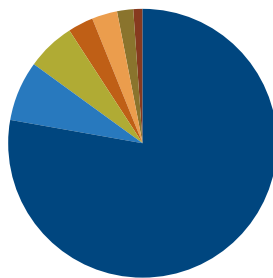
## Financial Review *continued*

In general, expenses increased for personnel-related costs, travel costs, and consulting and professional services. One program area, enforcement, experienced similar cost increases, but

these were offset by a reduction in the cost of consulting and professional services year over year. Additional discussion about expenses by type follows.

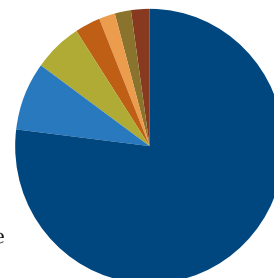
### Expenses by Type 2014

- 78% Personnel Costs
- 7% Occupancy
- 6% Travel
- 3% IT-related
- 3% Consulting and professional services
- 2% General and administrative
- 1% Depreciation



### Expenses by Type 2013

- 77% Personnel Costs
- 8% Occupancy
- 6% Travel
- 3% IT-related
- 2% Consulting and professional services
- 2% General and administrative
- 2% Depreciation



Operating expenses in 2014 and 2013:

<i>(in millions)</i>	<b>2014</b>	<b>2013</b>
Personnel costs	\$180.0	\$171.1
Occupancy	17.2	17.0
Travel expenses	14.5	13.3
Information technology-related expenses	7.5	7.6
Consulting and professional services	6.0	4.7
General and administrative expenses	5.9	5.5
Depreciation	3.3	4.2
<b>Total operating expenses</b>	<b>\$234.4</b>	<b>\$223.4</b>

Personnel-related costs are the PCAOB's largest expense. These costs increased by \$8.9 million during 2014. The increase was primarily driven by annual increases related to employee merit, promotion, and variable compensation, as well as efforts undertaken to hire and retain a professional workforce to carry out the PCAOB's regulatory mandates.

Occupancy costs increased for the year, stemming from costs associated with changes to certain of the PCAOB's lease agreements that occurred during 2014. Travel expenses also increased, as a result of differences in the number, type and length of trips that occurred during the year.

Costs associated with information technology remained relatively flat. Consulting and professional services increased

by approximately \$1.3 million. This was driven by greater usage of external resources to augment IT staff and increased translation costs to support international inspections. These increases were offset by a decrease in professional and consulting services related to litigation support in the enforcement program.

General and administrative expenses, which include business insurance, office supplies, printing and copying and subscriptions, increased slightly due to costs incurred for various office moves that occurred during the year and increased costs associated with the use of data feeds. The decrease in depreciation expense is driven by certain assets becoming fully depreciated during the year.

### Other Revenue and Expenses

Components of other revenue (expense) in 2014 and 2013:

<i>(in millions)</i>	<b>2014</b>	<b>2013</b>
Interest income	\$ 0.2	\$ 0.2
Net other income (expense)	0.5	0.5
Net civil monetary penalties and interest	0.1	2.0
Scholarship payments	(1.0)	(0.8)
<b>Total other revenue (expenses)</b>	<b>\$(0.2)</b>	<b>\$ 1.9</b>

Interest income includes interest generated by the PCAOB's investments. Other income includes the annual fee paid by the Financial Accounting Foundation for the PCAOB serving as the collection agent for the Financial Accounting Standards Board's (FASB) accounting support fee, reimbursements for the PCAOB's role in supporting the Chair role of the International Forum of Independent Audit Regulators, and other miscellaneous income. As shown in the above table, other revenue and expenses also includes civil monetary penalties and the related interest earned, as well as payments to fund the merit scholarships awarded to undergraduate and graduate students enrolled in accredited accounting degree programs.

The net decrease in other revenue and expenses from 2013 to 2014 is driven by the reduction in net civil monetary penalties and interest, which results from an overall lower amount of civil monetary penalties imposed during 2014 as compared to 2013.

## **FINANCIAL REPORTING MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

The PCAOB's financial reporting management—including the chairman, chief administrative officer and chief financial officer—performed an assessment of the PCAOB's internal control over financial reporting and concluded that the PCAOB's internal control over financial reporting was effective as of Dec. 31, 2014. The Board also engaged its independent auditor to perform an audit of the PCAOB's internal control over financial reporting, consistent with PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting that Is Integrated with An Audit of Financial Statements*.

# INDEPENDENT AUDITOR'S REPORT

**To the Board of the  
Public Company Accounting Oversight Board  
Washington, D.C.**

We have audited the accompanying statements of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2014, and 2013, and the related statements of activities and cash flows for the years then ended. We have also audited the PCAOB's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework* (2013 version) issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO). The PCAOB's financial reporting management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Financial Reporting Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PCAOB as of December 31, 2014, and 2013, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the PCAOB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* (2013 version) issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO).

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
April 1, 2015



# STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 32,545,436	\$ 34,611,591
Short-term investments	121,958,668	94,991,729
Accounts receivable, net of allowance	2,269,819	8,417,155
Prepaid expenses and other assets, net of allowance	6,255,928	6,234,563
Leasehold incentives	11,488,460	9,679,483
Furniture and equipment, leasehold improvements, and technology, net	13,510,252	8,928,426
<b>TOTAL ASSETS</b>	<b>\$188,028,563</b>	<b>\$162,862,947</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 22,282,388	\$ 20,111,538
Deferred rent	20,783,326	16,778,316
Total liabilities	43,065,714	36,889,854
<b>Unrestricted Net Assets</b>		
Undesignated	122,745,791	108,733,248
Statutorily designated for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act	4,211,756	5,133,307
Statutorily designated for sequestration	18,005,302	12,106,538
Total net assets	144,962,849	125,973,093
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$188,028,563</b>	<b>\$162,862,947</b>

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

# STATEMENTS OF ACTIVITIES

For the years ended December 31, 2014 and 2013

	2014	2013
<b>Changes in Unrestricted Net Assets</b>		
Net operating revenue		
Issuer accounting support fee	\$225,437,058	\$207,463,742
Broker-dealer accounting support fee	26,588,119	26,460,881
Registration and annual fees from PCAOB-registered public accounting firms	1,610,500	1,615,000
Total net operating revenue	253,635,677	235,539,623
Operating expenses		
Program activities		
Registration and inspections	135,669,903	131,694,644
Enforcement	20,176,179	19,995,478
Standard setting	9,383,053	8,510,597
Research and analysis	10,647,362	9,685,092
Board and related activities	11,893,755	10,253,713
Supporting activities		
Administration and general	24,408,075	23,148,429
Communications	2,420,043	2,437,178
Information technology and telecommunications	19,800,294	17,730,993
Total operating expenses	234,398,664	223,456,124
<b>Operating Income</b>	19,237,013	12,083,499
<b>Other Revenue (Expenses)</b>		
Interest income and other	674,294	662,586
Net civil monetary penalties and interest	98,449	2,043,000
Scholarship payments	(1,020,000)	(770,532)
Total other revenue (expenses)	(247,257)	1,935,054
<b>Increase in Unrestricted Net Assets</b>	18,989,756	14,018,553
<b>Unrestricted Net Assets—Beginning of Year</b>	125,973,093	111,954,540
<b>Unrestricted Net Assets—End of Year</b>	\$144,962,849	\$125,973,093

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

# STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Cash received from issuers	\$ 225,678,626	\$ 207,315,804
Cash received from broker-dealers	32,639,726	18,663,119
Cash received from registered public accounting firms	1,601,522	1,612,958
Interest income and other	537,569	564,886
Cash received from civil monetary penalties and interest	58,449	2,160,708
Cash paid to fund scholarships	(1,020,000)	(770,532)
Cash paid to suppliers and employees	(228,000,376)	(220,460,358)
Net cash provided by operating activities	31,495,516	9,086,585
<b>Cash Flows from Investing Activities</b>		
Purchases of furniture and equipment, leasehold improvements, and technology	(6,594,732)	(4,326,974)
Purchases of short-term investments	(224,966,939)	(159,962,015)
Proceeds from the maturity of short-term investments	198,000,000	140,016,116
Net cash used in investing activities	(33,561,671)	(24,272,873)
<b>Cash Flows from Financing Activities</b>		
Payment of capital lease obligations	—	(3,557)
Net cash used in financing activities	—	(3,557)
<b>Net Decrease in Cash and Cash Equivalents</b>	(2,066,155)	(15,189,845)
<b>Cash and Cash Equivalents—Beginning of Year</b>	34,611,591	49,801,436
<b>Cash and Cash Equivalents—End of Year</b>	\$ 32,545,436	\$ 34,611,591
<b>Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities</b>		
Increase in unrestricted net assets	\$ 18,989,756	\$ 14,018,553
Reconciliation adjustments		
(Recoveries of) provision for doubtful accounts receivable	(5,907)	215,520
Depreciation and amortization	3,332,165	4,186,276
Loss on disposal of fixed assets	135	—
Decrease (increase) in accounts receivable	6,168,118	(8,146,253)
(Increase) decrease in prepaid expenses and other assets, net of allowance	(36,240)	180,337
Decrease (increase) in leasehold incentives	126,622	(315,618)
Increase (decrease) in accounts payable and other liabilities	2,189,109	(1,818,509)
Increase in deferred rent	731,758	763,279
Net cash provided by operating activities	\$ 31,495,516	\$ 9,086,585
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities</b>		
Fixed asset purchases acquired but not paid for as of year-end	\$ 356,431	\$ 374,690

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. ORGANIZATION

The PCAOB is a nonprofit corporation established by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) 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 brokers and dealers registered with the SEC.

The SEC has oversight authority over the PCAOB, including the appointment of Board members and the approval of the Board's rules, standards and budget. The Sarbanes-Oxley Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, established funding for PCAOB activities, primarily through an annual accounting support fee assessed on issuers based on their relative average, monthly market capitalization and on brokers and dealers based on their relative average, quarterly tentative net capital. The annual accounting support fee is also approved by the SEC.

The PCAOB's operations consist of program activities and supporting activities. The program activities of the PCAOB are: registration and inspections, enforcement, standard setting, research and analysis, and Board and related activities. The supporting activities are administration and general, communications, and information technology and telecommunications.

## 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 and are presented pursuant to FASB Accounting Standards Codification Topic 958, *Not-for-Profit Entities* (ASC 958). Under ASC 958, the PCAOB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications are based on the existence or absence of donor-imposed restrictions. The net assets of the PCAOB are not subject to any donor-imposed restrictions, and, therefore, have been classified as unrestricted in the accompanying financial statements.

The statements of activities reflect program activities related to registration and inspections, enforcement, standard setting, research and analysis, and Board and related activities. Program expenses include salaries, benefits, rent, 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 and supporting activities proportionately based on numbers of personnel.

**Cash and Cash Equivalents.** The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in noninterest-bearing accounts with a domestic high-credit-quality financial institution as well as investments in securities made pursuant to a daily overnight sweep repurchase agreement. The securities acquired at the end of each business day pursuant to the repurchase agreement generally consist of Government Sponsored Enterprise or U.S. Government/Agency obligations. Purchased securities are held by the financial institution, as custodian, on an overnight basis and are repurchased 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 prior to such a repurchase of any securities, the PCAOB could experience a delay in disposing of those securities.

**Short-term Investments.** The PCAOB's investments are recorded at fair value, all of which are measured using Level 1 inputs, which are defined as quoted market prices in active markets for identical investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income and net gains and losses are recorded on the accrual basis and are included in "Interest income and other" on the accompanying statements of activities.

**Concentration Risk.** The PCAOB's cash is 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. The PCAOB mitigates this risk overnight through daily overnight sweep repurchase agreements.

**Accounts Receivable.** Accounts receivable 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, the PCAOB's historical experience.

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

**Property and Equipment.** Furniture and equipment, leasehold improvements and technology 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.

**Revenue Recognition.** The Sarbanes-Oxley Act, as amended, provides for funding of the PCAOB through the assessment of an annual accounting support fee on issuers and brokers and dealers registered with the SEC. The Sarbanes-Oxley Act also provides that the PCAOB shall assess and collect registration and annual fees.

**Registration Fees.** Each public accounting firm must pay a registration fee when it applies for registration with the PCAOB. Registration fees are recognized as operating revenue in the year in which the registration fees are assessed.

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

**Annual Accounting Support Fee.** Annual accounting support fees are assessed on issuers, as defined in the Sarbanes-Oxley Act, and on brokers and dealers registered with the SEC. The accounting support fee is established annually by the Board based on the PCAOB's operating budget for each calendar year and any additional amounts required to fund the PCAOB's operations for the first five months of the subsequent year until the subsequent year's accounting support fee is collected, and is subject to SEC approval. The accounting support fee is recognized as operating revenue in the year in which it is assessed.

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

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

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

**Net Civil Monetary Penalties and Scholarship Payments.** PCAOB sanction orders may impose civil monetary penalties pursuant to the Board's authority under Section 105 of the Sarbanes-Oxley Act. The PCAOB imposed civil monetary

penalties totaling approximately \$86,000 and \$2.0 million for the years ended Dec. 31, 2014 and 2013, respectively. Where considered applicable, the PCAOB records an allowance against civil monetary penalties ordered, but not yet collected. The allowance for civil monetary penalties was approximately \$0.2 million and \$0.3 million as of Dec. 31, 2014 and 2013, respectively, and is included in "Prepaid Expense and Other Assets" on the accompanying statements of financial position.

The PCAOB reports all funds generated from the collection of civil monetary penalties (including interest income, net of bank fees and bad debt expenses) as increases in unrestricted net assets statutorily designated for specified uses in Section 109(c)(2) of the Sarbanes-Oxley Act, and all funding for the merit scholarships as decreases in unrestricted net assets statutorily designated for specified uses in Section 109(c)(2) of the Sarbanes-Oxley Act.

**Cash Held for Others under Agency Agreement.** The PCAOB served as the collection agent for invoicing and collecting the 2014 and 2013 FASB accounting support fee. The PCAOB's fee for acting as the collection agent for the FASB accounting support fee was approximately \$0.2 million in both 2014 and 2013. This amount is included in "Interest income and other" in the accompanying statements of activities. As of Dec. 31, 2014 and 2013, the PCAOB had \$52,389 and \$18,271, respectively, included in cash and cash equivalents related to the FASB accounting support fee. Corresponding amounts are included in "Accounts payable and other liabilities" for amounts due to the FASB as of Dec. 31, 2014 and 2013.

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

**Use of Estimates.** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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, accounts receivable, the allowance for doubtful accounts, and useful lives of property and equipment. Actual results could differ from these estimates.

### **NOTE 3. SHORT-TERM INVESTMENTS**

Short-term investments consist of investments in U.S. Treasury bills and notes. Total short-term investments, measured at fair value using quoted market prices in active markets for identical assets (Level 1), were approximately \$122.0 million and \$95.0 million as of Dec. 31, 2014 and 2013, respectively. All short-term investments mature within one year of purchase.

**NOTE 4. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following as of Dec. 31, 2014 and 2013:

	2014	2013
Accounts receivable—Issuer Accounting Support Fee	\$ 263,564	\$ 501,071
Accounts receivable—Broker-Dealer Accounting Support Fee	2,126,162	8,145,306
Accounts receivable—Annual Fees	107,657	106,179
	2,497,383	8,752,556
Less: allowance for doubtful accounts	(227,564)	(335,401)
Accounts receivable, net	\$2,269,819	\$8,417,155

**NOTE 5. FURNITURE AND EQUIPMENT, LEASEHOLD IMPROVEMENTS, AND TECHNOLOGY**

Furniture and equipment, leasehold improvements, and technology consist of the following as of Dec. 31, 2014 and 2013:

	2014	2013
Technology		
Hardware	\$ 10,347,248	\$ 10,256,454
Purchased and developed software	14,927,830	30,673,098
Leasehold improvements	14,853,967	14,283,876
Furniture and equipment	8,726,240	8,345,711
Technology development in process	2,610,631	4,110,098
Construction in process	3,310,473	672,303
	54,776,389	68,341,540
Accumulated depreciation and amortization	(41,266,137)	(59,413,114)
Furniture and equipment, leasehold improvements, and technology	\$ 13,510,252	\$8,928,426

Depreciation and amortization expense was approximately \$3.3 million and \$4.2 million for the years ended Dec. 31, 2014, and 2013, respectively.

**NOTE 6. LEASE COMMITMENTS**

As of Dec. 31, 2014, the PCAOB had leased office space in Washington, D.C.; New York, N.Y.; Ashburn, Va.; San Mateo, Calif.; Irvine, Calif.; Atlanta, Ga.; Irving, Texas; Chicago, Ill.; and Denver, Colo. All of these offices are under leases that expire at various dates through 2028.

In 2011, 2012, and 2013 the Washington, D.C. lease was modified and additional office space was acquired. Under this lease, which expires in 2028, the PCAOB is entitled to receive a tenant improvement allowance of approximately \$10.2 million. The lease also provides that to the extent the PCAOB has not expended the full amount of the tenant improvement allowance by Aug. 1, 2021, the PCAOB may apply up to \$1.4 million of the unused tenant improvement allowance toward the payment of rent becoming due under the lease. During 2014 and 2013, leasehold improvements of approximately \$0.2 million and \$0.3 million, respectively, were paid for by the landlord.

Additionally, during 2013 and 2014, the PCAOB amended or renewed the leases of five offices that resulted in the landlords granting tenant improvement allowances. During 2014, the PCAOB recognized increases in leasehold incentives of approximately \$3.3 million as the related space came under the PCAOB's control. During 2014, leasehold improvements totaling approximately \$1.3 million were paid for by the landlords of the Irvine and San Mateo offices.

As of Dec. 31, 2014, the PCAOB occupied temporary office space in Charlotte, N.C.; Boston, Mass.; Houston, Texas; Tampa, Fla.; Fort Lauderdale, Fla.; Philadelphia, Pa., and Los Angeles, Calif., under leases that expire in 2015.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense was \$15.7 million and \$14.9 million for the years ended Dec. 31, 2014 and 2013, respectively. Deferred rent arises from the difference each month between the cash rent payment and the amount that is recorded as straight-lined rent expense and from leasehold incentives paid for by the landlord. Deferred rent totaled \$20.8 million and \$16.8 million as of Dec. 31, 2014 and 2013, respectively, and is recognized over the remaining terms of the office leases.

Minimum rental commitments under all of the PCAOB's office leases as of Dec. 31, 2014, including the rental commitments for temporary office spaces having remaining lease terms of one year or less, are as follows:

Year ending Dec. 31,	
2015	\$ 16,096,657
2016	14,852,693
2017	14,899,898
2018	14,978,989
2019	15,380,490
Thereafter	136,692,773
<b>Total minimum lease payments</b>	<b>\$212,901,500</b>

### NOTE 7. RETIREMENT BENEFIT PLAN

The PCAOB has a defined contribution retirement plan which covers all eligible employees. For the years ended Dec. 31, 2014 and 2013, the PCAOB matched 100% of employee contributions up to 7% of eligible compensation. The PCAOB's contributions vest immediately. The PCAOB's contributions to employees' accounts were \$8.5 million and \$8.2 million for the years ended Dec. 31, 2014 and 2013, respectively.

### NOTE 8. UNRESTRICTED NET ASSETS

The PCAOB's net assets are not subject to any donor-imposed restrictions, and are therefore considered unrestricted. However, the PCAOB's net assets include funds designated for specific uses, as described below.

**Designated for the PCAOB Scholarship Program.** The statements of financial position include unrestricted designated funds for the PCAOB Scholarship Program, established by Section 109(c)(2) of the Sarbanes-Oxley Act. The Act authorizes the PCAOB to impose civil monetary penalties and requires the PCAOB to use those penalties to award merit scholarships to students of accredited accounting degree programs, after annual congressional appropriation for that use of the monetary penalties. The PCAOB awarded 102 and 77 merit-based scholarships of \$10,000 each to eligible students for the 2014–2015 and 2013–2014 academic years, respectively. Cash and cash equivalents included approximately \$4.2 million and \$5.1 million as of Dec. 31, 2014 and 2013, respectively, to be used for merit scholarships.

The activity of the statutorily designated funds for the years ended Dec. 31, 2014 and 2013, is as follows:

Statutorily designated funds, as of Dec. 31, 2012	\$3,860,839
Civil monetary penalties and interest collected in 2013	2,043,000
Less scholarship payments for the 2013–2014 academic year	(770,000)
Use of deferred scholarships	(532)
<b>Statutorily designated funds, as of Dec. 31, 2013</b>	<b>\$5,133,307</b>
Civil monetary penalties and interest collected in 2014	98,449
Less scholarship payments for the 2014–2015 academic year	(1,020,000)
Use of deferred scholarships	—
<b>Statutorily designated funds, as of Dec. 31, 2014</b>	<b>\$4,211,756</b>

**Designated for Sequestration.** The statements of financial position include unrestricted designated funds for sequestration, including interest earned. The Office of Management and Budget (OMB) determined that the PCAOB's budget and scholarship program are subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. OMB also determined that the PCAOB's sequestered funds represent temporary reductions, such that funds that are sequestered in one year become available in the following year.

On April 10, 2013, OMB issued a report, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014," specifying that \$18.0 million of the PCAOB's 2014 budget funds were subject to sequestration. These sequestered funds remained unspent as of Dec. 31, 2014, and are included in short-term investments in the accompanying statements of financial position.

### NOTE 9. SUBSEQUENT EVENTS

The PCAOB has evaluated subsequent events through April 1, 2015, which represents the date the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment or disclosure in the financial statements.

# 2014 MANAGEMENT'S ASSESSMENT

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

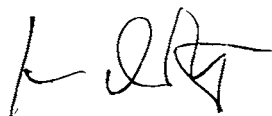
The PCAOB's financial reporting management, including the Chief Administrative Officer and the Chief Financial Officer, under the direction of the Chairman (collectively, "financial reporting management") are responsible for establishing and maintaining adequate internal control over financial reporting.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

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

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

The PCAOB's financial reporting management assessed the effectiveness of the PCAOB's internal control over financial reporting as of December 31, 2014. 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 is effective as of December 31, 2014.

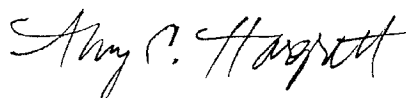
April 1, 2015



James R. Doty  
*Chairman*



Suzanne M. Kinzer  
*Chief Administrative Officer*



Amy C. Hargrett  
*Chief Financial Officer*



# BOARD RELEASES AND STAFF GUIDANCE ISSUED IN 2014

## First Quarter

Document	Document Number	Date
Order Making Findings and Disapproving Registration Application in re Registration Application of Lawrence Hoffman, Certified Public Accountant, P.C.	PCAOB Release No. 102-2014-001	Jan. 28, 2014
Order Making Findings and Disapproving Registration Application in re Registration Application of David R. Ramos, CPA	PCAOB Release No. 102-2014-002	March 6, 2014

## Second Quarter

Document	Document Number	Date
Supplemental Request for Comment: Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules	PCAOB Release No. 2014-001	May 7, 2014
Staff Guidance on Economic Analysis in PCAOB Standard Setting	N/A	May 15, 2014
Auditing Standard No. 18—Related Parties; Amendment to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions and Other Amendments to PCAOB Auditing Standards	PCAOB Release No. 2014-002	June 10, 2014
Public Notice of Disapproval of Registration Application in re Registration Application of David A. Widerman	PCAOB Release No. 102-2014-003	June 11, 2014
Staff Guidance for Auditors of SEC-Registered Brokers and Dealers	N/A	June 26, 2014

## Third Quarter

Document	Document Number	Date
Third Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers	PCAOB Release No. 2014-003	Aug. 18, 2014
Staff Consultation Paper—Auditing Accounting Estimates and Fair Value Measurements	N/A	Aug. 19, 2014
Staff Audit Practice Alert No. 12—Matters Related to Auditing Revenue in an Audit of Financial Statements	N/A	Sept. 9, 2014
Staff Audit Practice Alert No. 13—Matters Related to the Auditor's Consideration of a Company's Ability to Continue as a Going Concern	N/A	Sept. 22, 2014

## Fourth Quarter

Document	Document Number	Date
Order Making Findings and Disapproving Registration Application in re Registration Application of Ogbomo CPA, LLC	PCAOB Release No. 102-2014-004	Oct. 7, 2014

# STANDING ADVISORY GROUP

As of Dec. 31, 2014

<b>Joan C. Amble</b>	<i>President</i>	JCA Consulting, LLC
<b>Hon. Richard C. Breeden</b>	<i>Chairman and CEO</i>	Breeden Capital Management LLC
<b>Loretta V. Cangialosi</b>	<i>Senior Vice President and Controller</i>	Pfizer Inc.
<b>Peter C. Clapman</b>	<i>Public company board member</i>	
<b>Walton T. Conn Jr.</b>	<i>U.S. Partner and Global Head of Audit Methodology and Implementation</i>	KPMG LLP
<b>Wallace R. Cooney</b>	<i>Vice President—Finance and Chief Accounting Officer</i>	Graham Holdings Co.
<b>James D. Cox</b>	<i>Brainerd Currie Professor of Law, School of Law</i>	Duke University
<b>Charles M. Elson</b>	<i>Edgar S. Wollard Jr. Chair of Corporate Governance and Director, John L. Weinberg Center for Corporate Governance</i>	University of Delaware
<b>Michael J. Gallagher</b>	<i>Managing Partner, Assurance Quality</i>	PricewaterhouseCoopers LLP
<b>Sydney K. Garmong</b>	<i>Partner in Charge, Regulatory Competency Center</i>	Crowe Horwath LLP
<b>Kenneth A. Goldman</b>	<i>Chief Financial Officer</i>	Yahoo Inc.
<b>L. Jane Hamblen</b>	<i>Chief Legal Counsel</i>	State of Wisconsin Investment Board
<b>Robert H. Herz</b>	<i>CEO Executive-in-Residence, Columbia Business School</i>	Robert H. Herz LLC Columbia University
<b>Robert B. Hirth Jr.</b>	<i>Chairman</i>	Committee of Sponsoring Organizations of the Treadway Commission
<b>Philip R. Johnson</b>	<i>Non-executive Director</i>	Yorkshire Building Society
<b>Joyce Joseph</b>	<i>Global Head of Accounting and Governance</i>	Standard & Poor's Rating Services
<b>Jean M. Joy</b>	<i>Director of Professional Practice and Director of Financial Institutions Practice</i>	Wolf & Company, P.C.
<b>Guy R. Jubb</b>	<i>Global Head of Governance and Stewardship</i>	Standard Life Investments Ltd.
<b>David A. Kane</b>	<i>Americas Vice Chair, Assurance Professional Practice</i>	Ernst & Young LLP
<b>Sara Grootwassink Lewis</b>	<i>CEO</i>	Lewis Corporate Advisors, LLC
<b>Jon Lukomnik</b>	<i>Executive Director Managing Partner</i>	Investor Responsibility Research Center Institute Sinclair Capital, LLC
<b>Douglas L. Maine</b>	<i>Limited Partner and Senior Advisor</i>	Brown Brothers Harriman & Co.

<b>Maureen F. McNichols</b>	<i>Marriner S. Eccles Professor of Public and Private Management and Professor of Accounting</i>	Stanford University
<b>Elizabeth F. Mooney</b>	<i>Analyst</i>	The Capital Group Companies
<b>Liz D. Murrall</b>	<i>Director, Stewardship and Reporting</i>	Investment Management Association
<b>Richard H. Murray</b>	<i>CEO</i>	Liability Dynamics Consulting LLC
<b>Zach Oleksiuk</b>	<i>Americas Head, Corporate Governance and Responsible Investment</i>	BlackRock Inc.
<b>Jeremy E. Perler</b>	<i>Partner and Director of Research</i>	Schilit Forensics
<b>Sandra J. Peters</b>	<i>Head of Financial Reporting Policy</i>	CFA Institute
<b>William T. Platt</b>	<i>Managing Partner, Professional Practice, and Chief Quality Officer—Attest</i>	Deloitte & Touche LLP
<b>Gregory A. Pratt</b>	<i>Chairman</i>	Carpenter Technology Corp.
<b>Sridhar Ramamoorti</b>	<i>Associate Professor of Accounting, School of Accountancy, and Director, Corporate Governance Center</i>	Kennesaw State University
<b>Brandon J. Rees</b>	<i>Acting Director, Office of Investment</i>	AFL-CIO
<b>Richard W. Roedel</b>	<i>Public company board member</i>	
<b>Philip J. Santarelli</b>	<i>Partner</i>	Baker Tilly Virchow Krause LLP
<b>Thomas I. Selling</b>	<i>President</i>	Grove Technologies LLC
<b>Charles V. Senatore</b>	<i>Head of Corporate Compliance</i>	Fidelity Investments
<b>D. Scott Showalter</b>	<i>Professor of Practice, Department of Accounting, Poole College of Management</i>	North Carolina State University
<b>Jeffrey L. Tate</b>	<i>Chief Audit Executive</i>	Dow Chemical Co.
<b>Brian D. Thelen</b>	<i>General Auditor and Chief Risk Officer</i>	General Motors LLC
<b>Sir David P. Tweedie</b>	<i>Chairman</i>	International Valuation Standards Council
<b>John W. White</b>	<i>Partner, Corporate Department</i>	Cravath, Swaine & Moore LLP

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

# INVESTOR ADVISORY GROUP

As of Dec. 31, 2014

<b>Steven B. Harris, Chairman</b>	<i>Board Member</i>	Public Company Accounting Oversight Board
<b>Brandon Becker</b>	<i>Executive Vice President and Chief Legal Officer</i>	TIAA-CREF
<b>Robert T. Buettner</b>	<i>Managing Director</i>	Newbrook Capital Advisors
<b>Mercer E. Bullard</b>	<i>Associate Professor of Law and Jessie D. Puckett, Jr., Professor Vice President Founder and President</i>	University of Mississippi School of Law Plancorp LLC Fund Democracy Inc.
<b>Curtis L. Buser</b>	<i>Managing Director and Chief Financial Officer</i>	The Carlyle Group
<b>T. Grant Callery</b>	<i>Former Executive Vice President and General Counsel</i>	Financial Industry Regulatory Authority
<b>Joseph V. Carcello</b>	<i>Ernst &amp; Young Professor, Department of Accounting and Information Management, and Co-Founder and Director of Research, Corporate Governance Center</i>	University of Tennessee
<b>Norman J. Harrison</b>	<i>Senior Managing Director</i>	FTI Consulting
<b>Michael J. Head</b>	<i>Resident Instructor, Accounting Department, Heider College of Business</i>	Creighton University
<b>Peter H. Nachtwey</b>	<i>Chief Financial Officer</i>	Legg Mason Inc.
<b>Lawrence M. Shover</b>	<i>Chief Investment Officer</i>	Solutions Funds Group
<b>Damon A. Silvers</b>	<i>Director of Policy and Special Counsel</i>	AFL-CIO
<b>Anne Simpson</b>	<i>Senior Portfolio Manager, Global Equity</i>	California Public Employees' Retirement System
<b>Tony Sondhi</b>	<i>President</i>	A.C. Sondhi & Associates, LLC
<b>Judge Stanley Sporkin</b>	<i>Retired</i>	U.S. District Court
<b>Robert M. Tarola</b>	<i>President</i>	Right Advisory LLC
<b>Lynn E. Turner</b>	<i>Managing Director Former SEC Chief Accountant</i>	LitiNomics
<b>Gary G. Walsh</b>	<i>Principal and Portfolio Manager</i>	Luther King Capital Management
<b>Ann L. Yerger</b>	<i>Executive Director</i>	Council of Institutional Investors



**James R. Doty**



**Steven B. Harris**



**Lewis H. Ferguson**



**Jay D. Hanson**



**Jeanette M. Franzel**

## **Members of the Board**

*As of Dec. 31, 2014*

### **James R. Doty**

*Chairman*

#### **Samantha Ross**

*Special Counsel*

#### **George R. Botic**

*Special Advisor*

### **Steven B. Harris**

*Board Member*

#### **Nina Mojiri-Azad**

*Special Counsel*

### **Lewis H. Ferguson**

*Board Member*

#### **Zoe Sharp**

*Special Counsel*

### **Jay D. Hanson**

*Board Member*

#### **Karen B. Dietrich**

*Special Counsel*

### **Jeanette M. Franzel**

*Board Member*

#### **Francis Dymond**

*Special Counsel*

## **Division and Office Leaders**

*As of Dec. 31, 2014*

### **Office of the General Counsel and Secretary**

J. Gordon Seymour, General Counsel

Phoebe W. Brown, Secretary

### **Office of the Chief Auditor**

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

### **Division of Enforcement and Investigations**

Claudius B. Modesti, Director

### **Office of International Affairs**

S. Bruce Wilson, Director

### **Division of Registration and Inspections**

Helen Munter, Director

### **Office of Research and Analysis**

Gregory J. Jonas, Director

### **Office of Administration**

Suzanne M. Kinzer, Chief Administrative Officer

### **Office of Information Technology**

Nirav Kapadia, Director

### **Office of Internal Oversight and Performance Assurance**

Peter Schleck, Director

### **Office of Outreach and Small Business Liaison**

Mary M. Sjoquist, Director

### **Office of Government Relations**

Kent Bonham, Director

### **Office of Public Affairs**

Colleen Brennan, Director

### **Center for Economic Analysis**

Luigi Zingales, Founding Director



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