

Overview of the PCAOB

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ENFORCEMENT AND INVESTIGATIONS

- The Board may investigate possible violations by registered public accounting firms or their associated persons of:
 - any provision of the Sarbanes-Oxley Act
 - the rules of the Board
 - the provisions of the securities laws relating to the preparation or issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or
 - PCAOB standards
- The Board may impose a variety of sanctions if violations are found
- The Board exercises its investigative and enforcement authority through DEI

DEI'S VISION

Protect investors, advance accountability, and deter improper conduct through a global leading enforcement program that promptly investigates and prosecutes serious violations of PCAOB standards and rules, and related federal securities laws.

SOURCES OF INVESTIGATIONS

- Board inspections of registered firms
- Public source analysis
 - Public filings, including restatements
 - News reports
 - Other sources
- Third party or insider tips
- Other regulators

PRIORITIES

- DEI prioritizes enforcement efforts that address the greatest risks to investors and are most likely to deter improper conduct; for example:
 - Significant audit violations,
 - Failures relating to auditor independence, and
 - Matters threatening the Board's oversight integrity (e.g., noncooperation with PCAOB inspections and investigations)

INFORMAL INQUIRIES

- DEI staff conducts informal inquiries and formal investigations
- Most matters start as informal inquiries
 - The Division may commence an informal inquiry when it appears that the conduct of a registered firm or any associated person may have violated applicable law, or to determine whether a violation may have occurred
 - May only be commenced with the approval of the division director
 - By rule, the staff may request documents or testimony from, or an interview with, any person
 - Cannot compel the production of documents or testimony

FORMAL INVESTIGATIONS

- If a matter appears to involve significant departures from Board standards, rules or other applicable law, DEI staff will request that the Board issue an order of formal investigation
- In formal investigations, the Board may compel the production of documents and information, as well as testimony, from registered firms and associated persons, through issuance of “Accounting Board Demands”
- Registered public accounting firms and associated persons are required to cooperate with formal investigations

RANGE OF SANCTIONS

- In a disciplinary proceeding, the Board may:
 - suspend an individual from association with a registered public accounting firm
 - bar an individual from association with a registered public accounting firm (permanently or with the right to seek termination after a period of years)
 - revoke a firm's registration (permanently or with the right to reapply after a period of years)
 - limit the activities, functions, or operations of a firm or person (permanently or for a period of years)
 - appoint an independent monitor

RANGE OF SANCTIONS (CONTINUED)

- In a disciplinary proceeding, the Board may also:
 - impose a civil monetary penalty
 - Statutory maximum penalty on an individual is \$152,557 (non-heightened sanctions) or \$1.14 million (heightened sanctions)
 - Statutory maximum penalty on a firm is \$3.05 million (non-heightened sanctions) or \$22.88 million (heightened sanctions)
 - impose a censure, require additional professional education or training, and/or impose any other sanction per Board rules
- To impose the first four sanctions listed on the prior slide, or heightened civil money penalties, the Board must find that the firm or individual engaged in intentional, knowing, or reckless conduct, or repeated acts of negligence.

CONTESTED DISCIPLINARY PROCEEDINGS AND HEARINGS

- If respondents do not wish to settle, the PCAOB conducts on-the-record hearings to determine whether firms or associated persons committed violations and should be disciplined
- Hearings are conducted by the Board's Hearing Officer
- Any sanctions imposed can be appealed to the Board, the SEC, and to federal appellate courts
- Contested proceedings are non-public while pending at the PCAOB

COORDINATION WITH OTHER REGULATORS

- Although PCAOB investigations and contested disciplinary proceedings are confidential, the PCAOB may share information with the SEC, DOJ, and other agencies enumerated in the Sarbanes-Oxley Act
- DEI coordinates closely with the Securities and Exchange Commission's Division of Enforcement on matters involving auditors
 - Given concurrent jurisdiction, DEI seeks to avoid duplication of effort
 - DEI also coordinates with FINRA on matters relating to broker-dealers
- Where authorized by a statement of protocol or other agreement, DEI coordinates with foreign counterparts in cases involving non-U.S. based audit firms or issuers

ENFORCEMENT HIGHLIGHTS

- Based on current pipeline, DEI is poised to exceed the orders issued in 2021
- Board is focused on increasing deterrent effect of sanctions, particularly penalties

QUESTIONS/COMMENTS

