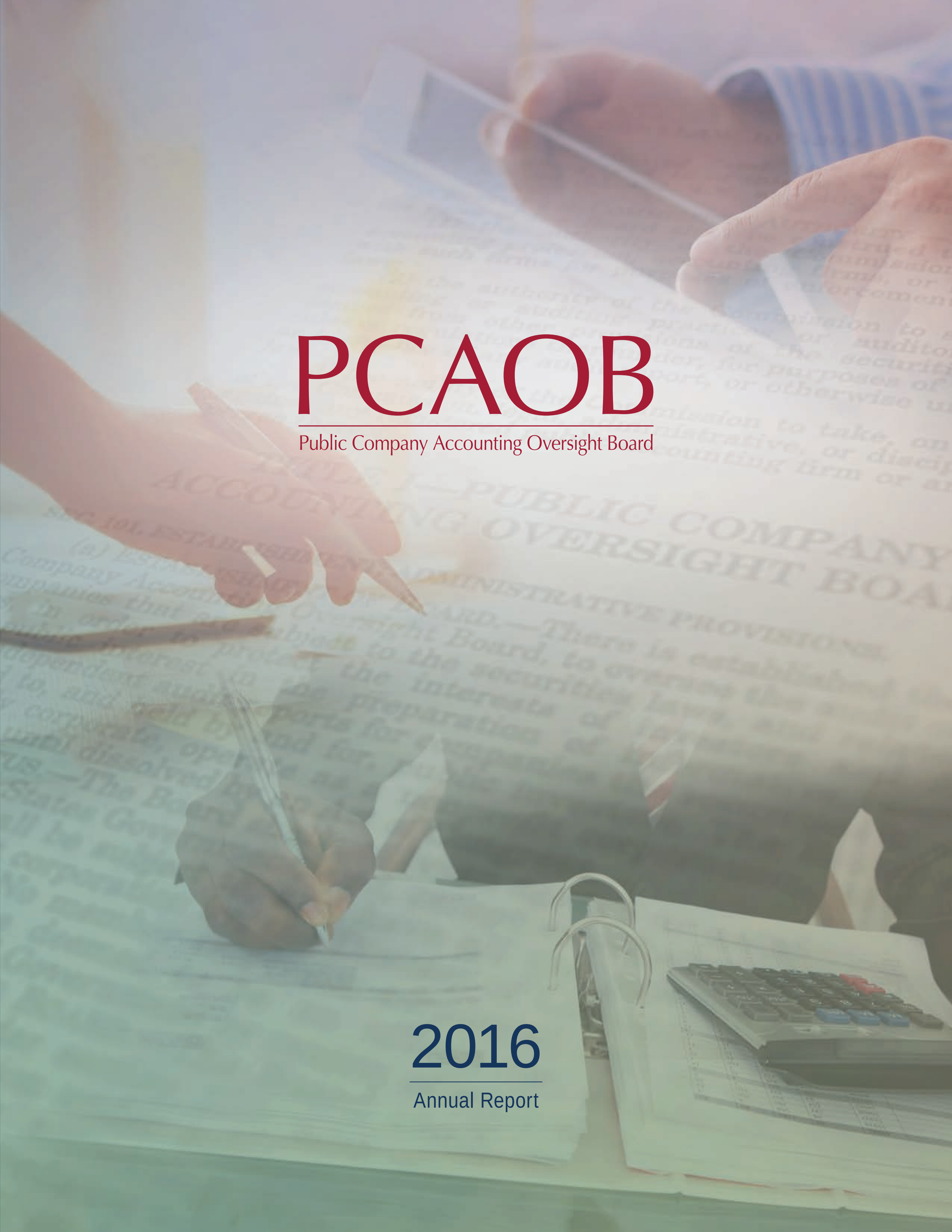


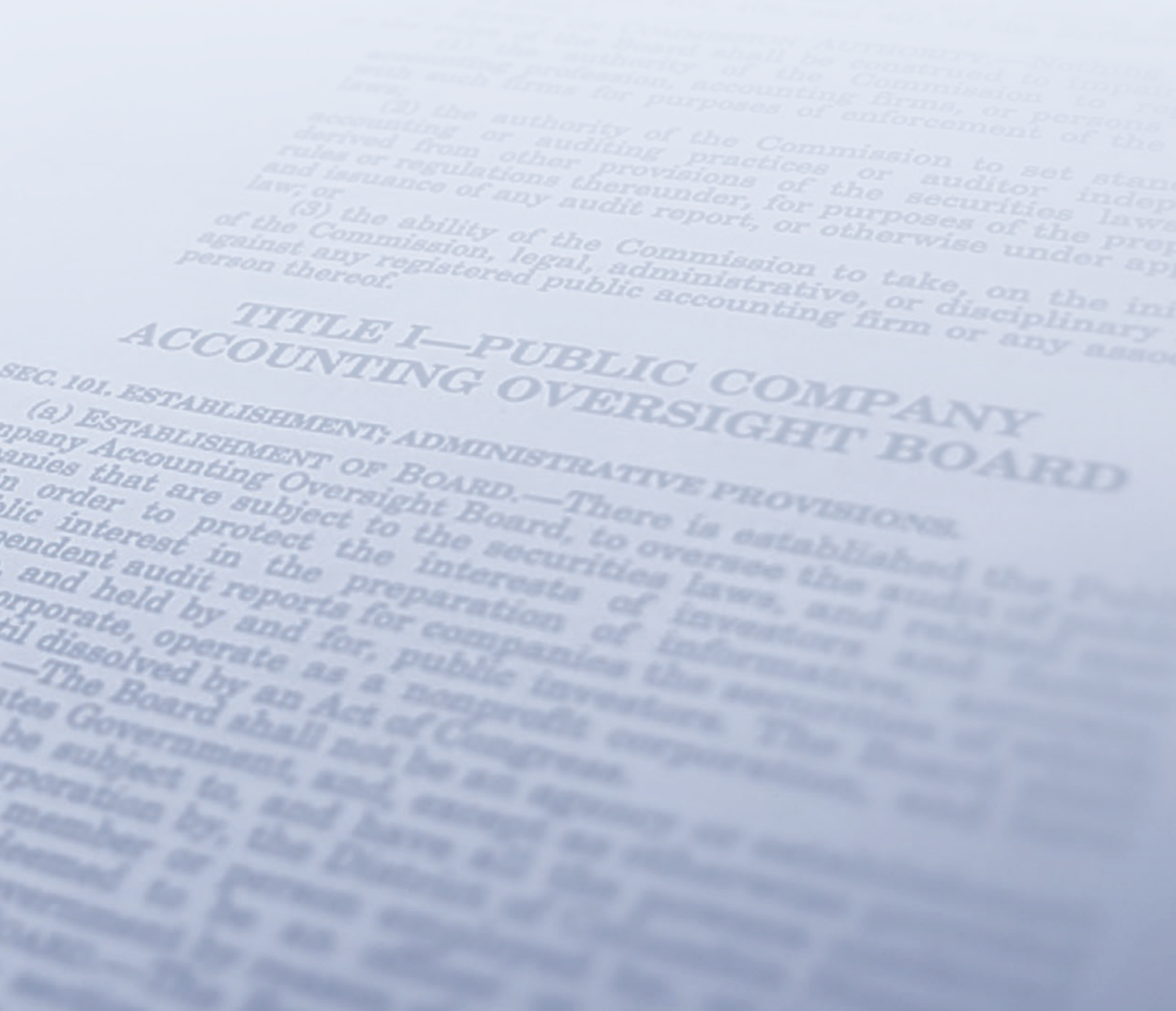
PCAOB

Public Company Accounting Oversight Board

2016

Annual Report

The Public Company Accounting Oversight Board is a nonprofit corporation established by Congress to protect investors and the public interest by promoting informative, accurate and independent audit reports and to oversee the audits of public companies and broker-dealers.



PCAOB
Public Company Accounting Oversight Board

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 2016, there were 2,013 firms registered with the PCAOB, including 1,113 domestic firms and 900 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 2016, the PCAOB examined portions of more than 780 audits performed by 198 accounting firms. Under an interim inspection program, the PCAOB examined portions of 115 audits of brokers and dealers performed by 75 firms.

STANDARDS

The PCAOB sets auditing and related professional practice standards to strengthen the reliability of audits for investors and other interested parties. In 2016, the PCAOB received approval of its rules to improve the transparency of audits by requiring disclosure of the names of audit engagement partners and other audit firms that participate in the audits of public companies. The disclosures will be made on searchable forms on the PCAOB's website.

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 2016, the PCAOB made public a record 54 settled disciplinary orders, including an order imposing an $8 million civil penalty, the largest ever imposed by the Board.

FROM THE CHAIRMAN

In 2016, the PCAOB demonstrated that it was a vital resource, protecting investors and fostering economic resilience by promoting reliable, informative and independent audit reports.

As described in more detail in the following pages, the PCAOB encourages high-quality audits through our effective inspection, enforcement and standard-setting programs. We believe our standards and oversight are making a real difference on behalf of investors, companies and our capital markets.

One of our most significant achievements on behalf of investors will begin to demonstrate its effectiveness in 2017: the requirement that registered accounting firms publicly identify the engagement partner and other participants in audits of public companies by filing an electronic Form AP with the PCAOB.

The forms will be available—and searchable—on the PCAOB's website, enabling investors and other interested parties to track the work of the individuals and firms responsible for the audits that are critical to reliable financial reporting.

We leveraged the redesign of our website in 2016 to provide detailed and practical guidance for accounting firms to meet this new reporting requirement and make the disclosures as accessible as possible to investors and the public.

Our website continues to be the vehicle for public communication and transparency about standards and rules proposed by the Board, including related comments from the public.

In 2016, the Board asked for comment on a new standard on firms' responsibilities for supervising the work of other auditors during the course of an audit. In May, we asked for comment on a revised proposal to improve the auditor's reporting model, reflecting changes made in response to comments on the original proposal.

In 2016, we began to implement a new standard-setting process, based on a comprehensive, two-year review of the process from start to finish.

The new process recognizes the importance of conducting deep research, outreach and economic analysis—first, to assess the need for a standard-setting project and, if there is one, to design innovative and cost-effective approaches to address that need.

Our standard-setting process involves considerable interaction with economists in our Center for Economic Analysis with a goal of providing economic analysis based on the best evidence and learning available to support sound policy decisions.

Economic analysis helps ensure that regulatory decisions, including whether to adopt new requirements and impose corresponding burdens, are informed by a rigorous review and analysis of the best information available. When changes to the Board's standards are being considered, economic analysis helps tailor the solution to the identified problems, and allows the Board, the SEC and the public to compare the relative merits of different approaches.

On the international front, in July 2016, we secured renewal of the European Commission's adequacy determination, which permits audit regulators in EU member states to make bilateral inspection arrangements with the PCAOB and enables us to continue to conduct joint inspections of registered accounting firms based in those countries.

The renewal runs for six years—double the period of previous such determinations. It allows us to continue to deepen our relationships with local European regulators.

The PCAOB has been able to inspect registered accounting firms in 49 non-U.S. jurisdictions since international inspections began in 2005. In 2016 alone, 56 of the 188 firms we inspected were based outside the United States.

Our ability to assess the work of non-U.S. auditors is significant because investors in U.S. corporations rely considerably on that work. Standard & Poor's estimates that more than 40 percent of the sales reported by S&P 500 companies are generated abroad. As with many other financial accounts, revenue is typically audited at the local level.

The importance of our oversight of non-U.S. accounting firms was underscored in 2016 with the settlement of enforcement actions against three non-U.S. firms that are members of a global network of accounting firms.

For two of the cases, in addition to identifying failures in the firms' audits of companies traded on U.S. markets, PCAOB enforcement staff also uncovered evidence that the firms' personnel had improperly deleted, added to or altered information in documents provided to PCAOB inspectors.

In one of those cases, the firm agreed to pay an $8 million civil penalty. We imposed sanctions against 12 former partners, including leaders, and other audit personnel of the firm.

This is by far the largest number of individuals charged in a single PCAOB enforcement action. They are no longer with the firm, and the firm took other remedial measures to address the firm's system of quality control. That is real accountability that protected investors.

We could offer further protections with the ability to inform investors of pending disciplinary actions against accounting firms, similar to the transparency of SEC proceedings.

Under the Sarbanes-Oxley Act as it exists today, the PCAOB's disciplinary proceedings are nonpublic unless the Board finds there is good cause for a hearing to be public and all parties consent to public hearings. To date, no auditor or firm has consented to public proceedings.

As I told the U.S. House Subcommittee on Capital Markets and Government Sponsored Enterprises in September, this state of affairs is not good for investors, for the auditing profession or for the public at large.

Nonetheless, audits and investor protection have improved significantly since the PCAOB began its work in 2003. We look forward to continuing to fulfill the PCAOB's Congressional mandate to promote the values that investors expect in audits: accuracy, integrity, transparency and independence.

James R. Doty
Chairman
Public Company Accounting Oversight Board
Washington, D.C.
March 28, 2017

REGISTRATION

Any accounting firm that prepares or issues an audit report for an issuer or an SEC-registered broker or dealer, or plays certain roles in those audits, must be registered with the PCAOB. Issuers, generally, are public companies with SEC reporting obligations.

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 located in multiple jurisdictions.

In 2016, the Board considered and approved registration applications of 63 accounting firms, including 25 non-U.S. firms. The Board disapproved one registration application, revoked the registration of 18 firms and suspended the registration of two firms. During the year, 139 firms withdrew from registration.

At the end of 2016, there were 2,013 firms registered with the PCAOB, including 1,113 domestic firms and 900 non-U.S. firms located in 89 jurisdictions.

FIRMS WITH MORE THAN 100 PUBLIC COMPANY AUDIT CLIENTS IN 2015

Inspected in 2016 by the PCAOB

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

Issuer Audits per Registered Firm*

Reports for public companies and mutual funds as of Dec. 31, 2016 (used for planning 2017 inspections)

	U.S.	Non-U.S.	Total
Firms that issued no issuer audit reports	769	712	1,481
Firms that issued audit reports for 1–5 issuers	208	142	350
Firms that issued audit reports for 6–10 issuers	39	24	63
Firms that issued audit reports for 11–25 issuers	53	14	67
Firms that issued audit reports for 26–50 issuers	22	5	27
Firms that issued audit reports for 51–100 issuers	12	3	15
Firms that issued audit reports for >100 issuers	10	0	10
Totals	**1,113**	**900**	**2,013**

**Includes audit reports issued by firms that remained registered with the PCAOB as of Dec. 31, 2016.*

INSPECTIONS

The PCAOB regularly inspects registered accounting firms that perform audits of public companies and other issuers. In 2016, the PCAOB inspected 198 such firms and examined portions of more than 780 audits.

The PCAOB also conducts an interim program of inspections of firms that audit SEC-registered brokers and dealers. In 2016, the PCAOB inspected 75 such firms, covering portions of 115 audit and attestation engagements, and issued its annual report on the interim inspection program, covering inspections during 2015.

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 an evaluation of the design and operating effectiveness of a firm's quality control policies and procedures.

For firms that audit issuers, the PCAOB prepares a report on each inspection of a firm and makes portions of each report publicly available, subject to statutory restrictions on public disclosure. In 2016, the PCAOB issued 215 reports on inspections of individual firms.

The PCAOB also publishes general reports and staff inspection briefs that are not firm-specific. General reports 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. Staff inspection briefs assist in understanding the PCAOB inspection process and results.

Inspections reports and briefs, 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.

On April 5, 2016, the PCAOB issued a general report on registered audit firms' initial implementation of and compliance with PCAOB Auditing Standard No. 16 (now AS 1301), *Communications with Audit Committees*, which became effective for audits of fiscal years beginning on or after Dec. 15, 2012.

PCAOB inspectors found that most firms inspected in 2014 had incorporated the requirements of the standard into their audit methodologies, introduced relevant practice aids or provided training to their partners and staff.

On April 19, 2016, the PCAOB issued staff inspection briefs previewing the findings of the 2015 inspections of auditors of public companies and other issuers and auditors of brokers and dealers. On July 14, 2016, the PCAOB issued staff inspection briefs detailing the scope and objectives of its 2016 inspections.

Auditors of Public Companies and Other Issuers

Registered firms that issue audit reports for more than 100 issuers are required to be inspected annually. In 2016, the PCAOB inspected 10 such firms. As part of these inspections, PCAOB inspectors examined portions of more than 320 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. In addition, the PCAOB conducts, in each year, inspections of at least five percent of all registered firms that play a substantial role in the audit of an issuer but that do not issue audit reports for issuers. The PCAOB inspected 188 firms in these two categories in 2016, including 56 non-U.S. firms located in 27 jurisdictions. In the course of those inspections, PCAOB staff examined portions of 460 audits.

The PCAOB carries out these inspections through two programs. The Global Network Firm Inspection Program is responsible for inspecting the six largest U.S. firms and the non-U.S. members of the international networks with which they are affiliated. Those networks are: BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited. The Non-Affiliate Firm Inspection Program carries out the inspections of the other registered firms.

In 2016, the Global Network Firm Inspection Program inspected 51 firms, including the six largest U.S. firms and 45 non-U.S. firms. The U.S. firms are among the firms that the Board inspects annually, and in 2016 PCAOB inspectors examined portions of more than 270 audits performed by them. The 45 non-U.S. firms are among the firms that are required to be inspected at least triennially, and in 2016 PCAOB inspectors examined portions of 144 audits performed by these firms.

In 2016, the Non-Affiliate Firm Inspection Program inspected 147 firms, including 11 non-U.S. firms. Four of those U.S. firms are inspected annually by the Board, and in 2016 PCAOB inspectors examined portions of more than 50 audits performed by them. The remaining 132 U.S. firms and 11 non-U.S. firms are among the firms that are required to be inspected at least triennially, and in 2016 PCAOB inspectors examined portions of 294 and 22 audits respectively for those firms.

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.

PCAOB inspections staff plan each year's inspections by selecting issuer audits to inspect based largely on an analysis of risk, including risk emanating from economic trends; company or industry developments; audit areas with significant recurring deficiencies; and the audit firm's inspection history.

A staff inspection brief, released July 14, 2016, highlighted the objectives, focus and scope of the PCAOB's 2016 inspections of auditors and certain audits of public companies and other issuers. Key areas of inspection focus in 2016 included:

- Audit areas where deficiencies have been identified in previous inspection cycles, including internal control over financial reporting, assessing and responding to risks of material misstatement, and accounting estimates, including fair value measurements.
- Audit areas affected by economic trends, including the effect of the strengthening U.S. dollar, the increasing merger and acquisition activity, the search for higher-yielding investment returns in a low interest rate environment and the effect of the fluctuations in oil and natural gas prices.
- Audit work in certain areas that may involve significant judgment on the part of management and/or auditors, including the auditor's evaluation of segment identification and disclosures, the auditor's consideration of an entity's ability to continue as a going concern, and evaluation of income tax accounting and disclosures.
- The implementation of PCAOB Auditing Standard No. 18 (now AS 2410), *Related Parties*, which became effective for audits of fiscal years beginning on or after Dec. 15, 2014.
- Audit procedures involving information technology, particularly auditors' use of software tools, and procedures to assess and address risks of material misstatement posed by cybersecurity.
- A firm's system of quality control, including its policies and procedures for (i) identifying the "root causes" of audit deficiencies and positive quality events, (ii) complying with required audit committee communications, including those communications related to independence, (iii) monitoring and maintaining independence, (iv) performing engagement quality reviews with due professional care, and (v) applying professional skepticism throughout the audit.

Auditors of Brokers and Dealers

On Aug. 18, 2016, the PCAOB issued its annual report on the inspections of auditors of brokers and dealers, covering inspections performed in 2015.

The 2015 inspections were conducted during the first year in which all inspected engagements were governed by the Securities and Exchange Commission's 2013 amendments to Exchange Act Rule 17a-5, including the new requirement that broker-dealer audits be performed in accordance with PCAOB standards. These inspections also examined newly required auditors' attestation engagements for the broker-dealers' compliance and exemption reports.

The report, the fifth that the PCAOB has issued for the interim broker-dealer auditor inspection program, summarized the results of inspections of 75 firms and portions of 115 audits and the related attestation engagements.

PCAOB inspectors identified deficiencies in the work of 96 percent of the audit firms inspected. Audit deficiencies related to the financial statements were similar in nature to the deficiencies observed in the past and were in areas such as the auditing of revenue, fair value measurements, related party transactions and financial statement presentation and disclosures. Deficiencies in auditing related to the Net Capital Rule and the Customer Protection Rule were identified in 30 percent and 53 percent, respectively, of the audits in which these areas were reviewed.

Deficiencies were identified in 55 percent of the attestation engagements covered during these inspections. PCAOB inspectors identified deficiencies in attestation procedures for 78 percent of the examinations of the broker's or dealer's compliance reports and 34 percent of the reviews of broker's or dealer's exemption reports.

As in previous years, PCAOB inspectors also identified engagements in which auditors appeared not to have maintained the required independence, principally as a result of having assisted in the preparation of the audit client's financial statements. PCAOB inspectors observed such independence impairments in 7 percent of the audits inspected in 2015, compared to 25 percent of the audits inspected in 2014.

As set out in a staff inspections brief issued July 14, 2016, inspections of auditors of brokers and dealers in 2016 focused on:

- Auditor independence;
- Financial statement audit areas where audit deficiencies were identified in past inspections, including revenue, the assessment and response to risks of material misstatement due to fraud, financial statement presentation and disclosures, and fair value measurements;
- Audit procedures related to related party transactions, as a new auditing standard became applicable;
- Audit procedures on the supporting schedules to the financial statements;
- The procedures for the attestation engagements: the examination of compliance reports and the review of exemption reports; and
- The engagement quality review.

Broker or Dealer Audits per Registered Firm*

Reports for public companies and mutual funds as of Dec. 31, 2015 (used for planning 2016 inspections)

Number of Broker or Dealer Audits per Firm	Number of Firms
1	199
2–20	307
21–50	22
51 to 100	8
More than 100	5
Totals	**541**

** Based on audit reports included in broker and dealer filings with the SEC through May 15, 2016, for fiscal years ended in 2015.*

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 49 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 required for the PCAOB to conduct inspections of registered auditors from those jurisdictions.

In 2016, as a result of its ongoing cooperative dialogue with the EU member states and European Commission, the PCAOB secured a new, six-year Adequacy Decision from the European Commission—a prerequisite for negotiating cooperative agreements with audit regulators in EU member states. The new Adequacy Decision, effective Aug. 1, 2016, is in force until July 31, 2022, and can be renewed.

An Adequacy Decision is an affirmation by the European Commission that a non-EU regulator has "adequate" measures and mechanisms in place to protect confidential information and so is able to exchange audit working papers related to inspections with EU member state regulators.

Subsequent to the issuance of the 2016 Adequacy Decision, the PCAOB announced a new cooperative agreement with the audit oversight authority in Italy, bringing the total number of cooperative agreements reached with non-U.S. auditor oversight authorities worldwide to 22. In addition, during 2016, the previously established cooperative agreements with auditor oversight authorities in Germany and Finland were replaced with new agreements after those authorities were succeeded by newly constituted audit oversight authorities.

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 2016 continued to face varying obstacles to conducting inspections of registered firms in a small number of foreign jurisdictions where it is required to inspect. In four European Union member states where the PCAOB was required to inspect (Austria, Belgium, Ireland and Portugal), the PCAOB was unable to conduct inspections of registered firms due to asserted restrictions under local law, although the PCAOB continued to make progress during the year on the negotiation of cooperative agreements with most of these local regulators.

The PCAOB was also unable to complete inspections in China due to asserted restrictions under local law and objections based on national sovereignty. Due to the position taken by the authorities in China, the PCAOB also was prevented from conducting inspections in 2016 of the mainland China-related work of any registered firm in Hong Kong.

Notwithstanding these obstacles, the PCAOB continued discussions in 2016 with the China Securities Regulatory Commission (CSRC) and China's Ministry of Finance (MOF) regarding inspections of PCAOB-registered audit firms based in China that audit Chinese companies listed on U.S. exchanges or the Chinese operations of other companies listed on U.S. exchanges. 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 June 2016.

As of Dec. 31, 2016, 43 audit firms in mainland China and 37 audit firms in Hong Kong were registered with the PCAOB. Fifteen of these firms are required to be inspected because they issue audit reports for issuers, and another six of these firms have reported playing a substantial role in an audit of an issuer.

On Dec. 30, 2016, the PCAOB published staff answers to various questions that U.S. registered firms had asked about their obligations to the PCAOB in PCAOB inspections of those firms' audits of certain issuers located in China. The questions had arisen in relation to a rule that the Chinese MOF had put in place in 2015 concerning certain audit work performed in China by auditors located outside of China.

International Outreach

In December 2016, the PCAOB convened its 10th International Institute on Audit Regulation, drawing approximately 100 officials from auditor oversight bodies and government agencies in 36 non-U.S. jurisdictions and four international organizations.

The Institute provides a forum for robust dialogue among regulators from all over the world on timely and relevant audit issues that affect investor protection and the health and stability of the global financial markets.

In 2016, the PCAOB continued its leadership roles with the International Forum of Independent Audit Regulators (IFIAR). 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 and now counts 52 independent audit regulators as members.

Board member Lewis H. Ferguson served in 2016 as Chair of IFIAR's Global Audit Quality Working Group. Claudius Modesti, director of the PCAOB's

Division of Enforcement and Investigations, continued to serve as Vice-Chair of IFIAR's Enforcement Working Group. Board Member Steven B. Harris continued to represent the PCAOB on the Investor and Other Stakeholders Working Group.

The PCAOB continued its efforts in 2016 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, 2016

Jurisdiction	Number Of Registered Firms
United States	1,113
China*	80
India	71
United Kingdom**	59
Australia	41
Germany	39
Canada	38
France	28
Singapore	25
Peru	24
Mexico	22
Chile, Netherlands, Spain, Turkey	19 each
Israel	18
Argentina	17
Brazil, Malaysia	16 each
Japan, Russian Federation	15 each
Italy	14
Republic of Korea, Taiwan	13 each
Ireland, South Africa	12 each
Belgium, Colombia	11 each
New Zealand, Sweden, United Arab Emirates	9 each
Cayman Islands, Indonesia, Philippines	8 each
Denmark, Greece, Switzerland, Ukraine, Venezuela	7 each
Austria, Hungary, Poland	6 each
Costa Rica, Czech Republic, Finland, Norway, Pakistan, Portugal	5 each
Bermuda, Bolivia, Egypt, Luxembourg, Nigeria, Thailand, Uruguay, Vietnam	4 each
Bahamas, Dominican Republic, Kazakhstan, Panama, Paraguay, Romania, Saudi Arabia	3 each
Bahrain, Barbados, Ghana, Iceland	2 each
Armenia, Belize, Croatia, Curacao, Cyprus, Ecuador, El Salvador, Estonia, Guatemala, Haiti, Jamaica, Kuwait, Libya, Malta, Mauritius, Papua New Guinea, Slovakia, Tanzania, Tunisia	1 each
Total	**2,013**

**The number of registered firms in China includes 37 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 prepares economic analysis to inform standard-setting activities and other PCAOB rulemaking; develops empirical tools to enhance the effectiveness of PCAOB oversight programs; and fosters informative research on the economic impacts of auditing and audit regulation on capital markets.

Economic Analysis in Standard Setting

Economic analysis in standard setting encompasses both prospective economic analysis to inform standard setting and post-implementation reviews of previously adopted rules and standards.

The Center conducts prospective economic analysis to ensure that regulatory decisions, including whether to adopt new requirements and impose corresponding burdens, are informed by a rigorous review and analysis of the best information available. Center economists help tailor solutions to identified problems and provide information and analysis that allows the Board, the SEC and the public to compare the relative merits of different approaches.

Post-implementation reviews complement the prospective economic analysis by evaluating significant rulemakings, after a reasonable period of time has passed, to gauge the overall effect of a rule or standard and identify potential areas for improvement.

Economic analyses developed by Center economists were included in the Board's April 12, 2016, proposal on the supervision of audits involving other auditors, and the May 11, 2016, reproposal on changes to the auditor's reporting model.

On April 6, 2016, the Center requested public comment to inform its first post-implementation review of a previously adopted standard. This first review will address PCAOB Auditing Standard No. 7 (now AS 1220), *Engagement Quality Review*, which was adopted by the Board in July 2009. In addition to evaluating public comments, the Center is analyzing data collected through the PCAOB inspection and enforcement programs.

Empirical Tools

In collaboration with other offices and divisions, the Center performs economic analyses that inform the selection of engagements for inspection and applies its knowledge and technical expertise to support the work of other offices and divisions, including by studying and testing the informational content of potential audit quality indicators and by analyzing macroeconomic and industry risks that may affect the audit.

Economic Research

The Center's connection to academic research is vital in delivering high quality economic analysis. The Center engages the academic community in various ways, including through an economic research fellowship program and an annual conference on Auditing and Capital Markets.

Fellowship Program

Each year, the Center publicly solicits candidates for economic research fellowships. Fellows generate high quality economic research that informs the oversight activities of the PCAOB and is disseminated to stimulate discussion and critical comment to the benefit of the public.

Research fellows probe data collected through the PCAOB's oversight activities, challenge untested assumptions, identify gaps in knowledge and provide critical evidence to inform policy debates.

Research performed in 2016 focused on materiality, audit adjustments, internal control deficiencies and auditor specialization, providing information related to standard-setting and inspections. Fellows' working papers are preliminary materials available on the PCAOB's website.

Conference on Auditing and Capital Markets

In conjunction with the *Journal of Accounting Research*, the Center hosted its third annual economic conference on Auditing and Capital Markets, an event that promotes high quality economic research on audit-related topics, including the economic impact of auditing and audit regulation on capital markets. The conference provides a mechanism to engage a wide range of research-minded academics in discussion on topics directly relevant to the PCAOB.

The 2016 conference, held in Washington, D.C., in October, was attended by more than 120 researchers from around the world. Participants heard presentations and discussions on six research papers, two of which were developed by PCAOB research fellows.

OFFICE OF RESEARCH AND ANALYSIS

The Office of Research and Analysis supports the Board's activities by providing information critical to regulatory oversight, analyzing risks that affect audits of public companies, brokers and dealers and researching issues that may affect audit quality. The Office also conducts special research projects on audit-related matters for the Board's standard-setting and oversight activities.

The Office is organized into two groups. The business intelligence group transforms data into information that enables effective decision making for the Board's oversight programs. The risk analysis group supports the Board's risk-based inspection and enforcement programs by identifying and analyzing emerging audit and accounting issues that present elevated risks of audit failure and communicates these risks to the PCAOB's other divisions.

In 2016, as part of its work and in collaboration with other PCAOB offices, the Office prepared two white papers to inform analyses contained in PCAOB rulemaking releases. On May 11, 2016, the PCAOB published "Auditor's Reports of Certain U.K. Companies that Comply with International Auditing Standard (U.K. and Ireland) 700," which provided summary data and factual information about expanded auditor reporting in the U.K. The paper informed the economic analysis included in the Board's reproposal of changes to the auditor's reporting model.

On Nov. 30, 2016, the PCAOB published a white paper on certain characteristics of emerging growth companies (EGCs), as defined by the Jumpstart Our Business Startups (JOBS) Act. The Act requires consideration of changes to PCAOB standards on audits of EGCs. The white paper presented general information about EGCs to inform the economic analysis contained in PCAOB rule-making releases regarding the impact of applying new standards to audits of EGCs.

Throughout 2016, the Office continued to lead a project to study the identification and usage of potential audit quality indicators. The project reflects a premise that employing quantifiable measures of aspects of auditing may provide additional insight for regulators, audit firms, audit committees and, ultimately, investors, about the elements of a quality audit. The project is focused on identifying and encouraging the use and academic study of audit quality indicators.

The Office also continued to study the business models of registered accounting firms, with a focus on identifying and responding to potential audit quality risks posed by such business models.

STANDARDS

In 2016, the SEC approved the PCAOB's rules to improve the transparency of audits by requiring disclosure on a new form, Form AP, of the names of audit engagement partners, as well as information about other audit firms that participate in the audits of public companies.

Beginning in 2017, investors and other users of financial information will be able to conduct searches of the Form AP database on the PCAOB's website. Users will be able to search the database by engagement partner name, audit firm or public company name.

The achievement was among a number of accomplishments in 2016 regarding the PCAOB's auditing and related professional practice standards and rules for audits of issuers, brokers and dealers. Among the accomplishments:

- On April 12, 2016, the Board proposed to strengthen existing requirements and impose a more uniform approach to a lead auditor's supervision of other auditors.
- On April 21, 2016, the PCAOB published a Staff Audit Practice Alert reflecting PCAOB staff concerns about auditors improperly altering audit documentation in connection with a PCAOB inspection or investigation.
- On May 11, 2016, the Board reproposed the auditor reporting standard to enhance the auditor's report to make it more informative for investors by requiring auditors to provide additional information in the report, such as the communication of critical audit matters arising from the audit and new elements related to auditor independence and auditor tenure.
- On June 28, 2016, the PCAOB issued initial staff guidance for firms filing the new Form AP.
- On Dec. 31, 2016, the PCAOB's reorganization of auditing standards, adopted in 2015, took effect. In connection with the reorganization, the PCAOB staff provided reference tools on the PCAOB's website.

About Standards and the Standard-Setting Process

The PCAOB seeks to establish and maintain high quality auditing and related professional practice standards for audits of issuers, brokers, and dealers in support of the PCAOB's overall mission of protecting investors and furthering the public interest in the preparation of informative, accurate and independent audit reports.

The Board uses a notice-and-comment process, whereby proposed changes to PCAOB standards are issued for public comment. Consideration of changes to PCAOB standards also involves conducting an economic analysis and analyzing potential impacts of changes on audits of emerging growth companies. After consideration of comments on a proposal, the Board can seek further comment or adopt the changes (with or without revision). Changes to standards and rules adopted by the Board must be approved by the SEC to become effective.

In 2016, the PCAOB continued implementation of enhancements to make the standard-setting process more efficient and effective.

The process now begins with a PCAOB interdivisional team that annually considers observations from its oversight activities, external developments and outreach to identify current or emerging audit issues and informs the Board regarding matters that potentially warrant changes to PCAOB standards or additional staff guidance. The interdivisional team also continues to monitor current or emerging issues throughout the year, including observations from oversight activities, that may merit further consideration. The evaluation of potential issues may result in a project being added to the new PCAOB research agenda, which was established in December 2016.

For each project on the research agenda, a PCAOB interdivisional research team performs research, outreach and economic analysis to assess the need for changes to PCAOB standards; consider alternative regulatory responses; and, if standard setting is needed, evaluate potential approaches. If standard setting is pursued, the project will be added to the standard-setting agenda. If standard setting is not pursued, consideration will be given to whether or not any other action is needed.

The PCAOB's standard-setting process is informed by a range of activities and outreach, including monitoring of PCAOB oversight activities, consultation with the Board's Standing Advisory Group, input from the Board's Investor Advisory Group, discussions with SEC staff, and consideration of the work of other standard setters such as the International Auditing and Assurance Standards Board, the Financial Accounting Standards Board, and the International Accounting Standards Board.

Approved Amendments and Rules

Auditor Reporting of Certain Audit Participants

On Dec. 15, 2015, the Board adopted new rules and amendments to PCAOB auditing standards to provide investors and other financial statement users with information about engagement partners and accounting firms that participate in the audits of issuers. The SEC approved the rules on May 9, 2016.

Audit firms are required to disclose on a new form, Form AP, the name of the engagement partner for all public company audit reports issued on or after Jan. 31, 2017. Information about other audit firms participating in the audit must be disclosed on Form AP for all public company audit reports issued on or after June 30, 2017.

The standard filing deadline for Form AP will be 35 days after the date the auditor's report is first included in a document filed with the SEC. In the case of initial public offerings, the Form AP filing deadline will be 10 days after the auditor's report is first included in a document filed with the SEC.

The information filed on the form will be available through a searchable database on the PCAOB's website, allowing users to identify the engagement partner assigned to an audit and identify other audit firms that participated in the audit.

To assist audit firms with their filings, on June 28, 2016, the PCAOB issued initial Staff Guidance—Form AP, *Auditor Reporting of Certain Audit Participants* and Related Voluntary Audit Report Disclosure Under AS 3101, *Reports on Audited Financial Statements.*

The PCAOB also hosted three teleconference calls to answer questions from registered firms about their technology implementation of Form AP. Instructions for Form AP, a sample form and video tutorials are available on a dedicated page on the PCAOB's website.

Proposed Standards, Amendments, and Rules

Supervision of Audits Involving Other Auditors

On April 12, 2016, the Board issued for public comment proposed amendments to improve the auditing standards that govern the supervision of audits involving other auditors, and a new auditing standard, *Dividing Responsibility for the Audit with Another Accounting Firm*, that governs circumstances when the auditor divides responsibility for the audit with another accounting firm.

The roles of other accounting firms and individual accountants in audits have taken on greater significance with the increasingly global operations of companies. The lead auditor often involves other auditors at various company locations, including to address audit areas with a high risk of material misstatement in the financial statements.

A fact sheet on the proposal is available on the PCAOB's website.

Auditor's Reporting Model

On May 11, 2016, the Board issued for public comment a reproposed standard, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*

The reproposal would retain the pass/fail model in the existing auditor's report, but would update the form and content of the report to make it more relevant and informative to investors and other financial statement users. The auditor's report would include a description of "critical audit matters," which would provide audit-specific information about especially challenging, subjective, or complex aspects of the audit. The reproposal would also require disclosure of auditor tenure and would include other improvements to clarify the auditor's role and responsibilities in the audit and make the auditor's report more readable.

A fact sheet on the reproposal is available on the PCAOB's website.

Staff Audit Practice Alert

On April 21, 2016, the PCAOB published a Staff Audit Practice Alert reflecting staff concerns about auditors improperly altering audit documentation in connection with a PCAOB inspection or investigation.

In the past several years, the Board has sanctioned firms and individuals for improperly deleting, adding, or altering documentation in connection with an inspection or investigation. The sanctions in those cases have included revoking firms' registration and barring individuals from auditing for registered firms. PCAOB staff has recently seen continuing evidence of such misconduct.

Future Standard-Setting Activities

The PCAOB regularly assesses the need to revise its standards. The areas under consideration include:

Auditing Accounting Estimates, Including Fair Value Measurements and Related Disclosures. Auditing accounting estimates and fair value measurements has proven challenging to auditors, and changes to financial reporting frameworks in recent years have affected the use of accounting estimates and increasingly used fair value as a measurement attribute. The staff is developing, for Board consideration, a proposed standard on auditing accounting estimates, including fair value measurements. The proposal is being informed by issues identified in inspections of accounting firms, discussions at SAG and IAG meetings, and comments received on a 2014 PCAOB staff consultation paper.

The Auditor's Use of the Work of Specialists. The use and importance of specialists have increased in recent years, as business transactions and information to account for those transactions have become more complex. The staff is developing, for Board consideration, proposed revisions to PCAOB auditing standards related to the auditor's use of the work of specialists employed or engaged by company management and employed or engaged by the auditor. The proposal is being informed by issues identified in inspections of accounting firms, discussions at the SAG and IAG meetings, and comments received on a 2015 PCAOB staff consultation paper.

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 federal securities law. This project is assessing the need for regulatory action— such as changes to the existing PCAOB standard on the auditor's going concern evaluation, staff guidance, or other actions—in light of changes in the relevant accounting requirements and concerns from investors about the effectiveness of auditor going concern reporting. The staff plans to continue its research and outreach activities, including monitoring the effect on audits of the changes to the relevant accounting standards. For audits under PCAOB standards, AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*, and Staff Audit Practice Alert No. 13 continue to provide the applicable requirements and guidance, respectively.

Research Projects

The following projects were placed on the new research agenda in 2016:

Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities. The staff is exploring whether changes to PCAOB quality control standards are needed —including improvements related to assignment and documentation of firm supervisory responsibilities—that would prompt firms to improve their quality control systems and more proactively identify and address emerging risks and deficiencies.

Changes in the Use of Data and Technology in the Conduct of Audits. The staff is exploring the need for guidance or changes to PCAOB auditing standards to address the use of new technologies, including data analysis, that may fundamentally impact the audit process.

The Auditor's Role Regarding Other Information and Company Performance Measures, Including Non-GAAP Measures. The staff is exploring the need for changes to the auditing standards, including the standard on other information in documents containing audited financial statements, in response to the use of company performance measures such as non-GAAP financial measures and operating measures.

Auditor's Consideration of Noncompliance with Laws and Regulations. The staff is exploring the need for changes to the auditing standards to provide better direction to auditors regarding the consideration of possible illegal acts by a client in an audit of financial statements.

Advisory Groups

The Sarbanes-Oxley Act authorizes the Board to convene expert advisory groups to make recommendations concerning 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. Their meetings are held in Washington, D.C. and are open to the public. Details of the meetings, including archived webcasts, briefing papers and presentations, are available on the PCAOB's website.

Standing Advisory Group

Standing Advisory Group members provide views to 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 auditors, academics, investors, public company executives, and others.

At a meeting May 18-19, 2016, SAG members discussed company performance measures, including non-GAAP measures, and the role of auditors; the auditor's reporting model; and the Board's proposal to strengthen requirements for auditor supervision of other auditors. Meeting participants also discussed current and emerging audit issues as part of the PCAOB's enhanced standard-setting process and received updates on recent PCAOB developments.

At a meeting Nov. 30-Dec. 1, 2016, SAG members were briefed on a post-implementation review program recently launched by the PCAOB's Center for Economic Analysis. The Center is studying the overall effects of previously adopted PCAOB rules and standards.

The meeting included a panel discussion on effective interactions between auditors and audit committees and updates on PCAOB inspection activities and on the Board's proposal on the supervision of audits involving other auditors. Other PCAOB developments and standards-related projects were also discussed, including projects to be added to the PCAOB research agenda.

Investor Advisory Group

Investor Advisory Group members 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. Members of the IAG represent a wide range of professionals within the investor community.

At a meeting Oct. 27, 2016, members of IAG working groups presented views on current issues with the reporting of non-GAAP measures; the status of recommendations made in 2008 by the Treasury Department's Advisory Committee on the Auditing Profession; and the auditor's reporting model, along with a working group's comment letter on the Board's reproposed standard.

OUTREACH

Throughout 2016, the PCAOB leveraged technology and telecommunications to increase the accessibility of information about inspections, standards and other initiatives intended to drive improvements in audit quality and investor protection.

Board members and PCAOB staff also participated in a variety of forums and conferences as speakers and panelists to provide information and obtain feedback about PCAOB initiatives. Audiences for these events included investors, academics, auditors, issuers, audit committee members and other regulators.

On March 15, 2016, the PCAOB launched a redesigned public website that scales to fit any screen, from desktop to smartphone, and provides enhanced navigation to the most-visited content within the website.

In 2016, the PCAOB used features of the new website to create unique pages highlighting initiatives including:

- An Enforcement Spotlight on improper alteration of audit documentation;
- The Board's reproposed standards for the auditor's report; and
- Form AP, *Auditor Reporting of Certain Audit Participants*.

The web page on Form AP features video tutorials, staff guidance, filing instructions and sample forms for XML and web forms. The PCAOB also hosted three teleconference calls to answer questions from registered firms about the technology implementation of Form AP.

In 2016, the PCAOB hosted two webinars for auditors of brokers and dealers: one on inspections in January that drew more than 600 participants and one on inspection findings related to the application of AS 2601 (formerly AU sec. 324), *Consideration of an Entity's Use of a Service Organization*. The second webinar, in December, drew more than 590 participants.

PCAOB webinars are an efficient and cost-effective means of providing updates to PCAOB registered firms and other stakeholders. Recordings of the webinars are available on the PCAOB website.

Forums on Small Business and Broker-Dealer Auditing

The webinars and teleconferences augmented the PCAOB's ongoing series of forums on auditing in the small business environment and for auditors of brokers and dealers.

The forums feature Board members and staff from the PCAOB, as well as staff of the SEC and, for auditors of brokers and dealers, staff from the Financial Industry Regulatory Authority.

In 2016, the PCAOB hosted five forums for auditors of brokers and dealers, drawing 735 participants to Orange County, Calif.; Chicago, Jersey City, Tampa and Las Vegas. The forums included case studies of the auditing standard on related parties and risk assessment of proprietary transactions, as well as the attestation standard for exemption reports.

Seven forums on auditing in the small business environment drew 706 participants to Orange County, Calif.; Chicago, New York City, Dallas, Philadelphia, Tampa and Las Vegas. The forums included case studies on auditing revenue, business combinations and convertible debt.

Audit Committee Outreach

To advance the Board's priority of enhancing outreach to members of audit committees of publicly traded companies, Board members in 2016 participated individually and in groups in a variety of meetings with chairs and members of audit committees. In addition, Board members participated in panel discussions at various conferences to discuss current and pending regulatory initiatives and actions. Board member participation in these meetings and conferences provided audit committees with information about Board activities and fostered dialogue and feedback on matters of mutual interest.

In addition, during 2016 the Board redesigned the audit committee page on the Board's website and addressed aspects of PCAOB publications directly to audit committees.

Scholarships and Student Outreach

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

For the 2016-17 academic year, the PCAOB awarded scholarships of $10,000 to one student at each of 72 colleges and universities to encourage undergraduate and graduate students to pursue careers in audit.

The PCAOB also encouraged future auditors by hosting presentations to 14 groups of accounting students in its offices in 2016 and interacting with students and faculty in accounting and related academic programs at colleges and universities throughout the United States.

ENFORCEMENT

The PCAOB issued a record 54 settled disciplinary orders in 2016, including an order imposing an $8 million civil penalty against Brazil-based Deloitte Touche Tohmatsu Auditores Independentes, the largest monetary penalty ever imposed by the Board.

The order against Deloitte Brazil, released Dec. 5, 2016, settled charges that the firm issued materially false audit reports and attempted to cover up audit violations by improperly altering documents and providing false testimony.

Deloitte Brazil admitted that it violated quality control standards and failed to cooperate with a PCAOB inspection and investigation, the first admissions the PCAOB has obtained from a global network firm.

In addition to the $8 million penalty against the firm, the PCAOB also announced sanctions against 12 former partners and other audit personnel of the firm—including the firm's risk and reputation leader, national professional practice director and audit practice leader—for violations including noncooperation with a PCAOB inspection and subsequent investigation. A former engagement partner also was charged with causing the firm to issue materially false audit reports.

The Board granted significant credit for extraordinary cooperation to one individual—a senior manager on the audit—after he reported to PCAOB staff that senior firm management was obstructing the PCAOB investigation. The Board also granted credit to two other individuals for providing substantial assistance to the investigation.

The final outcomes in five adjudicated disciplinary proceedings were also made public in 2016. In addition to the settlement with Deloitte Brazil, other significant disciplinary actions included:

- On Dec. 5, 2016, the PCAOB announced a $750,000 civil money penalty against Mexico-based Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte Mexico) for failing to effectively implement quality control policies and procedures for audit documentation. In addition, two former Deloitte Mexico partners and another former auditor were sanctioned for violations including audit deficiencies and improper alteration of work papers on a 2010 audit.
- On Sept. 2, 2016, the Securities and Exchange Commission sustained the PCAOB's findings of violations of auditing standards and the imposition of sanctions against a former Ernst & Young partner, Mark E. Laccetti. The matter was the first PCAOB disciplinary proceeding against a Big Four audit partner to proceed through an appeal to the Commission.

The Board uses its investigative authority to address serious audit deficiencies that pose significant risks to investors and other potential violations of the federal securities laws and rules. 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 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 SEC or the opportunity for SEC review has passed.

As of Dec. 31, 2016, Board disciplinary proceedings involving formal allegations of misconduct involving 14 firms and individual auditors were pending but could not be publicly disclosed by the Board because of the statutory restriction.

Summary of Settled Disciplinary Orders

Unless otherwise noted, the settling respondents neither admitted nor denied the Board's findings.

Orders Related to Performance of Audits of Issuers			
Date	**Firm or Individual**	**Nature of Primary Violation**	**Sanctions and Notes**
Jan. 12, 2016	PKF [Hong Kong] PCAOB Release No. 105-2016-001 Hong Kong	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring the testimony of an associated person on behalf of the firm.	Revocation of registration with the right to reapply after three years; censure.
Jan. 12, 2016	Edith Lam Kar Bo PCAOB Release No. 105-2016-002 Hong Kong	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring Respondent's testimony.	Bar with the right to petition for consent to associate after three years; censure.
Jan. 12, 2016	Derek Wan Tak Shing PCAOB Release No. 105-2016-003 Hong Kong	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring Respondent's testimony.	Bar with the right to petition for consent to associate after three years; censure.

Summary of Settled Disciplinary Orders Continued

Orders Related to Performance of Audits of Issuers			
Date	**Firm or Individual**	**Nature of Primary Violation**	**Sanctions and Notes**
Jan. 12, 2016	Kim Wilfred Ti PCAOB Release No. 105-2016-004 Hong Kong	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring Respondent's testimony.	Bar with the right to petition for consent to associate after three years; censure.
Feb. 18, 2016	Clay Thomas, P.C., and Clay Thomas, CPA PCAOB Release No. 105-2016-006 Nacogdoches, Texas	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring the production of certain documents and information. In addition, Thomas failed to appear for testimony. Failure to obtain engagement quality reviews in connection with the audits of two issuer clients. Thomas substantially contributed to the firm's violations.	Firm: Revocation of registration; censure. Thomas: Bar; censure.
Feb. 18, 2016	Scott and Company LLC and Michael J. Slapnik, CPA PCAOB Release No. 105-2016-007 Columbia, S.C.	Violations of independence provisions of securities laws and PCAOB rules and standards in connection with an audit of an issuer client.	Firm: Censure; required remedial measures to ensure compliance with independence criteria in the event that the Board grants a future registration application; $10,000 penalty. Slapnik: Censure.
Feb. 18, 2016	Mark K. Nelson, CPA PCAOB Release No. 105-2016-008 Matthews, N.C.	Violations of independence provisions of securities laws and PCAOB rules and standards in connection with an audit of an issuer client.	Bar with right to petition for consent to associate after one year; censure.
Apr. 12, 2016	Moss, Krusick & Associates, LLC and Joseph M. Krusick, CPA PCAOB Release No. 105-2016-014 Winter Park, Fla.	Violation of independence provisions of securities laws and PCAOB rules and standards in connection with the audit of an issuer client during several audit and engagement periods. Krusick substantially contributed to the firm's violations.	Firm: Revocation of registration with the right to reapply after two years; $10,000 penalty; censure. Krusick: Bar with the right to petition for consent to associate after two years; $5,000 penalty; censure.
Apr. 26, 2016	The Hall Group, CPAs and David S. Hall, CPA PCAOB Release No. 105-2016-015 Lewisville, Texas	Violation of PCAOB rules and auditing standards in connection with the audits of the financial statements of three issuer clients. Failure to comply with PCAOB Auditing Standard No. 7 by failing to have engagement quality reviews performed for the audits by an engagement quality reviewer possessing the required level of knowledge and competence. In addition, for one of the audits, Hall served as the engagement quality reviewer while also serving as the engagement partner for the audit. Failure to comply with PCAOB Rule 4006 and Auditing Standard No. 3 by improperly altering, adding to and backdating archived work papers prior to a Board inspection. Failure to timely file annual report for 2014 and pay annual fee for 2014. Hall substantially contributed to the firm's violations.	Firm: Revocation of registration with the right to reapply after three years; $10,000 penalty; censure. Hall: Bar with the right to petition for consent to associate after three years; censure.
May 18, 2016	AWC (CPA) Limited, Wong Chi Wai, CPA, and Wong Fei Cheung, CPA PCAOB Release No. 105-2016-016 Hong Kong	Violation of PCAOB rules and standards in connection with the audits of the financial statements of an issuer client. Wai and Cheung, among other things, failed to exercise due care and professional skepticism and to obtain sufficient appropriate audit evidence in connection with the audits. Failure to comply with PCAOB Auditing Standard No. 7 by failing to have an engagement quality review performed with objectivity. The firm and Wai violated the independence provisions of securities laws and PCAOB rules and standards in connection with an audit of an issuer client. Wong Chi Wai substantially contributed to the firm's violations.	Firm: Revocation of registration with the right to reapply after two years; $10,000 penalty; censure. Wai: Bar with the right to petition for consent to associate after two years; $10,000 penalty; censure. Cheung: Bar with the right to petition for consent to associate after one year; $5,000 penalty; censure.

Summary of Settled Disciplinary Orders Continued

Orders Related to Performance of Audits of Issuers			
Date	**Firm or Individual**	**Nature of Primary Violation**	**Sanctions and Notes**
May 18, 2016	AWC LLP, Mun Leung Chung, CPA, and Lam Shan Mui, CPA PCAOB Release No. 105-2016-017 New York, N.Y./Hong Kong	Violation of independence provisions of securities laws and PCAOB rules and standards in connection with the audits of an issuer client. Chung failed to comply with PCAOB Auditing Standard No. 7 by providing concurring approval of the issuance of audit reports while acting as an active member of the engagement team. The firm failed to comply with PCAOB quality control standards in connection with the audits by failing to establish adequate policies and procedures. Mui and Chung substantially contributed to the firm's violations.	Firm: Suspension of registration for one year; censure. Chung: Bar with the right to petition for consent to associate after two years; $5,000 penalty; censure. Mui: Limitation on activities in connection with any audit for one year; required continuing professional education; censure.
June 14, 2016	Michael F. Albanese, CPA and Michael F. Albanese, CPA PCAOB Release No. 105-2016-018 Parsippany, N.J.	Violation of PCAOB rules and standards in connection with the audits of an issuer client. Failure to comply with PCAOB Auditing Standard No. 7 when the firm failed to obtain an engagement quality review of the audits. Albanese substantially contributed to the firm's violations.	Firm: Revocation of registration with the right to reapply after two years; $10,000 penalty; censure. Albanese: Bar with the right to petition for consent to associate after two years; censure. Respondents admitted the facts and findings regarding the engagement quality reviews.
June 14, 2016	Jerry L Stanford, CPA and Jerry L. Stanford, CPA PCAOB Release No. 105-2016-019 Maitland, Fla.	Violation of PCAOB rules and standards in connection with the audit of an issuer client. Failure to comply with PCAOB Auditing Standard No. 7 by failing to obtain an engagement quality review of the audit. Stanford substantially contributed to the firm's violations.	Firm: Revocation of registration with the right to reapply after two years; censure. Stanford: Bar with the right to petition for consent to associate after two years; censure. Respondents admitted the facts and findings regarding the engagement quality reviews.
June 14, 2016	Donahue Associates LLC and Brian D. Donahue, CPA PCAOB Release No. 105-2016-020 Monmouth Beach, N.J.	Failure to comply with PCAOB Auditing Standard No. 7, with respect to three issuer audit clients, by failing to obtain engagement quality reviews of the audits. The firm failed to comply despite being on notice from PCAOB inspectors. Firm failed to take certain required steps in connection with an audit after discovery of an apparent illegal act. Donahue substantially contributed to the firm's violations.	Firm: Revocation of registration with the right to reapply after one year; $5,000 penalty; censure. Donahue: Bar with the right to petition for consent to associate after one year; censure. Respondents admitted the facts and findings regarding the engagement quality reviews.
June 14, 2016	Maillie LLP and Laurie Harvey, CPA PCAOB Release No. 105-2016-021 Mont Clare, Pa.	Violation of PCAOB rules and auditing standards in connection with the audits of two issuer clients. Failure to comply with PCAOB Auditing Standard No. 7, with respect to two issuer audit clients by failing to have an engagement quality review performed by a partner or another individual in an equivalent position. Harvey substantially contributed to the firm's violations.	Firm: Required remedial measures directed toward ensuring compliance with Board's engagement quality review requirements; $2,500 penalty; censure. Harvey: Censure.
June 14, 2016	Li and Company, P.C. PCAOB Release No. 105-2016-022 Skillman, N.J.	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring the production of certain documents and information.	Revocation of registration; censure. Respondent admitted the facts, findings and violations.
June 14, 2016	Tony Zhicong Li, CPA PCAOB Release No. 105-2016-023 Skillman, N.J.	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring that Li appear for sworn testimony and produce certain documents and information.	Bar; censure. Respondent admitted the facts, findings and violations.

Summary of Settled Disciplinary Orders Continued

Orders Related to Performance of Audits of Issuers

Date	Firm or Individual	Nature of Primary Violation	Sanctions and Notes
June 14, 2016	Gary L. Singer, CPA PCAOB Release No. 105-2016-024 Skillman, N.J.	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring that Singer appear for sworn testimony and produce certain documents and information.	Bar; censure. Respondent admitted the facts, findings and violations.
June 14, 2016	Chunmin Liu, CPA PCAOB Release No. 105-2016-025 Skillman, N.J.	Noncooperation with a PCAOB investigation by failing to comply with a demand requiring that Liu appear for sworn testimony and produce certain documents and information.	Bar with the right to petition for consent to associate after five years; censure. Respondent admitted the facts, findings and violations.
June 30, 2016	Chun Cho Kwok, CPA, and KCC & Associates PCAOB Release No. 105-2016-026 Los Angeles, Calif.	Violation of PCAOB rules and standards in connection with the audits of one issuer client.	Firm: Revocation of registration with the right to reapply after two years; censure. Kwok: Bar with the right to petition for consent to associate after two years; censure.
Sept. 13, 2016	Goldman Kurland and Mohidin, LLP and Ahmed Mohidin, CPA PCAOB Release No. 105-2016-027 Encino, Calif.	Violation of independence provisions of securities laws and PCAOB rules and standards in connection with the audit for one issuer and reviews for two issuers. Violation of PCAOB rules and standards, including PCAOB Auditing Standard No. 7, in connection with the audits for two issuers. Mohidin substantially contributed to the firm's violations.	Firm: Revocation of registration with the right to reapply after one year; $15,000 penalty; censure. Mohidin: Bar with the right to petition for consent to associate after one year; $15,000 penalty; censure.

Orders Related to Performance of Audits of Issuers

Date	Nature of Primary Violation	Sanctions and Notes
Dec. 5, 2016	Violation of securities laws and PCAOB rules and standards in issuing unqualified audit reports concerning the 2010 financial statements and internal control of an issuer client. Improper alteration of work papers for audits of two issuer clients in connection with a PCAOB inspection in 2012. Failure to cooperate with a PCAOB inspection and investigation. Failure to comply with quality control standards.	Firm: $8 million penalty; practice limitations, including a prohibition on accepting certain new audit work until the firm completes certain remedial measures; firm required to engage an independent monitor and to adopt and implement certain policies and procedures related to the firm's quality control system; firm required to provide additional professional education and training to its associated persons; censure. Firm admitted the facts and findings regarding noncooperation and quality control. Individuals: Sanctions ranging from censures; limitation on activities; suspension; bars with the right to petition for consent to associate after one, three and five years; permanent bar; censure; and penalties ranging from $10,000 to $20,000.

Firm or Individual

Deloitte Touche Tohmatsu Auditores Independentes PCAOB Release No. 105-2016-031 Brazil José Domingos do Prado PCAOB Release No. 105-2016-032 Maurício Pires de Andrade Resende PCAOB Release No. 105-2016-033 Wanderley Olivetti PCAOB Release No. 105-2016-034	André Ricardo Aguillar Paulon PCAOB Release No. 105-2016-035 James Roderick Talbot Oram PCAOB Release No. 105-2016-036 Joao Rafael Belo de Araujo Filho PCAOB Release No. 105-2016-037 Leonardo Fonseca de Freitas Maia PCAOB Release No. 105-2016-038 José Fernando Alves PCAOB Release No. 105-2016-039	Renata Coelho de Sousa Castelli PCAOB Release No. 105-2016-040 Marco Aurelio Paulino Neves PCAOB Release No. 105-2016-041 Simone Pacheco Lemos do Amaral PCAOB Release No. 105-2016-042 Walter Vinicius Barreto Brito Silva PCAOB Release No. 105-2016-043

Summary of Settled Disciplinary Orders Continued

Orders Related to Performance of Audits of Issuers			
Date	**Firm or Individual**	**Nature of Primary Violation**	**Sanctions and Notes**
Dec. 5, 2016	Galaz, Yamazaki, Ruiz Urquiza, S.C. PCAOB Release No. 105-2016-044 Arturo Vargas Arellano, CPC PCAOB Release No. 105-2016-045 Miguel Angel Asencio Asencio PCAOB Release No. 105-2016-046 Aldo Hidalgo de la Rosa PCAOB Release No. 105-2016-047 Mexico	Violation of PCAOB rules and standards from 2011 to 2015 by: repeatedly archiving audit documentation late in connection with issuer audits; failing to effectively implement policies and procedures to provide reasonable assurance that the firm's engagement personnel were timely archiving issuer audit documentation in compliance with Auditing Standard No. 3; and failing to take timely and necessary corrective action upon becoming aware of repeated failures by engagement personnel to archive issuer audit documentation. Failure to cooperate with a PCAOB inspection and investigation.	Firm: $750,000 penalty; requirement that firm certify that it has remediated quality control deficiencies and report quarterly any noncompliance with quality control policies and procedures for one year; requirement that firm provide additional professional education and training to its associated persons; censure. Individuals: Sanctions ranging from censures; bars with the right to petition for consent to associate after two to five years; and penalties ranging from $25,000 to $50,000.
Dec. 13, 2016	Bojan Stokic, CPA PCAOB Release No. 105-2016-048 Las Vegas, Nev.	Violation of PCAOB Auditing Standard No. 7 while serving as engagement quality reviewer for the audit and review of an issuer.	Suspension for one year; censure.
Dec. 13, 2016	David Lee Hillary Jr. and David Lee Hillary Jr. CPA PCAOB Release No. 105-2016-049 Noblesville, Ind.	Violation of PCAOB rules and standards in connection with the firm's audit of an issuer audit client's financial statements. Repeated violations of PCAOB Auditing Standard No. 7 in connection with 24 audits of issuer clients by failing to obtain required engagement quality reviews. Hillary substantially contributed to the firm's violations.	Firm: Revocation of registration; censure. Hilary: Bar; censure. Respondents admitted the facts and findings related to the engagement quality reviews.
Dec. 13, 2016	Deloitte Accountants B.V. PCAOB Release No. 105-2016-051 Rotterdam, Netherlands	Violation of PCAOB rules and standards related to the firm's system of quality control and independence.	$300,000 penalty; censure.
Dec. 20, 2016	David C. Lee, CPA PCAOB Release No. 105-2016-052 Issaquah, Wash.	Violation of PCAOB rules and standards in connection with five audits for one issuer client.	Bar with right to petition for consent to associate after two years; $10,000 penalty; censure.
Dec. 20, 2016	Arshak Davtyan, Inc. and Arshak Davtyan, CPA PCAOB Release No. 105-2016-053 Salt Lake City, Utah	Violation of PCAOB rules and standards in connection with two audits of one issuer client.	Firm: Revocation of registration with the right to reapply after two years; censure. Davtyan: Bar with the right to petition for consent to associate after two years; censure.
Dec. 20, 2016	Scrudato & Co., PA and John Scrudato, CPA PCAOB Release No. 105-2016-054 Califon, N.J.	Violation of PCAOB rules and standards in connection with the audits of five issuer clients.	Firm: Revocation of registration with the right to reapply after two years; $15,000 penalty; censure. Scrudato: Bar with the right to petition for consent to associate after two years; censure.

Summary of Settled Disciplinary Orders Continued

Orders Related to Audits of Brokers and Dealers			
Date	**Firm or Individual**	**Nature of Primary Violation**	**Sanctions And Notes**
Mar. 15, 2016	Carnaghi & Schwark, PLLC PCAOB Release No. 105-2016-009 Roseville, Mich. Holt & Patterson, LLC PCAOB Release No. 105-2016-010 Chesterfield, Mo. Keiter, Stephens, Hurst, Gary & Shreaves, P.C. PCAOB Release No. 105-2016-011 Glen Allen, Va. Steven G. Hirshenson, Chartered PCAOB Release No. 105-2016-012 Rockville, Md. WJB & Co., P.C. PCAOB Release No. 105-2016-013 Athens, Ga.	Violation of Commission independence criteria by preparing financial statements for registered broker-dealer audit clients, auditing the financial statements and issuing audit reports on the financial statements.	Censures; $2,500 penalties; required remedial measures to ensure compliance with independence criteria.
Sept. 15, 2016	Berkow, Schechter & Company LLP and Neil H. Berkow, CPA PCAOB Release No. 105-2016-028 Stamford, Conn. Jackson, Howell & Associates, PLLC PCAOB Release No. 105-2016-029 Cordova, Tenn. Roth & Company, P.C. and Jerome A. Carlson, CPA PCAOB Release No. 105-2016-030 Des Moines, Iowa	Violation of Commission independence criteria by preparing financial statements for registered broker-dealer audit clients, auditing the financial statements and issuing audit reports on the financial statements.	Firms: Censures; penalties ranging from $2,500 to $20,000; required remedial measures directed toward ensuring independence; prohibitions on accepting any new broker-dealer clients. Individuals: Bars from being an associated persons of a registered public accounting firm with right to petition for consent to associate after one year; penalties ranging from $5,000 to 10,000; censures. The Berkow, Schechter & Company and Roth & Company respondents admitted the facts, findings and violations.
Dec. 13, 2016	Tamas B. Revai, CPA and Tamas B. Revai, CPA PCAOB Release No. 105-2016-050 New York, N.Y.	Violation of PCAOB rules and standards concerning auditor independence in connection with the audit of a broker-dealer. Violation of PCAOB rules and standards in connection with the firm's review engagement regarding the examination of a broker-dealer's exemption report. Violation of PCAOB rules and standards in connection with the PCAOB's inspection of the firm. Failure to file annual report for 2016 and pay annual fee for 2016.	Firm: Revocation of registration with the right to reapply after three years; censure. Revai: Bar with the right to petition for consent to associate after three years; censure. Respondents admitted the facts and findings regarding independence and noncooperation.

Summary of Settled Disciplinary Orders Continued

Order Related to Non-Compliance with Annual Reporting and Fee Requirements			
Date	**Firm or Individual**	**Nature of Primary Violation**	**Sanctions and Notes**
Jan. 21, 2016	Kantor Akuntan Publik Jimmy Budhi PCAOB Release No. 105-2016-005 Jakarta, Indonesia	Failure to timely file annual report for 2014 and pay annual fees for 2013 and 2014 to the PCAOB.	$1,000 penalty; suspension of registration for one year; censure.

Summary of Adjudicated Disciplinary Orders			
Date	**Firm or Individual**	**Nature of Primary Violation**	**Sanctions and Notes**
Jan. 12, 2016	David W. Dube PCAOB File No. 105-2014-005 Largo, Fla.	Failure to file annual reports and to pay annual fees for the years 2012, 2013 and 2014.	Revocation of registration; $10,000 penalty; censure.
Mar. 22, 2016	Chr. Mortensen-Revisionsfirma, statsautoriseret revisionsinteressentskab PCAOB File No. 105-2015-008 Copenhagen, Denmark	Failure to file annual reports for the years 2012, 2013 and 2014.	Revocation of registration; $7,500 penalty; censure.
Sept. 13, 2016	Monte C. Waldman CPA PCAOB File No. 105-2015-013 Miami, Fla.	Failure to timely file annual reports and to timely pay annual fees for the years 2014 and 2015. In addition, annual reports ultimately filed were inaccurate and misleading in violation of PCAOB Rule 2200.	Revocation of registration with right to apply after one year; $2,500 penalty; censure.
Oct. 17, 2016	Gale Moore, CPA PCAOB File No. 105-2012-004 Irvine, Calif.	Violation of PCAOB rules and auditing standards in connection with an audit of an issuer's financial statements.	Bar with the right to petition for consent to associate after two years; limitation on activities by restricting her for two years from serving on any audit in the role of engagement partner or in the role of engagement quality; censure.
Oct. 21, 2016	Mark E. Laccetti, CPA PCAOB File No. 105-2009-007 New Jersey	Violation of PCAOB rules and auditing standards in connection with the audit of a foreign issuer's consolidated financial statements.	Bar with the right to petition for consent to associate after two years; $85,000 penalty. Respondent appealed to D.C. Circuit Court of Appeals.

ADMINISTRATION

The PCAOB is focused on the careful stewardship of its resources. 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.

The Sarbanes-Oxley Act of 2002 established the PCAOB as a nonprofit, non-governmental corporation 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 issuers and brokers and dealers registered with the Securities and Exchange Commission.

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 2015-2019, which supported the 2016 budget, focused on, among other areas: further improvements in the standard-setting program, including refinements in the timing and conduct of research and analysis and the solicitation of public comment; further integration of economic analysis into the PCAOB's programs; exploring ways to promote interactive communication between the PCAOB and audit committees; and advancing thought and practice in the area of audit quality indicators.

SEC Oversight

The Sarbanes-Oxley Act gives the SEC oversight authority over the PCAOB, including authority for appointing and removing Board members. The SEC also is responsible for reviewing and approving the PCAOB's annual budget and accounting support fee.

PCAOB rules, including its auditing and related professional practice standards, do not go into effect until approved by the SEC. In addition, adverse PCAOB inspection reports and disciplinary actions against registered firms and their associated persons are subject to review by the SEC.

On Dec. 23, 2016, Board Member Jay D. Hanson informed the Board that he had submitted his resignation to the SEC after serving since January 2011.

Budget

The PCAOB's budget for 2016, as adopted by the Board on Nov. 24, 2015, was approximately $257.7 million, 2.7 percent more than the Board's 2015 budget of $250.9 million, largely due to increases related to the PCAOB's staffing and consulting costs. The SEC approved the PCAOB's 2016 budget and accounting support fee March 14, 2016.

On Nov. 17, 2016, the Board adopted its strategic plan for 2016–2020 and its 2017 budget of approximately $268.5 million. The SEC approved the 2017 budget and accounting support fee Dec. 14, 2016.

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 issuers as well as SEC-registered brokers and dealers. The total accounting support fee for 2016 was approximately $253.3 million, with $220.9 million allocated to issuers and $32.4 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. The fees assessed in 2016 totaled $1.5 million.

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 2016, equity issuers with an average, monthly market capitalization greater than $75 million during the preceding calendar year and investment company issuers 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 2016, equity issuers were assessed approximately 93.4 percent of the total issuer accounting support fee, and investment company issuers were assessed the remaining 6.6 percent, similar to the allocations in 2015.

The PCAOB invoiced 8,780 issuers approximately $220.9 million in 2016, compared to 8,762 issuers invoiced approximately $199.1 million in 2015. Approximately 30.0 percent of the issuers billed in 2016 received invoices for $1,000 or less.

Issuer Accounting Support Fee

Assessment Ranges	Number Of Issuers	
	2016	2015
$100–500	808	992
$501–1,000	1,818	1,785
$1,001–5,000	3,097	3,037
$5,001–10,000	922	889
$10,001–50,000	1,416	1,388
$50,001–100,000	315	296
$100,001–500,000	334	314
$500,001–1,000,000	39	36
$1,000,001+	31	25
Total	**8,780**	**8,762**

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 2016, 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 661 brokers and dealers approximately $32.4 million in 2016, compared to 654 brokers and dealers invoiced approximately $27.5 million in 2015. In 2016, approximately 16.0 percent of the brokers and dealers billed received invoices for $1,000 or less, and the largest 100 invoice amounts comprised approximately 92.5 percent of the total broker-dealer accounting support fee.

Broker-Dealer Accounting Support Fee

Assessment Ranges	Number Of Brokers And Dealers	
	2016	2015
$100–500	0	0
$501–1,000	106	135
$1,001–5,000	305	288
$5,001–10,000	82	76
$10,001–50,000	103	93
$50,001–100,000	16	23
$100,001–500,000	33	26
$500,001–1,000,000	6	4
$1,000,001+	10	9
Total	**661**	**654**

Registration and Annual Fees from Accounting Firms

In 2016, the PCAOB assessed annual fees totaling approximately $1.5 million to 2,061 registered public accounting firms, compared to $1.6 million to 2,154 registered firms in 2015. 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	
	2016	2015
$100,000	4	4
$25,000	3	3
$500	2,054	2,147
Total	**2,061**	**2,154**

In 2016, the PCAOB collected approximately $37,500 in registration application fees from 75 firms, compared to $39,500 in registration fees collected from 79 firms in 2015.

Staffing

The PCAOB's staff totaled 856 as of Dec. 31, 2016, and worked in 16 offices, including the headquarters in Washington, D.C. More than 60 percent of the PCAOB's staff work in the Division of Registration and Inspections.

Information Technology

In 2016, the PCAOB maintained its focus on automating processes and improving productivity through the use of technology. It launched a new public website with enhanced navigation and search and better support for mobile devices. It enhanced its registration and annual reporting platform for audit firms to support Form AP. It implemented enhanced analytics capabilities in support of its inspections processes. And it deployed a virtual desktop for improved mobility and business continuity support. In addition, the PCAOB continued to enhance its security controls in response to evolving cybersecurity threats.

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 Government Auditing Standards, which provide a framework for conducting high quality audits with competence, integrity, objectivity and independence.

In 2016, IOPA completed performance reviews of the PCAOB's payroll and paid time off reporting and Office of Administration initiatives for 2015-2018. Summaries of the reviews were transmitted to the Chair and Commissioners of the SEC and are posted on the PCAOB's website.

FINANCIAL REVIEW

Overview

This financial review, together with the 2016 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, as amended, (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 SEC-registered brokers and dealers, as well as examinations of compliance reports and reviews of exemption reports, to further promote investor protection.

The Sarbanes-Oxley Act gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies or SEC-registered brokers or dealers; inspection of registered public accounting firms that audit public companies or SEC-registered 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 for financial reporting purposes. The other program activities presented for these purposes are: enforcement, standard setting, economic and risk analysis, and Board and related activities.

In addition, the Statements of Activities include the following supporting activities: administration and general, communications, and information technology. "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" includes costs associated with 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, 2016, and 2015:

(in millions)	**2016**	**2015**
Net revenues	$ 254.7	$ 228.1
Total operating expenses	(249.7)	(250.1)
Operating income (loss)	5.0	(22.0)
Interest income and other	0.2	0.2
Net civil monetary penalties and interest	9.5	0.2
Scholarship payments	(0.7)	(0.8)
Increase (decrease) in unrestricted net assets	$ 14.0	$ (22.4)

Net revenues increased by $26.6 million or 11.7%. This is due to a larger accounting support fee for 2016 as compared to 2015. 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 cash on hand and certain other adjustments.

Expenses decreased by $0.4 million or 0.2%. This decrease is primarily driven by a decrease in travel-related costs and consulting and professional services, which is partially offset by higher costs in personnel and information technology-related expenses.

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 2015 and 2016, 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, 2016, and Dec. 31, 2015, the PCAOB had sequestered funds related to its budget of $16.0 million and $17.0 million, respectively. Although the scholarship program is potentially subject to sequestration in future years, no scholarship funds were subject to sequestration in 2015 or 2016.

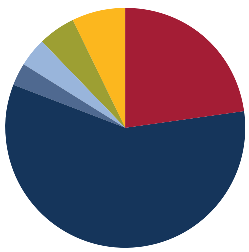
STATEMENTS OF FINANCIAL POSITION

As of Dec. 31, 2016, the PCAOB had net assets of $136.6 million, as compared to net assets of $122.6 million at Dec. 31, 2015. The PCAOB has not incurred any debt; however, there are operating lease obligations with future minimum lease payments totaling $193.5 million through 2028.

Assets

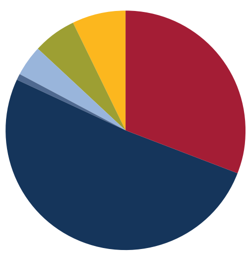
Assets by Type
As of Dec. 31, 2016

- **23%** Cash and cash equivalents
- **58%** Short-term Investments
- **3%** Accounts & other receivables
- **4%** Prepaid expenses & other assets
- **5%** Leasehold incentives
- **7%** Property and equipment



Assets by Type
As of Dec. 31, 2015

- **31%** Cash and cash equivalents
- **51%** Short-term Investments
- **1%** Accounts & other receivables
- **4%** Prepaid expenses & other assets
- **6%** Leasehold incentives
- **7%** Property and equipment



Assets by Type as of Dec. 31, 2016 and 2015:

(in millions)	**2016**	**2015**
Cash and cash equivalents	$ 42.9	$ 52.6
Short-term investments	106.0	85.0
Accounts and other receivables, net	4.5	1.1
Prepaid expenses and other assets	7.4	6.6
Leasehold incentives	9.5	10.2
Furniture and equipment, leasehold improvements, and technology, net	12.7	12.4
Total assets	**$183.0**	**$167.9**

The PCAOB's total assets increased by $15.1 million from $167.9 million at Dec. 31, 2015, to $183.0 million at Dec. 31, 2016, primarily due to an overall increase in short-term investments and accounts and other receivables.

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 and Other Receivables" 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 $9.7 million from $52.6 million at Dec. 31, 2015, to $42.9 million at Dec. 31, 2016. This decrease is largely due to the timing of the investments of the PCAOB's cash.

At Dec. 31, 2016 and 2015, cash and cash equivalents included $8.4 million and $3.6 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 57.9% as of Dec. 31, 2016, and 50.7% as of Dec. 31, 2015. As of Dec. 31, 2016, the PCAOB held $106.0 million in investments in U.S. government securities. This represents an increase of $21.0 million from the $85.0 million invested in U.S. government securities as of Dec. 31, 2015.

The increase was a result of the timing of investing cash in U.S. government securities, the larger accounting support fee in 2016, and lower than budgeted spending in 2016 which resulted in more cash available for investment as of Dec. 31, 2016.

Accounts and Other Receivables

Accounts and other receivables consist of uncollected accounting support fees from issuers and brokers and dealers, annual fees from registered accounting firms and enforcement penalties, less an allowance for doubtful accounts. Accounts and other receivables increased from approximately $1.1 million as of Dec. 31, 2015, to $4.5 million as of Dec. 31, 2016. The increase is a result of an $8.0 million civil monetary penalty that was imposed in December 2016, of which $4.0 million remained unpaid as of year-end.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets increased by $0.8 million from approximately $6.6 million as of Dec. 31, 2015, to $7.4 million as of Dec. 31, 2016. Generally, the types of prepayments were consistent with those of the prior year, such as for office rent, business insurance, IT software licenses and maintenance expenses, and health insurance premiums. The increase primarily relates to increased IT software and maintenance payments.

Leasehold Incentives

Leasehold incentives decreased by $0.7 million from approximately $10.2 million as of Dec. 31, 2015, to $9.5 million as of Dec. 31, 2016. The decrease primarily relates to the use of leasehold incentives for renovation projects in the PCAOB's Washington, D.C., and Denver, Co., offices in 2016.

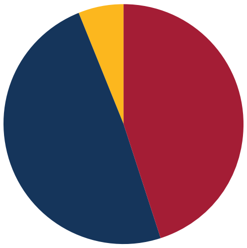
Furniture and Equipment, Leasehold Improvements and Technology

Furniture and equipment, leasehold improvements and technology increased from $12.4 million at Dec. 31, 2015, to $12.7 million at Dec. 31, 2016. The increase relates to additions of approximately $5.1 million (including $1.1 million in fixed assets purchased using leasehold incentives) in 2016 partially offset by depreciation and amortization expenses of approximately $4.4 million and the write-off of certain IT costs of approximately $0.4 million.

Liabilities

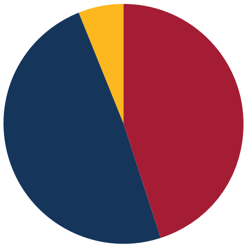
Liabilities by Type
As of Dec. 31, 2016

45% Accrued personnel & benefits
49% Deferred rent
6% Other liabilities



Liabilities by Type
As of Dec. 31, 2015

45% Accrued personnel & benefits
49% Deferred rent
6% Other liabilities



Liabilities by Type as of Dec. 31, 2016 and 2015:

(in millions)	**2016**	**2015**
Accounts payable and other liabilities	$23.6	$23.3
Deferred rent	22.7	22.0
Total liabilities	**$46.3**	**$45.3**

The PCAOB's total liabilities increased from $45.3 million at Dec. 31, 2015, to $46.3 million at Dec. 31, 2016, or 2.2%, primarily due to an increase in deferred rent and vendor payables.

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 from $23.3 million as of Dec. 31, 2015, to $23.6 million as of Dec. 31, 2016. The net increase of $0.3 million was primarily due to an increase in accrued paid time off and fixed asset purchases partially offset by a decrease in accrued travel, compensation and other expenses.

Deferred Rent

Deferred rent increased to approximately $22.7 million as of Dec. 31, 2016, from $22.0 million as of Dec. 31, 2015. The increase of approximately $0.7 million relates to the recognition of rent of $1.4 million and the commencement of new lease terms that included a tenant improvement allowance of approximately $0.4 million for the Charlotte, N.C., office. These increases were partially offset by the amortization of tenant 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, 2016, $12.4 million of the PCAOB's net assets were designated for scholarship funds. This represents an increase of approximately $8.8 million from the $3.6 million designated for scholarship funds as of Dec. 31, 2015. The net increase results from the PCAOB's imposition of civil monetary penalties of approximately $9.5 million offset by $720,000 in scholarships awarded during 2016.

Designated for Sequestration—The statements of financial position include unrestricted net assets designated for sequestration, including interest earned. In March 2013, OMB determined that the PCAOB's budget and scholarship program are potentially subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a . On Feb. 2, 2015, OMB issued a report, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2016," specifying that $16 million of the PCAOB's 2016 budget funds were subject to sequestration.

These sequestered funds remained unspent as of Dec. 31, 2016, and are included in short-term investments in the accompanying statements of financial position. In a separate report issued on Feb. 9, 2016, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2017," OMB specified that the PCAOB's sequestration amount was $17 million in 2017. In 2017, the PCAOB will use the $16 million sequestered in 2016 to offset the $17 million sequestered in 2017. The deficit will be covered by submitting a revised spending plan for 2017 which reduces the PCAOB's approved budget by $1 million. No scholarship funds were subject to sequestration in 2016.

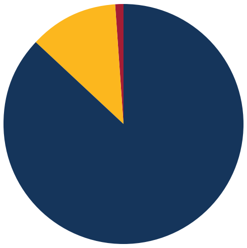
STATEMENTS OF ACTIVITIES

Overall, revenues for 2016 increased by $26.6 million or 11.7% compared to 2015, as a result of an increase in the accounting support fee assessed on issuers and broker and dealers.

Revenues

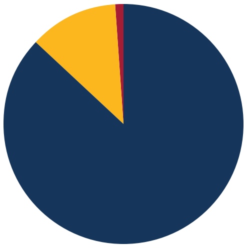
Operating Revenue
2016

87% Issuer ASF
12% Broker and dealer ASF
1% Registration and annual fees



Operating Revenue
2015

87% Issuer ASF
12% Broker and dealer ASF
1% Registration and annual fees



Components of operating revenue in 2016 and 2015:

(in millions)	**2016**	**2015**
Issuer accounting support fee	$ 220.8	$ 199.1
Broker-dealer accounting support fee	32.4	27.4
Registration and annual fees from PCAOB-registered public accounting firms	1.5	1.6
Total operating revenue	**$254.7**	**$228.1**

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 2016 and 2015 was $220.8 million and $199.1 million, respectively, and the broker-dealer portion for 2016 and 2015 was $32.4 million and $27.4 million, respectively. The overall increase in the 2016 accounting support fees as compared to 2015 was due to a lesser amount of excess cash to reduce the 2016 accounting support fee coupled with the increase in the PCAOB's 2016 budget.

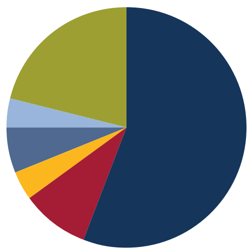
All public accounting firms registered with the PCAOB are required to file annual reports and pay annual fees. The annual fees cover costs related to the review and processing of annual reports. The PCAOB also assesses registration application fees. The $1.5 million in registration and annual fees assessed in 2016 were generally consistent with the fees assessed in 2015.

Expenses

The PCAOB's expenses are largely driven by employee-related costs. Overall, operating expenses decreased by approximately $0.4 million, or 0.2% from 2015 to 2016. This decrease is discussed below, from both a programmatic and functional perspective.

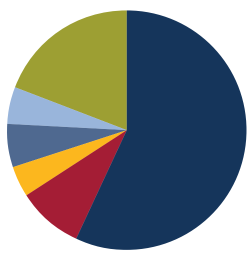
Expenses
2016

- 56% Registration and inspections
- 9% Enforcement
- 4% Standard setting
- 6% Economic and risk analysis
- 4% Board and related activities
- 21% Supporting activities



Expenses
2015

- 57% Registration and inspections
- 9% Enforcement
- 4% Standard setting
- 6% Economic and risk analysis
- 5% Board and related activities
- 19% Supporting activities



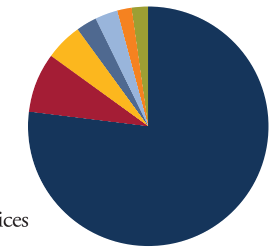
Operating expenses in 2016 and 2015:

(in millions)	**2016**	**2015**
Program Activities:		
Registration and inspections	$140.7	$141.8
Enforcement	22.1	22.1
Standard setting	8.7	9.5
Economic and risk analysis	15.6	14.9
Board and related activities	10.7	11.4
Supporting Activities	51.9	50.4
Total operating expenses	**$249.7**	**$250.1**

Personnel-related costs are the PCAOB's largest expense. These costs increased by $2.5 million in 2016. The increase was primarily driven by annual increases related to employee merit, promotion, and variable compensation, as well as an increase in headcount from 851 employees as of Dec. 31, 2015, to 856 employees as of Dec. 31, 2016.

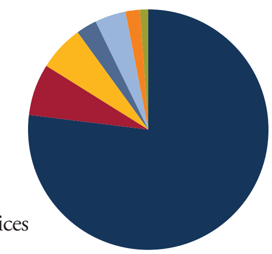
Expenses by Type
2016

- 77% Personnel costs
- 8% Occupancy costs
- 5% Travel expenses
- 3% IT-related expenses
- 3% Consulting and professional services
- 2% General and administrative expenses
- 2% Depreciation



Expenses by Type
2015

- 76% Personnel costs
- 8% Occupancy costs
- 6% Travel expenses
- 3% IT-related expenses
- 4% Consulting and professional services
- 2% General and administrative expenses
- 1% Depreciation



Operating expenses in 2016 and 2015:

(in millions)	**2016**	**2015**
Personnel costs	$ 192.2	$ 189.7
Occupancy costs	18.7	18.7
Travel expenses	12.4	15.1
Information technology-related expenses	8.4	7.6
Consulting and professional services	8.1	10.0
General and administrative expenses	5.5	5.6
Depreciation	4.4	3.4
Total operating expenses	**$249.7**	**$250.1**

Occupancy costs remained generally consistent as compared to the prior year. Travel expenses decreased as compared to prior year due to a concerted effort to limit travel spending in order to stay within the level budgeted for 2016, which was lower than the prior year.

Costs associated with information technology increased by $0.8 million due to an increase in service and maintenance costs. Consulting and professional services decreased from $10.0 million in 2015 to $8.1 million in 2016 due to a change in the mix of projects that required consulting services.

General and administrative expenses, which include business insurance, office supplies, printing and copying, and subscriptions, remained generally consistent year-over-year. Depreciation expense increased from $3.4 million in 2015 to $4.4 million in 2016 due to hardware and furniture purchases of $2.0 million and technology development projects that were placed in service in 2016 and 2015.

Other Revenue and Expenses

Components of other revenue (expenses) in 2016 and 2015:

(in millions)	**2016**	**2015**
Interest and other income	$ 0.2	$ 0.2
Net civil monetary penalties and interest	9.5	0.2
Scholarship payments	(0.7)	(0.8)
Total other revenue (expenses)	**$9.0**	**$(0.4)**

Interest and other income includes interest generated by the PCAOB's investments, 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, and other miscellaneous income offset by a loss associated with the write-off of certain IT costs. 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 increase in other revenue (expenses) is primarily due to an increase in civil monetary penalties imposed in 2016 as compared to 2015.

FINANCIAL REPORTING MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The PCAOB's financial reporting management—including the chairman, the chief administrative officer, and the director of finance—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, 2016. 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.*

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, 2016, and 2015, 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, 2016, 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, 2016, and 2015, 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, 2016, 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
March 28, 2017

December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 42,852,718	$ 52,615,187
Short-term investments	106,004,999	84,976,160
Accounts and other receivables, net of allowance	4,534,753	1,078,839
Prepaid expenses and other assets	7,412,414	6,648,656
Leasehold incentives	9,466,800	10,182,970
Furniture and equipment, leasehold improvements, and technology, net	12,681,440	12,410,038
TOTAL ASSETS	**$182,953,124**	**$167,911,850**
Liabilities And Net Assets		
Liabilities		
Accounts payable and other liabilities	$ 23,619,116	$ 23,258,079
Deferred rent	22,708,983	22,050,760
Total liabilities	46,328,099	45,308,839
Unrestricted Net Assets		
Undesignated	108,160,624	101,947,495
Statutorily designated for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act	12,405,336	3,626,276
Statutorily designated for sequestration	16,059,065	17,029,240
Total net assets	136,625,025	122,603,011
TOTAL LIABILITIES AND NET ASSETS	**$182,953,124**	**$167,911,850**

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

For the years ended December 31, 2016 and 2015

	2016	2015
Changes in Unrestricted Net Assets		
Net operating revenue		
Issuer accounting support fee	$220,784,400	$199,103,800
Broker-dealer accounting support fee	32,421,400	27,444,900
Registration and annual fees from PCAOB-registered public accounting firms	1,514,500	1,558,500
Total net operating revenue	254,720,300	228,107,200
Operating expenses		
Program activities		
Registration and inspections	140,745,675	141,786,231
Enforcement	22,117,476	22,098,181
Standard setting	8,709,282	9,458,456
Economic and risk analysis	15,573,473	14,878,759
Board and related activities	10,686,551	11,440,972
Supporting activities		
Administration and general	25,788,719	25,555,927
Communications	2,660,419	2,551,619
Information technology	23,445,349	22,338,186
Total operating expenses	249,726,944	250,108,331
Operating Income (Loss)	4,993,356	(22,001,131)
Other Revenue (Expenses)		
Interest income and other	249,598	226,773
Net civil monetary penalties and interest	9,475,500	232,000
Scholarship payments	(696,440)	(817,480)
Total other revenue (expenses)	9,028,658	(358,707)
Increase (Decrease) in Unrestricted Net Assets	14,022,014	(22,359,838)
Unrestricted Net Assets—Beginning of Year	122,603,011	144,962,849
Unrestricted Net Assets—End of Year	$136,625,025	$122,603,011

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

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from issuers	$ 221,590,540	$ 198,481,175
Cash received from broker-dealers	32,435,916	29,519,313
Cash received from registered public accounting firms	1,517,129	1,560,508
Interest income and other	480,389	495,511
Cash received from civil monetary penalties and interest	5,461,459	233,477
Cash paid to fund scholarships, net of refunds	(696,440)	(817,480)
Cash paid to suppliers and employees	(246,791,724)	(243,923,635)
Net cash provided by (used in) operating activities	13,997,269	(14,451,131)
Cash Flows from Investing Activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(2,730,900)	(2,461,626)
Purchases of short-term investments	(180,805,558)	(159,930,556)
Proceeds from the maturity of short-term investments	159,776,720	196,913,064
Net cash (used in) provided by investing activities	(23,759,738)	34,520,882
(Decrease) Increase in Cash and Cash Equivalents	(9,762,469)	20,069,751
Cash and Cash Equivalents—Beginning of Year	52,615,187	32,545,436
Cash and Cash Equivalents—End of Year	$42,852,718	$ 52,615,187
Reconciliation of Increase (Decrease) in Unrestricted Net Assets to Net Cash Provided by (Used In) Operating Activities		
Increase (decrease) in unrestricted net assets	$14,022,014	$ (22,359,838)
Reconciliation adjustments		
(Recoveries of) provision for doubtful accounts receivable	(142,049)	278,043
Depreciation and amortization	4,436,807	3,399,037
Loss on disposal of fixed assets	345,832	407,210
(Increase) decrease in accounts and other receivables	(3,313,865)	1,053,885
Increase in prepaid expenses and other assets, net of allowance	(763,758)	(533,676)
Decrease in leasehold incentives	—	1,257,000
(Decrease) increase in accounts payable and other liabilities	(858,980)	1,237,474
Increase in deferred rent	271,268	809,734
Net cash provided by (used in) operating activities	$13,997,269	$ (14,451,131)
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Fixed asset purchases acquired but not paid for as of year-end	$1,314,666	$ 94,648
Fixed asset purchases acquired through the use of leasehold incentives	1,103,125	506,190
Leasehold incentives acquired through entering into new or amended leases	386,955	152,700

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

Note 1—Organization

The Public Company Accounting Oversight Board (PCAOB) is a nonprofit corporation established by the Sarbanes-Oxley Act of 2002, as amended, (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 U.S. Securities and Exchange Commission (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 for financial reporting purposes are: registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. The supporting activities are administration and general, communications, and information technology.

Note 2—Summary Of Significant Accounting Policies

***Presentation*—**The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and are presented pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification 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, economic and risk 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 an overnight automated investment sweep agreement. Pursuant to this agreement, the PCAOB invests its excess cash at the end of each business day in a money market fund that invests in high quality money market instruments (primarily U.S. Government/Agency obligations and repurchase agreements). Purchased money market fund shares are held by the financial institution, as agent, on an overnight basis and are liquidated by the financial institution on the next business day at an agreed-upon price. In the event of the financial institution's failure or default, the PCAOB could experience a delay in disposing of such 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.

Short-term investments consist of investments in U.S. Treasury bills. All short-term investments mature within one year of purchase.

***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 a daily overnight investment sweep agreement that invests excess cash in a money market fund.

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

***Fair Value of Financial Instruments*—**The fair values of cash and cash equivalents, short-term investments, accounts and other receivables, 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 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 and may impose civil monetary penalties.

Annual Accounting Support Fees—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.

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 they are assessed.

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

Civil Monetary Penalties—PCAOB sanctions may include civil monetary penalties pursuant to Section 105 of the Sarbanes-Oxley Act. Civil monetary penalties are recognized as other revenue in the year the sanctions are effective.

***Leasehold Incentives*—**Leasehold incentives represent amounts that the PCAOB's landlords have contractually agreed to pay for leasehold improvements. Portions of the leasehold incentives may also be used by the PCAOB for other purposes, as provided for in the respective lease agreements (e.g., offset of rent, purchase of furniture). 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 construction costs are capitalized as leasehold improvements. The leasehold incentive 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 lease term. The differences between rent expense recognized and rental payments made, as stipulated in the leases, are recognized as increases or decreases to deferred rent.

In addition, leasehold incentives obligated 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*—**The PCAOB imposed civil monetary penalties totaling approximately $9.5 million and $0.2 million for the years ended Dec. 31, 2016 and 2015, 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 in both 2016 and 2015, and is netted against the receivable included in "Accounts and other receivables" on the accompanying statements of financial position. As of Dec. 31, 2016 and 2015, the PCAOB had $8.4 million and $3.6 million, respectively, included in cash and cash equivalents related to civil monetary penalties collected. Amounts collected are required to be used to award merit scholarships to students of accredited accounting degree programs, after annual congressional appropriation for that use of the monetary penalties.

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 2016 and 2015 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 2016 and 2015. This amount is included in "Interest income and other" in the accompanying statements of activities. As of Dec. 31, 2016 and 2015, the PCAOB had $26,656 and $38,535, 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, 2016 and 2015.

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.

Reclassifications—Amounts related to civil monetary penalties receivables have been reclassified to "Accounts and other receivables, net of allowance" from "Prepaid expenses and other assets." Amounts presented in the prior period have been reclassified to conform to the current-period financial statement presentation. These reclassifications have no effect on previously reported operating income or unrestricted net assets.

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

New Accounting Standards—In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which impacts virtually all aspects of an entity's revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for the PCAOB's 2019 fiscal year. Management is evaluating the impact of this new standard, including possible transition alternatives, on the PCAOB's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with GAAP, the recognition, measurement and presentation of expenses and cash flows will depend on its classification as a finance or operating lease. However, unlike current GAAP— which requires only capital leases to be recognized on the statement of financial position—the new ASU will require both types of leases to be recognized on the statement of financial position. The new standard is effective for the PCAOB for the 2019 fiscal year. The PCAOB is evaluating the impact of the pending adoption of the new standard on the financial statements. As shown in Note 5, the future minimum lease payments of the operating leases are more than $193 million, the majority of which are related to leases with terms in excess of 12 months. The present value of those payments, which the PCAOB will recognize upon adoption of the ASU as assets and lease liabilities, will be material.

In August 2016, the FASB issued an ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This ASU is effective for the PCAOB's 2018 fiscal year. The PCAOB is currently evaluating the impact of this new standard.

In November 2016, the FASB issued an ASU No. 2016-18, *Statement of Cash Flows (Topic 230)—Restricted Cash* to eliminate the diversity in practice of the presentation of restricted cash and cash equivalents in the statement of cash flows. Under the new standard, restricted cash and cash equivalents will be included in the amount of cash and cash equivalents in the statement of cash flows. This ASU is effective for the PCAOB's 2019 fiscal year. The PCAOB is evaluating the impact of this new standard. This new standard is not expected to have a material impact on the PCAOB's financial statements since cash held for others under agency agreement and cash held for statutorily designated for scholarships are included in cash and cash equivalents in the statement of cash flows.

Note 3—Accounts And Other Receivables

Accounts receivable consist of the following as of Dec. 31, 2016 and 2015:

	2016	2015
Accounts receivable—Issuer Accounting Support Fee	$ 262,650	$1,200,499
Accounts receivable—Broker-Dealer Accounting Support Fee	38,147	44,324
Accounts receivable—Annual Fees	132,520	112,149
Accounts receivable—Other	273,438	126,238
Other receivable—Civil Monetary Penalties	4,280,564	248,523
	4,987,319	1,731,733
Less: allowance for doubtful accounts	(452,566)	(652,894)
Accounts and other receivables, net of allowance	$ 4,534,753	$1,078,839

Note 4—Furniture And Equipment, Leasehold Improvements, And Technology

Furniture and equipment, leasehold improvements, and technology consist of the following as of Dec. 31, 2016 and 2015:

	2016	2015
Technology		
Hardware	$11,163,647	$ 9,909,493
Purchased and developed software	13,199,483	13,763,336
Leasehold improvements	18,839,180	17,445,412
Furniture and equipment	9,498,890	9,126,434
Technology development in process	1,758,010	2,243,915
Construction in process	1,736,473	1,327,807
	56,195,683	53,816,397
Accumulated depreciation and amortization	(43,514,243)	(41,406,359)
Furniture and equipment, leasehold improvements, and technology	$12,681,440	$12,410,038

Depreciation and amortization expense was approximately $4.4 million and $3.4 million for the years ended Dec. 31, 2016, and 2015, respectively.

Note 5—Lease Commitments

As of Dec. 31, 2016, the PCAOB had long-term leases for office space in Washington, D.C.; New York, N.Y.; Ashburn, Va.; Charlotte, N.C.; Foster City, 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. Most of these leases contain escalation clauses and an option to renew at prevailing market rental values.

Under the Washington, D.C., lease, which expires in 2028, the PCAOB is entitled to receive leasehold incentives of approximately $10.2 million. The lease also provides that to the extent the PCAOB has not expended the full amount of the leasehold incentives by Aug. 1, 2021, the PCAOB may apply up to $1.4 million of the unused leasehold incentives toward the payment of rent becoming due under the lease. During 2016 and 2015, leasehold improvements of approximately $0.5 million and $0.2 million, respectively, were paid for by the landlord.

Additionally, during 2015 and 2016, the PCAOB amended or entered into certain long-term leases that resulted in the landlords granting leasehold incentives. During 2016, the PCAOB recognized increases in leasehold incentives of approximately $0.4 million as the related space came under the PCAOB's control. During 2016, leasehold improvements totaling approximately $0.6 million were paid for by the landlords of the Charlotte, Irving, and Denver offices; in 2015, leasehold improvements totaling approximately $1.6 million were paid for by the landlords of the New York and Ashburn offices. As of Dec. 31, 2016, the PCAOB is committed to expend up to approximately $13.8 million on build-out projects for its Washington, D.C., Atlanta, Ga., Chicago, Ill., and Irving, Texas offices, of which $10.3 million will be funded through leasehold incentives. At the end of 2016, the PCAOB entered into a lease amendment for the Chicago office that extended the lease term by approximately 11.5 years. As part of this amendment, the PCAOB is entitled to leasehold incentives for this office of approximately $0.8 million. As of Dec. 31, 2016, the PCAOB had short-term leases for office space in Boston, Mass.; Houston, Texas; Tampa, Fla.; Fort Lauderdale, Fla.; Philadelphia, Pa.; and Los Angeles, Calif., under leases that expire in 2017.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense for the years ended Dec. 31, 2016 and 2015 was $17.0 million in both years. Minimum rental commitments under all of the PCAOB's office leases as of Dec. 31, 2016, including the rental commitments for temporary office spaces having remaining lease terms of one year or less, are as follows:

Year Ending Dec. 31,	
2017	$ 17,014,476
2018	15,807,182
2019	16,361,008
2020	16,886,096
2021	17,230,441
Thereafter	110,188,974
Total minimum lease payments	$193,488,177

Note 6—Retirement Benefit Plan

The PCAOB has a defined contribution retirement plan that covers all eligible employees. For the years ended Dec. 31, 2016 and 2015, 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 $9.2 million and $8.9 million for the years ended Dec. 31, 2016 and 2015, respectively.

Note 7—Unrestricted Net Assets

The PCAOB's net assets are not subject to any donor-imposed restrictions and are therefore considered unrestricted. Included in this amount is a working capital reserve that the PCAOB maintains to fund its operations during the five-month period prior to the invoicing and collection of the accounting support fee for the subsequent year. The PCAOB's net assets also 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 Sarbanes-Oxley 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 72 and 84 merit-based scholarships of $10,000 each to eligible students for the 2016–2017 and 2015–2016 academic years, respectively. Cash and cash equivalents included approximately $8.4 million and $3.6 million as of Dec. 31, 2016 and 2015, respectively, to be used for merit scholarships. In addition to the amounts in cash and cash equivalents, accounts and other receivables included $4.3 million and $.3 million in uncollected civil monetary penalties as of Dec. 31, 2016 and 2015, respectively.

The activity of the statutorily designated funds for the years ended Dec. 31, 2016 and 2015, is as follows:

Statutorily designated funds, as of Dec. 31, 2014	$ 4,211,756
Civil monetary penalties and interest assessed in 2015, net	232,000
Less scholarship payments for the 2015–2016 academic year	(840,000)
Refund of unused scholarship funds received in 2015	22,520
Statutorily designated funds, as of Dec. 31, 2015	$ 3,626,276
Civil monetary penalties and interest assessed in 2016, net	9,475,500
Less scholarship payments for the 2016–2017 academic year	(720,000)
Refund of unused scholarship funds received in 2016	23,560
Statutorily designated funds, as of Dec. 31, 2016	$12,405,336

Designated for Sequestration—The statements of financial position include unrestricted designated funds for sequestration, including interest earned. In March 2013, the Office of Management and Budget (OMB) determined that the PCAOB's budget and scholarship program are potentially subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. In November 2013, OMB determined that the PCAOB's sequestered funds represent temporary reductions, such that funds that are sequestered in one year become available in subsequent years.

On Feb. 2, 2015, OMB issued a report, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2016," specifying that $16 million of the PCAOB's 2016 budget funds were subject to sequestration. These sequestered funds remained unspent as of Dec. 31, 2016, and are included in short-term investments in the accompanying statements of financial position. In a separate report issued on Feb. 9, 2016, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2017," OMB specified that the PCAOB's sequestration amount was $17 million in 2017. In 2017, the PCAOB will use the $16 million sequestered in 2016 to offset the $17 million sequestered in 2017. The deficit will be covered by submitting a revised spending plan for 2017 which reduces the PCAOB's approved budget by $1 million. No scholarship funds were subject to sequestration in 2016.

Note 8—Subsequent Events

The PCAOB has evaluated subsequent events through March 28, 2017, 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.

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

The PCAOB's financial reporting management, including the Chief Administrative Officer and Director of Finance, 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 acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The PCAOB's financial reporting management assessed the effectiveness of the PCAOB's internal control over financial reporting as of Dec. 31, 2016. 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 Dec. 31, 2016.

March 28, 2017

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Suzanne M. Kinzer
Chief Administrative Officer

Jeannie M. Boehne
Director of Finance

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