PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

2022 Annual Report

CONTENTS

MESSAGE FROM THE CHAIR

I am pleased to present this report, which summarizes the PCAOB's operations and financial results for the fiscal year ended December 31, 2022.

For the PCAOB, 2022 was a special year: the 20th anniversary of our creation by Congress to protect investors and further the public interest by improving audit quality.

In 2022, we didn't just celebrate this anniversary – we looked back to our founding to guide us in our work to protect investors today and into the future. We recommitted ourselves to the people at the heart of our investor-protection mission – from workers saving for retirement, to families saving for college, to anyone who depends on the integrity of the U.S. capital markets to realize their version of the American dream.

We set four strategic goals to help us fulfill our mission: Modernize Standards, Enhance Inspections, Strengthen Enforcement, and Improve Organizational Effectiveness.

As this report documents, we made significant progress toward those goals in 2022. We began work on the most ambitious standard-setting agenda in PCAOB history. We secured access to inspect and investigate firms in Mainland China and Hong Kong for the first time since we were established. We identified a troubling trend in audit quality and challenged auditors to sharpen their focus. We held those who put investors at risk accountable with the highest annual enforcement penalties ever. And we found new ways to make ourselves more effective as an organization by actively engaging with our external stakeholders and by investing in our greatest asset: the PCAOB's talented and dedicated staff.

2022 was a year of accomplishment for the PCAOB, and we are continuing that work into 2023 and beyond. Our agenda is ambitious, and it is singularly focused on our investor-protection mission laid out by Congress 20 years ago. We are taking important steps, but we are not charting new territory. We are simply using the tools Congress gave us for their best and highest purpose to ensure investors are protected.

I look forward to working with my fellow Board members and our talented staff to build on our progress as we pursue our strategy and execute our mission.

Respectfully,

Erica Y. Williams

Erica Y. Williams
Chair
Public Company Accounting Oversight Board
Washington, DC, March 28, 2023

Erica Y. Williams
Chair

Duane M. DesParte
Board Member

Christina Ho
Board Member

Kara M. Stein
Board Member

Anthony C. Thompson
Board Member

ABOUT THE PCAOB

The Public Company Accounting Oversight Board (PCAOB or “the Board”) is a nonprofit corporation established by Congress to oversee the audits of public companies. The PCAOB also oversees the audits of certain brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC).

The five members of the Board are appointed to staggered five-year terms by the SEC, after consultation with the Chair of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. The SEC has oversight authority over the PCAOB, including the approval of the Board’s rules, standards, and budget.

Mission

The PCAOB oversees the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

Strategic Goals

The PCAOB’s 2022-2026 strategic plan sets out four strategic goals that guide the organization’s efforts to achieve its mission of protecting investors.

Goal 1
Modernize Standards

Goal 2
Enhance Inspections

Goal 3
Strengthen Enforcement

Goal 4
Improve Organizational Effectiveness

2022 AT A GLANCE

Putting Investors First in Everything We Do

Dedicated People

We have over

800

employees

10 Offices

in the United States dedicated to protecting investors

High Standards

After announcing one of the most ambitious standard-setting agendas in PCAOB history, we began work on more than **30 audit standards** within 13 standard-setting projects designed to better protect investors.

Global Inspections

We inspected **207 audit firms** and reviewed over **800 audit engagements** in 36 jurisdictions around the world to keep investors protected.

Effective Enforcement

We imposed over **$11 million in fines** against those who put investors at risk, the highest annual penalties ever.

Meaningful Engagement

We established **two advisory groups**, launched a **working group**, and elevated the voice of investors by hiring the PCAOB's first-ever **Investor Advocate**.

Historic Access

Investors are better protected because we secured **complete access to inspect and investigate** firms in Mainland China and Hong Kong for the first time in history.

STRATEGIC GOALS AND 2022 ACCOMPLISHMENTS

Goal One: Modernize Standards

Effective standards advance audit quality and are foundational to the PCAOB's execution of its mission to protect investors. Not only do our standards provide the requirements auditors must satisfy when conducting their audits, they also serve as the basis for our inspection and enforcement activities.

When the PCAOB was first getting off the ground in 2003, it adopted existing standards that had been set by the auditing profession on what was intended to be an interim basis. Twenty years later, far too many of those interim standards remain unchanged. The world has changed since 2003. And our standards must adapt to keep up with developments in auditing and the capital markets.

So in 2022, the Board announced one of the most ambitious standard-setting agendas in PCAOB history, and our staff began work on more than 30 standards within 13 standard-setting and research projects. This section presents key results of the PCAOB's standard-setting responsibilities in 2022.

- **Expanding the PCAOB's standard-setting agenda:** With the Board's focus on modernizing PCAOB standards and providing greater transparency, the PCAOB revised its standard-setting and research agendas in May 2022. Taking a new approach aimed at communicating these agendas more clearly to stakeholders, the initial standard-setting agenda identified several short-term projects where the PCAOB's Office of the Chief Auditor anticipated the Board taking action within 12 months. The initial agenda also identified a set of mid-term projects, meaning staff were actively engaged, even if formal Board action was not expected on these projects within a 12-month timeframe. In keeping with the Board's view of the standard-setting agenda as a dynamic document, the PCAOB in October 2022 further expanded its standard-setting and research agendas to include a total of 13 projects.
- **Raising the bar on supervision of other auditors:** Completing a project that began in 2016, the PCAOB in June 2022 adopted amendments updating and strengthening the requirements that apply to audits involving multiple audit firms. Informed by public input, the amendments improved PCAOB standards principally by specifying procedures for the lead auditor to perform when planning and supervising an audit that involves other auditors. The amendments also established a risk-based supervisory approach to the lead auditor's oversight of other auditors for whose work the lead auditor assumes responsibility. The SEC approved the amendments in August 2022.
- **Advancing quality control at audit firms:** A November 2022 proposal from the PCAOB took a major step toward modernizing standards in a vital area: quality control (QC). The PCAOB's existing QC standards were issued by the American Institute of Certified Public Accountants before the PCAOB was established. The 2022 proposal, if adopted by the Board and approved by the SEC, would replace the current QC standards in their entirety and provide a framework for a firm's QC system that is grounded in proactively identifying and managing risks to quality, with a feedback loop from ongoing monitoring and remediation that should drive continuous improvement. Among other provisions, the proposal would foster a more structured approach to an audit firm's annual evaluation of its QC system, coupled with a reporting requirement on a new Form QC.
- **Proposing a new standard for the auditor's use of confirmation:** In December 2022, the Board proposed a new standard on the auditor's use of confirmation. Touching nearly every audit, the confirmation process involves an auditor sending a confirmation request directly to a confirming party

(e.g., a financial institution), evaluating the information received, and addressing nonresponses and incomplete responses to obtain audit evidence about one or more financial statement assertions. To modernize the Board's confirmation standard – which has not been updated since it was adopted as an interim standard in 2003 – the proposed standard takes a principles-based approach that would, if adopted and approved by the SEC, apply to all methods of confirmation, paper-based or electronic. The proposal also would better align the existing confirmation standard with the Board's risk assessment standards.

- **Analyzing the impact of PCAOB standards on investors, audit committees, preparers, and others:** Given the significant recent increase in the PCAOB's standard-setting activity, robust economic analysis in PCAOB standard setting is more important than ever. This analysis includes post-implementation review in select instances to ensure that PCAOB standards are working effectively to enhance audit quality and protect investors. In December 2022, the PCAOB released interim analysis reports, along with accompanying staff white papers, examining the impact of requirements related to (1) critical audit matters and (2) auditing accounting estimates and the auditor's use of the work of specialists.

Protecting Investors Through One of the Most Ambitious Standard-Setting Agendas in PCAOB History

The PCAOB made progress after updating its standard-setting and research agendas in 2022. More remains to be done. As of December 31, 2022, these were the PCAOB's active research and standard-setting projects. Track and learn more about these projects at **www.pcaobus.org/standards**. *(See page 14 for more on the PCAOB's advisory groups, which in 2022 provided perspective on our standard-setting and research agendas.)*

Short-Term Standard-Setting Projects

- Quality Control
- Confirmation
- Noncompliance with Laws and Regulations
- Attestation Standards Update
- Going Concern
- Interim Standards – AS 1000
- Amendments Related to Certain Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Data Analysis

Mid-Term Standard-Setting Projects

- Substantive Analytical Procedures
- Fraud
- Interim Ethics and Independence Standards
- Interim Standards

Research Projects

- Data and Technology
- Firm and Engagement Performance Metrics

Goal Two: Enhance Inspections

Inspecting registered public accounting firms is one of the most important tools the PCAOB uses to protect investors. In fact, the Division of Registration and Inspections is our largest division, with over 460 dedicated professionals inspecting roughly 200 audit firms and 800 audit engagements in more than 30 jurisdictions around the world each year.

PCAOB inspections determine whether firms are complying with PCAOB standards meant to protect investors, and inspectors' work can also provide information that may lead to PCAOB investigations and enforcement actions, as well as standard setting. The PCAOB's inspection reports provide valuable information to investors, audit committees, and others to help inform their decisions. And the inspection process is the PCAOB's principal means of evaluating the state of audit quality to best keep investors protected.

In 2022, the PCAOB also enhanced its inspections by adapting to emerging risks and issues around the world and providing new insights. Additionally, the PCAOB is now inspecting registered firms in Mainland China and Hong Kong for the first time in PCAOB history. *(See page 10 for more on the PCAOB's work to gain complete access to inspect and investigate firms in Mainland China and Hong Kong.)*

The following are key inspection-related developments from 2022.

- **Challenging auditors to reverse troubling trend in audit quality:** In 2022, the PCAOB released a staff Spotlight report summarizing our 2021 inspection findings, along with the individual inspection reports from 2021. We found that audits with Part I.A deficiencies increased 4 percentage points in 2021 to 33% compared to 29% in 2020, which means one-third of the audits we inspected had deficiencies of such significance that the PCAOB believes the audit firm failed to obtain sufficient appropriate audit evidence to support its opinion on the public company's financial statements or internal control over financial reporting. At the same time, our inspectors saw increased comment forms for both U.S. and non-U.S. firms in our 2022 inspections. These comment forms usually result in inspection findings in our reports. Together, these facts present a warning signal. So PCAOB Chair Williams challenged the auditing profession to "sharpen its focus on improving audit quality and protecting investors."
- **Keeping PCAOB inspections responsive to economic developments and emerging risks:** As discussed in a Spotlight report, the PCAOB inspection staff developed 2022 inspection procedures to focus on financial reporting and audit risks arising from developments such as digital assets, transactions involving special purpose acquisition companies, disruption in supply chains, and increased market volatility due to changing interest rates and inflation. The PCAOB also published insights from our target team, a group of PCAOB inspectors who focus specifically on emerging audit risks and topics.
- **Clearing the backlog to deliver information more quickly to investors:** To make our inspection reports as valuable as possible to investors and others, the Board has set a goal of making those reports more transparent and getting them out quicker. To achieve that goal, the PCAOB had to first clear a backlog of reports from previous years. In 2022, the Board approved more than 280 inspection reports, representing a 73% increase over 2021 and the most reports the Board has approved in one year. Thanks to that work, we ended 2022 positioned to continue speeding up the release of inspection reports and achieve our goal of increased transparency.
- **Sharing observations on inspection findings, deficiencies, and good practices:** Beyond inspection reports, to drive improvements in audit quality, the PCAOB shared additional observations from our

inspection activities, including areas where inspectors found common deficiencies and good practices. For example, the PCAOB staff released a March 2022 Spotlight report providing observations and suggested procedures related to the confirmation process.

- **Focusing on trends for audits of broker-dealers:** The Board's "Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers" provided information about our 2021 inspections approach, a summary of our 2021 inspections observations, and a description of good practices aimed at improving the work of auditors of broker-dealers. Among other findings, the report noted that the percentage of audit engagements where inspectors identified deficiencies declined to 49% in 2021 (from 61% in 2020) but still remained high, primarily due to deficiencies associated with auditing revenue.

- **Taking a global view to enhance audit quality:** Given the global scale of the PCAOB's oversight, maintaining an international perspective is crucial for PCAOB inspections. In March 2022, the PCAOB released a Spotlight report flagging key auditing considerations related to Russia's invasion of Ukraine. The PCAOB also shared global insights through events, notably the 2022 PCAOB International Institute on Audit Regulation. Held in person in Washington, DC, that gathering brought together 76 officials from audit regulators in 38 non-U.S. jurisdictions, as well as officials from five international organizations. Likewise, the PCAOB maintained its commitment to engaging with audit regulators from around the world through the International Forum of Independent Audit Regulators, chaired by PCAOB Board Member Duane DesParte.

Making History: Complete Access to Inspect and Investigate Firms in Mainland China and Hong Kong

In August 2022, the PCAOB built on its long track record of working globally to protect investors in U.S. markets when the organization **signed a Statement of Protocol** with the China Securities Regulatory Commission and the Ministry of Finance of the People's Republic of China (PRC).

This landmark agreement represented a first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in Mainland China and Hong Kong completely, consistent with U.S. law. Soon after the agreement's signing, more than 30 PCAOB staff members, working on-site in Hong Kong, conducted inspections and investigations of audit firms in both Mainland China and Hong Kong. They reviewed thousands of pages of documents, conducted interviews, and took testimony over a nine-week period from September to November 2022.

In December 2022, the Board **made its determinations**, as required by the Holding Foreign Companies Accountable Act, that the PCAOB was able to secure complete access to inspect and investigate audit firms in the PRC for the first time in history, leaving investors better protected than before.

Still, this historic achievement was only the beginning of the PCAOB's work to inspect and investigate firms in China, not the end. The PCAOB is continuing to demand complete access in Mainland China and Hong Kong and will continue with a regular program of inspections and investigations in Mainland China and Hong Kong. The PCAOB will act immediately to reconsider 2022's determinations should China obstruct, or otherwise fail to facilitate the PCAOB's access, at any time.

Learn More

Fact Sheet: PCAOB Secures Complete Access to Inspect, Investigate Chinese Firms for First Time in History

Goal Three: Strengthen Enforcement

The PCAOB's enforcement program protects investors by holding accountable those who put investors at risk by violating PCAOB rules and standards and other related laws and rules. Strong enforcement and meaningful sanctions also deter wrongdoing.

In 2022, the PCAOB approached enforcement with a renewed vigilance, increasing average penalties, pursuing enforcement actions involving certain types of violations for the first time, and taking steps to identify wrongdoing proactively by expanding the use of sweeps of firms to determine whether there may be a violation of PCAOB standards or rules. The following are highlights from the PCAOB's 2022 enforcement activity.

- **Levying the largest penalty against an individual in PCAOB history:** In October 2022, the PCAOB announced its largest-ever civil money penalty against an individual, imposing separate civil money penalties of $150,000 on an audit partner and his firm. The partner had misled PCAOB inspectors and investigators during two PCAOB inspections and a subsequent PCAOB investigation.
- **Taking the PCAOB's first action for failure to supervise personnel under Section 105(c)(6) of the Sarbanes-Oxley Act:** In another enforcement first, the PCAOB in April 2022 sanctioned the former Vice Chair of Audit at a major firm, fining him $100,000 (at the time the largest civil money penalty levied by the PCAOB on an individual in a settled action) and censuring him for supervisory failures in connection with the firm's receipt and use of confidential PCAOB inspection information. The PCAOB's order found that the individual failed to reasonably supervise firm personnel who engaged in a scheme to illegally obtain and use confidential PCAOB information in an attempt to improve the firm's PCAOB inspection results.
- **Imposing the PCAOB's first sanctions for failing to supervise an unregistered firm:** PCAOB rules require accounting firms to register with the Board before playing a substantial role in audits of public companies. In April 2022, the Board imposed its first-ever sanctions for a failure to reasonably supervise an unregistered firm. Separately, the PCAOB imposed its first-ever sanctions against a firm for issuing an audit report where a separate, unregistered firm had conducted the underlying audit.
- **Settling the first action involving both a permanent bar and significant penalty:** The PCAOB found that an audit partner – faced with an incomplete audit file and an upcoming inspection – directed his staff to alter and backdate documents. The Board censured the partner and firm, permanently barred the partner from associating with a PCAOB-registered accounting firm, permanently revoked the firm's registration, and imposed a $50,000 civil money penalty on both the partner and his firm.

Highest Total Penalties in PCAOB History

The PCAOB issued 42 public enforcement orders in 2022, double the number of orders in 2021. More than half of the public enforcement orders issued in 2022 (23 orders) were against firms or individuals outside the United States.

Fines imposed by the PCAOB in 2022 totaled over $11 million, the organization's highest-ever total annual penalties.

Firms

- The PCAOB more than doubled the total dollar amount of penalties imposed against firms that break the rules as compared to any year in the previous five years.
- The PCAOB imposed penalties on 100% of firms sanctioned in 2022, versus 86% from 2017 to 2021.

Individuals

- The PCAOB more than quadrupled the total dollar amount of penalties imposed against individuals as compared to any year in the previous five years.
- The PCAOB imposed penalties on over 90% of individuals sanctioned in 2022 (24 of 26 individuals), versus 50% from 2017 to 2021.

Goal Four: Improve Organizational Effectiveness

The PCAOB's most valuable resource is people, including the more than 800 dedicated professionals on our staff who carry out our mission, as well as external stakeholders whose input makes us more effective.

In 2022, the PCAOB took significant steps to invest in our staff and to enhance our stakeholder engagement.

- **Elevating our engagement with investors and other stakeholders:** The PCAOB expanded its outreach efforts in numerous ways. In June 2022, the PCAOB announced the appointment of its first-ever Investor Advocate, a role designed to help the PCAOB maintain and expand its engagement with the investor community. Building on this appointment, the PCAOB created the Office of the Investor Advocate, which officially launched on February 1, 2023. In addition to the work of the Investor Advocate, the PCAOB appointed a Stakeholder Liaison focused on engagement with audit committees, preparers, and other groups whose input is critical to the PCAOB's mission. The PCAOB also engaged with stakeholders at events such as the October 2022 PCAOB Conference on Auditing and Capital Markets, which had over 370 online attendees, and the virtual Forum on Auditing in the Small Business Environment and on Auditing Broker-Dealers. The latter event, also held in October 2022, was streamed live to more than 700 attendees.

- **Connecting with audit committees:** Each year, the PCAOB reaches out to audit committee chairs of U.S. public companies whose audits we inspect, inviting them to connect with staff from our Division of Registration and Inspections to discuss a range of topics related to oversight of external auditors. In 2022, 210 audit committee chairs participated in these conversations. To facilitate conversations between audit committees and auditors, the PCAOB in August 2022 issued a resource for audit committees providing sets of questions to consider in key areas such as fraud, technology, and quality control.

- **Putting people first:** The PCAOB rolled out a range of internal initiatives related to retaining current staff and attracting future employees. These initiatives included development of new hybrid work arrangements, an expansion of our rewards and recognition program, an increase in paid parental and caregiver leave from four to 16 weeks, and paid time off for volunteering.

- **Prioritizing and celebrating diversity, equity, and inclusion:** Recognizing diversity as a core strength and priority for the organization, the PCAOB launched several new diversity-related efforts, including establishing new employee affinity groups, filling the role of a Diversity and Inclusion Manager, and celebrating the diversity of the PCAOB's people with a series of town hall meetings and other events to mark national observations such as Asian Pacific American Heritage Month, Black History Month, Hispanic Heritage Month, Juneteenth, Native American Heritage Month, LBGTQI+ Pride Month, and Veterans Day.

- **Supporting the next generation of professionals in accounting and auditing:** The Sarbanes-Oxley Act requires that funds generated from the collection of PCAOB monetary penalties be used to fund a merit scholarship program for students in accredited accounting degree programs. In 2022, we awarded $2.5 million in scholarships to 250 students, bringing the total number to $18.7 million in scholarships offered by the PCAOB since the program's inception in 2011. Among our 2022 PCAOB Scholars who participated in a voluntary survey, 56% self-identified as non-white, 65% identified as female, and 55% came from households with annual incomes under $48,000.

Reimagining the PCAOB's Approach to Meaningful Stakeholder Engagement

One of the Board's first major actions in 2022 was to create two new advisory groups: the Investor Advisory Group (IAG) and the Standards and Emerging Issues Advisory Group (SEIAG). Following a January 2022 **request for comment** on the proposed structures of these groups, as well as nominations for membership, the Board **approved the groups' charters** in March and **announced the group's inaugural members** in May.

Later in the year, the Board built on this progress with **the November 2022 launch** of the Technology Innovation Alliance (TIA) Working Group, a group of external professionals with expertise in emerging technologies, including technologies used by financial statement preparers and auditors. The primary functions of the TIA Working Group are (1) to advise the Board on the use of emerging technologies by auditors and preparers and (2) to make recommendations to the Board regarding how the Board's existing or future oversight programs might address the use of emerging technologies by auditors and preparers.

More information related to the PCAOB's **advisory groups**, as well **working groups and task forces**, is available on the PCAOB website.

IAG

With its first 2022 meeting taking place in June and a subsequent meeting in October, the IAG discussed and provided input on a range of topics during the year, including the group's governance and leadership, the PCAOB's standard-setting agenda, the PCAOB's strategic plan, and the issue of firm and engagement performance metrics. The IAG also briefed the PCAOB on emerging issues, as well as developments in the use of data and technology. The IAG's Co-Chairs established four subcommittees: Standards, Emerging Issues, Data and Technology, and Inspections and Data Transparency.

SEIAG

The SEIAG also held its inaugural meeting in June, as well as a subsequent meeting in November. Through the year, it developed its governance and leadership, discussed and provided feedback on the PCAOB's standard-setting agenda, and focused on issues such as firm and engagement performance metrics and considerations related to fraud.

TIA Working Group

Following its November 2022 launch, the TIA Working Group took steps to orient members, address administrative matters, and develop an agenda for the group's first in-person meeting in January 2023. Note: the TIA Working Group's meetings are non-public.

FINANCIAL REVIEW

This financial review, together with the 2022 audited financial statements and the accompanying notes, provides financial information related to our programs and activities. Our financial statements are presented in accordance with accounting principles generally accepted in the United States of America and reflect the specific reporting requirements of not-for-profit organizations. The following discusses the highlights of our activities and financial position as presented in the accompanying audited financial statements. Unless noted otherwise, dollar amounts in this financial review and the 2022 audited financial statements and the accompanying notes are approximate by rounding in millions.

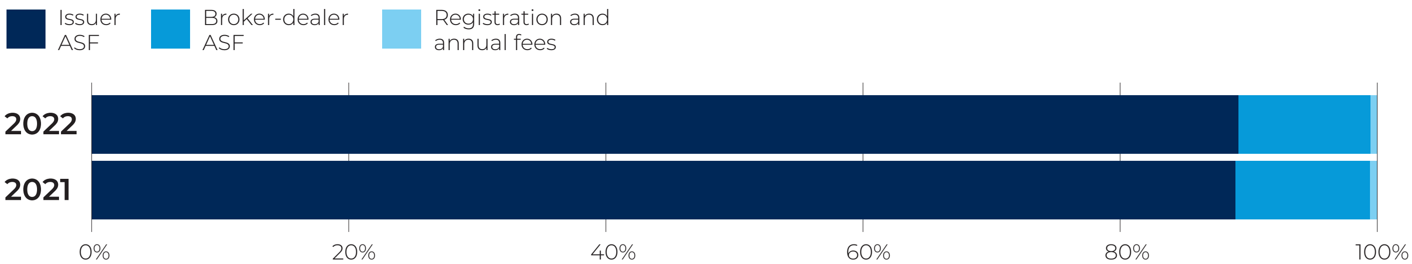
Financial Highlights

Results of Operations

Net Operating Revenue

Most of our revenue is generated from the accounting support fee (ASF), which is assessed annually on issuers and SEC-registered broker-dealers. The ASF is calculated during the annual budget process based on an estimate of annual expenses for the budget year and an estimate of expenses for the first five months of the subsequent year, net of cash on-hand, and certain other adjustments. The ASF is subject to review and approval by the SEC concurrent with each annual budget.

Percentage of operating revenues by type 2022 vs. 2021



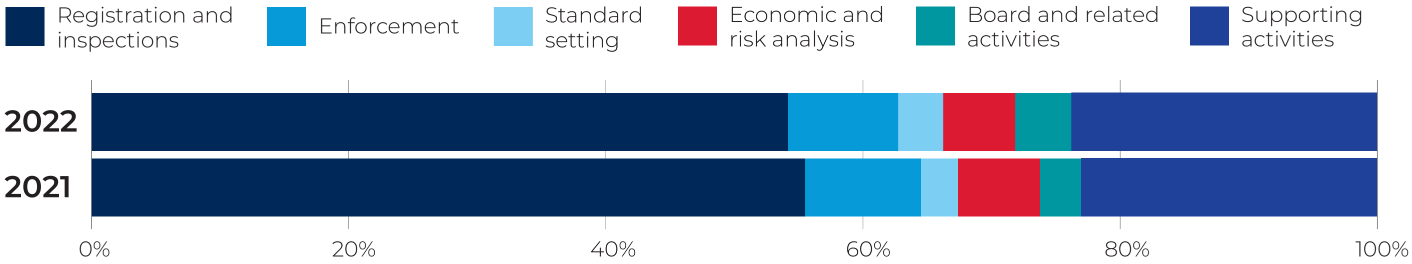
Our net operating revenue increased by $33.9 million, or 13%, from the prior year due to the increase in the ASF in 2022. The ASF increase was primarily related to additional budgeted staff positions and non-personnel costs needed to support inspections, standard setting, and higher estimated costs for the first five months of 2023.

The table below presents our net operating revenue by line item for each of the years ended December 31, 2022 and 2021:

($ in millions)	2022	2021
Issuer accounting support fee	$267.1	$236.2
Broker-dealer accounting support fee	30.7	27.7
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4
Total net operating revenue	**$299.2**	**$265.3**

Operating Expenses

Percentage of operating expenses by functional classification 2022 vs. 2021



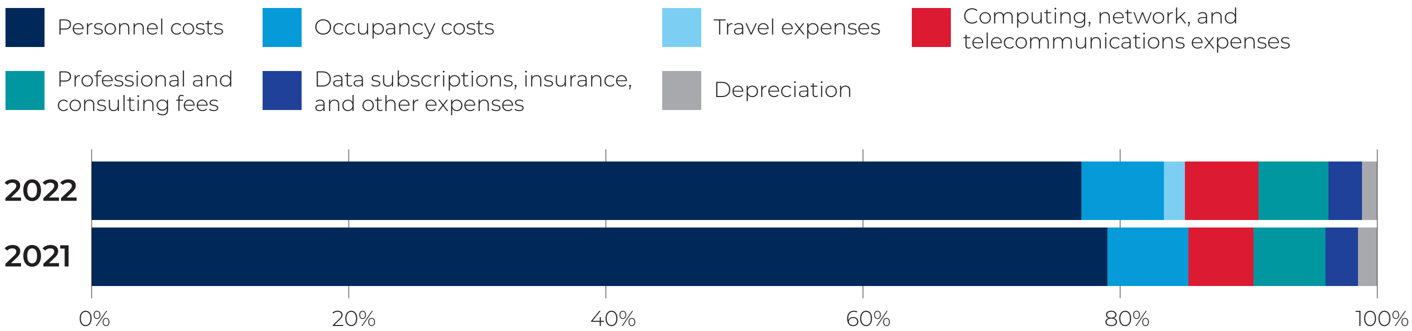
Our people are our most important asset, and our investments in human capital enable us to fulfill our statutory mission. Personnel costs continued to represent approximately three-fourths of our operating expenses, with more than half of these costs related to our registration and inspections program.

Overall, operating expenses increased compared to the prior year by $17.3 million, or 7%. Costs for program services increased by $10.9 million compared to the prior year primarily because travel resumed for certain inspections and investigations in 2022 and higher average headcount for the Board and the standard-setting program compared to 2021. For supporting activities, the increase of $6.4 million in costs was primarily attributed to higher personnel and recruiting costs, driven by a highly competitive job market for professional staff, and there was also an increase in cloud computing consulting costs, partially offset by a decrease in legal expenses.

The table below presents operating expenses (by program services and supporting activities) for each of the years ended December 31, 2022 and 2021:

($ in millions)	2022	2021
Program services:		
Registration and inspections	$150.8	$145.3
Enforcement	24.1	23.3
Standard setting	10.1	9.1
Economic and risk analysis	15.7	16.5
Board and related activities	12.4	8.0
Supporting activities:		
Administration and general	48.1	45.2
Information technology	18.4	14.9
Total operating expenses	**$279.6**	**$262.3**

Percentage of operating expenses by natural classification 2022 vs. 2021



The table below presents operating expenses (by natural classification) for each of the years ended December 31, 2022 and 2021:

($ in millions)	2022	2021
Personnel costs	$215.9	$207.0
Occupancy costs	17.5	17.0
Travel expenses	4.7	-
Computing, network, and telecommunications expenses	15.6	13.3
Professional and consulting fees	15.0	14.6
Data subscriptions, insurance, and other expenses	7.4	6.5
Depreciation	3.5	3.9
Total operating expenses	**$279.6**	**$262.3**

Personnel costs increased by $8.9 million, or 4%, in 2022, primarily due to an increase in compensation and recruiting costs compared to the prior year.

Travel resumed in 2022 after being suspended because of the COVID-19 pandemic, leading to an increase in expenses.

Computing, network, and telecommunication expenses increased compared to the prior year primarily due to continued efforts to enhance security, mobility, and networking.

Professional and consulting fees; occupancy costs; data subscriptions, insurance, and other expenses; and depreciation remained generally consistent compared to the prior year.

See Note 8 to the financial statements for additional details of expenses by program services and supporting activities.

Other Revenue (Expense)

The table below presents components of other revenue (expense) for each of the years ended December 31, 2022 and 2021:

($ in millions)	2022	2021
Interest income and other	$3.0	$0.5
Monetary penalties, net	11.1	1.2
Scholarship payments, net	(2.4)	(2.5)
Total other revenue (expense)	**$11.7**	**$(0.8)**

Interest income and other increased by $2.5 million compared to the prior year primarily due to higher interest rates on cash and cash equivalents.

Monetary penalties, net, increased by $9.9 million compared to the prior year. Revenue from monetary penalties depends on the amount of monetary penalties imposed by disciplinary orders in a given year. As a result of our enhanced enforcement efforts in 2022 compared to 2021, our monetary penalties increased accordingly.

Scholarship payments, net of amounts unused or deferred, decreased by $0.1 million, or 4%, compared to the prior year. The PCAOB awarded 250 merit-based scholarships of $10,000 each in 2022, as compared to 253 awarded in 2021.

Statements of Financial Position

Assets

The table below presents our total assets by type as of December 31, 2022 and 2021, respectively:

($ in millions)	2022	2021
Cash and cash equivalents	$170.4	$146.0
Restricted cash and cash equivalents	20.3	11.8
Short-term investments	19.9	17.6
Accounts and other receivables, net	1.7	5.9
Prepaid expenses and other assets	17.0	15.8
Furniture and equipment, leasehold improvements, and technology, net	11.4	13.1
Operating lease right-of-use assets	73.2	-
Total assets	**$313.9**	**$210.2**

Cash and cash equivalents increased by $24.4 million from the prior year primarily due to the overall increase in the ASF assessed in 2022, an increase in interest income, and the timing of issuer and broker-dealer ASF payments, partially offset by higher spending when compared to 2021.

Restricted cash and cash equivalents totaled $20.3 million and $11.8 million as of December 31, 2022 and 2021, respectively, and consisted primarily of funds designated for scholarships in accordance with

Section 109(c)(2) of the Sarbanes-Oxley Act. The change was primarily related to the increase in monetary penalties compared to the prior year. See Note 7 to the financial statements for additional discussion.

Short-term investments increased by $2.3 million as a result of the net reduction to PCAOB's 2023 budget required to implement sequestration, which is discussed in Note 7 to the financial statements.

Accounts and other receivables, net, decreased by $4.2 million compared to the prior year primarily due to the timing of issuer and broker-dealer ASF payments.

Prepaid expenses and other assets increased by $1.2 million, or 8%, from the prior year primarily due to the recognition of net deferred cloud implementation costs and timing of our prepayments.

Furniture and equipment, leasehold improvements, and technology, net, decreased by $1.7 million, or 13%, from the prior year, primarily related to depreciation and amortization expenses of $3.5 million, partially offset by capitalized internally-developed software costs and fixed asset additions.

Operating lease right-of-use (ROU) assets of $73.2 million include the recognition of operating leases for space in our Washington, DC, headquarters, regional offices, and data center related to the adoption of Accounting Standards Codification 842, *Leases* (ASC 842), on January 1, 2022. See additional discussion in Note 2 to the financial statements.

Liabilities

Our total liabilities increased by $72.4 million from the prior year. This was primarily related to the recognition of operating lease liabilities for space in our Washington, DC, headquarters, regional offices, and data center as it pertains to the adoption of ASC 842 as detailed in Note 2 to the financial statements. The increase from the recognition of operating lease liabilities was partially offset by a decrease in deferred rent related to the adoption of ASC 842, in which deferred rent was included as part of operating lease ROU assets in the statement of financial position. The table below presents total liabilities by type as of December 31, 2022, and 2021, respectively:

($ in millions)	**2022**	**2021**
Accrued payroll and related benefits	$28.1	$27.4
Accounts payable and accrued expenses	2.2	1.4
Deferred rent	-	18.8
Operating lease liabilities	89.7	-
Total liabilities	**$120.0**	**$47.6**

Liquidity

We are primarily funded by the ASF assessed on issuers and SEC-registered broker-dealers, with certain assets being subject to statutory restrictions for scholarships and sequestration, or contractual restrictions under an agency agreement. The primary goal of our liquidity management policy is to structure our financial assets to maintain liquidity to meet our general expenditures, liabilities, and other obligations as they become due. Due to the timing required to complete the billings and collections of the ASF, we maintain a working capital reserve to cover our estimated expenditures for the first five months of the following fiscal year.

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

To the Board of the
Public Company Accounting Oversight Board

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying statement of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2022 and 2021, the related statements of activities and cash flows for each of the years in the two-year period ended December 31, 2022, and the related notes (collectively referred to as the financial statements). We also have audited the PCAOB's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)*, as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America. Additionally, in our opinion, the PCAOB maintained—in all material respects—effective internal control over financial reporting as of December 31, 2022, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the PCAOB has changed its method for accounting for leases as of January 1, 2022, due to the adoption of Financial Accounting Standards Board Accounting Standards Codification Topic (FASB ASC) 842, *Leases*. Our opinion is not modified with respect to this matter.

Basis for Opinions

The PCAOB's 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 the PCAOB's financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits. We are required to be independent with respect to the PCAOB in accordance with the relevant ethical requirements relating to our audits.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement—whether due to error or fraud—and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements—whether due to error or fraud—and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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 generally accepted accounting principles and that both the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors 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. Additionally, 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.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the PCAOB Board and that:

1) relate to accounts or disclosures that are material to the financial statements; and

2) involved our especially challenging, subjective, or complex judgments.

We determined that there are no critical audit matters.

We have served as the PCAOB's auditor since 2021.

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC

Jesse Carpenter

Jesse Carpenter, CPA
Partner
Alexandria, Virginia
March 28, 2023

FINANCIAL STATEMENTS

Statements of Financial Position

As of December 31, 2022 and 2021

($ in millions)	2022	2021
Assets		
Cash and cash equivalents	$170.4	$146.0
Restricted cash and cash equivalents	20.3	11.8
Short-term investments	19.9	17.6
Accounts and other receivables, net	1.7	5.9
Prepaid expenses and other assets	17.0	15.8
Furniture and equipment, leasehold improvements, and technology, net	11.4	13.1
Operating lease right-of-use assets	73.2	-
Total assets	$313.9	$210.2
Liabilities and net assets without donor restrictions		
Liabilities		
Accrued payroll and related benefits	$28.1	$27.4
Accounts payable and accrued expenses	2.2	1.4
Deferred rent	-	18.8
Operating lease liabilities	89.7	-
Total liabilities	120.0	47.6
Net assets without donor restrictions		
Undesignated	155.8	134.5
Statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act	20.4	11.7
Statutorily designated for sequestration	17.7	16.4
Total net assets without donor restrictions	193.9	162.6
Total liabilities and net assets without donor restrictions	$313.9	$210.2

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

Statements of Activities

For the years ended December 31, 2022 and 2021

($ in millions)	2022	2021
Changes in net assets without donor restrictions		
Net operating revenue		
Issuer accounting support fee	$267.1	$236.2
Broker-dealer accounting support fee	30.7	27.7
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4
Total net operating revenue	299.2	265.3
Operating expenses		
Program services		
Registration and inspections	150.8	145.3
Enforcement	24.1	23.3
Standard setting	10.1	9.1
Economic and risk analysis	15.7	16.5
Board and related activities	12.4	8.0
Supporting activities		
Administration and general	48.1	45.2
Information technology	18.4	14.9
Total operating expenses	279.6	262.3
Operating income	19.6	3.0
Other revenue (expense)		
Interest income and other	3.0	0.5
Monetary penalties, net	11.1	1.2
Scholarship payments, net	(2.4)	(2.5)
Total other revenue (expense)	11.7	(0.8)
Increase in net assets without donor restrictions	31.3	2.2
Net assets without donor restrictions —Beginning of year	162.6	160.4
Net assets without donor restrictions —End of year	$193.9	$162.6

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

Statements of Cash Flows

For the years ended December 31, 2022 and 2021

($ in millions)	2022	2021
Cash flows from operating activities		
Cash received from issuers	$267.8	$235.4
Cash received from broker-dealers	33.4	26.0
Cash received from PCAOB-registered public accounting firms	1.3	1.3
Interest income and other	2.6	0.2
Cash received from monetary penalties, net	11.0	1.3
Cash paid to fund scholarships, net	(2.4)	(2.5)
Cash paid for operating expenses	(276.6)	(263.9)
Net cash provided by (used in) operating activities	37.1	(2.2)
Cash flows from investing activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(2.0)	(1.6)
Purchases of short-term investments	(19.9)	(34.0)
Proceeds from maturity of short-term investments	17.7	16.4
Net cash used in investing activities	(4.2)	(19.2)
Increase (decrease) in cash and cash equivalents, and restricted cash and cash equivalents	32.9	(21.4)
Cash and cash equivalents, and restricted cash and cash equivalents — Beginning of year	157.8	179.2
Cash and cash equivalents, and restricted cash and cash equivalents — End of year	$190.7	$157.8

Supplemental disclosures:		
Fixed asset purchases acquired but not paid for as of year-end	$0.1	$0.1
Cash received during the year for refund of unrelated business income taxes paid	-	0.1
Fixed asset purchases acquired through the use of leasehold incentives	-	0.1

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1—Organization

The Public Company Accounting Oversight Board is a District of Columbia nonprofit corporation established by the Sarbanes-Oxley Act to oversee the audits of public companies and SEC-registered broker-dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

We are overseen by the SEC, which has the authority to appoint Board members and to approve our rules, standards, and budget. The Sarbanes-Oxley Act established funding for our activities primarily through an ASF assessed on issuers based on their relative average monthly market capitalization and on SEC-registered broker-dealers based on their relative average quarterly tentative net capital. The annual ASF is approved by the SEC.

Our operations consist of program services and supporting activities. Our program services for financial reporting purposes are: registration and inspections; enforcement; standard setting; economic and risk analysis; and Board and related activities. Our supporting activities are: administration and general activities; and information technology activities. Refer to Note 8 for additional details related to our program services and supporting activities.

Throughout 2022 we assessed and closely monitored the impact of the COVID-19 pandemic on all aspects of our operations and financial results. The COVID-19 pandemic had no material impact on our financial statements or internal control over financial reporting.

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 (ASC) Topic 958, *Not-for-Profit Entities* (ASC 958).

Recently Adopted Accounting Standards—In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, codified as ASC 842, *Leases* (ASC 842), which affects accounting for all leases. In general, lease arrangements will be recognized as assets and liabilities on the statement of financial position of the lessee. Under the new lease standard, a right-of-use (ROU) asset and lease liability will be recognized on the statement of financial position for all leases, whether operating or finance. In addition, the statement of activities will reflect lease expense for operating leases and amortization and interest expense for financing leases. ASC 842 also enhances the disclosure requirements related to these arrangements to increase transparency and comparability among companies.

In 2018, among other updates, the FASB issued ASU 2018-11, *Targeted Improvements*, which provided an additional (and optional) transition method whereby entities could adopt ASC 842 retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment.

Accordingly, we adopted ASC 842 as of January 1, 2022, using the optional transition method. The adoption did not result in a cumulative effect adjustment to net assets without donor restrictions. Under this adoption method, comparative prior periods were not adjusted and continue to be reported in accordance with our historical accounting policy. As of January 1, 2022, we recognized operating lease ROU assets of $86.1 million, which includes an adjustment of $18.8 million of deferred rent, and operating lease liabilities of $104.9 million.

We elected to apply the package of practical expedients permitted under ASC 842, which among other things, allowed us to carryforward our historical assessments of whether contracts are, or contain, leases and lease classification. We also elected to apply the practical expedient that allows non-public business entities to use a risk-free rate as the discount rate for its leases by class of underlying asset as permitted under ASC 842. We also made an accounting policy election to not recognize ROU assets and lease liabilities arising from short-term leases on our statements of financial position.

Cash and Cash Equivalents—The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in non-interest-bearing accounts with a domestic high-credit-quality financial institution, money market funds, and investments in securities made pursuant to an overnight automated investment sweep agreement. All non-restricted highly liquid instruments purchased with an original maturity of three months or less are cash equivalents.

Money market funds—Our money market funds are available on-demand and valued using quoted prices in active markets and consist primarily of high-quality investments in U.S. Treasury securities and/or repurchase agreements secured by U.S. government obligations. We consider these money market funds to be Level 1 financial instruments (see fair value measurements table below).

Automated Investment Sweep—Pursuant to the sweep agreement, we invest 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. Treasury securities and repurchase agreements). Purchased money market fund shares are held by the financial institution, as an 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, we could experience a delay in disposing of such securities.

Restricted Cash and Cash Equivalents—The term restricted cash and cash equivalents, as used in the accompanying financial statements, consists of cash or money market funds to be used to fund our Scholarship Program, established pursuant to Section 109(c)(2) of the Sarbanes-Oxley Act, as well as funds held for the FASB under an agency agreement.

Investments—The term investments, as used in the accompanying financial statements, consists primarily of short-term investments in U.S. government securities that mature within one year of purchase. See Note 7 for additional discussion of funds statutorily designated for sequestration. Our investments are recorded at fair value. We estimate fair value based on pricing from observable trading activity for similar securities or from a third-party pricing service; accordingly, we have classified these instruments as Level 2 fair value measurements (see fair value measurements table below). Purchases and sales of securities are recorded on a trade date basis. Interest income and net gains and losses are recorded on an accrual basis and are included in interest income and other on the accompanying statements of activities.

Fair Value of Financial Instruments—The fair values of cash and cash equivalents, restricted cash and cash equivalents, accounts and other receivables, and accounts payable approximate their carrying values due to the short-term nature of these items.

The following table presents our assets measured at fair value as of December 31, 2022 and 2021:

($ in millions)	**Fair Value Measurements**		
	Level 1	**Level 2**	**Total**
2022			
Money market funds			
Cash and cash equivalents	$170.5	-	$170.5
Restricted cash and cash equivalents	20.2	-	20.2
U.S. Treasury Bill			
Short-term investments	-	$19.9	19.9
2021			
Money market funds			
Cash and cash equivalents	$146.0	-	$146.0
Restricted cash and cash equivalents	11.7	-	11.7
U.S. Treasury Bill			
Short-term investments	-	$17.6	17.6

Concentration of Credit Risk—Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash and cash equivalents. We mitigate this risk in two ways. We invest the majority of cash in money market funds that consist primarily of high-quality investments in U.S. Treasury securities and/or repurchase agreements secured by U.S. government obligations. We also maintain certain cash deposits that exceed the amount of insurance provided on such deposits. These cash deposits are subject to daily overnight investment sweep agreements and maintained in a domestic high-credit-quality financial institution.

Accounts and Other Receivables, Net—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, historical experience.

Cloud Computing Arrangements—We incur costs to implement cloud computing arrangements that are hosted by a third-party vendor as we move certain on-premises systems and services to the cloud. Implementation costs incurred during the application development stage are generally capitalized and amortized over the term of the hosting arrangement on a straight-line basis.

We capitalized $4.1 million and $2.9 million of costs incurred to implement cloud computing arrangements as of December 31, 2022 and 2021, respectively. In 2022, these costs primarily related to the development of significant enhancements for certain cloud applications supporting the PCAOB's mission. Amortization expense of capitalized implementation costs for cloud computing arrangements totaled $0.7 million and $0.2 million for the years ended December 31, 2022 and 2021, respectively, and are included in computing, network, and telecommunications expenses as presented in Note 8. The net deferred cloud implementation costs of $3.2 million and $2.7 million as of December 31, 2022 and 2021, respectively, which included $0.9 million and $0.2 million of accumulated depreciation, respectively, are included within prepaid expenses and other assets on the statements of financial position and will be expensed over the term of the related cloud computing arrangements.

Furniture and Equipment, Leasehold Improvements, and Technology, Net—Furniture and equipment, leasehold improvements, and technology, net 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.

Leases—We determine if a contractual arrangement contains a lease at the inception of the arrangement. As part of the lease determination process under ASC 842, we assess several factors, including, but not limited to, whether we have the right to control and direct the use of the asset and whether the other party has a substantive substitution right. After a lease is identified, if there are multiple components, we identify separate lease components based on whether or not the right to use the underlying assets is distinct and either highly dependent or highly interrelated with other rights in the contract. We also evaluate whether there are any nonlease components in the arrangement. For our commercial office leases, if separate lease and nonlease components are identified, we allocate the consideration in the contract to the lease and nonlease components using the relative stand-alone price method at lease inception. For all other classes of underlying assets, we have elected the available practical expedient to not separate nonlease components from lease components.

Many of our leases include options to renew at our sole discretion. We also have several leases that provide an option to terminate the lease prior to the end of the lease term. These renewal and termination options are considered in the determination of the lease term at the commencement date when we are reasonably certain the options will be exercised, subject to reassessment in certain circumstances. When assessing the likelihood of electing these options, we consider the length of the renewal period, market conditions, plans for our facilities, the existence of a termination penalty, as well as other factors. Our lease agreements do not contain any material residual value guarantees, restrictive covenants, or variable lease payments that would be included in the operating lease liability.

ROU assets represent our right to use an underlying asset for the term of the lease, and lease liabilities represent our obligation to make lease payments throughout the term of the lease. ROU assets and lease liabilities are recognized as of the commencement date of the lease based on the present value of contractual lease payments due over the term of the lease. We elected to use the risk-free rate to determine the present value of the lease payments as the rate implicit in the respective leases was not readily determinable. ROU assets also include, if applicable, prepaid lease payments and initial direct costs, less lease incentives received.

ROU assets and lease liabilities resulting from operating leases are recorded on our statement of financial position. We did not have any finance leases or subleases as of December 31, 2022 and 2021.

Operating lease expense is recognized on a straight-line basis over the term of the lease. Some of our leases include tenant improvement allowances, which are recorded when we are reasonably certain to utilize the allowance and are amortized on a straight-line basis over the shorter of the lease terms or the asset lives. Leases with an initial lease term of twelve months or less are considered short-term leases. Short-term leases are not recorded on our statements of financial position. Expenses associated with short-term leases are recognized on a straight-line basis over the term of the lease. Short-term lease costs were immaterial for the year ended December 31, 2022.

Deferred Rent—Upon transition to ASC 842, deferred rent was recorded as an adjustment to the operating lease ROU asset for the respective office lease. Refer to the "Leases" section of this note for additional details. For 2021, prior to the adoption of ASC 842, we recognized 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, were recognized as increases or decreases to deferred rent.

In addition, leasehold incentives obligated under office space leases were recorded as deferred rent when we obtained control of the leased space that was related to the leasehold incentives due from the landlord. Deferred rent related to leasehold incentives was amortized on a straight-line basis over the lease term as a reduction of rent expense.

Revenue Recognition—The Sarbanes-Oxley Act established funding for our activities primarily through the ASF assessed on issuers and broker-dealers. The annual ASF is approved by the SEC. We also assess and collect registration and annual fees and may impose monetary penalties as prescribed by the Sarbanes-Oxley Act.

Annual ASF—The annual ASF is assessed on issuers, as defined in the Sarbanes-Oxley Act, and on broker-dealers registered with the SEC. The purpose of the fees is to fund our mission to oversee the audits of public companies and SEC-registered broker-dealers to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The ASF is established annually by the Board based on our approved operating budget for each calendar year and adjusted to reflect amounts estimated to fund our operations for the first five months of the subsequent year, as well as other adjustments. The ASF 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 us. Registration fees are recognized as operating revenue in the year the application is submitted.

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

Monetary Penalties, Net—Our sanctions may include monetary penalties imposed pursuant to Section 105 of the Sarbanes-Oxley Act. Monetary penalties are recognized as other revenue generally in the year (1) disciplinary orders are settled or (2) adjudicated final Board actions imposing sanctions in disciplinary proceedings are effective.

Monetary Penalties, Net and Scholarship Payments, Net—Amounts collected from monetary penalties are required to be used to fund merit scholarships awarded to students of accredited accounting degree programs, after congressional appropriation for such use of the monetary penalties. Amounts not paid out as of year-end are included in restricted cash and cash equivalents in the statements of financial position. In the statements of financial position, the net change in penalties assessed and paid out as merit scholarships is reported as an increase or decrease in net assets without donor restrictions statutorily designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act.

Cash Held for Others under Agency Agreement—We serve as the collection agent for invoicing and collecting the FASB ASF and are paid a collection fee by FASB for serving as its collection agent. As FASB's collection agent, we received a collection fee of $0.2 million in each of 2022 and 2021. Pursuant to the collection agent agreement, we collected $41.1 million on behalf of FASB and remitted $40.9 million to FASB in 2022, and collected $31.4 million and remitted $31.2 million in 2021. Funds received and not remitted to the FASB by year-end are included in restricted cash and cash equivalents with a corresponding amount included in accounts payable and accrued expenses. The collection fees are included in interest income and other in the accompanying statements of activities and statements of cash flows.

Taxes—We are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (IRC). Effective January 1, 2018, IRC Section 512(a)(7) required tax-exempt organizations to include qualified transportation benefits provided to their employees as unrelated business taxable income. As a result of providing such benefits, we paid and recorded a provision for unrelated business income taxes of $0.2 million as part of administration and general expenses in both the 2018 and 2019 financial statements. On December 20, 2019, the Taxpayer Certainty and Disaster Tax Relief Act of 2019 retroactively repealed IRC Section 512(a)(7). Pursuant to this legislation, Section 512(a)(7) was repealed retroactive to the date of its enactment. As a result, we recorded a receivable of $0.4 million in our 2019 financial statements and filed a refund claim in 2020. In 2020, we received a refund of $0.2 million from the IRS, and $0.2 million remained in accounts and other receivables, net, in our statement of financial position as of December 31, 2020. In 2021, we received an additional refund of $0.1 million from the IRS. In 2022, we continued to correspond with the IRS and expect to collect the remaining balance in 2023. Less than $0.1 million remained in accounts and other receivables, net, in our statements of financial position as of December 31, 2022 and 2021, respectively.

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, the allowance for doubtful accounts, useful lives of property and equipment, and allocation of expenses to program services and supporting activities. Actual results could differ from these estimates.

Statements of Cash Flows—We use the direct method of reporting net cash provided by or used in operating activities in the statements of cash flows.

The total of cash and cash equivalents and restricted cash and cash equivalents in the statements of financial position is shown in the statements of cash flows as follows:

($ in millions)	**2022**	**2021**
Cash and cash equivalents	$170.4	$146.0
Restricted cash and cash equivalents	20.3	11.8
Total cash and cash equivalents, and restricted cash and cash equivalents shown in the statements of cash flows	$190.7	$157.8

Note 3—Accounts and Other Receivables, Net

Accounts and other receivables, net consist of the following as of December 31, 2022 and 2021:

($ in millions)	2022	2021
Accounts receivable—issuer and broker-dealer accounting support fees and annual fees	$2.8	$6.0
Accounts receivable—other	0.3	1.4
Other receivables—monetary penalties	0.6	0.5
Accounts and other receivables, gross	3.7	7.9
Less: Allowance for doubtful accounts	(2.0)	(2.0)
Accounts and other receivables, net	$1.7	$5.9

Note 4—Furniture and Equipment, Leasehold Improvements, and Technology, Net

Furniture and equipment, leasehold improvements, and technology, net consist of the following as of December 31, 2022 and 2021:

($ in millions)	2022	2021
Technology		
Hardware	$10.5	$10.5
Purchased and developed software	12.1	11.8
Leasehold improvements	22.2	22.2
Furniture and equipment	8.3	8.3
Technology development and construction in process	1.2	0.5
Furniture and equipment, leasehold improvements, and technology, gross	54.3	53.3
Less: Accumulated depreciation and amortization	(42.9)	(40.2)
Furniture and equipment, leasehold improvements, and technology, net	$11.4	$13.1

Depreciation and amortization expense was $3.5 million and $3.9 million for the years ended December 31, 2022 and 2021, respectively.

Note 5—Leases

As of December 31, 2022, we lease space for our 10 office locations and data center, with various expiration dates ranging from 2024 through 2028. Most of these leases contain escalation clauses and an option to renew at prevailing market rental values.

Supplemental information related to leases is presented in the table below (in millions, except weighted-average remaining lease term and discount rate):

($ in millions)	Year ended December 31, 2022
Operating lease cost	$15.4
Cash paid for amounts included in the measurement of operating lease liabilities	18.0

	As of December 31, 2022
Weighted-average remaining lease term — operating leases	5.4 years
Weighted-average discount rate — operating leases	1.5%

Maturities of operating lease liabilities are as follows:

($ in millions)	
Year ending December 31,	**Operating Leases**
2023	$18.5
2024	17.6
2025	15.7
2026	15.7
2027	15.7
Thereafter	10.4
Total lease payments	93.6
Less: imputed interest[1]	(3.9)
Present value of lease liabilities	$89.7

[1] Imputed interest was calculated using the risk-free rate applicable for each lease arrangement.

Prior to our adoption of ASC 842, rent expense for the year ended December 31, 2021 was $15.4 million.

The following table presents the future minimum lease payments under the non-cancelable operating leases as of December 31, 2021 prior to our adoption of ASC 842:

($ in millions)	
Year ending December 31,	**Operating Leases**
2022	$17.6
2023	18.0
2024	17.1
2025	15.6
2026	15.7
Thereafter	26.2
Total minimum lease payments	$110.2

Note 6—Retirement Benefit Plan

We have a defined contribution retirement plan that covers all eligible employees. For each of the years ended December 31, 2022 and 2021, we matched 100% of employee contributions up to 7% of eligible compensation. Our contributions vest immediately. We recognized personnel costs of $10.6 million and $10.3 million, for the years ended December 31, 2022 and 2021, respectively, related to our matching contributions.

Note 7—Net Assets Without Donor Restrictions

Our net assets are not subject to any donor-imposed restrictions. Our net assets include a working capital reserve that we maintain to fund our operations during the five-month period prior to the collection of the ASF for the current year. Our net assets also include funds designated for specific uses, as described below.

Designated for the PCAOB Scholarship Program—The statements of financial position include funds statutorily designated for the PCAOB Scholarship Program, established by Section 109(c)(2) of the Sarbanes-Oxley Act. The Sarbanes-Oxley Act authorizes us to impose monetary penalties and requires us to use those penalties to award merit scholarships to students of accredited accounting degree programs, after congressional appropriation for such use. Accordingly, we awarded 250 and 253 merit-based scholarships of $10,000 each to eligible students for the 2022-2023 and 2021-2022 academic years, respectively.

Statutorily designated funds for scholarships are included in restricted cash and cash equivalents. The activity of the statutorily designated funds for the years ended December 31, 2022 and 2021, was as follows:

($ in millions)	
Statutorily designated funds, as of December 31, 2020	$13.0
Monetary penalties assessed in 2021, net	1.2
Less scholarship payments for the 2021–2022 academic year, net of amounts unused or deferred	(2.5)
Statutorily designated funds, as of December 31, 2021	$11.7
Monetary penalties assessed in 2022, net	11.1
Less scholarship payments for the 2022–2023 academic year, net of amounts unused or deferred	(2.4)
Statutorily designated funds, as of December 31, 2022	$20.4

Of the $20.4 million in statutorily designated funds for scholarships as of December 31, 2022, $13.1 million (of which $12.9 million is included in restricted cash and cash equivalents and $0.2 million is included in accounts and other receivables, net) has already been appropriated by Congress and may be used for awarding scholarships in 2023 or subsequent years. Prior to 2018, Congress had appropriated each year the full amount of monetary penalties collected in the previous year and made them available for scholarships. In 2018, Congress limited the appropriation it provided for scholarships to $1 million of the total monetary penalties collected in 2017. As of December 31, 2022, Congress has not appropriated $7.3 million of the remaining monetary penalties collected in 2017, including investment earnings. As a result, as of December 31, 2022, $7.3 million of the $20.4 million in statutorily designated funds was not available to distribute for scholarships. As of December 31, 2021, $7.2 million of the $11.7 million in statutorily designated funds was not available to distribute for scholarships.

Designated for Sequestration—The statements of financial position include funds statutorily designated for sequestration. In March 2013, the Office of Management and Budget (OMB) determined that we are 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 our sequestered funds represent temporary reductions, such that funds that are sequestered in one year become available in subsequent years.

On May 28, 2021, OMB issued a report, “OMB Report to the Congress on the BBEDCA 251A Sequestration for Fiscal Year 2022,” specifying that our sequestration percentage in 2022 was 5.7% of our approved 2022 budget, or $17.7 million. These sequestered funds remained unspent as of December 31, 2022, and were included in short-term investments in the accompanying statements of financial position. In a separate report issued on March 28, 2022, “OMB Report to the Congress on the BBEDCA 251A Sequestration for Fiscal Year 2023,” OMB specified that our sequestration percentage in 2023 was 5.7% of our approved 2023 budget, or $19.9 million. We used the $17.7 million sequestered in 2022 to offset the $19.9 million sequestered for 2023. The net increase of $2.2 million in the required sequestration amount for 2023 has been implemented by the PCAOB through the adoption of a revised spending plan for 2023 that reduces the PCAOB’s approved 2023 budget by $2.2 million. The scholarship funds were not subject to sequestration in 2022 or 2021.

Note 8—Expenses by Program Services and Supporting Activities

The statements of activities reflect program services related to registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Program services consist of the following:

- Registration and inspections (DRI) executes the Board's registration and inspections authority under the Sarbanes-Oxley Act. DRI processes and makes recommendations to the Board on applications from public accounting firms to register with the PCAOB. DRI also inspects registered public accounting firms to assess compliance with the Sarbanes-Oxley Act, the rules of the Board and the SEC, and professional standards, in connection with the performance of audits, issuance of audit reports, and related matters involving issuers and broker-dealers audited by the registered firms.

- Enforcement conducts investigations and recommends instituting disciplinary proceedings concerning registered public accounting firms and their associated persons related to possible violations of the Sarbanes-Oxley Act, the rules of the Board and the SEC, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations of accountants with respect to audit reports, or professional standards.

- Standard setting advises the Board on establishing or amending auditing, quality control, ethics, independence, and attestation standards applicable to registered public accounting firms in the preparation and issuance of audit reports as required by the Sarbanes-Oxley Act or the SEC, or as may be necessary for the protection of investors and the public interest.

- Economic and risk analysis conducts economic analysis and research, risk assessment, and data analysis to inform our other program services.

- Board and related activities primarily consists of the programmatic activities of the Board and the Office of International Affairs (OIA). Supported by the other program services, the Board issues inspection reports on registered public accounting firms; approves registration applications of public accounting firms; initiates formal investigations and enforcement actions; and establishes or amends auditing, quality control, ethics, independence, and attestation standards for registered public accounting firms. Under the direction and supervision of the Board, OIA promotes our mission internationally by developing and fostering bilateral relationships and negotiating bilateral cooperative arrangements with non-U.S. regulators to facilitate our international inspections and investigations.

Program expenses include salaries, benefits, occupancy, 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, enterprise risk, and information technology. Indirect costs, including certain occupancy and depreciation costs, are allocated to program services and supporting activities proportionately based on numbers of personnel.

The statements of activities report certain categories of expenses that are attributable to more than one program service or supporting activity. These expenses are allocated on a reasonable basis that is consistently applied. In particular, these expenses have been allocated to program services and supporting activities based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of headcount or other measures such as time and effort. The expenses that are allocated in this manner include: personnel costs, including fringe benefits and payroll taxes; occupancy costs; computing, network, and telecommunications expenses; and depreciation.

For the year ended December 31, 2022
($ in millions)

	Program services						Supporting activities			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs subtotal	Administration and general	Information technology	Supporting subtotal	Total
Personnel costs	$120.7	$18.6	$8.6	$11.5	$9.7	$169.1	$34.7	$12.1	$46.8	$215.9
Occupancy costs	8.4	1.8	0.8	1.2	0.9	13.1	3.4	1.0	4.4	$17.5
Travel expenses	4.2	0.2	-	-	0.3	4.7	-	-	-	$4.7
Computing, network, and telecommunications expenses	7.6	1.9	0.3	1.0	0.4	11.2	3.0	1.4	4.4	$15.6
Professional and consulting fees	6.3	0.8	0.2	0.3	0.7	8.3	3.5	3.2	6.7	$15.0
Data subscriptions, insurance, and other expenses	1.8	0.5	0.1	1.4	0.3	4.1	2.9	0.4	3.3	$7.4
Depreciation	1.8	0.3	0.1	0.3	0.1	2.6	0.6	0.3	0.9	$3.5
Total operating expenses	$150.8	$24.1	$10.1	$15.7	$12.4	$213.1	$48.1	$18.4	$66.5	$279.6

For the year ended December 31, 2021
($ in millions)

	Program services						Supporting activities			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs subtotal	Administration and general	Information technology	Supporting subtotal	Total
Personnel costs	$121.0	$18.8	$7.7	$11.6	$6.6	$165.7	$31.3	$10.0	$41.3	$207.0
Occupancy costs	8.6	1.8	0.7	1.1	0.6	12.8	3.2	1.0	4.2	$17.0
Travel expenses	-	-	-	-	-	-	-	-	-	-
Computing, network, and telecommunications expenses	7.5	1.2	0.3	1.0	0.3	10.3	2.5	0.5	3.0	$13.3
Professional and consulting fees	5.4	0.8	0.2	0.5	0.2	7.1	5.0	2.5	7.5	$14.6
Data subscriptions, insurance, and other expenses	0.9	0.4	0.1	2.0	0.2	3.6	2.5	0.4	2.9	$6.5
Depreciation	1.9	0.3	0.1	0.3	0.1	2.7	0.7	0.5	1.2	$3.9
Total operating expenses	$145.3	$23.3	$9.1	$16.5	$8.0	$202.2	$45.2	$14.9	$60.1	$262.3

Note 9—Liquidity

We are primarily funded by the ASF, with certain assets being subject to statutory restrictions or contractual restrictions under an agency agreement. The primary goal of our liquidity management policy is to structure our financial assets to be available as our general expenditures, liabilities, and other obligations come due.

As of December 31, 2022, we held cash and cash equivalents of $170.4 million, which were available on demand to pay general expenditures. As of December 31, 2022, we held short-term investments of $19.9 million, which is designated for sequestration in 2023. As of December 31, 2022, $12.9 million of restricted cash and cash equivalents were available to pay for future scholarship awards, with an additional $7.3 million that is required to be appropriated by Congress prior to their use to fund scholarships (as discussed in Note 7).

Note 10—Subsequent Events

We have evaluated subsequent events through March 28, 2023, which represents the date the audited financial statements were available to be issued.

On January 19, 2023, a respondent in a PCAOB disciplinary proceeding (John Doe) filed a civil action in the U.S. District Court for the Northern District of Texas against the PCAOB (Case No. 3:23CV00149). The action alleges that the Board's actions violate various provisions of the Constitution and are inflicting "substantial ongoing harm" against the plaintiff. The plaintiff is seeking declaratory and injunctive relief. The PCAOB intends to defend this action vigorously.

FINANCIAL REPORTING MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The PCAOB's financial reporting management, including the Chief Operating Officer and the Chief Financial Officer, under the direction of the Chair (collectively, "financial reporting management"), is 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.

The PCAOB'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 PCAOB; (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 PCAOB are being made only in accordance with authorizations of management of the PCAOB; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the PCAOB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The PCAOB's financial reporting management assessed the effectiveness of the PCAOB's internal control over financial reporting as of December 31, 2022. 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 was effective as of December 31, 2022.

March 28, 2023

Erica Y. Williams

Erica Y. Williams
Chair

James P. McNamara

James P. McNamara
Chief Operating Officer

Holly Greaves

Holly W. Greaves
Chief Financial Officer