

Overview of the PCAOB

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PCAOB Investor Advisory Group Meeting
June 8, 2022

REGISTRATION

Who is required to register?

- Any accounting firm, U.S. or non-U.S., that prepares or issues an audit report for an issuer or for a broker or dealer (as defined in the Sarbanes-Oxley Act), or plays a substantial role in those audits
- Once registered, firms are required to file annual reports and to file timely special reports if certain specified events occur

Composition on April 30, 2022

- 842 U.S. registered firms
- 859 Non-U.S. registered firms (85 countries)

INSPECTIONS

- Inspections assess registered firm's compliance with applicable laws, rules and professional standards in the firms' quality control systems and in the portions of audits selected for inspection
- The purpose of an inspection is to accurately assess, drive improvement in, and communicate audit quality
- Frequency of firm inspection is based on audit reports issued

ELEMENTS OF AN INSPECTION

- Elements to every inspection:
 - Audit firm level - Review of policies and procedures related to the firm's System of Quality Control (SQC)
 - Engagement level - Review of selected public company audit engagements (including substantial-role and referred work engagements – work on consolidated subsidiaries)
- Communicate deficiencies, if any

REPORTING: INSPECTION REPORT COMPONENTS

- Executive Summary (*Annually Inspected Firms Only*)
- Current Year Inspection
- Overview of the Current Year Inspection and Historical Data by Inspection Year
 - Scope of the current inspection and the results of the inspections for the current and prior two inspections, as applicable.

REPORTING: INSPECTION REPORT COMPONENTS (CONTINUED)

- Part I – Inspection Observations: This section of the inspection report includes a general discussion of the type of matters that are included in Part I.A and Part I.B of the inspection report
 - Part I.A – Audits with Unsupported Opinions
 - Part I.B – Other Instances of Non-Compliance with PCAOB Standards or Rules
- Part II – Observations Related to Quality Control
- Part III – Other Matters (*Triennially Inspected Firms Only*)
- Appendix A – Firm’s Response to the Inspection Report

REPORTING: ISSUE FINAL INSPECTION REPORT

- Report presented to the Board
 - After review is completed, the report is submitted for the Board's consideration
 - The Board issues the final report
- Full report sent by PCAOB Secretary directly to firm; staff sends copy to non-U.S. regulator if protocols require
- Public part of the report is posted on the PCAOB website, and the full report is transmitted to the:
 - SEC
 - State regulatory authorities in states where the firm is licensed (if the firm is licensed domestically)
- If the firm does not request SEC review of its report, the public portion of the report is posted on the website after expiration of the 30-day period in which the firm may seek SEC review

REMEDIATION: REMEDIATION OF QUALITY CONTROL DEFECTS

- The portions of the Board's inspection report that deal with criticisms of or potential defects in a firm's quality control system that the firm has not addressed to the satisfaction of the Board are made public
 - Upon the expiration of the 12-month period after the date of the inspection report
 - If the firm does not seek SEC review of the Board determination, upon the expiration of the 30-day period in which the firm may seek SEC review of any Board determination
- In 2006 the Board issued information about the remediation determination process
- In 2013 the staff provided five criteria used to evaluate a firm's remediation

COMMON INSPECTION FINDINGS

2021 common deficiencies include:

- Business combinations
- Inventory
- Revenue
- Internal control over financial reporting
- Allowance for loan losses
- Independence

BROKER-DEALER AUDITORS

- The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 gave the PCAOB oversight of certain auditors of broker-dealers registered with the SEC. The PCAOB has registration, inspection, standard-setting, and disciplinary authority over the auditors of these broker-dealers
- Exchange act rules require that audit and attestation engagements be conducted under PCAOB standards
- In 2011, the PCAOB established an interim program to inspect these auditors and identify and address with them any significant issues observed in their audits and related attestation engagements
- Annual report on the interim inspection program related to audits of broker-dealers

QUESTIONS/COMMENTS

