

# Small Business and Broker-Dealer Auditor Forum

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Irving, TX  
September 16, 2025

# WELCOME AGENDA

- Disclaimer
- Learning Objectives and Course Description
- Forum Information
  - Evaluation
  - Polling
  - Q&A
  - CPE Codes

# DISCLAIMER

One of the benefits of today's session is that you will hear firsthand from numerous PCAOB staff members. You should keep in mind, though, that the views we express are in our official capacity as PCAOB Board or staff members but are our own and do not necessarily reflect the views of the Board, other Board Members, or other members of the staff.

# LEARNING OBJECTIVES

- To discuss important information concerning PCAOB activities with registered public accounting firms that audit the financial statements of public companies operating in the small business community or broker-dealers. The forum also provides an opportunity for Board members and PCAOB staff to hear comments, concerns and questions from auditors
- PCAOB presentations will include updates from the PCAOB's Standards and Enforcement groups. Additionally, staff from the PCAOB's Division of Registration and Inspections will provide an overview of inspections and discuss recent inspection findings
- In addition, staff from the Securities and Exchange Commission and FINRA will provide updates on topics of current interest

# COURSE DESCRIPTION

The PCAOB Small Business and Broker-Dealer Forum is a one-day program that will offer attendees the opportunity to interact with the PCAOB and learn more about its programs and activities, including updates on current activities.

# FORUM CHECK-IN

<https://pcaobext.cnf.io/>












# FORUM CHECK IN

**Tuesday, September 16**

**2025 Irving Small Business and Broker-Dealer Auditor Forum**

9:00am - 4:40pm in Irving, TX

 Anthony C. Thompson    Linnette Klinedinst    Duane Abel    Janet Borgman  
 Greg MacCune    Vic Rodriguez    Steven Attard    Donna Silkitter    Zack Springfield

**Check In To This Session**

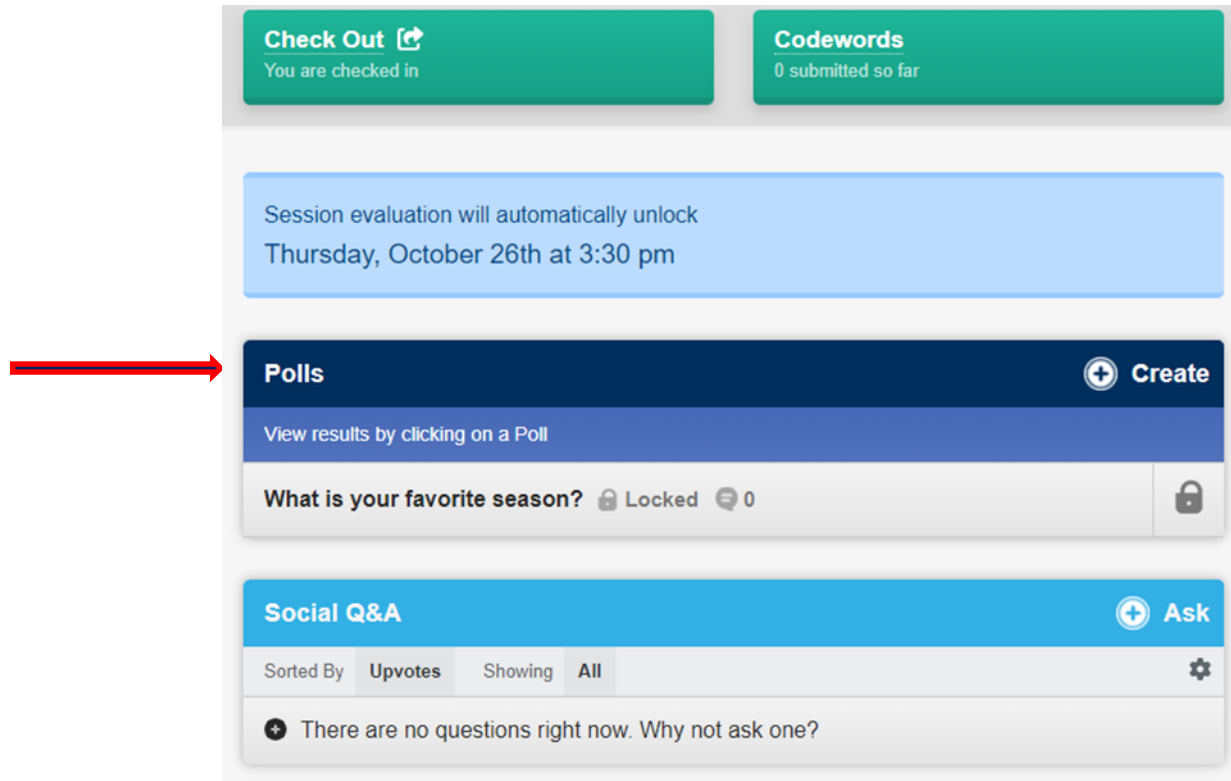
First Name

Last Name

Email Address

**Check In Now**

# POLLING



The screenshot displays a web interface with several components:

- Check Out** (with a share icon) and **Codewords** (0 submitted so far) buttons at the top.
- A blue notification box stating: "Session evaluation will automatically unlock Thursday, October 26th at 3:30 pm".
- A red arrow points to the **Polls** section header, which includes a **Create** button.
- Below the header, a bar says "View results by clicking on a Poll".
- A poll titled "What is your favorite season?" is shown, marked as **Locked** with a lock icon and 0 comments.
- The **Social Q&A** section is visible below, with an **Ask** button and sorting options (Sorted By, Upvotes, Showing, All).
- A message at the bottom of the Q&A section states: "There are no questions right now. Why not ask one?"

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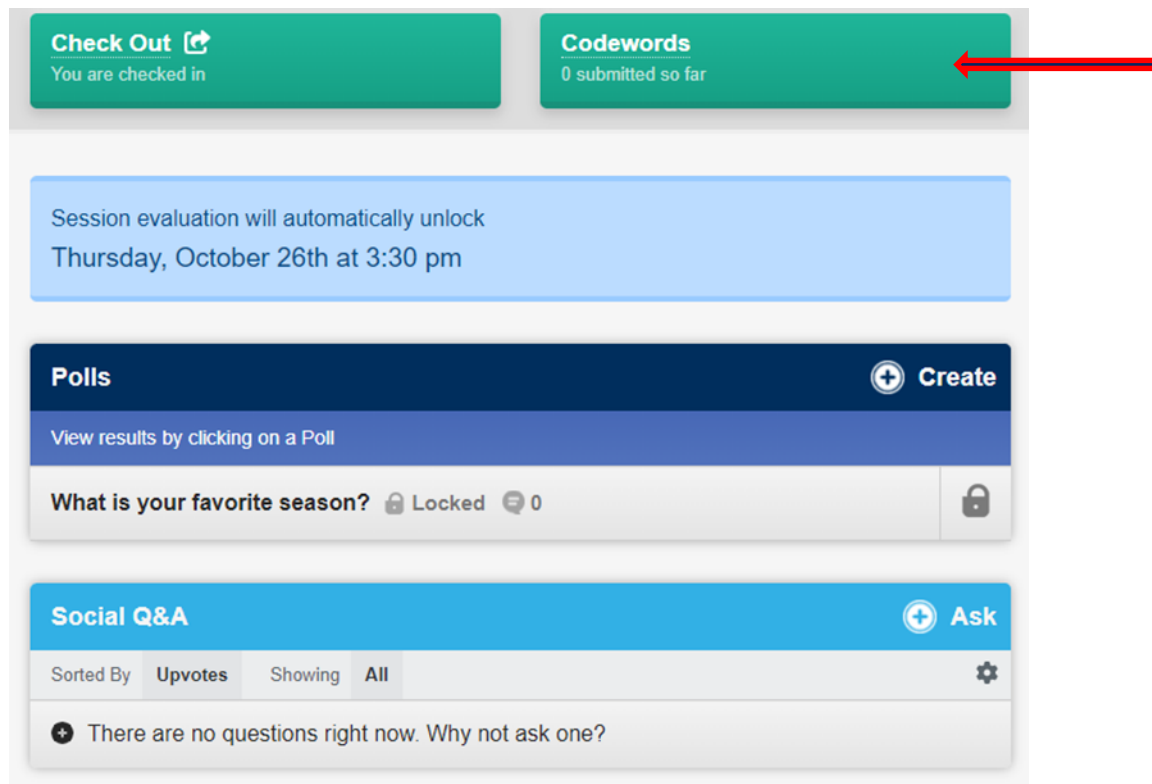
# Q&A AND COMMENTS

The screenshot displays a social interface with several components:


- Check Out** (green button): You are checked in.
- Codewords** (green button): 0 submitted so far.
- Session evaluation** (light blue box): Session evaluation will automatically unlock Thursday, October 26th at 3:30 pm.
- Polls** (dark blue header): Includes a **Create** button and a sub-header **View results by clicking on a Poll**.
- Poll content**: "What is your favorite season?" with a **Locked** status and 0 comments.
- Social Q&A** (light blue header): Includes an **Ask** button (circled in red) and sorting options: **Sorted By**, **Upvotes**, **Showing**, and **All**.
- Q&A content**: A message "There are no questions right now. Why not ask one?" with a plus icon (circled in red).

A red arrow points from the left towards the **Social Q&A** section.

# CPE CREDIT




The screenshot shows a user interface for earning CPE credit. At the top, there are two green buttons: "Check Out" with a checkmark icon and "Codewords" with the text "0 submitted so far". A red arrow points to the "Codewords" button. Below these buttons is a light blue box with the text: "Session evaluation will automatically unlock Thursday, October 26th at 3:30 pm". Underneath is a "Polls" section with a dark blue header containing a plus icon and the word "Create". Below the header is a blue bar with the text "View results by clicking on a Poll". The main content of the poll is "What is your favorite season?" followed by a lock icon, the word "Locked", a speech bubble icon, and the number "0". To the right of the poll is a lock icon. Below the poll is a "Social Q&A" section with a light blue header containing a plus icon and the word "Ask". Below the header is a bar with "Sorted By" and "Upvotes" selected, followed by "Showing" and "All" selected, and a gear icon. The main content of the Q&A section is a plus icon followed by the text "There are no questions right now. Why not ask one?".




**Check Out**   
You are checked in


**Codewords**  
0 submitted so far


Session evaluation will automatically unlock  
Thursday, October 26th at 3:30 pm


**Polls**  **Create**

View results by clicking on a Poll

What is your favorite season?  Locked  0 


**Social Q&A**  **Ask**

Sorted By **Upvotes** Showing **All** 


 There are no questions right now. Why not ask one?


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# EVALUATION





Session evaluation will automatically unlock  
Thursday, May 1st at 4:30 pm

**Polls**  **Create**

 Create a Poll

**Social Q&A**  **Ask**

Sorted By **Upvotes** Showing **All** 

 There are no questions right now. Why not ask one?

# Board Member Perspectives

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Tony Thompson, Board Member  
Kent Bonham, Office of Communications and Engagement  
September 16, 2025

# PCAOB Inspections Overview and Illustrative Examples: Broker-Dealers

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Greg MacCune and Steve Attard  
Division of Registration and Inspections  
September 16, 2025

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# OBJECTIVES

At the end of this session participants will understand:

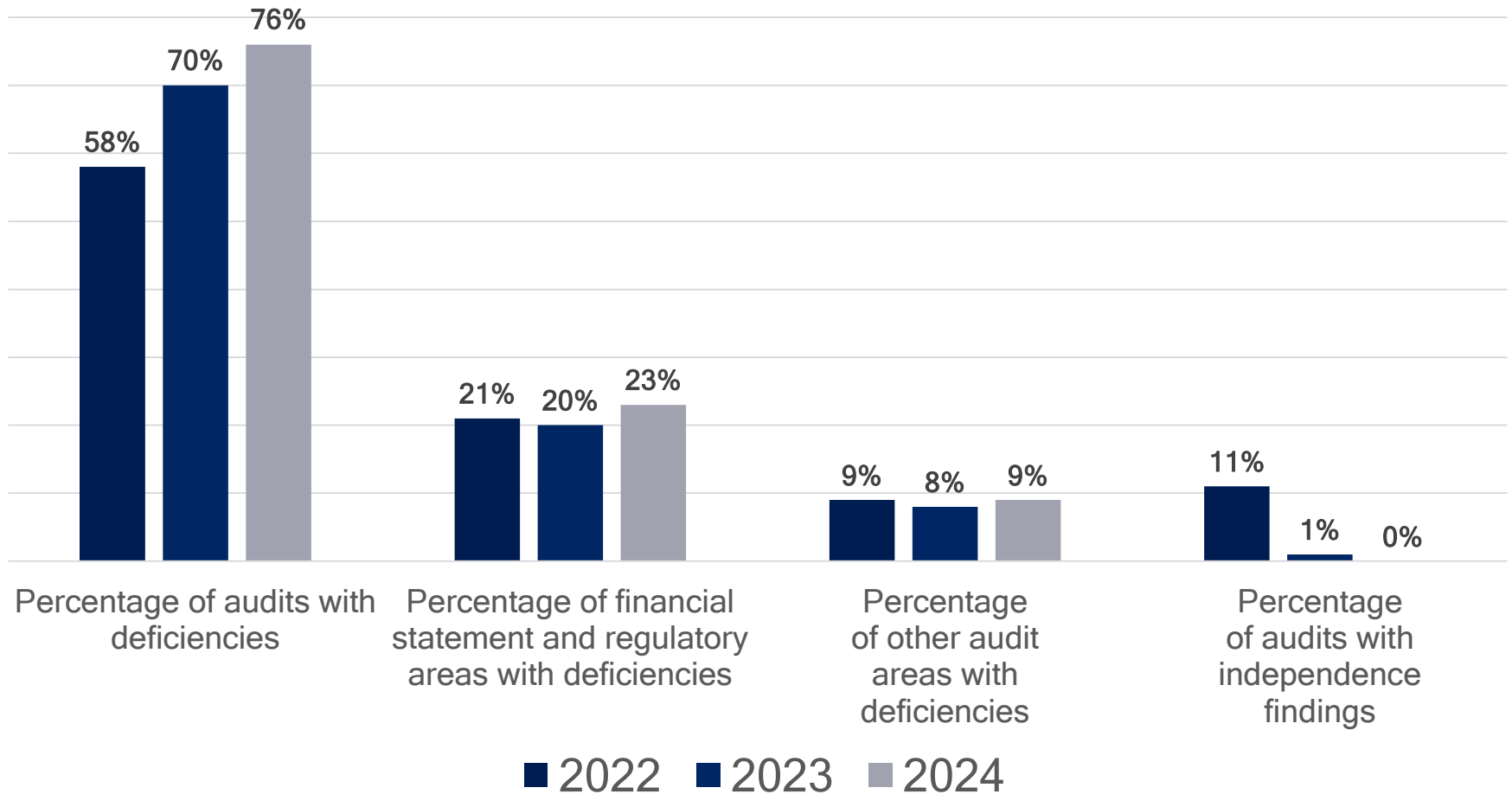
- PCAOB publications specifically relevant to auditors of broker-dealers
- Selected observations from 2024 inspections, related requirements of PCAOB standards, and illustrative examples
  - Audits of broker-dealer financial statements and supplemental information
  - Reviews of broker-dealer exemption reports
  - Examinations of broker-dealer compliance reports
- Status of 2025 inspection activities

# OVERVIEW OF CERTAIN RELEVANT PUBLICATIONS

- Audit Focus Series:
  - Engagement Acceptance – July 2025
  - Auditing Accounting Estimates – May 2025
  - Journal Entries – January 2025
  - Audit Committee Communications – December 2024
- Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers (“4020T Annual Report”) – June 2025
- Supplementary Information Related to Audits of Brokers and Dealers – June 2025
- Spotlight: Insights Into the PCAOB’s Interim Inspection Program Related to Audits of Broker-Dealers – January 2024
- Staff Guidance for Auditors of SEC-Registered Brokers and Dealers – June 2014

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# AUDIT ENGAGEMENT REVIEW RESULTS



# AS 2105 MATERIALITY IN THE CONTEXT OF AN AUDIT

- A fact is material if there is “a substantial likelihood that the . . . fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.”
  - “Reasonable investor”
  - “Total mix of information made available”

# AS 2105.06 ESTABLISHING A MATERIALITY LEVEL FOR THE FINANCIAL STATEMENTS AS A WHOLE

- The auditor should establish a materiality level for the financial statements as a whole that is appropriate in light of the particular circumstances.
- This includes consideration of the company's earnings and other relevant factors.
- Materiality level established determines the extent of testing of the significant financial statement line items, including scoping of the audit, thresholds used in the performance of substantive analytical procedures, and sample sizes for tests of details.

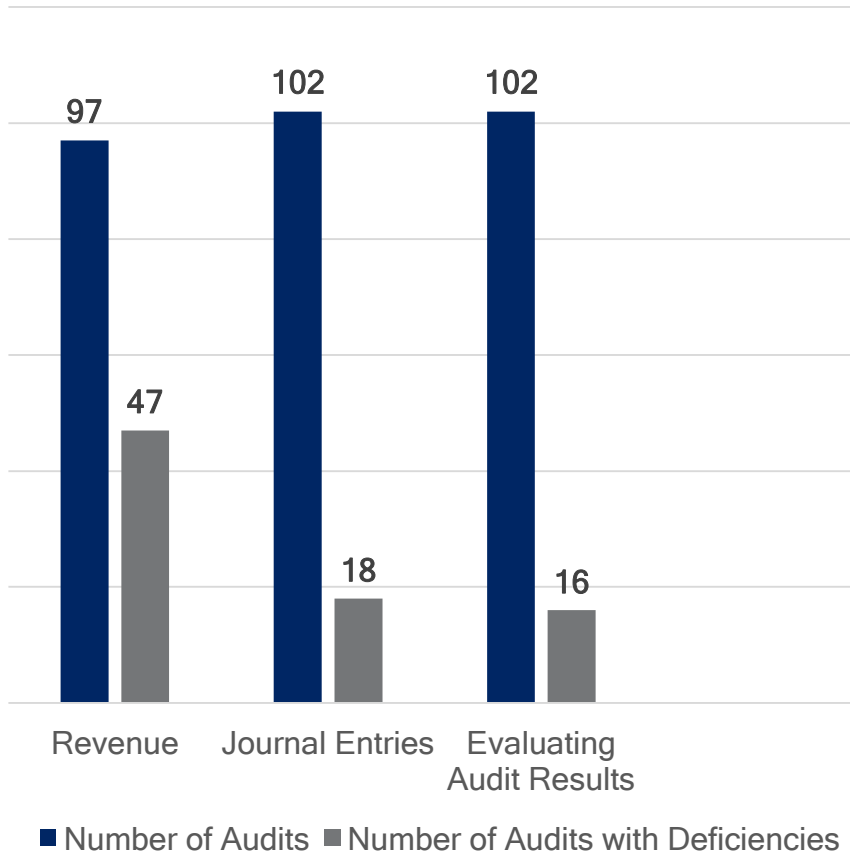
# MATERIALITY CONSIDERATIONS

- Consideration of earnings
  - Earnings are an important factor in the total mix of information available to an investor
  - Earnings may be gross, net
  - Earnings not required as a basis in all cases
- Consideration of other relevant factors
  - Total assets, total equity
  - Net capital, excess net capital

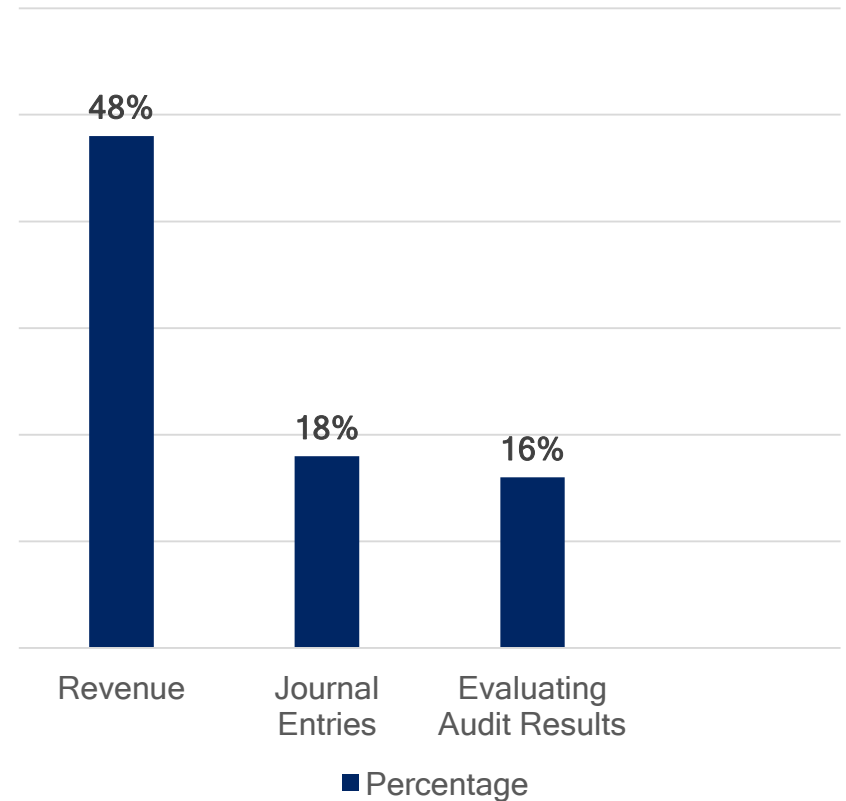
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# 2024 RESULTS – FINANCIAL STATEMENT AREAS

## Deficiencies by Audit Area



## Percentage of Deficiencies Identified by Audit Area



# RETAINER FEE SCENARIO

- A broker-dealer reported merger and acquisition advisory fees of \$10 million on its statement of income and disclosed the following:
  - *Merger and acquisition advisory fees were comprised of \$8 million of placement fees and \$2 million of retainer fees.*
  - *Retainer fees are earned on capital placement services and are recognized in accordance with the relevant contract. Retainers are non-refundable and off-settable against placement fees (i.e., they reduce placement fees) when placement fees are earned. Revenue from retainers is recognized when the broker-dealer has delivered the services as detailed in the contract.*

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# 12b-1 FEE SCENARIO

- An introducing broker offers mutual fund investments and uses a reputable clearing broker for trade processing. The clearing broker calculates and remits 12b-1 fees to the introducing broker based on net asset value (NAV) and the applicable fee rate and reports the 12b-1 fees to the introducing broker in monthly clearing statements.
- The engagement team determined that there was a fraud risk related to revenue recognition for 12b-1 fees and assessed the control risk for 12b-1 fees as high.
- For a sample of 12b-1 fees, the engagement team recalculated the monthly 12b-1 fees based on NAV and the fee rate obtained from the mutual fund's prospectus.

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# JOURNAL ENTRY PROCEDURES

- Common Deficiencies
  - Not identifying and selecting entries for testing
  - Not testing the completeness of the population
  - Not testing journal entries meeting fraud criteria or limiting such procedures
  - Not evidencing an appropriate rationale for how certain factors in AS 2401 resulted in the identification of its fraud risk criteria
- Good Practices
  - Use of persons with specialized skill or knowledge in IT
  - Guidance with examples
  - Training
  - Journal entry practice aids
  - Structured templates
  - Review programs
  - Software audit tools

# AUDIT FOCUS: JOURNAL ENTRIES



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# EVALUATING AUDIT RESULTS

Deficiencies in this area generally related to potential GAAP departures associated with the following topics (among others):

- Revenue (ASC Topic 606)
- Cash and Cash Equivalents / Statement of Cash Flows (ASC Topics 210 and 230)
- Securities Owned (ASC Topic 940)

# SEGMENT REPORTING – ASC TOPIC 280

- ASU 2023-7 is effective for fiscal years beginning after 12/15/23
- Broker-dealers are public entities and therefore the ASU is applicable
- In many cases, broker-dealers might conclude that they are single segment entities
- New disclosures include:
  - Chief Operating Decision Maker (CODM) identification
  - Explanation of how the CODM uses reported measure(s) of profit or loss in assessing performance and deciding how to allocate resources
  - Disclosure of significant expenses considered by the CODM

# EXAMPLE DISCLOSURE – INTRODUCING BROKER

The BD is engaged in a single line of business as an introducing broker and generates revenue from clearing fees earned for executing trades for clients of an affiliate. The **BD's CODM is its President, who uses net income to evaluate the results of the business and manage the BD.** Additionally, the CODM **uses excess net capital**, which is not a measure of profit and loss, **to make operating decisions** while maintaining capital adequacy, such as distributing profits or reinvesting into the business. The BD's operations constitute a **single operating segment and therefore, a single reportable segment**, because the CODM manages the business activities using information of the BD as a whole. The accounting policies used to measure profit and loss of the segment are the same as those described in the summary of significant accounting policies. The BD derived 99 percent of its total revenues from a single customer in 2024, an affiliate of the BD. The BD's **segment revenue and expenses are in line with what is reported in the income statement** and includes all significant categories that the CODM reviews. **[emphasis added]**

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# RELATED PARTY TRANSACTIONS

- Common AS 2410 Deficiencies
  - Not testing the allocation of revenues and expenses between a BD and its parent or affiliates
  - Not evaluating whether allocated revenues or expenses were consistent with the terms of the written agreements between the BD and its parent or affiliates
  - Not evaluating the financial capability of a parent or affiliates to satisfy a material uncollected balance owed to the BD
  - Not identifying omitted or inaccurate disclosures of information necessary to understand the effects of the transactions on the BD's financial statements
  - Not communicating to the audit committee the auditor's evaluation of the BD's identification of, accounting for, and disclosure of its transactions with its parent or affiliates.

# REMINDERS AND GOOD PRACTICES

- Reminders

- Procedures to identify and assess risks of material misstatement
- Procedures to address the identified and assessed risks
- Evaluation of accounting and disclosure
- Communication of the auditor's assessment of the broker-dealer's accounting and disclosure of related party transactions

- Good Practices

- Practice aids
- Checklists
- Training

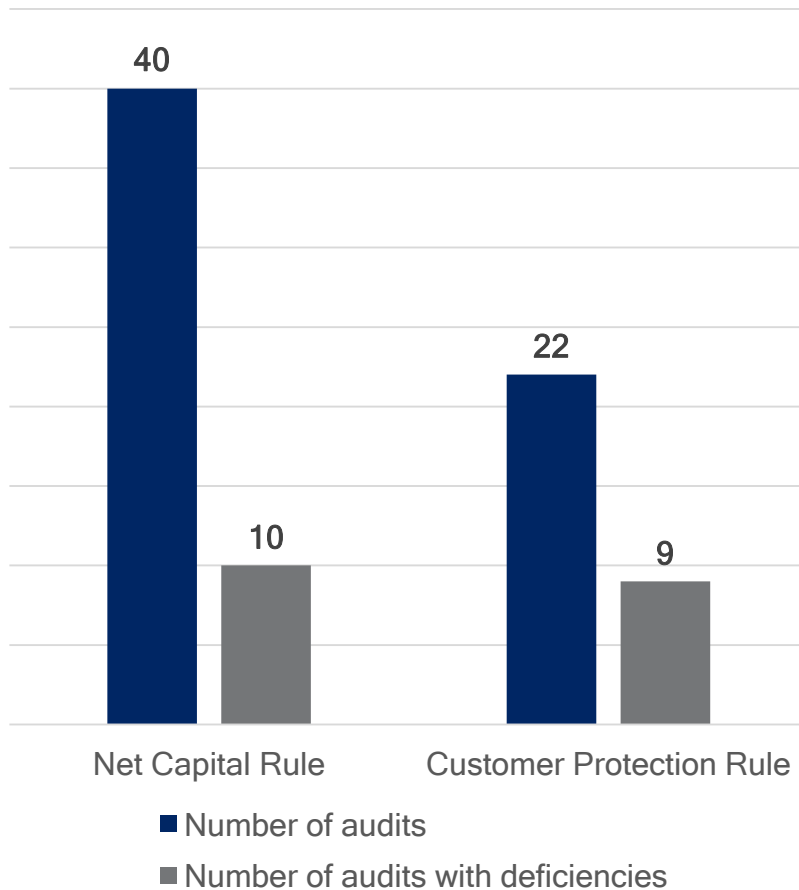
# RELATED PARTY TRANSACTION SCENARIO

- The broker-dealer is a member of FINRA and subject to an intercompany expense sharing agreement with its parent and other affiliates where certain indirect expenses incurred by the parent are allocated to the broker-dealer and the other affiliates.
- Indirect expenses subject to allocation are initially recorded in the general ledger of the parent. The parent allocates these expenses to the broker-dealer based on the methodology per the agreement.
- The engagement team determined that there was a risk of material misstatement related to allocated expenses.

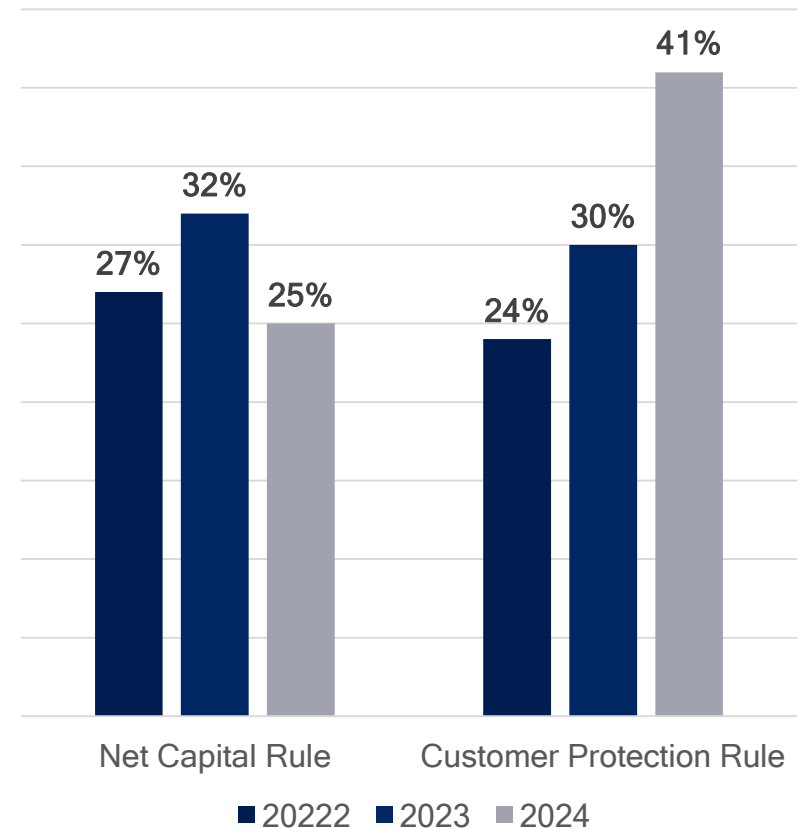
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# SUPPLEMENTAL INFORMATION AREAS

## Deficiencies by Audit Area

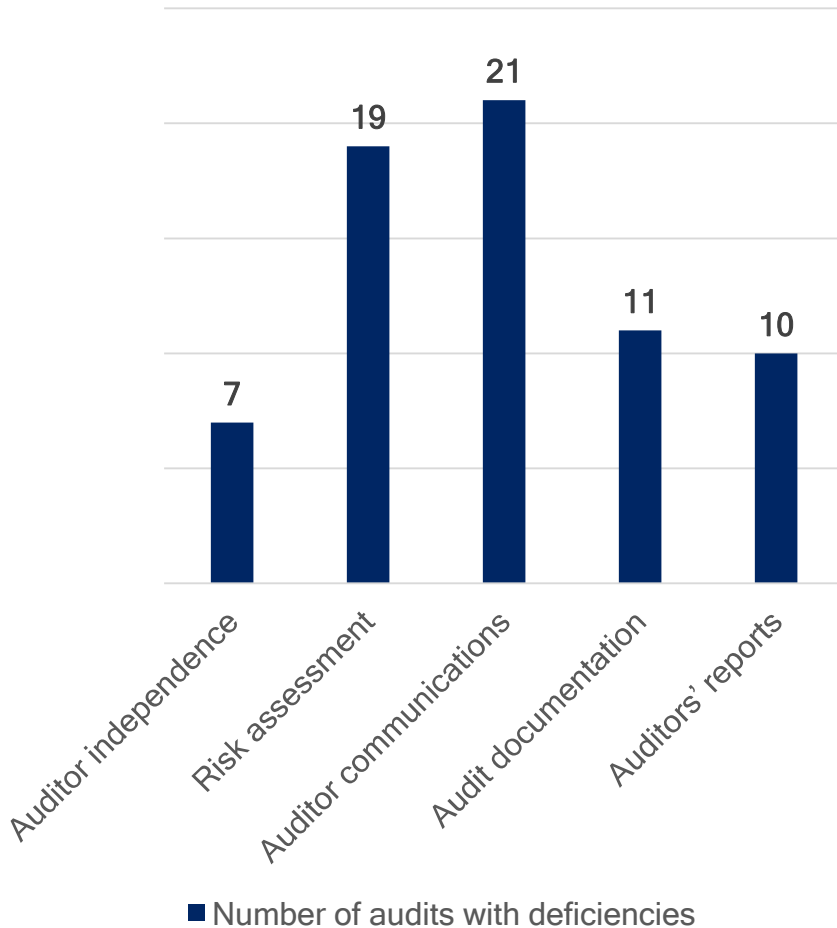


## Percentage of Deficiencies Identified by Audit Area

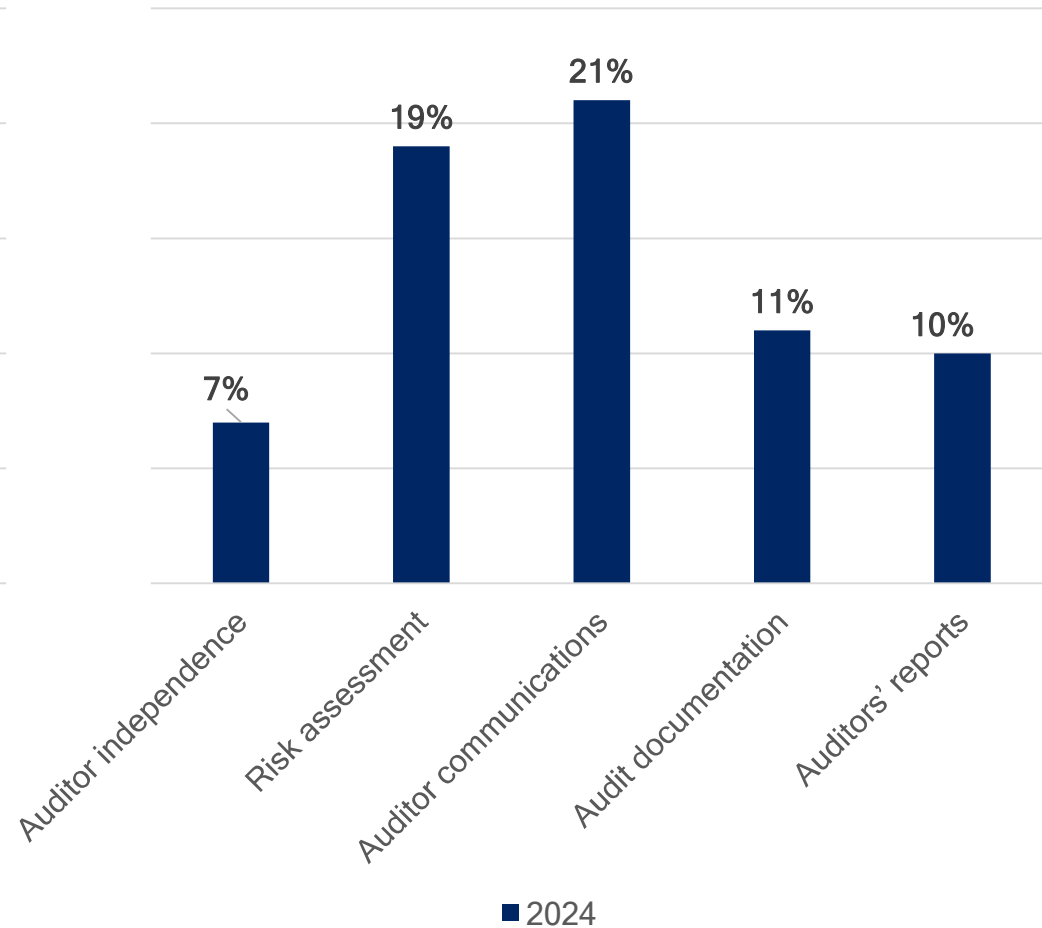


# NONCOMPLIANCE WITH PCAOB STANDARDS

## Deficiencies by Other Audit Area



## Percentage of Deficiencies Identified by Other Audit Area



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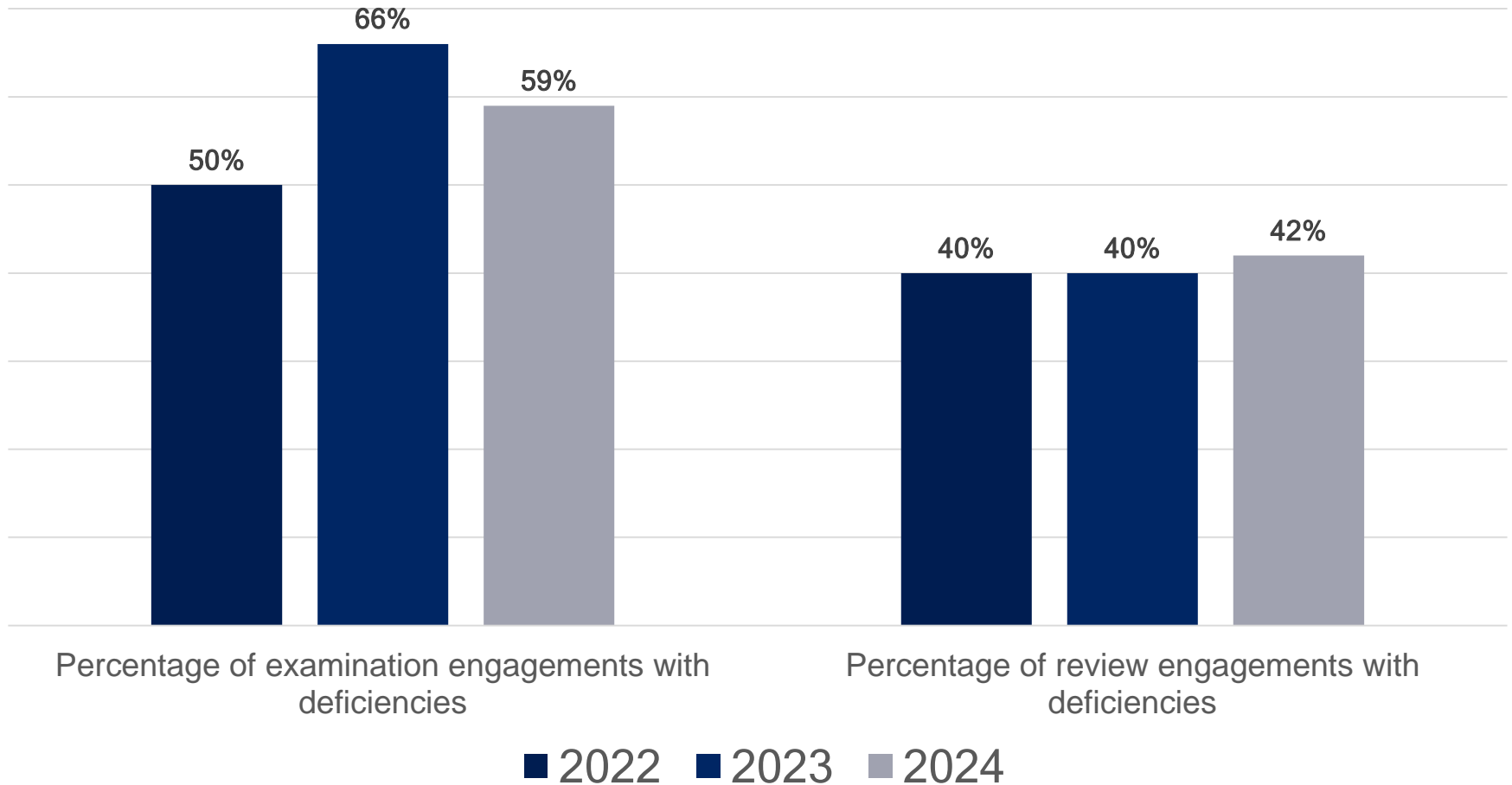
# AUDIT FOCUS: AUDIT COMMITTEE COMMUNICATIONS

## Audit Focus

### Audit Committee Communications



# ATTESTATION ENGAGEMENT REVIEW RESULTS



# REVIEW ENGAGEMENTS

## 2024 Inspection Results

**Number of engagements  
reviewed:**

**64**

**Number of engagements  
reviewed with deficiencies:**

**27**

**Percentage of engagements  
reviewed with deficiencies:**

**42%**

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# REVIEW ENGAGEMENTS – REMINDERS

## Evaluate Evidence

- AT No. 2.10 requires the auditor to evaluate whether evidence obtained and the results of the procedures performed in the audit of the financial statements and the audit procedures performed on supplemental information corroborates or contradicts the broker-dealer's assertions regarding compliance with the exemption provisions.
- Audit procedures performed in the audit of the financial statements may provide evidence relevant to the broker-dealer's compliance with exemption provisions including testing of customer trades, special designated cash accounts, investment inventory, and trading transactions for a broker-dealer's own account, and reading the clearing agreement for testing commission revenue or expenses.

# REVIEW ENGAGEMENTS – REMINDERS (CONT'D)

## Perform Inquiries

- Remain aware of the inquiries to be performed when performing review procedures to ensure compliance with the requirements of AT No. 2.
- Inquiries should include inquiries about controls in place to maintain compliance with the exemption procedures, including inquiries regarding the nature of the controls, their frequency of operation, and the nature of the related monitoring activities.

# REVIEW ENGAGEMENTS – REMINDERS (CONT'D)

## Reporting on the Review Engagement

- The review report must include the required elements identified in the standard (AT No. 2.16).
- Ensure that the review report accurately identifies the broker-dealer's assertions.

# AT NO. 2 REPORTING SCENARIO

- The broker-dealer disclosed in its financial statements that it cleared all customer securities transactions through an unaffiliated clearing broker on a fully disclosed basis and did not carry customer accounts or perform custodial functions related to customer securities.
- The broker-dealer included the following statements in its exemption report:
  - It claimed an exemption from 17 C.F.R. 240.15c3-3(k)(2)(ii), the "Exemption Provisions", and
  - It met the identified Exemption Provisions throughout the year, except in two instances when customer checks were not promptly transmitted to the clearing broker.

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# EXAMINATION ENGAGEMENTS

## 2024 Inspection Results

**Number of engagements  
reviewed:**

**29**

**Number of engagements  
reviewed with deficiencies:**

**17**

**Percentage of engagements  
reviewed with deficiencies:**

**59%**

# AT NO. 1 ICOC SCENARIO

- A broker-dealer used a service organization for trade processing and maintenance of customer account information and the broker-dealer's stock record. The service organization generated the securities deficit report that the broker-dealer used in the performance of controls related to its compliance with possession or control requirements. The auditor determined that the controls at the service organization were important to its conclusion about the broker-dealer's ICOC.
- The service organization's SOC 1 report provided evidence of the design and operating effectiveness of controls over the completeness and accuracy of the securities deficit report.
- The auditor determined to rely on the SOC 1 report for evidence regarding controls over the securities deficit report.

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# 2025 INSPECTIONS UPDATE

	2025 Inspections
Selections – Status	Completed
Selections – Extent	Comparable to 2024
Fieldwork – Status	In-process, Continuing Through November
Fieldwork – Location	More Frequently In-Person
Reporting – Status	No Later than Mid-June 2026

# QUESTIONS



# Break



# FINRA Perspectives

PCAOB Forum – Irving, TX

Sarah Kenny, Director – Office of Financial and Operational Risk Policy

Mark Ramler, Director - Office of Financial and Operational Risk Policy

September 16, 2025

# AGENDA

- 01 | FINRA Forward: Updates
- 02 | Electronic Filing Rule & Other Hot Topics
- 03 | Recent and Upcoming Guidance
- 04 | Placeholder: Exemption Reports
- 05 | FINRA Projects and Helpful Links



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## FINRA Forward: Updates

- Day Trading Rule
- Comments received on FINRA Reg Notice 25-05 “FINRA Requests Comment on a Proposal to Reduce Unnecessary Burdens and Simplify Requirements Regarding Associated Persons’ Outside Activities”
- SEC Interpretations Linking
- Other items

# SEC's Electronic Submission of Certain Reports and Changes to the FOCUS Report

- Electronic Signatures
- Oath and Affirmation Notarization Requirement
- EDGAR submissions
  - PDF format (June 30, 2025)
  - **UPDATE:** Machine Readable Language (**June 30, 2027** or **June 30, 2029**)\*  
\*reflects updates to the Rule approved on September 8, 2025
- Changes to the FOCUS Report

# SEC's Electronic Submission of Certain Reports and Changes to the FOCUS Report

## EDGAR Resources:

- Firms will need to submit Form ID by following the instructions [Apply for EDGAR Access—Applicants with an EDGAR Central Index Key \(CIK\) Account but No Access Codes](#)
- Instructions on how to file Annual Reports (Form X-17A-5 Part III Annual Reports) through EDGAR may be found at: [Electronic Filing of Form X-17A-5 Part III \(Broker-Dealer, Security-Based Swap Dealer, and Major Security-Based Swap Participant Annual Reports \) \[sec.gov\]](#)

## Additional resources available:

- For procedural and technical questions, contact EDGAR Filer Technical Support at 202-551-8900, Option # 3 (technicians are available live from 9:00 am-5:30 pm EST Monday-Friday) or [filertechunit@sec.gov](mailto:filertechunit@sec.gov).
- Substantive legal questions regarding Annual Report (Form X-17A-5 Part III) filing requirements should be directed to the Division of Trading and Markets by calling (202) 551-5777 or by e-mailing [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov). Please include a telephone number or email address that Division staff can use to contact you.

## Other Hot Topics

- SEC Daily 15c3-3 Computation Rule
  - SIFMA Letter
- Cash Sweeps
- Crypto FAQs
  - Published by the SEC on May 15, 2025
  - Can be found [here](#)



## Recent and Upcoming Guidance

- Regulatory Notice 25-09: FINRA Enhances Its Systems to Enable Members to Provide Associated Persons With Uniform Registration Form and Predispute Arbitration Information Through FinPro Gateway (Effective Date: November 3, 2025)
- Audit Extension Policy
- FAQs on PFO and FINOP Responsibilities

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# Regulatory Guidance on Exemption Reports

- Sources of Information about Exemption and Compliance Reporting:
  - [FAQs Concerning the July 30, 2013 Amendments to the Broker-Dealer Financial Reporting Rule](#)
  - [FAQs Concerning the Amendments to Certain Broker-Dealer Financial Responsibility Rules](#)  
Reserve Formula Computation and Possession or Control: FAQ 18
  - [FAQs about Exemption Reporting Under SEA Rule 15c3-3\(k\) for Purposes of FOCUS Reporting and Updating of Membership Agreements](#)  
FAQs 1, 2, and 3
- Exemption Report Considerations
  - Multiple Business Activities
  - Covered Firms-15c3-3(k)
  - Non-Covered Firms/Footnote 74

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# FINRA Training and Helpful Links

- [FINRA FAQs](#)
- [FINRA Key Topics](#)
  - [Annual Reports](#)
  - [Books and Records](#)
  - [Business Continuity Planning](#)
  - [Crypto Assets](#)
  - [Cybersecurity](#)
  - [FINRA Examination and Risk Monitoring Programs](#)
  - [FinTech](#)
  - [Funding and Liquidity](#)





# Division of Enforcement and Investigations Update

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Zack Springfield, Assistant Director  
Division of Enforcement and Investigations  
September 16, 2025

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# DIVISION OF ENFORCEMENT & INVESTIGATIONS

What we do.....



# AGENDA

- Today I would like to discuss:
  - Enforcement program statistics for 2024 and 2025 year-to-date
  - Range of potential sanctions and the effects of suspensions and bars and some consequences of allowing barred or suspended individuals to associate with registered firms
  - Current program outlook and priorities
  - Matters involving quality control violations and improper answer sharing on training exams
  - Coordination with the Securities and Exchange Commission and other regulators
  - PCAOB's international coordination on enforcement
  - Recent noteworthy settlements

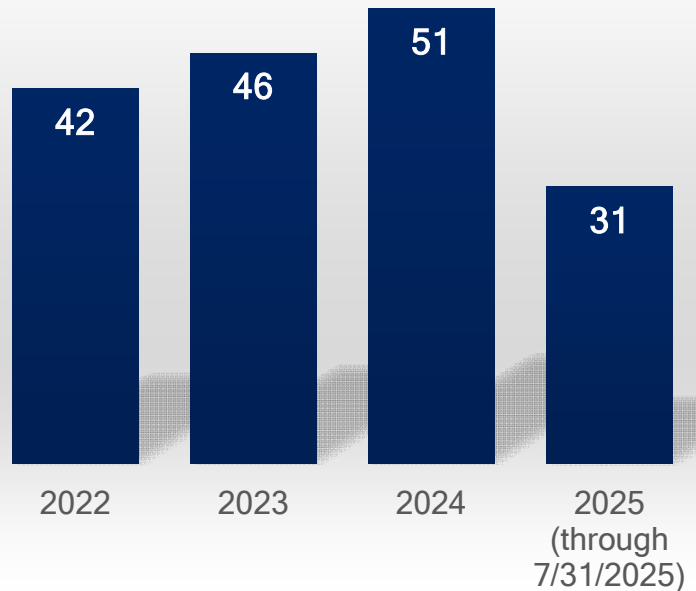
# PROGRAM STATISTICS FOR 2024 AND 2025

- Overview of 2024 public Enforcement Orders:
  - 51 public enforcement orders issued, a slight increase from 2023
  - Roughly 40% of the public enforcement orders issued in 2024 were against firms or associated persons outside the United States
    - Two orders (JTC Fair Song; and CHOI Chung Chuen, MA Hong Chao and DONG Chang Ling) involved China-based firms and associated Persons
  - Five orders involved firms and associated persons settling to charges related to exam misconduct in professional training or accreditation
- 31 public enforcement orders have been issued through the end of July 2025, including 5 that involved exam misconduct

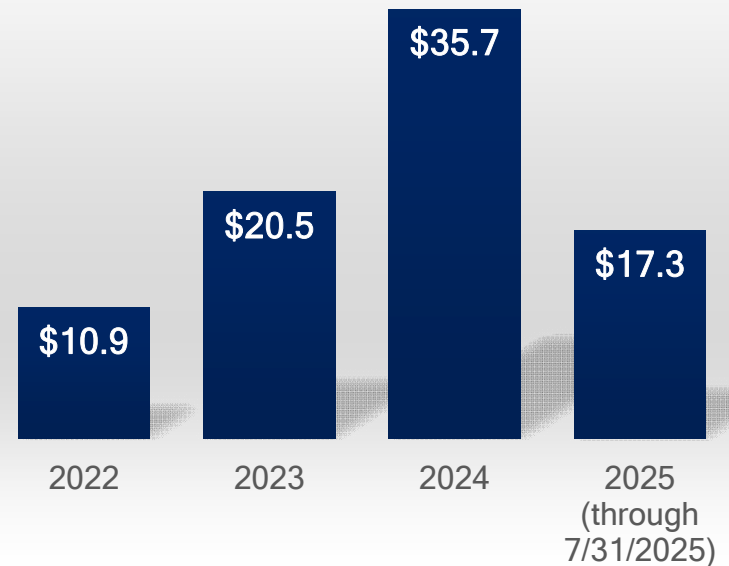


# PROGRAM STATISTICS – ANNUAL TRENDS

Public Enforcement Orders



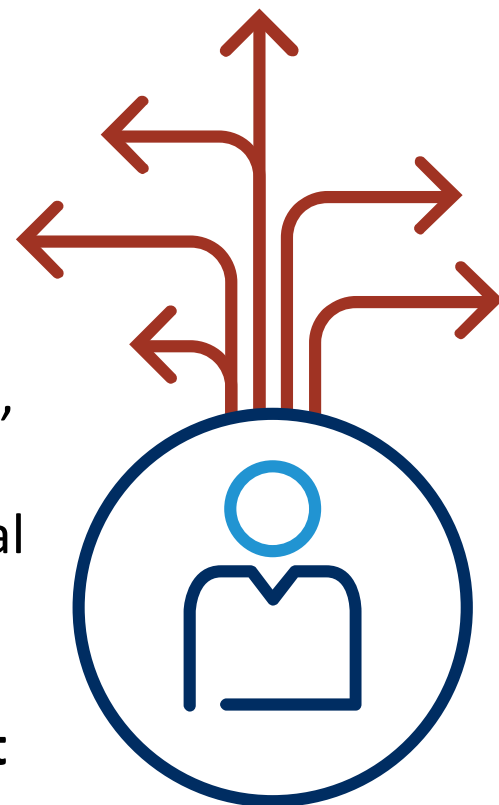
Total Monetary Penalties  
(in millions)



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# RANGE OF POSSIBLE SANCTIONS

- In a disciplinary proceeding, the Board may:
  - Impose a **civil monetary penalty**
  - **Temporarily or permanently revoke** a firm's registration
  - **Suspend, temporarily bar, or permanently bar** an individual from association with a registered public accounting firm
  - **Temporarily or permanently limit** the activities, functions, or operations of a firm or person
  - Require certain **undertakings**, such as additional professional education or training, changes to policies
  - Appoint an **independent monitor or consultant**
  - Impose a **censure**, and/or **any other sanction per Board rules**



*Note: Temporary revocations and bars come with rights to petition the PCAOB for reinstatement, after expiration of the specified period*

# EFFECT OF SUSPENSIONS AND BARS

Without the consent of the Board or the Commission:

- It is unlawful for any person that is suspended or barred to become or remain associated with any registered firm or with any issuer, broker, or dealer in an accountancy or a financial management capacity
- It is unlawful for any registered firm, issuer, broker, or dealer that knew, or, in the exercise of reasonable care should have known, that a person is suspended or barred from association to permit such association



# PROGRAM OUTLOOK

- The Division of Enforcement and Investigations continues to prioritize
  - Investigations involving significant audit violations presenting risks to investors
  - Matters threatening or eroding the integrity of the Board's regulatory oversight process
  - Significant auditor independence violations
- The Division is also focusing on
  - Matters relating to deficiencies in firm quality control policies and procedures



# MATTERS INVOLVING DEFICIENCIES IN FIRM QUALITY CONTROLS

- DEI has historically focused on matters involving deficiencies in firms' quality control policies and procedures
  - Firms are responsible for ensuring their personnel comply with the applicable professional standards
  - A QC system provides reasonable assurance that firm personnel comply with those standards and the firm's standards of quality
- In 2024 and 2025 (through July 31), the Board has issued public orders involving violations of QC standards by over forty firms
  - Includes orders against U.S. and foreign-based firms
  - Involved combinations of violations encompassing all five required elements of quality control

# MATTERS INVOLVING EXAM MISCONDUCT

- Over the last several years (through July 2025), the PCAOB issued 15 public enforcement orders involving thirteen registered firms and two associated persons concerning exam misconduct in professional training or accreditation
  - All firms involved were foreign affiliates of global network firms
  - Associated persons were senior management of such firms and separately sanctioned for directly and substantially contributing to firm violations
  - Misconduct generally occurred over multiple years and involved both staff and partners, and, in some cases, firm leadership
  - The most troubling misconduct—resulting in the largest monetary penalties—has involved firms and individuals making knowingly false representations to the PCAOB

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# COORDINATION WITH OTHER REGULATORS

- PCAOB may share information with the SEC, DOJ, and other agencies enumerated in the Act
- Coordination with SEC Enforcement is a standard practice
  - Auditor investigations may be referred from one to the other
  - May result in parallel investigations
- Coordination with foreign regulators through cooperative agreements
  - Facilitates evidence gathering and charging of registered firms and associated persons based in foreign jurisdictions
  - May result in parallel investigations



# PCAOB'S INTERNATIONAL COOPERATION ON ENFORCEMENT

- Cooperative agreements are expressly between the PCAOB and its foreign counterparts
  - These cooperative agreements generally:
    - Have provisions for access to documents and information necessary in PCAOB investigations, including audit documentation and testimony
    - Include strict confidentiality provisions (in part to address confidential nature of PCAOB enforcement)
    - Help address unique non-U.S. legal requirements (including personal data protection laws, among others)
    - Provide a framework for resolving legal conflicts
- The PCAOB has entered into dozens of cooperative agreements across the globe
  - Includes most European countries, Canada, Japan, and with Chinese authorities

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# Recent Noteworthy Settled Matters

# IN THE MATTER OF RAINES & FISCHER LLP

*(PCAOB RELEASE NO. 105-2024-049 – DECEMBER 3, 2024)*

- In anticipation of 2020 and 2022 PCAOB inspections, firm personnel improperly created and modified numerous work papers after the applicable documentation completion date
  - Changed computer clocks and printed documents to PDF to conceal alterations of work papers provided to PCAOB inspectors
- Engagement partners of the respective audits inspected in 2020 and 2022 were principally responsible for work paper alterations
  - Neither partner informed inspectors of the work paper alterations despite participating in inspection meetings
- In both instances, firm Managing Partner was aware of work paper alterations but took no action; failed to prevent altered work papers from being provided to inspectors

# IN THE MATTER OF RAINES & FISCHER LLP

*(PCAOB RELEASE NO. 105-2024-049 – DECEMBER 3, 2024)*

- Firm QC system was deficient, as evidenced by improper documentation practices and other violations
- Engagement partner of audit inspected in 2022 failed to comply with certain auditing and attestation standards in connection with the audit and examination of a carrying broker-dealer
- EQR of audit inspected in 2022 failed to perform adequate engagement quality reviews for seven broker-dealer audits
  - Also, directly and substantially contributing to the firm's noncooperation for both inspections
- Sanctions included
  - Permanent revocation of firm registration
  - Five-year bar for EP; Three-year bars for EQR and Managing Partner
  - Total of \$465,000 in civil money penalties for firm and individuals

# IN THE MATTER OF MICHAEL T. STUDER CPA P.C. AND MICHAEL T. STUDER, CPA (PCAOB RELEASE NO. 105-2025-022 – JUNE 24, 2025)

- Multiple violations on the audit of a China-based issuer
  - Failed to test over 96% of reported revenue
  - Failed to appropriately supervise the engagement team, including a newly-hired contract auditor based in China
  - Falsified workpaper sign-offs
  - Failed to obtain concurring approval of issuance from EQR
- Monitoring component of QC system was deficient, as evidenced by similar violations in firm's prior PCAOB enforcement action
- Sanctions included
  - Permanent revocation of firm's registration
  - Permanent bar of Engagement Partner/ firm owner
  - \$20,000 joint and several civil money penalty

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# IN THE MATTER OF MICHAEL COGLIANESE, CPA P.C.

## *(PCAOB RELEASE NO. 105-2025-026 – JULY 8, 2025)*

- Firm failed to employ an appropriately qualified individual to serve as the EQR on 17 Broker-Dealer audits and attestations
  - Assigned a Senior Manager as EQR
    - Not in a position to be objective because: (1) reported to engagement partner, (2) compensation set by engagement partner, and (3) performance evaluated by engagement partner
- QC system failed to provide reasonable assurance that Firm would perform B-D audits and attestations in accordance with applicable professional standards and regulatory requirements
- Sanctions included
  - \$50,000 civil money penalty
  - Remedial undertakings to improve QC system

# IN THE MATTER CENTURION ZD CPA & CO. AND CHAN KAM FUK

*(PCAOB RELEASE NO. 105-2025-032 – JULY 22, 2025)*

- Hong Kong-based firm and its managing partner violated PCAOB rules and standards in three audits of China-based companies
- Failed to properly perform risk assessments and obtain sufficient appropriate audit evidence in multiple significant risk areas
  - Including 2021 audit of Luckin Coffee Inc., which had settled charges of fraudulent accounting with the SEC in 2020
  - Failed to use information known about earlier fraud to assess risks or design audit procedures to address fraud risks in 2021 audit
- Made false and inaccurate statements in two audit reports
- Failed to report the use of an unregistered China-based firm on three Forms AP

# IN THE MATTER OF CENTURION ZD CPA & CO. AND CHAN KAM FUK

*(PCAOB RELEASE NO. 105-2025-032 – JULY 22, 2025)*

- As reflected by the multitude of violations spanning several PCAOB audits, the firm's QC system failed to provide the firm with reasonable assurance that work performed by its personnel would meet applicable standards
- Sanctions included
  - Permanent revocation of Firm's registration
  - Permanent bar of CHAN Kam Fuk, the firm's managing partner and sole owner
  - \$75,000 joint and several civil money penalty

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# PCAOB CENTER FOR ENFORCEMENT TIPS, COMPLAINTS AND OTHER INFORMATION

E-mail: [TIPS@pcaobus.org](mailto:TIPS@pcaobus.org)

Post: PCAOB Tip & Referral Center  
1666 K Street, NW  
Suite 300  
Washington, DC 20006

Telephone: 800-741-3158

Website: <https://pcaobus.org/oversight/enforcement/tips-referrals>

# QUESTIONS



# Lunch

# U.S. Securities and Exchange Commission

September 16, 2025

# Standard-Setting Update

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Donna Silknitter and Linnette Klinedinst  
Office of the Chief Auditor  
September 16, 2025

# DISCLAIMER

This presentation is provided in the speaker's official capacity as a PCAOB staff member, but the views expressed are those of the speaker and do not necessarily reflect the views of the Board, Board Members, or other members of the staff.

# OVERVIEW

- Standard-Setting Activities
  - Recently Adopted Standards and Amendments – Reminders and Implementation Resources
- Resources for Smaller Firms
- Implementation of QC 1000, *A Firm's System of Quality Control*



# STANDARDS-RELATED ACTIVITIES



Standard-Setting Process

Standard-Setting, Research, and  
Rulemaking Projects

Implementation of PCAOB  
Standards and Rules

Post-Implementation Review

Standard-related activities can be found at:  
<https://pcaobus.org/oversight/standards>

# RECENTLY ADOPTED STANDARDS & AMENDMENTS



Standard-Setting Process

Standard-Setting, Research, and  
Rulemaking Projects

Implementation of PCAOB  
Standards and Rules

Post-Implementation Review

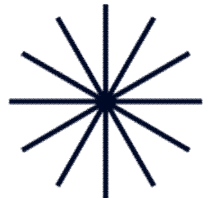
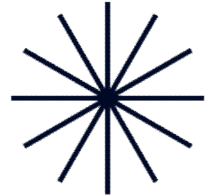
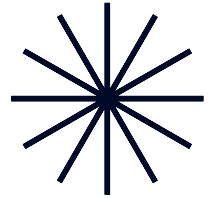
Standard-related activities can be found at:  
<https://pcaobus.org/oversight/standards>

# RECENTLY ADOPTED STANDARDS & AMENDMENTS

- **AS 2310**, *The Auditor's Use of Confirmation*
- **AS 1000**, *General Responsibilities of the Auditor in Conducting an Audit*
- *Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*
  - Amendments to **AS 1105**, *Audit Evidence* and **AS 2301**, *The Auditor's Responses to the Risks of Material Misstatement*
- **QC 1000**, *A Firm's System of Quality Control*

# NEW CONFIRMATION STANDARD – AS 2310

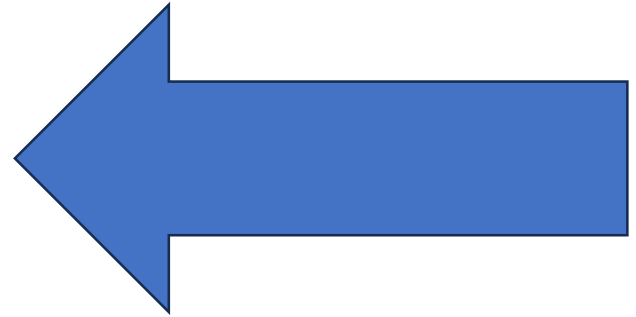
- Maintaining control over the confirmation process
  - Use of an intermediary
- Using negative confirmation requests
- Confirming cash and accounts receivable
- When confirming accounts receivable is not feasible



# NEW CONFIRMATION STANDARD – AS 2310 (CONT'D)

## Implementation Resources:

- **Staff Presentation**
- **Knowledge Check**



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# GENERAL RESPONSIBILITIES OF AUDITORS – AS 1000

- AS 1000 modernizes, clarifies, and streamlines the general principles and responsibilities of auditors
  - Reasonable assurance
  - Due professional care
  - Professional skepticism
  - Independence
  - Competence
  - Professional judgment



# GENERAL RESPONSIBILITIES OF AUDITORS – AS 1000 (CONT'D)

- Amendments to other PCAOB standards:
  - Clarify the auditor's responsibility to evaluate whether the financial statements are "presented fairly" (**AS 2810**)
  - Clarify the engagement partner's responsibilities by adding specificity to certain supervision and review obligations (**AS 1201 and AS 2101**)
  - Accelerate the documentation completion date from 45 days to 14 days (**AS 1215**)

# GENERAL RESPONSIBILITIES OF AUDITORS – AS 1000 (CONTD)

Reminder: Engagement partner responsibilities (**AS 1201.05c**):

Engagement partner must review documentation sufficient to determine:

- Engagement was performed as planned
- Significant judgments were appropriate; significant findings and issues were appropriately addressed
- Conclusions expressed in auditor's report are appropriate and supported by sufficient appropriate evidence
- Matters requiring communication are appropriately identified and communicated

Engagement partner's review should include review of documentation required to be reviewed by EQR

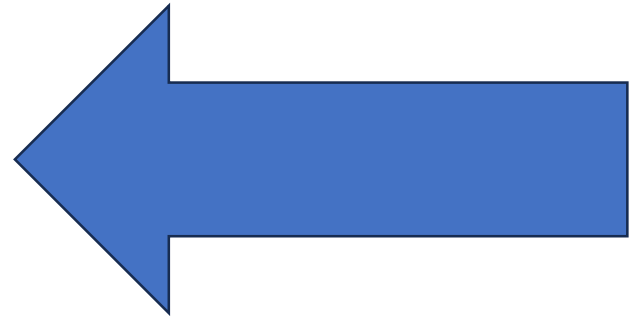
# GENERAL RESPONSIBILITIES OF AUDITORS – AS 1000 (CONT'D)

- Effective dates
  - Audits of financial statements for fiscal years **beginning on or after December 15, 2024**, except for the 14-day documentation completion date requirement, which is as follows:
  - Effective dates for the 14-day documentation completion date requirement:
    - For firms that, during the calendar year ending 12/31/24, issued audit reports with respect to more than 100 issuers – effective for audits of financial statements for fiscal years beginning on or after 12/15/24; and
    - For all other firms – effective for audits of financial statements for fiscal years beginning on or after 12/15/25

# GENERAL RESPONSIBILITIES OF AUDITORS – AS 1000 (CONT'D)

## Implementation Resources:

- **Knowledge Check**



# TECHNOLOGY AMENDMENTS

## *Amendments Related to Aspects of Designing and Performing Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*

- Key Amendments to **AS 1105**, **Audit Evidence**:
  - Specify auditor responsibilities when using an audit procedure for more than one purpose
  - Specify auditor responsibilities for evaluating the reliability of certain audit evidence
  - Emphasize importance of (i) appropriate disaggregation of information to the relevance of information and (ii) controls over information technology

# TECHNOLOGY AMENDMENTS (CONT'D)

- Amendments to **AS 2301**, *The Auditor's Responses to the Risks of Material Misstatement*:
  - Describes tests of details
  - Specifies the auditor's responsibilities when performing tests of details
    - Investigating items identified

# RESOURCES FOR SMALLER FIRMS

[About](#)[Oversight](#)[Resources](#)[News & Events](#)[Careers](#)[Subscribe](#)[Home](#) > [Resources](#)

## Information for Smaller Firms

The PCAOB is focused on supporting smaller audit firms to enhance audit quality and protect investors. This page presents PCAOB resources and videos tailored for smaller audit firms.

Certain resources are highlighted on this webpage to help smaller firms understand and comply with PCAOB standards and rules; however, these resources are not intended to be comprehensive. Other content on the PCAOB website – such as the [Information for Auditors](#) and [Staff Publications](#) pages – may be applicable and useful.



# RESOURCES FOR SMALLER FIRMS (CONT'D)

## *What resources can assist smaller audit firms?*



### Forums

Tailored to address PCAOB-registered firms auditing smaller public companies or broker-dealers, the forums have provided a unique opportunity for audit firms to engage with representatives from the PCAOB and other regulators in an interactive setting.

[Learn more about the forums](#)



### Adopting standards and rules designed to be scalable

The PCAOB has continued its efforts to ensure its rules and standards are scalable for firms of all sizes, including taking into account the date for when the new requirements become effective. Examples include the PCAOB's new **quality control standard**, which balances new requirements with a risk-based approach that enables flexibility, and the new auditing standard on **AS 1000, General**



### Audit Focus

*Audit Focus* is a series of PCAOB staff publications that aims to provide easy-to-digest information to auditors, especially those who audit smaller public companies. Each edition of *Audit Focus* reiterates the applicable auditing standards and/or staff guidance, as well as offers reminders and good practices tailored to PCAOB-registered auditors of smaller public companies – all with an eye toward protecting investors and improving audit quality.

# RESOURCES FOR SMALLER FIRMS (CONT'D)

## Stay current on PCAOB Communications to Small Audit Firm Practitioners

\* indicates required

Email\*

I identify myself as a(n):\*

PCAOB Subscriptions\*

- |  |   |
|--|---|
| <input type="checkbox"/> All PCAOB Updates                         | <input type="checkbox"/> Communications to Small Audit Firm Practitioners |
| <input type="checkbox"/> Communications to Audit Committee Members | <input type="checkbox"/> Enforcement Orders                               |
| <input type="checkbox"/> Communications to Auditors                | <input type="checkbox"/> Inspection Reports                               |
| <input type="checkbox"/> Communications to Investors               | <input type="checkbox"/> News Releases, Speeches, and Statements          |

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# QC 1000: A Firm's System of Quality Control

# AGENDA

- Overview
- Applicability of QC 1000
- Objective of A Firm's System of Quality Control
- Components of a Firm's QC System under QC 1000
- Roles and Responsibilities
- Scalability
- Documentation
- QC Implementation Resources

# OVERVIEW

QC 1000, *A Firm's System of Quality Control*, together with other amendments:

- Supersedes current PCAOB quality control standards and SEC Practice Section (SECPS) requirements
- Creates reporting requirements on quality control matters and a new, non-public reporting form, Form QC
- Expands the auditor's responsibility to respond to deficiencies on completed engagements under an amended and retitled AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*, and related amendments to attestation standards for broker-dealer engagements
- Supersedes existing standard ET 102, *Integrity and Objectivity*, with a new standard, EI 1000, *Integrity and Objectivity*

# OVERVIEW – QC 1000 TIMELINE



# OVERVIEW – WHAT ARE THE KEY CHANGES?

- Emphasis on accountability, firm culture and the “tone at the top,” and firm governance
- A new risk-based approach
- A set of mandates, including required risk assessment, quality objectives, and specified quality responses
- New requirements that address changes in the audit practice environment, including the increasing participation of other firms and other outside resources, the role of firm networks, the evolving use of technology and other resources, and the increasing importance of internal and external firm communications
- Broader responsibilities for monitoring and remediation of deficiencies to create a more effective ongoing feedback loop driving continuous improvement
- Annual evaluation of the firm’s QC system and related reporting to the PCAOB, certified by key personnel

# Applicability of QC 1000



## Who is Affected?

- All registered firms are required to design a QC system that complies with QC 1000, including those that do not audit issuers or SEC-registered brokers and dealers.
- Firms that perform or have responsibilities with respect to **engagements** under PCAOB standards – for example, audit engagements for issuers or broker-dealers – are required to implement and operate their QC systems.

Any audit, attestation, review, or other engagement performed under PCAOB standards:

- Led by a firm; or
- In which a firm “play[s] a substantial role in the preparation or furnishing of an audit report” as defined in PCAOB Rule 1001(p)(ii). (see QC 1000, Appendix A – A3)

## Scaled applicability (Design-only)

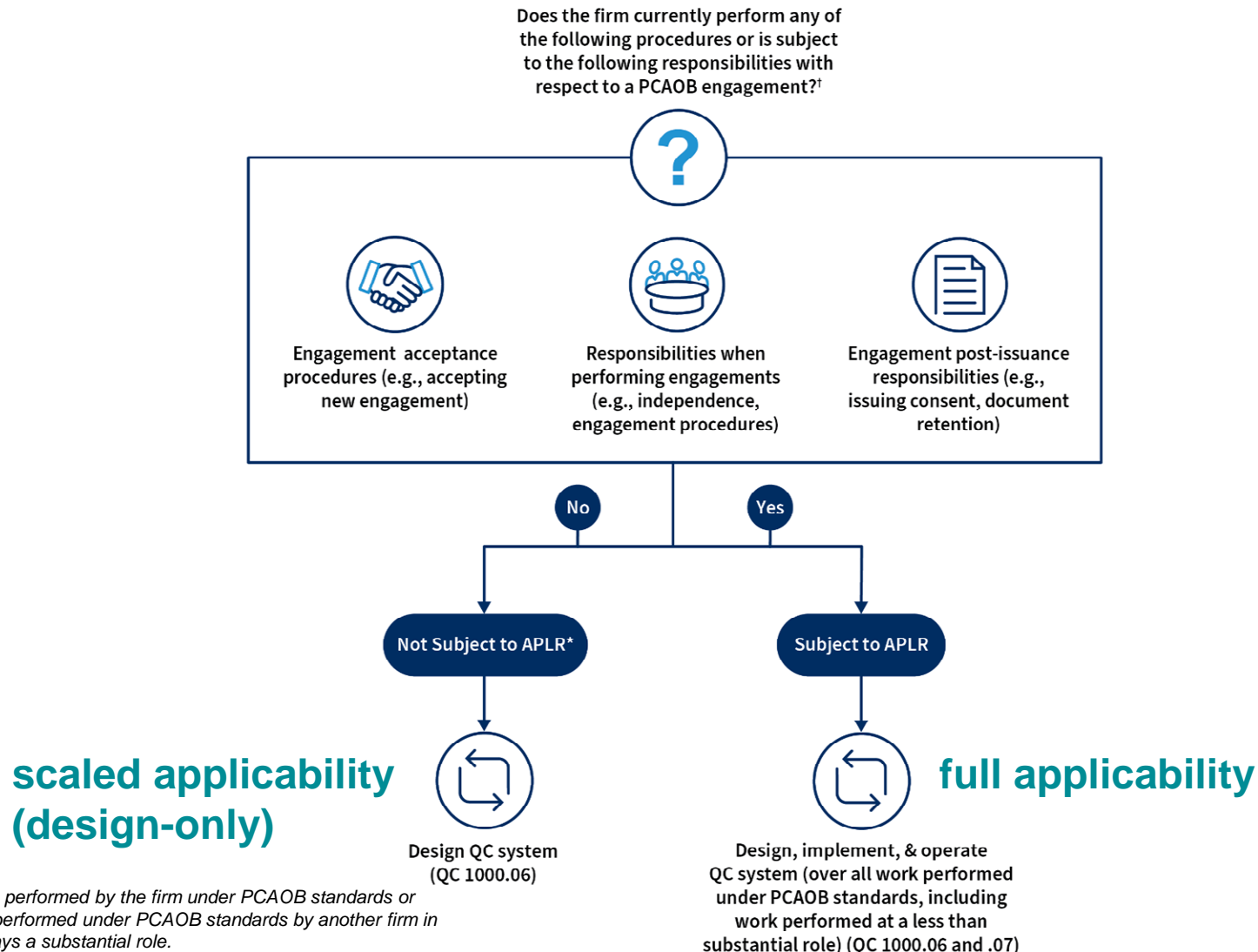
- Firms that do not have responsibilities with respect to engagements are only required to design a QC system.

## Full applicability

- At all times that a firm is required to comply with **applicable professional and legal requirements (APLR)** with respect to any of the firm's engagements, the firm is required to design, implement, and operate an effective QC system (also referred to as full applicability).

- Professional standards, as defined in PCAOB Rule 1001(p)(vi);
- Rules of the PCAOB that are not professional standards; and
- To the extent related to the obligations and responsibilities of accountants or auditors in the conduct of engagements or in relation to the QC system, rules of the SEC, other provisions of U.S. federal securities law, ethics laws and regulations, and other applicable statutory, regulatory, and other legal requirements. (see QC 1000, Appendix A – A2)

## Decision Tree for Requirements of QC System



## Scaled applicability (Design-only)

All firms are required to design a QC system that complies with the standard. This entails:

- Assigning QC-related roles and responsibilities as provided in **QC 1000.10-.17**;
- Establishing quality objectives, annually identifying and assessing quality risks to the achievement of those objectives, and designing quality responses to address those risks, as provided in **QC 1000.18-.57**;
- Designing a monitoring and remediation process that, upon implementation, would comply with **QC 1000.58-.76**; and
- Documenting the design of the QC system as provided in **QC 1000.81-.86**.

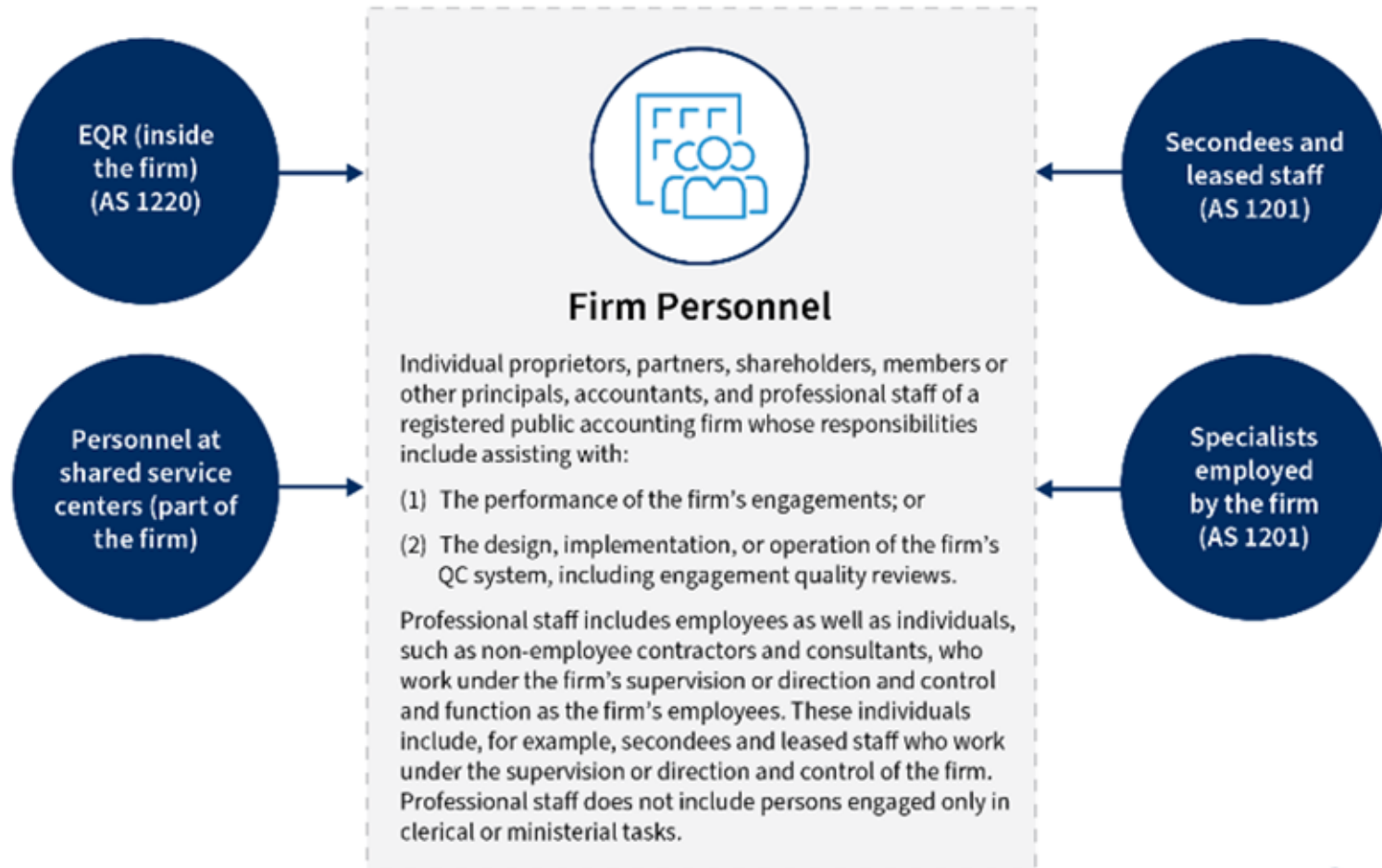
See Appendix A of QC 1000 for the definitions of quality objectives, quality risks, and quality responses.

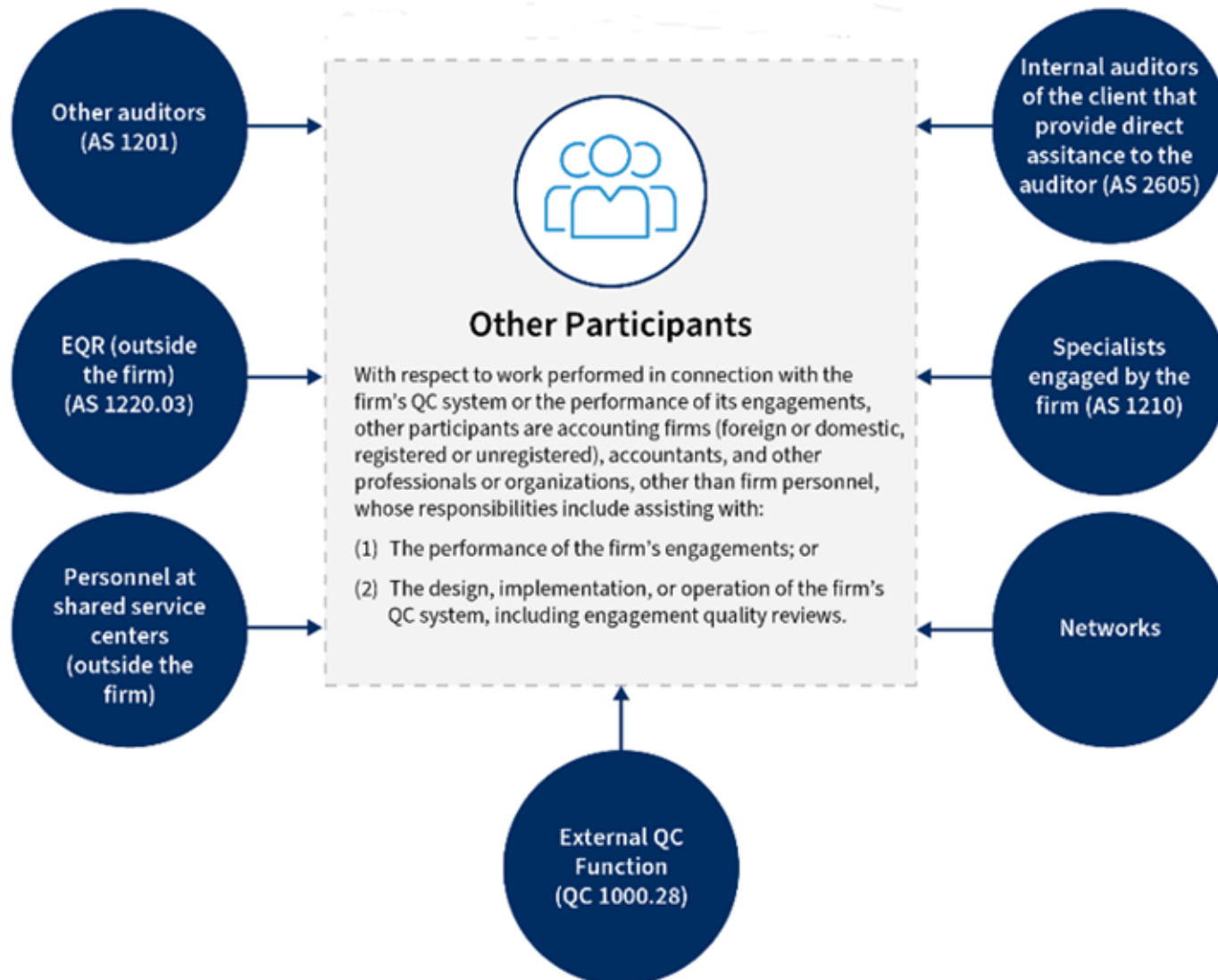
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# Objective of a Firm's QC System under QC 1000



- The objective of a firm's QC system is to achieve the **reasonable assurance objective**.
- The reasonable assurance objective is achieved when
  - The firm, each member of firm personnel, and each other participant conducts each of the firm's engagements and fulfills their other responsibilities that are part of or subject to the firm's QC system in accordance with applicable professional and legal requirements (or APLR); and
  - Each engagement report issued by the firm is in accordance with APLR.





# Components of a Firm's QC System under QC 1000

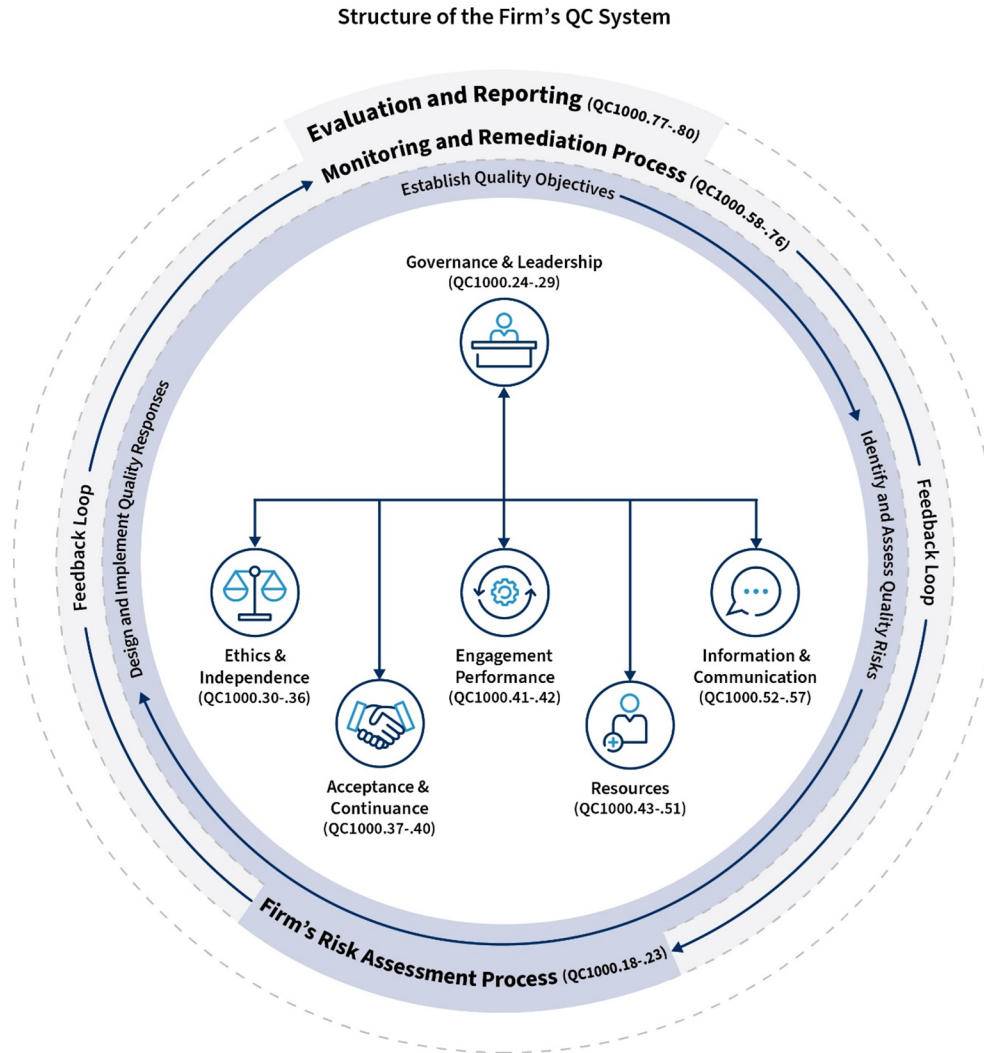


## Two process components

- The firm's risk assessment
- The monitoring and remediation

## Six components

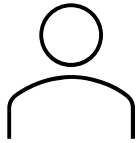
- Governance and leadership
- Ethics and independence
- Acceptance and continuance
- Engagement performance
- Resources
- Information and communication



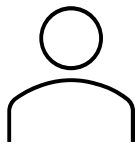
# **Roles and Responsibilities in a Firm's QC System**

# ROLES & RESPONSIBILITIES IN A FIRM'S QC SYSTEM

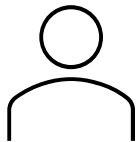
QC 1000.11-.17



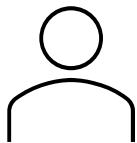
Ultimate responsibility and accountability for the QC system as a whole



Operational responsibility and accountability for the QC system as a whole



Operational responsibility for the firm's compliance with ethics and independence requirements



Operational responsibility for the monitoring and remediation process

**Only firm personnel are permitted to fill the roles required by QC 1000**

# QC 1000

## Scalability

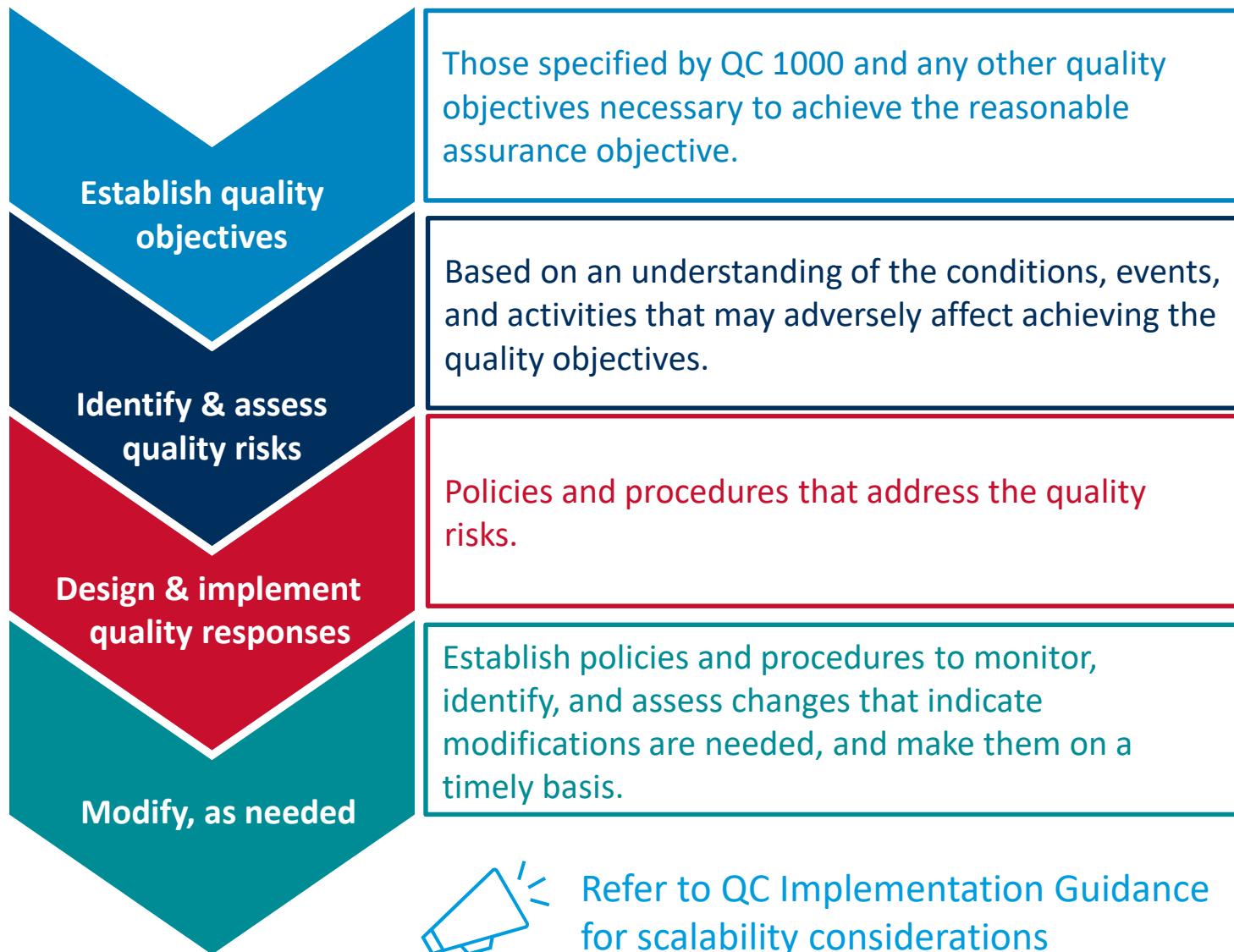


# HIGHLIGHT ON SCALABILITY

- The risk-based approach to complying with QC 1000 is inherently scalable.



# OVERVIEW OF THE FIRM'S RISK ASSESSMENT PROCESS



# COMMON QUALITY RESPONSES

**Quality objectives:** QC 1000.38a(2)(d), ISQM 1 paragraph 30(a)(ii), and SQMS 1 paragraph 31(a)(ii)

**Quality risk:** The firm may accept new engagements in a new highly specialized industry without adequately assessing whether it has, or can obtain, the necessary resources to perform the engagements.

**Possible common quality response:** A firm requires confirmation of its ability to obtain resources with the specialized skills needed for a new industry and has firm leadership review and concur with the confirmation before accepting the engagement.

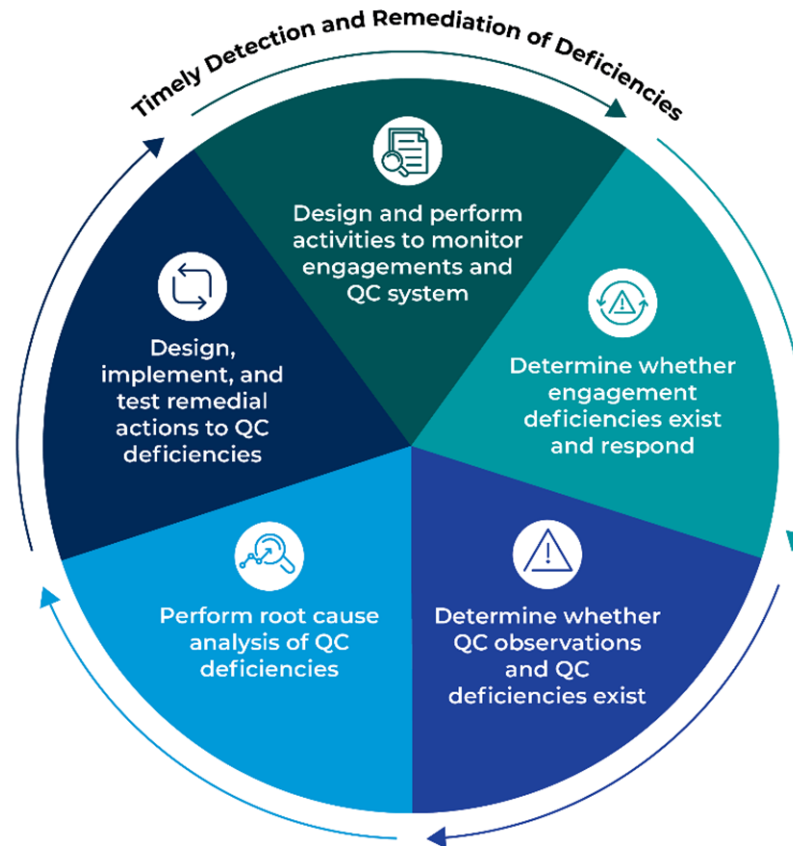
# COMMON QUALITY RESPONSES (CONT'D)

## Reminder:

There may be multiple quality responses for each quality objective based on the quality risks. One quality response may be common across all of the standards but there may be additional quality responses necessary to address the risks specific to one of the standards.

# OVERVIEW OF THE MONITORING AND REMEDIATION PROCESS

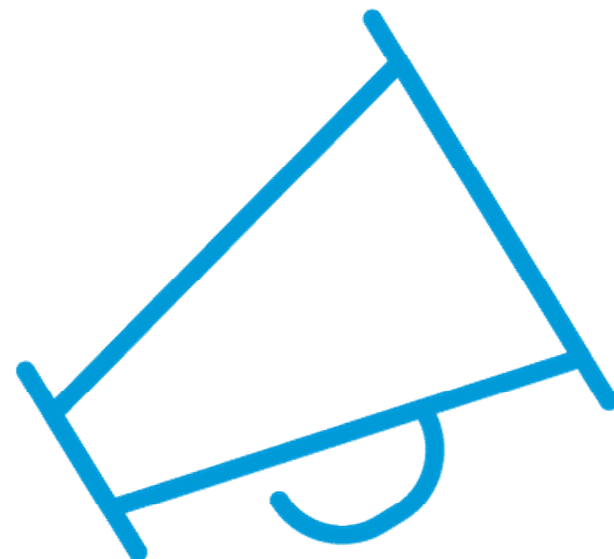
QC 1000.60



**Maintain objectivity when performing monitoring activities. Individuals cannot perform monitoring activities over their own work because they would not be objective.**

## Scalability consideration

A firm with five or fewer PCAOB engagements may include engagements not performed under PCAOB auditing standards in monitoring activities.



# HIGHLIGHT ON SCALABILITY (CONT'D)

- Firms that issued engagement reports for five or fewer engagements during the prior calendar year are permitted to include audits not performed under PCAOB auditing standards in their engagement monitoring activities.

Partner	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Partner #1	PCAOB #1	AICPA	AICPA	PCAOB #1	AICPA	AICPA
Partner #2	AICPA	PCAOB #2	AICPA	AICPA	PCAOB #3	AICPA
Partner #3	AICPA	AICPA	AICPA	AICPA	AICPA	AICPA
Partner #4	AICPA	AICPA	AICPA	AICPA	AICPA	AICPA
Partner #5	AICPA	AICPA	AICPA	AICPA	AICPA	AICPA

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# Documentation



# OVERARCHING DOCUMENTATION REQUIREMENT

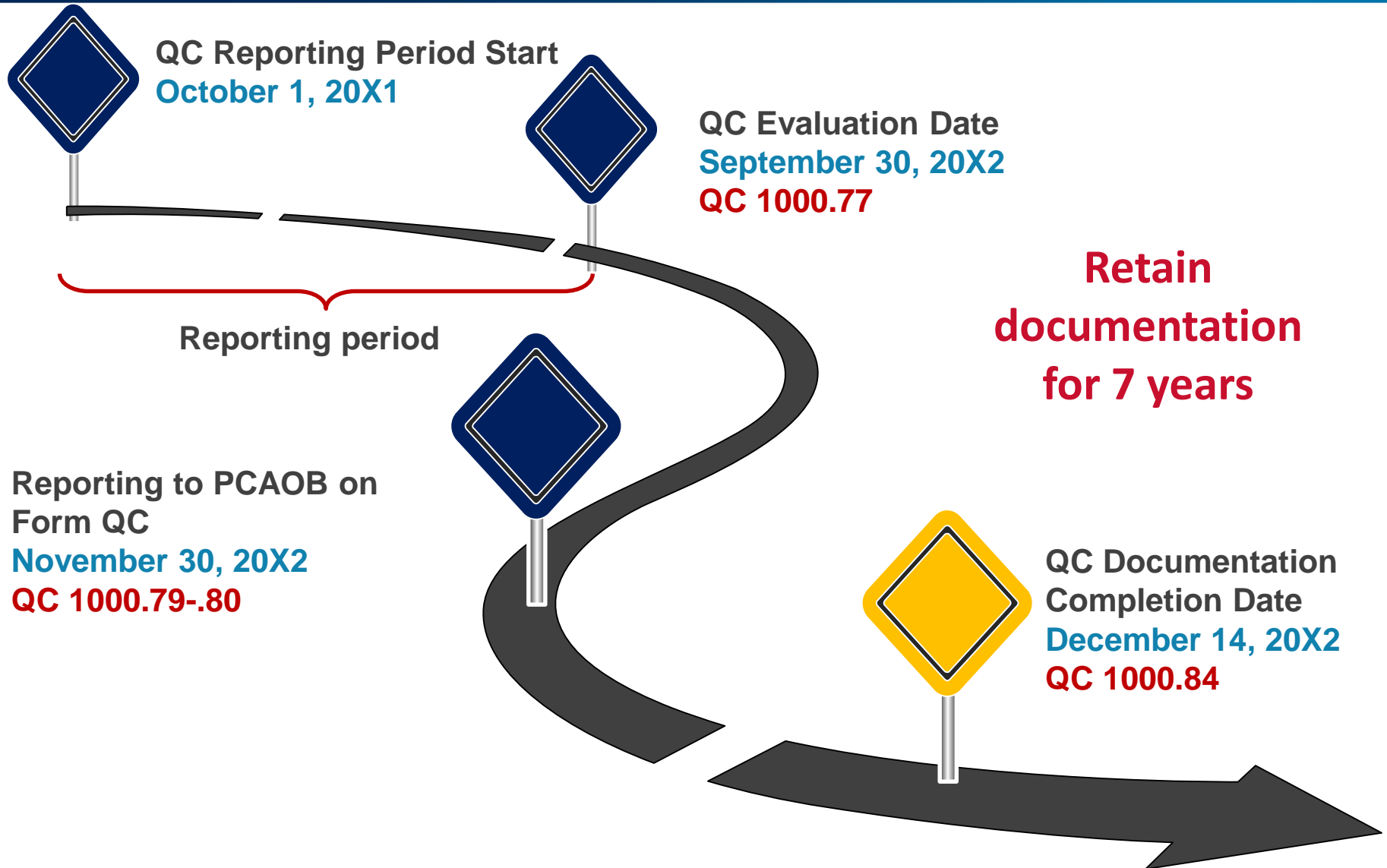
QC 1000.81  
and .83

- Firms are required to prepare and retain documentation of the design, implementation, and operation of the QC system and of the annual evaluation of the QC system.
- The documentation must be in sufficient detail to:
  - Support a consistent understanding of the QC system.
  - Enable an experienced auditor that understands QC systems to understand the design, implementation, and operation of the QC system.

- Documentation of a firm's QC system is required to include a description of:
  - Lines of responsibility and supervision within the firm's QC system.
  - Information from the firm's risk assessment process and the monitoring and remediation process.
  - The basis for the firm's conclusion on the effectiveness of the QC system.
  - Information related to the firm's use of resources or services from a network or third-party service provider.

# DOCUMENTING THE FIRM'S QC SYSTEM

QC 1000.84-.86



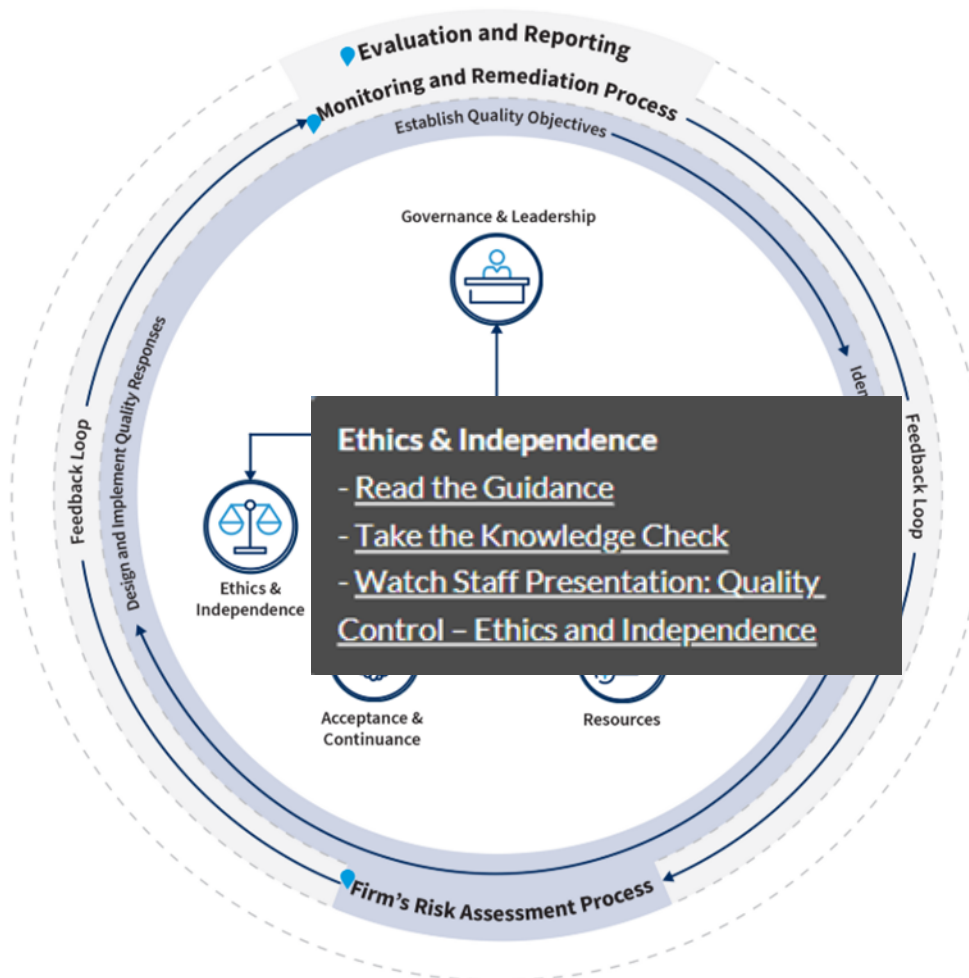
# Resources for QC 1000



# QC 1000 RESOURCES

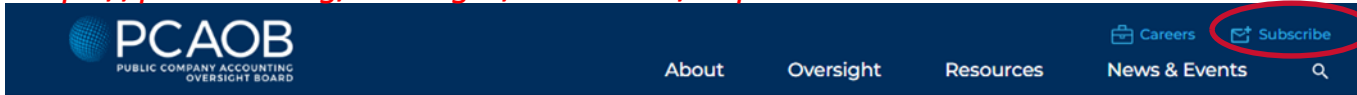
## Interactive Chart: Structure of the Firm's QC System

This interactive chart provides quick links to specific resources related to requirements of QC 1000. Click on individual components below for links to resources available.



# QC IMPLEMENTATION PAGE

<https://pcaobus.org/oversight/standards/implementation-resources-PCAOB-standards-rules/quality-control>



Home > Oversight > Standards > Implementation Resources for PCAOB Standards and Rules

## Quality Control

(Updated February 13, 2025)

Sign up to follow project updates

OVERVIEW RESOURCES AND TOOLS CONTACT US

### Resources and Tools for Implementation



#### Staff Guidance

The PCAOB staff provides guidance to help firms when implementing QC 1000 and AS 2901. Staff may update this guidance as needed.

- Staff Guidance – QC 1000: A Firm's System of Quality Control (Nov. 26, 2024)
- Staff Guidance – AS 2901: Responding to Engagement Deficiencies After Issuance of the Auditor's Report (Nov. 26, 2024)
- Practice Aid: Providing a High-Level Overview of Certain Features Unique to QC 1000, A Firm's System of Quality Control (Oct. 23, 2024)
- Comparison of QC 1000 with ISQM 1 and SQMS 1 (Oct. 23, 2024)

### How Do I Contact the PCAOB?



Phone: (202) 591-4395

Form: [Contact Us](#)

# QUESTIONS



**Thank you!**

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**Break**

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# PCAOB Inspections Overview and Illustrative Examples: Issuers

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Duane Abel, Janet Borgman, Vic Rodriguez, and  
Ben Thompson  
Division of Registration and Inspections  
September 16, 2025

# DISCLAIMER

The views we express are in our official capacity as members of DRI but are our own and do not necessarily reflect the views of the Board, any individual Board Member, or other members of the PCAOB staff.

# OBJECTIVES

At the end of this session participants will be able to:

- Understand 2024 inspection results and our inspection priorities
- Discuss ways we are working to improve audit quality
- Understand audit requirements, deficiency examples, and good practices for:
  - Revenue
  - Cash Flow Projections
- Understand the remediation process

# 2024 INSPECTIONS

- Excluding broker-dealer inspections, the PCAOB inspected 171 audit firms, reviewing portions of over 800 public company audits that generally had fiscal years ended during 2023.
- We observed a noticeable improvement in deficiency rates, in the aggregate, across a majority of these inspected firms, as follows:
  - U.S Global Network Firms (GNF): Aggregate Part I.A deficiency rate decreased from 34% in 2023 to 26% in 2024.
  - Annual U.S Non-Affiliate Firms (NAF): Aggregate deficiency rate held steady, decreasing to 52% in 2024 compared to 53% in 2023.
  - Triennial NAF Firms: Aggregate deficiency rates decreased from 67% in 2023 to 61% in 2024.
  - GNF Non-U.S. Triennially Firms: Aggregate deficiency rate decreased from 35% in 2023 to 26% in 2024.

# 2024 COMMON AREAS OF AUDIT FINDINGS

- Revenue and Related Accounts
- Inventory
- Business Combinations
- Investment Securities
- Long-lived Assets, Goodwill, and Intangible Assets
- Allowance for Credit Losses
- Accounting Estimates, including Fair Value Measurements

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# 2025 INSPECTIONS

## Areas of focus:

- Industries negatively impacted by economic and geopolitical uncertainties and volatility
- Audit execution challenges related to materiality and technology-based tools
- Use of technology, including AI
- Compliance with quality control and auditing standards



## SPOTLIGHT

Staff Priorities for 2025  
Inspections and Interactions  
With Audit Committees

December 2024

This document represents the views of PCAOB staff ("we") and not necessarily those of the Board. It is not a rule, policy, or statement of the Board. The PCAOB does not set standards for, or provide authoritative guidance on, audit committee conduct.

# IMPROVING AUDIT QUALITY

- New web page serving as a central hub for smaller firms
- Created a new staff publication series called “Audit Focus” designed for smaller firms
- New web page filled with videos and other resources tailored to non-U.S. firms
- In-person Small Business and Broker-Dealer Forums
- Remediation

# FIRM INSPECTION DATA

## U.S. Global Network Firms Inspection Data

2024 RESULTS	PART I.A	AUDITS SELECTED	AUDIT AREAS AND STANDARDS	ISSUER CHARACTERISTICS	TENURE	PART I.B
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These graphs reflect data included in the public portion of the inspection reports of six registered U.S. firms: Deloitte & Touche LLP (DT); Ernst & Young LLP (EY); KPMG LLP (KPMG); PricewaterhouseCoopers LLP (PwC); BDO USA, P.C. (BDO); and Grant Thornton LLP (GT).

The inspection data below is readily ascertainable from the public portion of the inspection report, but the data should be understood in light of contextualizing information provided with each report, including (1) it relates only to the audits selected for review, which does not constitute a representative sample of the firm's total population of issuer audits, and only to the particular portions of the issuer audits reviewed; (2) for various reasons, inspection results are not necessarily comparable over time or among firms; (3) inspection results are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed; and (4) inspection reports are not intended to serve as overall rating tools.

### 2024 Inspection Results

Firm Name	DT	EY
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## Non-Affiliated Firms Inspection Data

These graphs reflect data included in the public portion of the inspection reports of the eight registered non-affiliated U.S. firms that were annually inspected: Marcum LLP (Marcum); RSM US LLP (RSM); Crowe LLP (Crowe); WithumSmith+Brown, PC (Withum); Forvis Mazars, LLP (Forvis Mazars); Moss Adams LLP (Moss Adams); Baker Tilly US, LLP (Baker Tilly); and Cohen & Company, Ltd. (Cohen).

Note: One of these eight firms (Forvis Mazars) was not inspected in 2022 and three of these eight firms (Withum, Forvis Mazars, and Baker Tilly) were not inspected in 2020. As such, these firms are not included in the results presented in the graphs below for these respective years.

The inspection data below is readily ascertainable from the public portion of the inspection report, but the data should be understood in light of contextualizing information provided with each report, including (1) it relates only to the audits selected for review, which does not constitute a representative sample of the firm's total population of issuer audits, and only to the particular portions of the issuer audits reviewed; (2) for various reasons, inspection results are not necessarily comparable over time or among firms; (3) inspection results are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed; and (4) inspection reports are not intended to serve as overall rating tools.

### 2024 Inspection Results

Firm Name	Marcum LLP	RSM US LLP	Crowe LLP	WithumSmith+Brown, PC	Forvis Mazars, LLP	Moss Adams LLP	Baker Tilly US, LLP	Cohen & Company, Ltd.
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Let us know your thoughts on the website enhancements for firm inspection reports

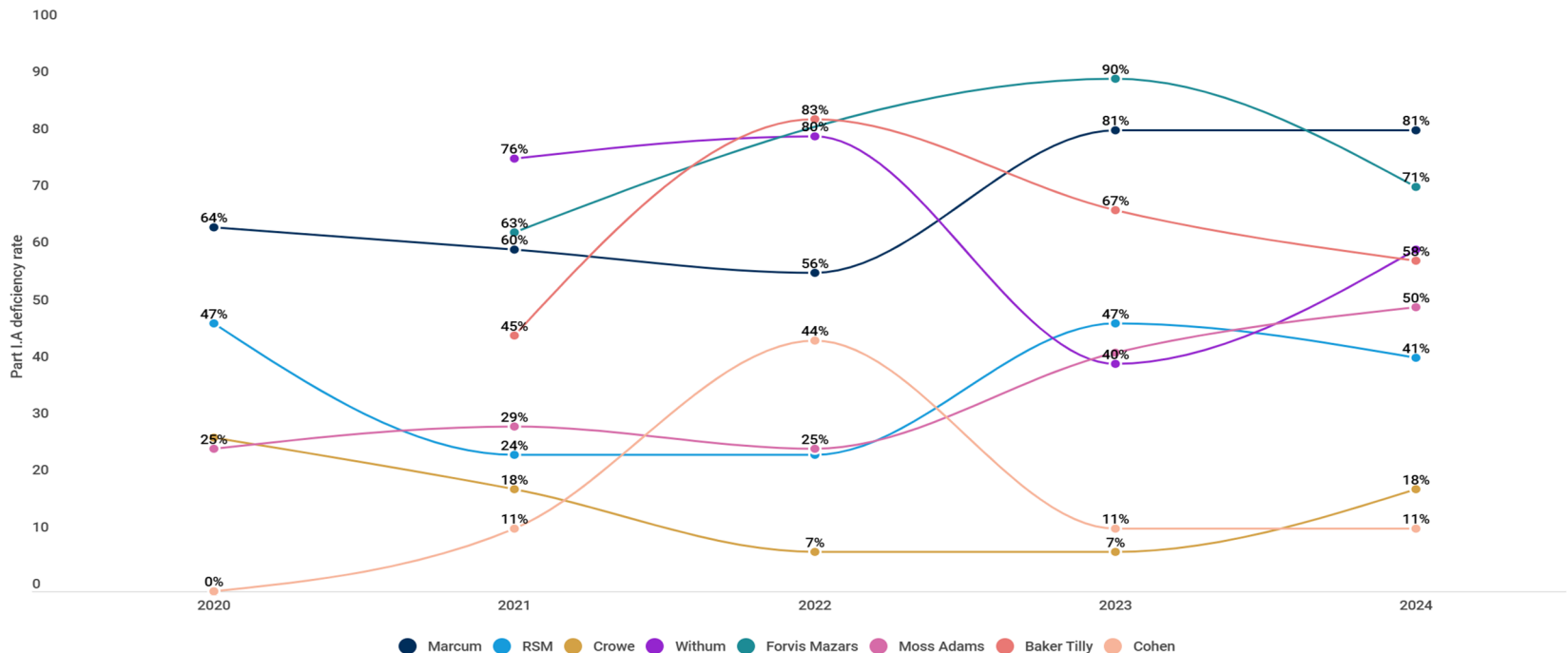
# PART I.A DEFICIENCIES

USERS CAN NOW VISUALIZE TRENDS IN RATES OF DEFICIENCIES DISCUSSED IN PART I.A OF PCAOB INSPECTION REPORTS.

## Part I.A Deficiencies

An audit deficiency is cited and described in Part I.A of an inspection report if it is of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).

## Part I.A Deficiency Rate by Firm



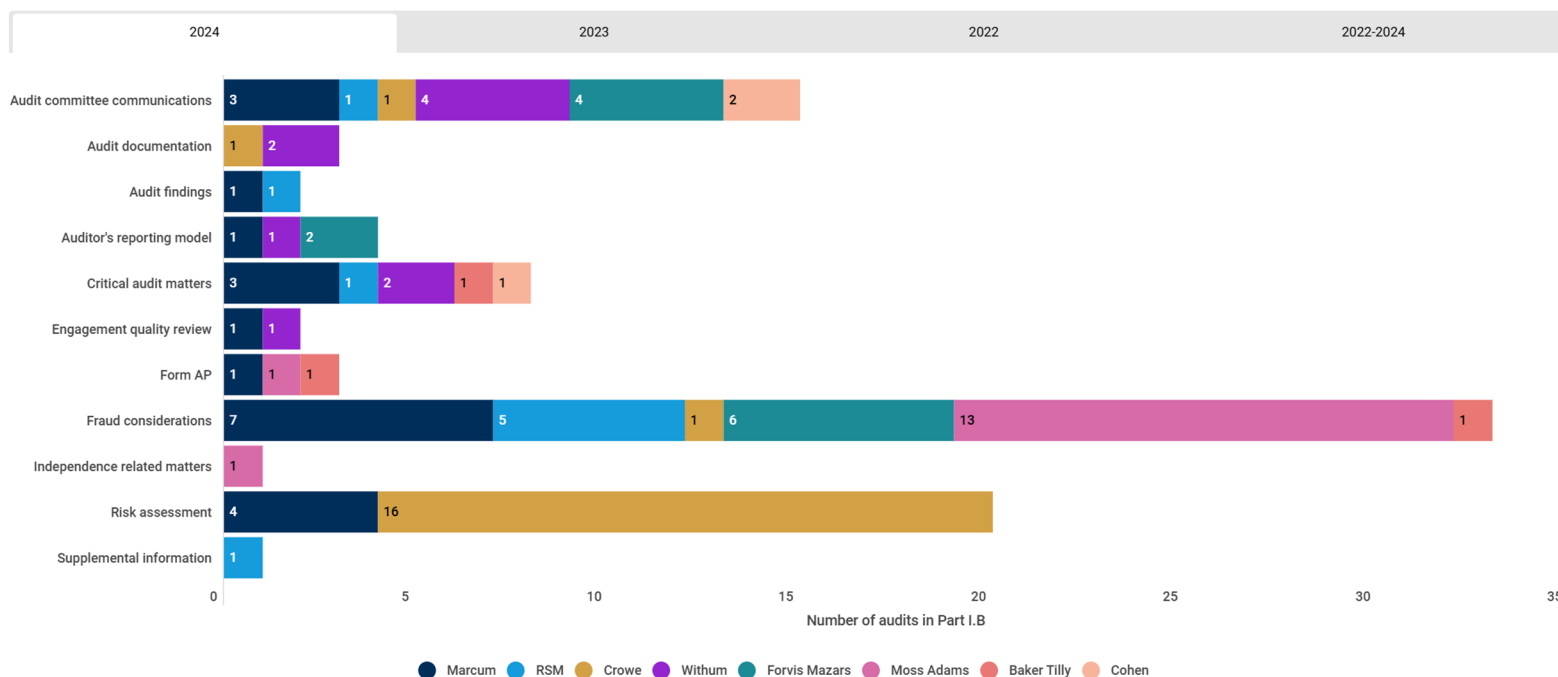
Percentage of issuer audits reviewed that have at least one deficiency in Part I.A of the inspection report.

# PART I.B DEFICIENCIES

USERS CAN NOW VISUALIZE DEFICIENCIES DISCUSSED IN PART I.B OF PCAOB INSPECTION REPORTS.

## Part I.B Deficiencies

### Part I.B Deficiencies by Type



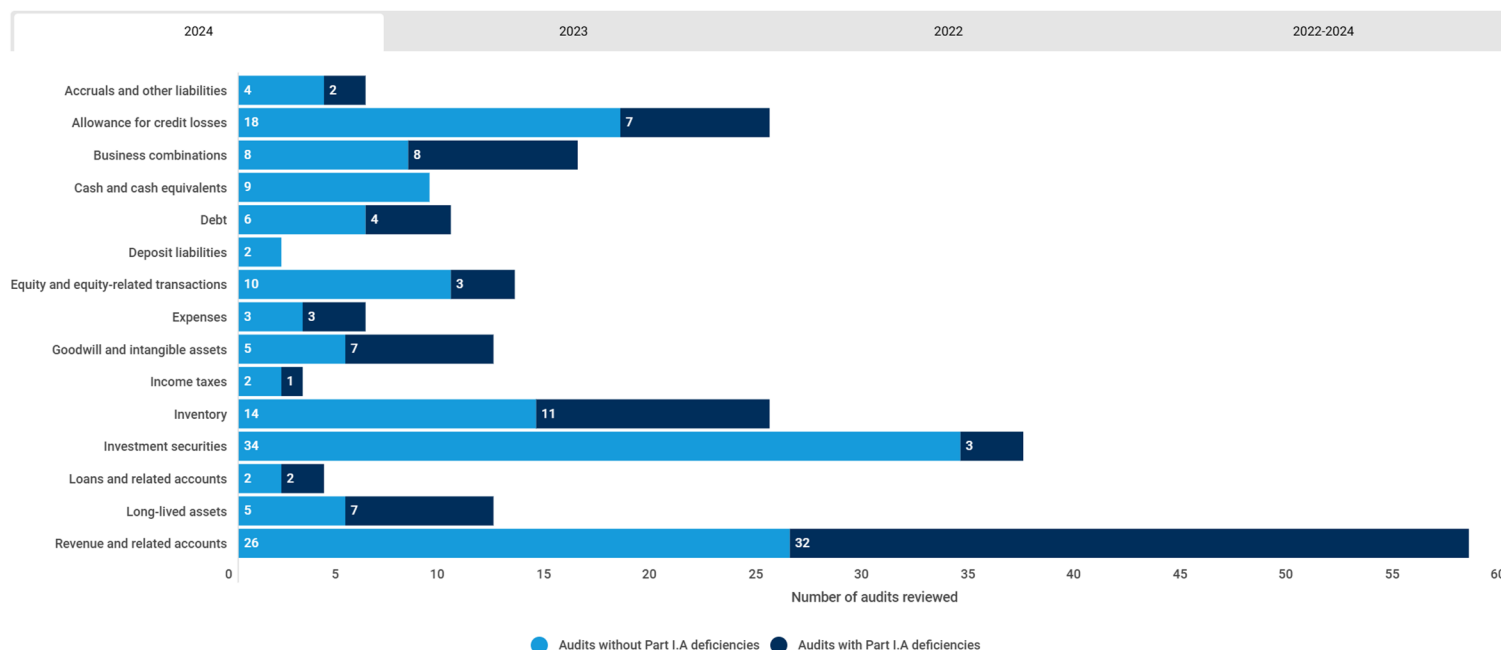
This graph depicts the number of issuer audits identified for each firm by Part I.B deficiency type. Part I. B deficiencies are certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinions.

# DEFICIENCIES BY AUDIT AREAS AND AUDITING STANDARDS

USERS CAN NOW VISUALIZE PART I.A DEFICIENCIES BY PCAOB AUDIT AREA AND AUDITING STANDARD.

## Deficiencies by Audit Areas and Auditing Standards

### Audit Areas Most Frequently Reviewed



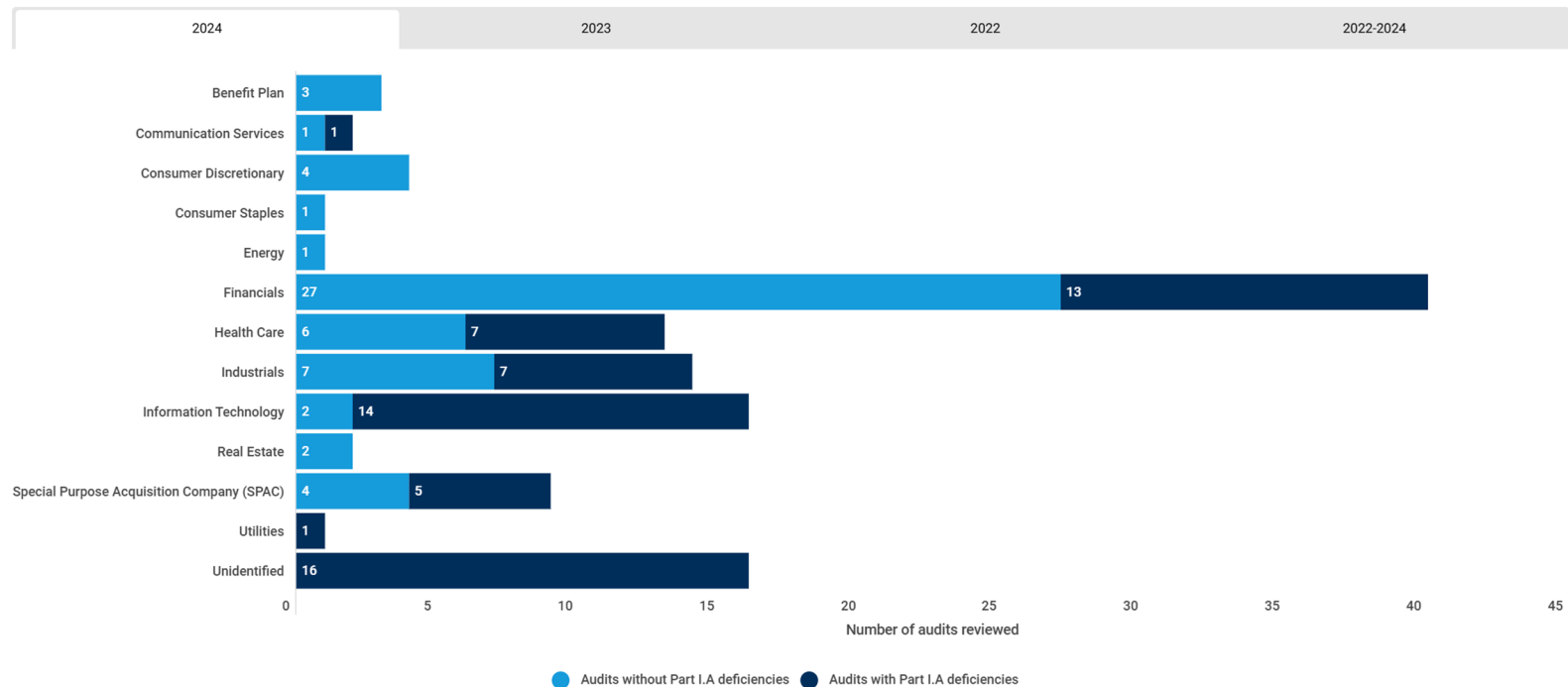
These are the audit areas we have selected most frequently for review across all firms and the number of issuer audits by focus area with and without Part I.A deficiencies. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

# DEFICIENCIES BY CERTAIN ISSUER CHARACTERISTICS

USERS CAN NOW VISUALIZE PART I.A DEFICIENCIES BY AN ISSUER'S INDUSTRY OR REVENUE.

## Deficiencies by Issuer Characteristics

### Inspection Results by Issuer Industry Sector



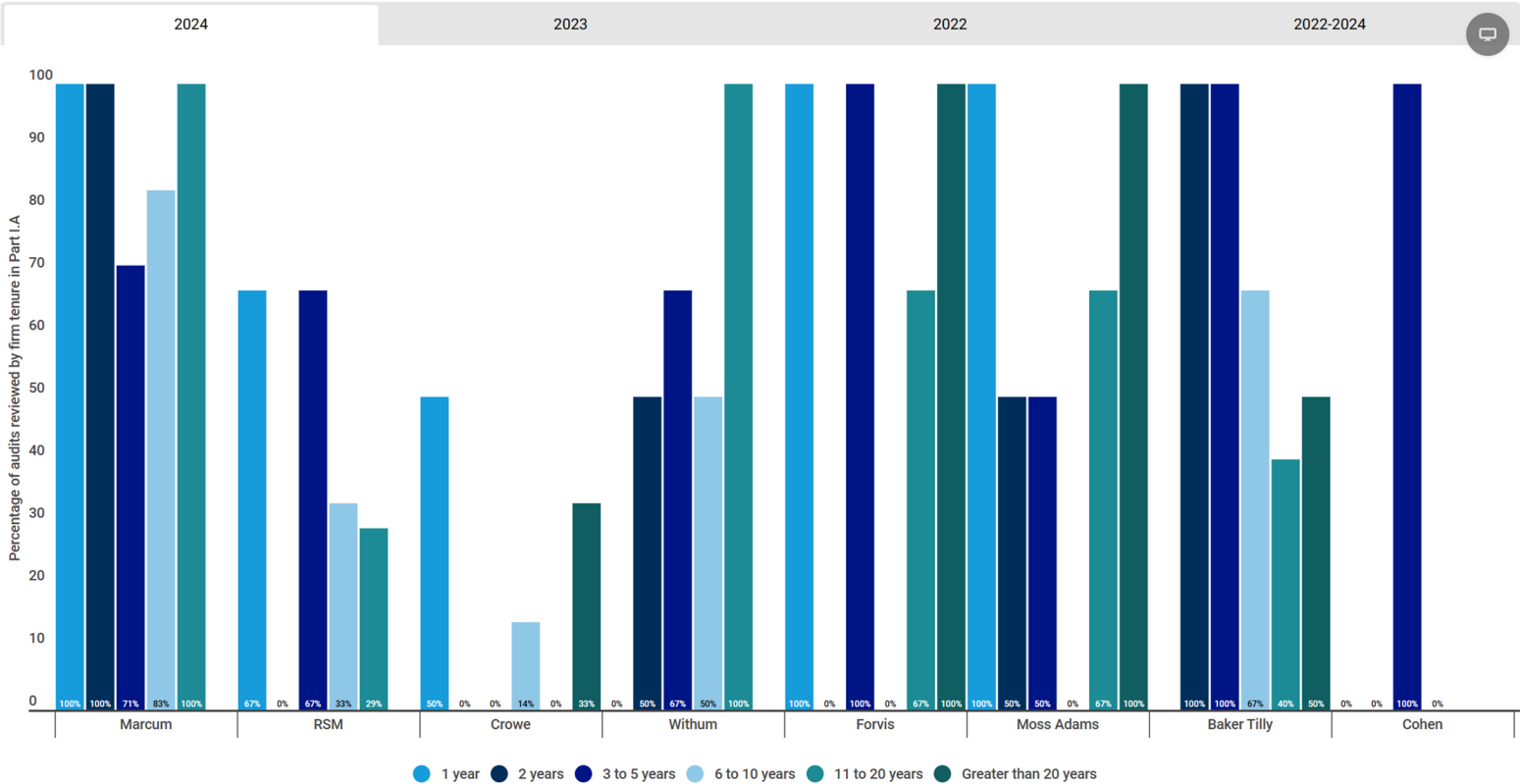
This graph depicts the number of issuer audits reviewed, by each industry with and without Part I.A deficiencies for all firms. We select issuer audits for review in sectors and specific industries experiencing particularly significant disruptions or financial reporting risks.

# DEFICIENCIES BY FIRM AND PARTNER TENURE

USERS CAN NOW VISUALIZE THE PERCENTAGE OF PART I.A DEFICIENCIES BY HOW LONG A FIRM HAS BEEN PERFORMING AN AUDIT OF AN ISSUER.

## Deficiencies by Tenure

### Part I.A Deficiencies by the Firm's Tenure on the Issuer



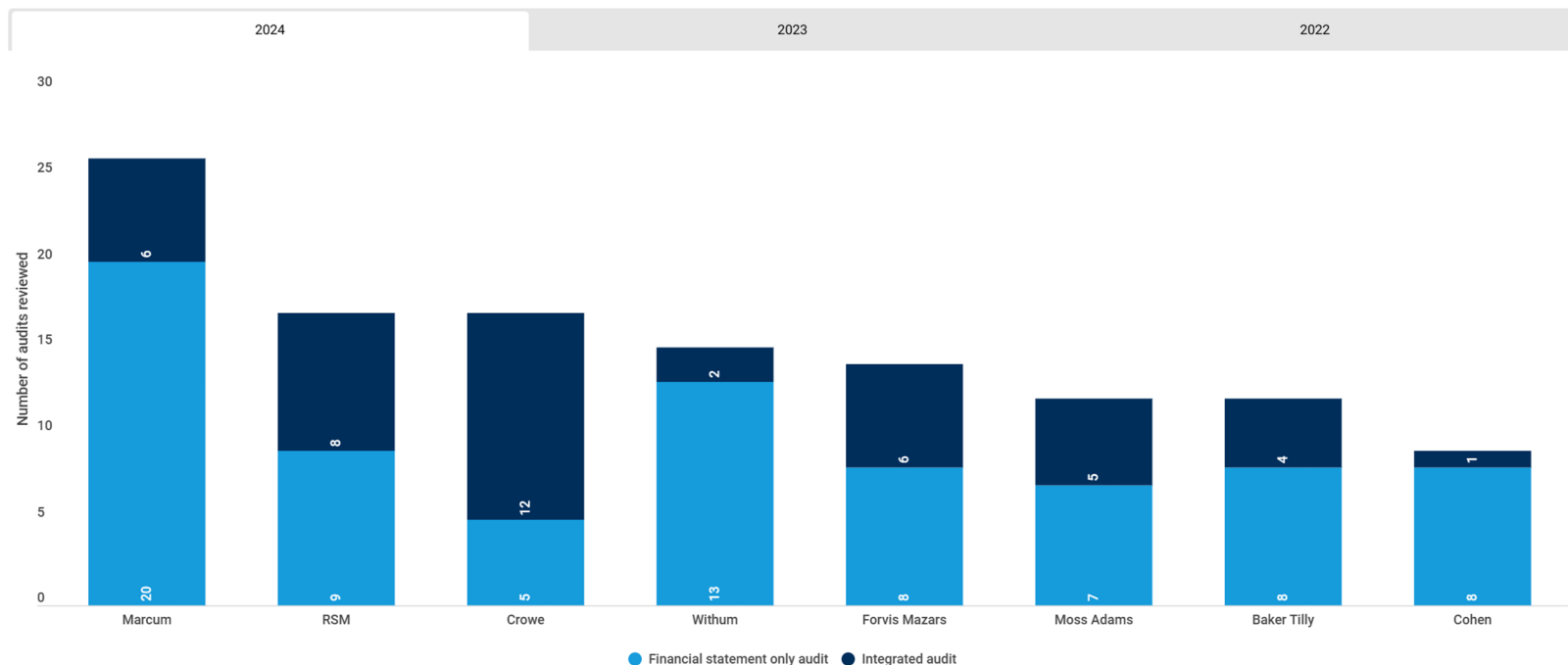
The percentage in this graph represents the number of issuer audits reviewed for that tenure range with at least one Part I.A deficiency divided by total issuer audits reviewed for that tenure range. This information is for all firms.

# AUDITS SELECTED FOR REVIEW

USERS CAN NOW VISUALIZE THE TOTAL NUMBER OF AUDITS THAT PCAOB REVIEWED AT EACH FIRM OVER THE YEARS.

## Audits Selected for Review

### Audits Selected for Review by Audit Type



We select both integrated audits of financial statements and ICFR and audits of financial statement only.

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# SELECTED AREAS FOR ILLUSTRATIVE EXAMPLES

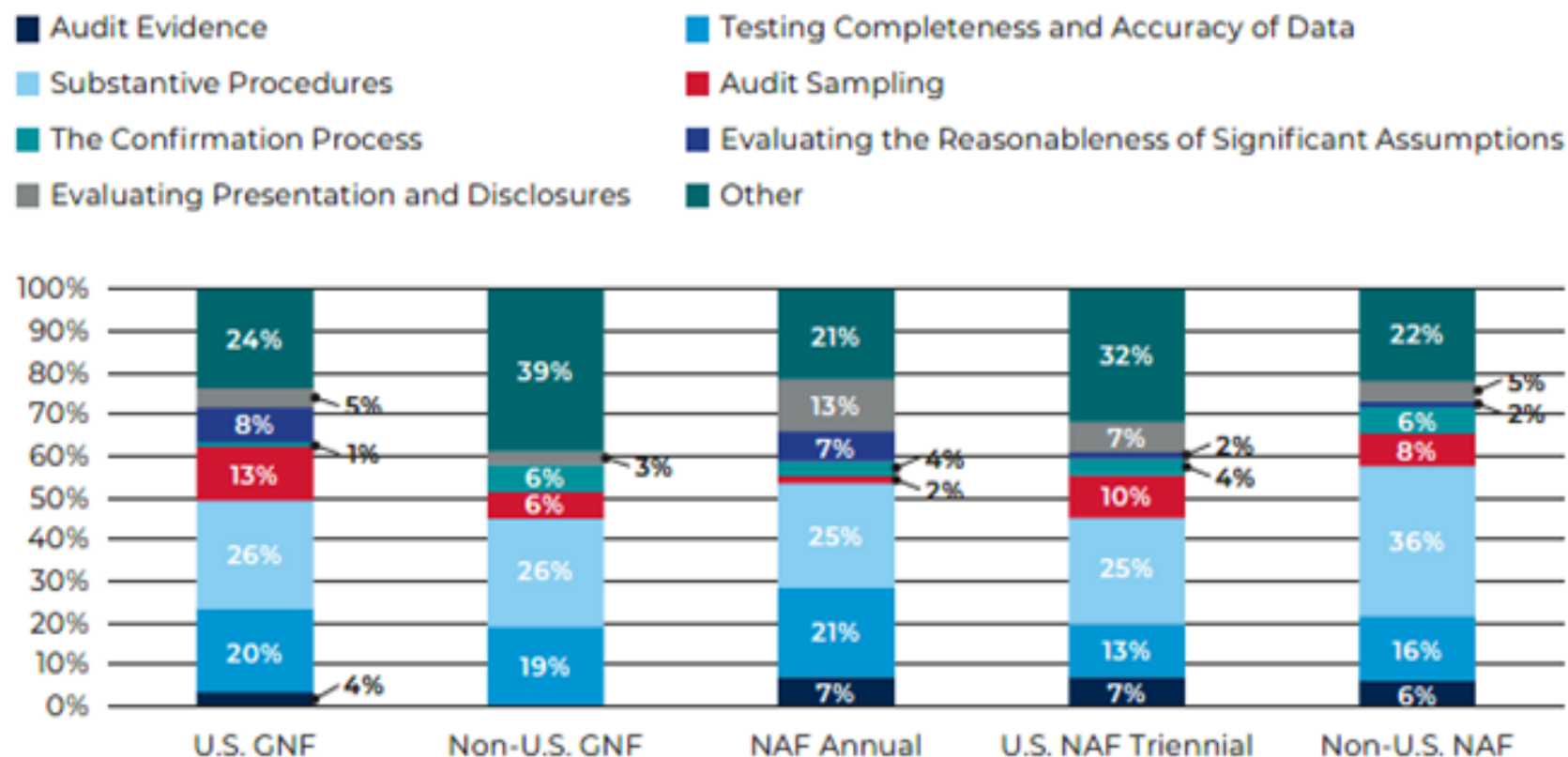
## Areas selected for illustrative examples:

- Revenue and Related Accounts
- Cash Flow Projections – used in:
  - Valuation of goodwill & intangibles
  - Business combinations
  - Determination of asset impairment

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# DEFICIENCIES BY AUDIT STANDARDS CITED

**Figure 8 – Revenue and Revenue Related Accounts – Deficiencies by Audit Standard Cited**



# AS 2301, *THE AUDITOR'S RESPONSES TO THE RISKS OF MATERIAL MISSTATEMENT*

While there's no specific PCAOB auditing standard for revenue, AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, is applicable as the auditor should:

- Design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.
- For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.
- AS 2110 discusses identification of significant risks and states that fraud risks are significant risks.

# AS 1105, AUDIT EVIDENCE

AS 1105, *Audit Evidence* is also applicable for testing Revenue and Related Accounts in that the auditor must plan and perform audit procedures to obtain **sufficient appropriate** audit evidence to provide reasonable basis for the opinion.

- **Sufficiency** is the measure of the quantity of audit evidence; and
- **Appropriateness** is the measure of the quality of the audit evidence, i.e., its **relevance and reliability**.
  - *Relevance of audit evidence refers to its relationship to the assertion or to the objective of the control being tested; and*
  - *Reliability of audit evidence depends on the nature and source of it and the circumstances under which it is obtained.*

# AS 1105, *AUDIT EVIDENCE* (CONT'D)

Under AS 1105, when using information produced by the company as audit evidence, the auditor should evaluate whether the information is **sufficient** and **appropriate** for purposes of the audit by performing procedures to:

- Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and
- Evaluate whether the information is sufficiently precise and detailed for purposes of the audit.

# AS 2810, *EVALUATING AUDIT RESULTS*

Under AS 2810, Evaluating Audit Results, in evaluating the presentation of the financial statements, including the disclosures, the auditor:

- Must evaluate whether the financial statements are presented fairly, in all material respects, *in conformity with the applicable financial reporting framework*;
- Should evaluate whether the financial statements contain the information **essential** for a fair presentation of the financial statements *in conformity with the applicable financial reporting framework*.

# AS 2810, *EVALUATING AUDIT RESULTS (CONT'D)*

- Should evaluate whether:
  - The financial statements are informative of matters that may affect their use, understanding, and interpretation; and the information in the financial statements ***is presented and classified appropriately and in a manner that is not misleading;***
  - The accounting principles selected and applied by the company's management ***are appropriate in the circumstances;*** and
  - Company transactions and relevant events and conditions are ***appropriately recognized, measured, and disclosed in the financial statements.***

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# ILLUSTRATIVE EXAMPLE #1 - BACKGROUND

- The issuer is a seller of water products with distributors, retail, and grocery stores as customers.
- Net sales is recorded net of sales discounts, allowances, and returns.
- The issuer discloses in its Form 10K disclosure on significant accounting policies that –

*“The Company recognizes as revenue, the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. The Company recognizes revenue upon completion of our performance obligations or expiration of the contractual time to use services such as professional service hours purchased in bulk for a given time period [“Services”].”*

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# ILLUSTRATIVE EXAMPLE #1 (CONT'D)

## ***Substantive tests of revenue:***

- The auditor tested the occurrence, completeness, accuracy, and disclosure assertions of net sales as follows:
  - Obtained an Invoice Listing from the issuer, which was filtered from a report downloaded from the general ledger;
  - Traced 100% of invoices generated in the Invoice Listing to subsequent payments; and
  - Tested cut-off by selecting invoices from the Invoice Listing prior to and after year-end and tracing the invoices to packing slips, purchase orders, or remittance advices

## ***Auditor's procedure to address disclosures:***

- The auditor prepared a revenue disclosure checklist.

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# ILLUSTRATIVE EXAMPLE #2

## Background:

- The issuer disclosed in the notes to the financial statements that it accounted for revenue from the construction of systems over time using an input method based on costs incurred as it progresses towards satisfaction of the performance obligations.
- The issuer prepared a system-generated revenue schedule to calculate revenue earned using the percentage of completion (POC) method. The POC revenue schedule contained the contract value, actual costs incurred to date, and estimated costs at completion for each contract.
- The issuer's revenue process was supported by three information systems.

## ILLUSTRATIVE EXAMPLE #2 (CONT'D)

**The auditor selected a sample of the construction contracts to test as follows:**

- Obtained the cost control sheets, by job (i.e., contract), and compared the total cost for each selection to the POC schedule.
- For a sample of materials costs incurred, vouched the costs from the cost control sheet to the related vendor invoices and issuer's purchase orders, noting the consistency of the job number between the cost control sheets and purchase orders; and

## ILLUSTRATIVE EXAMPLE #2 (CONT'D)

- For a sample of labor costs incurred:
  - 1) Vouched the hours from the cost control sheet to the internally generated time sheet reports from the IT systems and further to the Payroll Register,
  - 2) Compared the rate per hour from the cost control sheet to the Payroll Register, and
  - 3) Recalculated the applied overhead burden rate.

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# GOOD PRACTICES

- Understand, among other things, the company's key products and services, and business processes that affect revenue.
- Disaggregated risk assessment at the revenue stream level, assertion level, or account level. For example, assignment of likely sources of potential misstatements to elements of an estimate or calculation.
- Development of tailored risks by appropriately considering varying risks for different components, portfolios, locations, and revenue streams.
- Firm risk assessment templates that help engagement teams better capture and clearly document linkage between likely sources of potential misstatements and the controls to be tested, including for data and data in reports used as evidence (sometimes referred to as IPC).
- Firm templates for testing estimates, such as a template that maps individual assumptions/inputs and related risks to control and substantive testing approach.

# KEY STANDARDS OF CASH FLOW PROJECTIONS

- AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*, at a high level:
  - Focuses auditors on estimates with greater risk of material misstatement through explicit integration of the requirements of the standard with the PCAOB's risk assessment standards.
  - Emphasizes the application of professional skepticism, including addressing potential management bias.

# KEY STANDARDS OF CASH FLOW PROJECTIONS (CONT'D)

- Other applicable standards include:
  - AS 1105, *Audit Evidence*
  - AS 1201, *Appendix C, Supervision of the Work of Auditor-Employed Specialists*
  - AS 1210, *Using the Work of an Auditor-Engaged Specialist*

# CASH FLOWS – SELECTING AN APPROACH FOR TESTING

- In performing substantive procedures, the auditor should test cash flow projections using one or a combination of the following three approaches:
  - Test the company's process used to develop cash flow projections;
  - Develop an independent expectation for comparison to the company's projections; or
  - Evaluate audit evidence from events or transactions occurring after the measurement date related to the accounting estimate for comparison to the company's estimate.

# CASH FLOWS – TESTING THE COMPANY'S PROCESS

- Evaluate whether the method used by the company to develop the cash flow projection is (1) in conformity with the requirements of the applicable financial reporting framework, and (2) appropriate for the nature of the related account or disclosure, taking into account the auditor's understanding of the company and its environment. (AS 2501.10)
- Test the accuracy and completeness of data produced by the company (AS 2501.12; AS 1105.10)
- Evaluate the relevant and reliability of data from external sources (AS 2501.13; AS 1105.04 and .06)

# CASH FLOWS – TESTING THE COMPANY'S PROCESS (CONT'D)

- Identify significant assumptions used by the company in the development of the cash flow projection (AS 2501.15)
- Evaluate the reasonableness of the significant assumptions used in the cash flow projection (AS 2501.16 –.18)

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# CASH FLOWS – DEVELOPING INDEPENDENT EXPECTATION

- A reasonable basis for the auditor derived assumptions and method used in developing the cash flow projection (AS 2501.22)
- Evaluate the relevant and reliability of data or assumptions used in the cash flow projection obtained from a third party (AS 2501.23; AS 1105.04 and .06)
- Test the accuracy and completeness of data produced by the company (AS 2501.12 and .24; AS 1105.10)
- Evaluate the reasonableness of the significant assumptions used in the cash flow projection that were developed by the company (AS 2501.16 - .18, and .24; )

# CASH FLOWS – SUBSEQUENT EVENTS AND TRANSACTIONS

- Evaluate whether the audit evidence is sufficient, reliable, and relevant to the accounting estimate and whether the evidence supports or contradicts the company's cash flow projection (AS 2501.28)
- Take into account changes in the company's circumstances and other relevant conditions between the event or transaction date and the measurement date (AS 2501.29)

# VALUATION OF GOODWILL EXERCISE

The issuer used an external valuation specialist to perform its annual goodwill impairment analysis as of December 31, 202X. The specialist performed the analysis using the income approach. The discount rate developed by the specialist was based on the weighted average cost of capital (WACC) using an adjusted beta and no additional risk adjustment factor.

The auditor performed the following procedures to test the reasonableness of certain assumptions used by the specialist in the discounted cash flow analysis:

- 1. Revenue growth rate** – Traced the revenue for 202X to the financial statements. Compared the growth rate to the rate used in prior year projections and noted it was consistent.
- 2. Discount rate** – Performed procedures to evaluate the reasonableness of the discount rate, including evaluating the source used by the issuer's specialist for certain components used to calculate the WACC (long-term bond rate, equity market risk premium, adjusted beta, tax rate, and cost of debt) and determined the source to be relevant and reliable.

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# ACQUISITION EXERCISE – BACKGROUND

- The issuer entered into an equity acquisition agreement with shareholders of Company A to acquire a 100% equity interest in Company A. The issuer recorded intangible assets of \$4M related to a customer relationship, technology, and data.
- The fair value was determined using the following methods:
  - Customer relationship – multi-period excess earnings (income approach)
  - Technology – relief from royalty (income approach)
  - Data – market approach

# ACQUISITION EXERCISE – BACKGROUND (CONT'D)

- The issuer's Form 10-K disclosure stated that the judgments used to estimate the fair value assigned to assets acquired and liabilities assumed, the intangible asset life, as well as the significant assumptions, can materially impact the issuer's consolidated financial statements. Significant assumptions used for the models included but not limited to the WACC, forecasted operating cash flows, discount rates, attrition rate, royalty saving rate, and quoted price in the market. The issuer utilized the assistance of third-party valuation specialists to determine the fair values as of the date of acquisition. The engagement team concurred with the significant assumptions identified by the Issuer.

# ACQUISITION EXERCISE – BACKGROUND (CONT'D)

**The engagement team performed the following substantive procedures to address the risks related to the valuation of the acquired intangible assets:**

- Obtained from the issuer the valuation report prepared by the issuer's specialist and the underlying excel spreadsheet ("spreadsheet") that included the forecasted operating cash flows, valuation models and assumptions used in the measurement of acquired intangible assets. The valuation report stated that the "value analysis has been performed based on set of financial projections and historical financial data provided by Issuer management."
- The issuer's specialist also made inquiries to management to obtain an understanding of the basis and assumptions of the projections; however, the specialist did not attempt to verify the assumptions adopted in the projections and did not perform any audit or due diligence procedures or otherwise to verify the truth, accuracy or reliability of the information provided.

# ACQUISITION EXERCISE – BACKGROUND (CONT'D)

- The issuer's specialist also stated the financial projections are a key driver for the valuation.
- Used an auditor-employed specialist to review the reasonableness of the valuation report. The auditor-employed specialist copied data from each tab of the spreadsheet to a new tab, added its conclusions at the bottom of each tab, and copied the same conclusions to the summary tab.
  - No exceptions were identified when reviewing the historical data, comparable companies, future cash flow forecast, weighted average cost of capital, or the market data.
  - The auditor-employed specialist included an overall conclusion that through analyzing the adequacy of the evaluation method adopted for client relationships, technology and data, the relevant parameters have been confirmed and recalculation performed, no big difference is found.

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# KEY TAKEAWAYS

- Identifying significant assumptions used in cash flow projections such that the audit effort is focused on those assumptions that are important to the recognition or measurement of the accounting estimate for which cash flow projections are an input.
- When testing the company's process, addressing all applicable requirements in evaluating the reasonableness of assumptions affecting cash flow projections – included in AS 2501.16, .16a, and .17 (if applicable).
- When developing an independent expectation and using independent assumptions and methods, having a reasonable basis for the assumptions and methods used in cash flow projections.

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# STAFF GUIDANCE CONCERNING THE REMEDIATION PROCESS

## Five Criteria Used to Assess a Firm's Remedial Actions

1. Change
2. Relevance
3. Design
4. Implementation
5. Execution and Effectiveness

# APPLYING THE REMEDIATION GUIDANCE: REVENUE EXAMPLE

- **Example quality control criticism**

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel with respect to substantive testing revenue will meet the requirements of AS 1105, and AS 2301. (QC 20.03 and .17)

- **Initial items to consider**

- Scope of the quality control criticism
- Root causes of the quality control criticism and underlying deficiencies
- Whether the quality control criticism is repeat or persistent

- **Example Root Cause**

- Training gap
- Unclear guidance and procedures in audit program

- **Example Remedial Actions**

- Mandatory training for all professionals who work on issuer audit engagements
- Issued a new template for substantively testing revenue
- Monitored use of template during a pre-issuance review

# TRAINING PROGRAMS AND AUDIT TOOLS CONSIDERATIONS

- **Training Programs – Items to consider**
  - Content and delivery method
  - Background and qualifications of course instructors
  - Target audience
  - Extent to which training is mandatory and the related participation, including firm processes for monitoring participation
  - Post-training steps and other considerations
- **Audit Tools – Items to consider**
  - Mandatory or optional use
  - Review requirements
  - Timing for completion of audit tool
  - Responsive to the scope of the criticism or underlying deficiencies
  - Expectations regarding use of the audit tool communicated
  - Required to be retained in the audit workpapers
  - Use of tool reinforced through training programs

# KEY REMINDERS – REMEDIATION

- Taking advantage of the full remediation period.
- Planning ahead in order to get the benefit of inspections staff feedback.
- Implementing actions early enough to be able to monitor their operation and include evidence that they are effective in the submission.
- Whether certain quality control criticisms persist due to the influence of non-technical factors, such as a firm's culture.

# REMEDIATION RESOURCES

- **Staff Guidance Concerning the Remediation Process**
- **Supplemental Staff Guidance Concerning the Remediation Process**
- **Spotlight: Additional Insights on the Remediation Process**
- **Remediation Response Template**
  - Purpose: To provide firms with a standard format to describe how each action taken by the firm to address the quality control criticisms (QCC), meets each of these five criteria included in the Staff Guidance.
  - Includes an excel template for listing each action and mapping each action taken to the QCC and firm identified root causes
  - Includes a word template in tabular format where the firm can not only list each action, but describe in detail how each action met the five criteria
  - Template is available, but not required to use

# QUESTIONS

