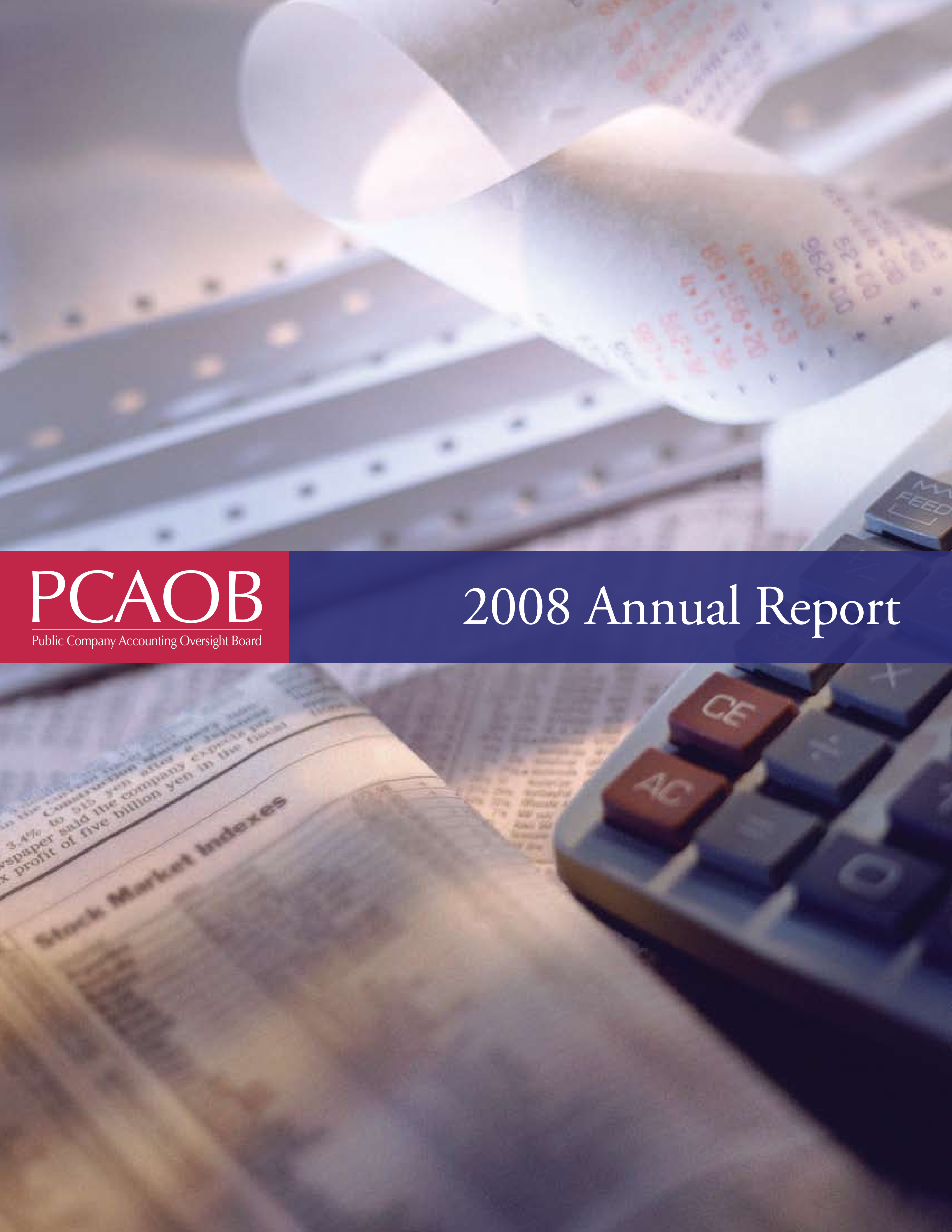


PCAOB

Public Company Accounting Oversight Board

2008 Annual Report

THE PCAOB's MISSION

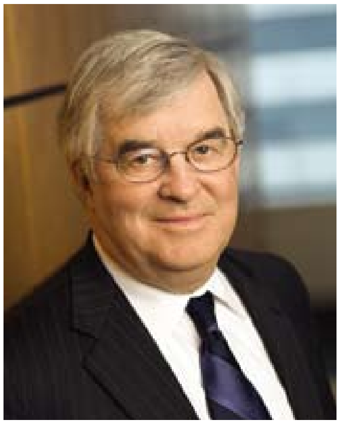
The PCAOB's mission, as derived from the Sarbanes-Oxley Act of 2002, is to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair and independent audit reports.

PCAOB

Public Company Accounting Oversight Board

OUR VISION

The PCAOB seeks to be a model regulatory organization. Using innovative and cost-effective tools, the PCAOB aims to improve audit quality, reduce the risks of auditing failures in the U.S. public securities market and promote public trust in the financial reporting process and auditing profession.



MARK W. OLSON

CHAIRMAN'S LETTER

On behalf of the PCAOB, I am pleased to present this report on our activities for 2008.

In June, we welcomed new Board Member Steve Harris. Steve was appointed by the Securities and Exchange Commission to fill the seat vacated by Kayla Gillan, whose term had ended. My fellow Board Members and I wish to thank Kayla for her service and immense contributions to the PCAOB during its first five years.

This was a challenging year for all involved with the capital markets, as U.S. and foreign markets experienced dramatic decline. The types of challenges posed by the illiquid markets of 2008 have not been experienced firsthand for some years. For its part, the Board monitored these events and resulting financial accounting and disclosure issues in order to identify areas that pose significant challenges for the auditing of public companies. Broad public discussions regarding complex accounting issues and the related audit challenges cut across all our program areas, resulting in the Board initiating targeted responses related to the crisis in furtherance of its oversight mandate. We accomplished this through a number of actions discussed throughout this report, including outreach and dialogue, standard setting and audit guidance, inspections and, where necessary, by initiating investigations and disciplinary actions.

In order to ensure that our inspectors and enforcement staff were able to respond to market challenges and assess the sufficiency of audits, the PCAOB provided them with additional training and substantive support. Our risk-focused inspection program also grew more sophisticated and comprehensive. As we completed our sixth year of operation, the PCAOB was well into its second round of triennial inspections of registered firms and had reviewed plans to improve quality controls submitted by hundreds of firms in response to inspection report findings.

While there is still work to be done, we are seeing improvements in audit quality at many firms. However, our inspection findings for all firms, particularly those involved in audits of large, complex issuers, reemphasized the critical need for auditors to be vigilant in maintaining professional skepticism in auditing accounting estimates and transactions of their client issuers while, at the same time, being aware of the risk of fraud. During the year, the PCAOB emphasized the need for firms to monitor and manage audit risk and to respond proactively when they identify areas where quality could be improved.

While the Board issued a number of proposed standards during 2008, a key proposal involved a suite of seven standards that relate directly to the auditor's assessment of and response to risk. These standards, which would supersede a number of the interim standards, would govern the assessment of risk in an audit and the resulting planning and execution of the audit, based on that assessment. If adopted, the new standards complement the risk assessments required under Auditing Standard No. 5 (AS No. 5).

AS No. 5 requires the audit of an issuer's internal controls over its financial reporting be integrated into the audit of the financial statements. The audit of internal control was mandated by Section 404 of the Sarbanes-Oxley Act, and registered firms made good progress in implementing it in 2008. I believe that many observers, and large segments of the public, are realizing the benefits of internal control audits, particularly as we see the financial damage resulting from the current turbulent market environment.

The PCAOB also assessed the adequacy of its own internal control over financial reporting, and required its auditor to apply AS No. 5 wherever possible. I believe it is important that the PCAOB lead by example and hold itself to the standard it holds the auditing profession. I can candidly say that we benefited immensely in 2008 from this discipline.

Also in 2008, the U.S. Court of Appeals for the D.C. Circuit affirmed the District Court's grant of summary judgment to the PCAOB in the lawsuit challenging the constitutionality of the Board's structure, and the plaintiffs' request for a rehearing, and rehearing *en banc*, was subsequently denied. More recently, the U.S. Supreme Court granted the plaintiffs' petition for a writ of certiorari on May 18, 2009, and the case will be argued and a decision is expected in the Supreme Court's next Term. The Board remains confident that the PCAOB's structure is constitutional and looks forward to presenting our arguments to the Supreme Court.

In 2009 and beyond, PCAOB programs will continue to evolve and broaden to address emerging areas of audit risk and practice concerns both here and abroad. Given the global reach of the U.S. markets and the international mix of registered firms that audit U.S.-traded companies, the PCAOB is striving to avoid unnecessary differences with international auditing standards. I fully support the concept of high quality auditing standards that can be applied to the audit of financial statements of issuers around the world. PCAOB standards are different from those of other jurisdictions in some ways that, perhaps, could be useful models for other standard setters. One example is the AS No. 5 internal control standard. Achieving a high level of consistency across auditing standards used in global markets would improve the overall effectiveness of audit oversight by conserving resources, reducing redundancies, and bringing greater clarity of expectations for regulators and auditors. In addition, over the long term, it would greatly improve the understanding and interpretation of audited financial statements by investors.

You also can expect to see PCAOB standard-setting programs continue to evolve and broaden to include emerging areas of audit risk. Standard-setting priorities will continue to be in areas that involve complex audit issues concerning fair value measurements, the use of estimates, consideration of a public company's ability to continue as a going concern, and the adequacy of financial disclosures. Priorities also include more subtle practice issues, as well as fraud detection. The PCAOB strongly encourages firms to maintain a culture of improvement in their assurance practices.

Finally, the Board continues to be served by extremely qualified and highly motivated staff and, with their continued support and dedication, I am confident that we will be successful in fulfilling our mission to further the public interest in the preparation of informative, fair, and independent audit reports.

Mark W. Olson

Mark W. Olson
Chairman, Public Company Accounting Oversight Board

PCAOB'S CORE VALUES

IN PURSUING ITS MISSION, THE PCAOB IS COMMITTED TO THE FOLLOWING VALUES:

Public Interest: The Board and the staff of the PCAOB are committed to protecting investors and serving the public interest when carrying out their responsibilities.

Integrity: Given the nature and significance of the PCAOB's mission under the Act, it is the personal responsibility of the Board and the staff of the PCAOB to maintain the highest possible ethical standards.

Excellence: The Board and the staff of the PCAOB are committed to high-quality analysis and high performance in their oversight of registered public accounting firms.

Effectiveness and Efficiency: The Board recognizes that the PCAOB is primarily supported by fees from public companies and understands its responsibility to manage resources effectively and efficiently.

Fairness: In exercising its regulatory and enforcement authority, the PCAOB is committed to treating registered public accounting firms and associated persons in a fair, impartial and consistent manner.

Flexibility and Innovation: The PCAOB will be forward-thinking, anticipate risks and respond to rapidly emerging issues with its flexible and innovative programs and operations.

Accountability: The Board and the staff of the PCAOB accept responsibility for their actions and decisions.

Teamwork: The PCAOB will maintain a team of outstanding, highly qualified, experienced professionals, who are expected to collaborate in a work environment based upon cooperation and trust.

PCAOB OVERVIEW

The Public Company Accounting Oversight Board was created by the Sarbanes-Oxley Act of 2002 to protect investors and the public interest in the preparation of informative, fair and independent audit reports on the financial statements of public companies and other issuers.[1]

The Board began operations in January 2003, shortly after its chartering legislation was signed into law. The Act required that auditors of U.S. public companies be subject to external and independent oversight for the first time in history. Previously, the profession was self-regulated.

Today, the PCAOB registers auditors of public companies, and oversees them primarily through its authority to set auditing and related professional practice standards and other rules, to inspect firms for compliance with PCAOB standards and rules, as well as SEC rules, and to take disciplinary actions, when needed, to compel compliance or impose sanctions and fines.

The five members of the PCAOB Board are appointed to staggered five-year terms by the Securities and Exchange Commission (SEC). The SEC has oversight of the PCAOB, including the approval of the Board's rules, standards and budget.

The Sarbanes-Oxley Act established the primary funding for PCAOB activities through an annual fee assessed on public companies in proportion to their market capitalizations. The Board's 2008 calendar-year budget was $144.6 million.

At year-end 2008, the PCAOB employed 481 people, including 258 inspection staff members. PCAOB inspection teams are located in the headquarters office in Washington, D.C., as well as U.S. regional offices in Atlanta, Chicago, Dallas, Denver, New York, San Francisco and Los Angeles. The PCAOB inspection team leaders bring many years of experience to their jobs. In 2008, team leaders responsible for inspections of firms that audit more than 100 public companies averaged 27 years of relevant experience. All other PCAOB inspectors averaged 15 years of relevant experience.

[1] This report uses the terms "public company" and "issuer" interchangeably. The term "issuer" is defined by the Sarbanes-Oxley Act of 2002 and PCAOB rules.

SUMMARY OF PCAOB ACTIVITIES IN 2008

This annual report highlights the PCAOB's progress in fulfilling its mission to protect the interests of investors in the preparation and issuance of informative, fair and independent audit reports. This report summarizes the PCAOB's activities around its four strategic goals, as set forth in the PCAOB's 2008–2013 Strategic Plan.

This annual report includes qualitative and quantitative assessments of its progress with respect to its strategic goals. In particular, Appendix 1 to this annual report includes a discussion of performance measures and related 2008 results. Appendix 2 to this annual report includes a listing of PCAOB Board releases and staff guidance issued in 2008.

In 2008, the PCAOB was particularly focused on audit risks and other issues related to an unprecedented global financial crisis and, as such, explored ways in which it could improve the effectiveness of its oversight in light of lessons learned and insights identified as a result of the financial market developments.

Goal 1

Promote investor confidence in audited financial statements of public companies through an effective use of a supervisory model of oversight of registered public accounting firms

Goal 1 encompasses the PCAOB's core program areas: registration, inspections, standard setting and enforcement. These programs are designed to work together to improve audit quality, correct audit deficiencies, and promote compliance with applicable standards and laws and, thereby, contribute to public confidence in the reliability and independence of audit reports. The programs utilize a risk-based approach in order to achieve this goal.

Registration

The Act and the rules of the Board prohibit accounting firms that are not registered with the PCAOB from issuing, or playing a substantial rule in issuing, audit reports for public companies whose securities are registered in the United States or who have certain financial reporting obligations under U.S. law, regardless of where the firms are domiciled. Firms often register with the PCAOB if they anticipate conducting such audit work.

The majority of public accounting firms currently registered with the PCAOB registered during the Board's first years of operation. Still, the PCAOB continues to receive new applications every year. In 2008, the Board approved the registration applications of 103 firms, including 62 non-U.S. firms.

The Act and the Board's rules for registration and withdrawal impose deadlines for Board action. The Act requires that the Board act on an application for registration within 45 days of receipt of a completed application. The Board's rules provide that a firm be considered withdrawn if the Board grants the firm's request for withdrawal, or does not object to the request, within 60 days. In 2008, the Board acted within these time frames for all 103 new registration applications and 55 withdrawal requests. In addition, the Board revoked the registrations of two firms, pursuant to Board disciplinary orders. By year-end 2008, there were 1,874 firms registered with the PCAOB, including 983 domestic firms and 891 non-U.S. firms in 86 countries.

Of the firms registered on December 31, 2008, 1,131 registered firms did not issue any audit reports for public companies in 2008; another 440 firms issued audit reports for between one and five public companies in 2008, while 303 firms issued audit reports in 2008 for more than five public companies. Of the 303 firms, 11 firms issued audit reports for more than 100 public companies.

Whether a firm is inspected annually or triennially is determined by the number of audit opinions issued by the firm in the preceding year. In 2009, 11 firms will be subject to annual inspection because they issued audit reports for more than 100 public companies in 2008. In 2008, there were 12 firms subject to annual inspections because they issued audit reports for more than 100 public companies in 2007.

In June 2008, the Board adopted rules to implement Section 102(d) of the Act that require registered firms to submit annual and special reports. These reports are intended to provide more transparency to investors and strengthen the Board's oversight by ensuring that it has current information about registered firms and their audit practices.

In July 2008, the PCAOB adopted new rules that govern when a firm is allowed to succeed to the registration status of a predecessor firm, following a merger or change in a firm's legal form. Under these rules, a special filing is required with the Board in order to provide for continuity of registration.

Number of Registered Public Accounting Firms by Country

(AS OF DECEMBER 31, 2008)

COUNTRY	NUMBER OF REGISTERED FIRMS
United States	983
China*	97
United Kingdom	69
India	56
Canada	54
Australia	44
Germany	43
France	35
Singapore	21
Mexico	19
Brazil, South Africa	17 each
Israel, Italy, Netherlands	16 each
Belgium, Russian Federation, Spain, Turkey	15 each
Japan	14
Ireland, New Zealand	13 each
Argentina, Chile, Taiwan	12 each
Republic of Korea, Malaysia	11 each
Indonesia, Switzerland	9 each
Philippines, Venezuela	8 each
Austria, Colombia, Hungary, Portugal, Sweden, Thailand	7 each
Costa Rica, Czech Republic, Denmark, Greece, Norway, Poland, Romania	6 each
Finland, Peru, United Arab Emirates	5 each
Bermuda, Cayman Islands, Egypt, Kazakhstan, Luxembourg, Pakistan, Panama, Paraguay, Ukraine	4 each
Bolivia	3
Bahrain, Croatia, Cyprus, Dominican Republic, El Salvador, Iceland, Malta, Slovakia, Slovenia, Uruguay, Vietnam	2 each
Armenia, Bahamas, Barbados, Belize, Brunei Darussalam, Bulgaria, Cambodia, Ecuador, Estonia, Georgia, Ghana, Haiti, Jamaica, Lao People's Democratic Republic, Lebanon, Mauritius, Nigeria, Papua New Guinea, Tunisia	1 each
TOTAL	1,874

* The number of registered firms in China includes those located in Hong Kong.

At year-end 2008, both the annual and special reporting rules, and the predecessor firm succession rules, were pending SEC approval.

Inspections

The Act requires the PCAOB to conduct a continuous program of inspections to assess compliance by registered firms and their associated persons with the Act, the rules of the Board, rules of the SEC and professional standards in connection with the performance of audits, the issuance of audit reports and related matters involving public companies.

The PCAOB conducts annual inspections of registered firms that regularly audit more than 100 public companies. Registered firms that regularly audit 100 or fewer public companies must be inspected at least once every three years. The Act authorizes the Board to adjust the frequency of inspections, subject to SEC approval. In addition, special inspections may be conducted at any time, as necessary or appropriate, to address issues that come to the Board's attention. Many registered firms (including, as of December 31, 2008, more than 750 of the 1,874 firms registered) are not subject to regular inspection by the Board because, to date, they have not performed audit work for public companies that brings them within the scope of the inspection requirement.

In 2008, the PCAOB inspected 255 registered accounting firms, including 12 firms (11 U.S. firms and one non-U.S. firm) that audited more than 100 public companies in 2007. The remaining 243 firms—194 U.S. firms and 49 non-U.S. firms located in 19 countries—audited 100 or fewer public companies in 2007. In an effort to conserve time and resources, the PCAOB performed 112 of the U.S. firm inspections from its regional offices.

The PCAOB conducted 17 joint inspections of PCAOB-registered non-U.S. firms with the home-country regulators in six jurisdictions: Australia, Canada, Norway, the Republic of Korea, Singapore and the United Kingdom. In addition, after discussions with the relevant government authorities, the PCAOB performed 33 inspections of registered firms located in 13 other countries that did not have independent auditor oversight authorities that conducted regular inspections.

Inspection Process

A PCAOB inspection includes the review of a portion of certain audit engagements performed by a firm, as well as an assessment of the firm's quality control environment. The inspection process is designed to promote improvements in audit quality for public company audits performed by a registered firm.

Throughout the inspection process, PCAOB inspectors discuss issues that are identified with representatives of a firm, including, as applicable, members of the relevant audit engagement team, the firm's representative for handling the inspection, the firm's national office representatives and, in some cases, the managing partner or chief executive officer of the firm. A firm is given an opportunity to respond to the inspectors' written comments on issues identified during an inspection.

Audit deficiencies included in the public portion of the inspection report represent instances in which it appeared to the inspection team that the firm did not obtain sufficient competent evidential matter to support its audit opinion. Quality control concerns described in a report remain nonpublic unless the firm fails to address them to the Board's satisfaction before the end of the 12-month period following issuance of the report (see section below on Remediation of Quality Control Inspection Findings).

A firm may begin to take steps to address the inspectors' comments even before the final inspection report is issued. This is encouraged, and it may involve, for example, the firm performing missed or additional auditing procedures to determine whether the firm can continue to support a previously issued audit opinion; making improvements and enhancements to the firm's internal quality control processes and systems; and discussing accounting issues with the relevant public company client. In some instances, an auditor's follow-up on an issue identified during an inspection may eventually result in the auditor's public company client issuing restated financial statements.

From 2005 to 2008, the PCAOB has conducted 128 non-U.S. inspections located in 26 jurisdictions: Argentina, Australia, Bermuda, Brazil, Canada, Chile, Colombia, Greece, Hong Kong, India, Indonesia, Ireland, Israel, Japan, Kazakhstan, Mexico, New Zealand, Norway, Panama, Peru, the Russian Federation, Singapore, South Africa, the Republic of Korea, Taiwan and the United Kingdom.

Number of Issuer Audit Reports in 2008 per Registered Firm

(AS OF DECEMBER 31, 2008)

AUDIT REPORTS PER FIRM	U.S.	NON-U.S.	TOTAL
Firms that issued no issuer audit reports	452	679	1,131
Firms that issued audit reports for 1–5 issuers	297	143	440
Firms that issued audit reports for 6–10 issuers	72	37	109
Firms that issued audit reports for 11–25 issuers	89	22	111
Firms that issued audit reports for 26–50 issuers	44	5	49
Firms that issued audit reports for 51–100 issuers	18	5	23
Firms that issued audit reports for >100 issuers	11	0	11
TOTALS	983	891	1,874

In appropriate circumstances, matters identified in the course of an inspection may be directly referred to the PCAOB Division of Enforcement and Investigations and/or reported to the SEC and other authorities, as provided by the Act. For instance, matters reported to the SEC may relate to potential violations by persons or entities other than a firm, including a firm's public company clients.

Audit Engagement Review

In 2008, PCAOB inspectors reviewed portions of 425 audit engagements performed by the 12 firms that had audited more than 100 issuers in 2007, and portions of 472 audit engagements performed by the remaining 243 inspected firms.

In many cases, engagements were selected for inspection based on the identification of firm-specific risks and an assessment of the potential for material misstatements in audited financial statements or significant auditing deficiencies in the audits of those financial statements. During 2008, the PCAOB took into account the heightened risk of audit deficiencies that might arise from the market deterioration (*e.g.,* accounting for subprime loans and mortgage-backed securities, highly leveraged financial instruments and transactions, and pricing securities and other assets in illiquid and inactive markets).

The PCAOB's Office of Research and Analysis (ORA) assisted PCAOB inspectors in selecting some of the audit engagements for inspection and identifying the specific risk areas within each engagement. In addition, in order to inform inspection staff of emerging issues, ORA prepared research notes and offered assistance on complex accounting issues and market developments. In 2008, ORA's research and assistance addressed issues related to accounting for auction rate securities, structured financial products and illiquid instruments, as well as analyses of current trends and developments that affected accounting and audit risk—all issues of heightened importance in the current economic environment.

Quality Control Review

In addition to evaluating the quality of audit work, PCAOB inspections included a review of a firm's internal practices, policies and procedures related to audit quality.

The quality control reviews for all firms included some or all of the following:

- Management structure and processes, including tone-at-the-top;
- Practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission and disciplinary actions;

- Policies and procedures for considering and addressing the risks involved in accepting and retaining clients, including the application of risk-rating systems;
- Supervision by U.S. audit engagement teams of audit work that foreign affiliates perform on the foreign operations of U.S. issuer audit clients;
- Processes for monitoring audit quality, including the firm's internal inspection program;
- Policies and procedures for considering independence implications of non-audit services; business ventures, alliances and other arrangements; personal financial interests; commissions and contingent fees; and,
- Practices for consultations on accounting, auditing and SEC financial reporting matters.

The specific review procedures are customized for each firm, reflecting the fact that each firm has developed its own unique system of internal control and management processes. Firms performing more than 100 public company audits generally received more detailed and complex quality control assessments than did smaller firms. During 2008, the PCAOB encouraged the larger firms to establish more formal internal processes to proactively identify indications of deficiencies in audit quality and their root causes, and take appropriate local, regional or firm-wide action to the extent appropriate.

Inspection Reports

The Act requires the Board to prepare a written report of each inspection and to transmit that report, in appropriate detail, to the SEC and the relevant state regulatory authorities. The Act also provides that each report must be made available to the public, in appropriate detail, subject to statutory limitations on disclosed information. The public portion of an inspection report summarizes the most significant auditing deficiencies identified during an inspection. The full inspection report issued to the firm may include additional detail concerning audit deficiencies and related issues and may also include criticisms of the quality control systems of the firm. Inspection reports are published on the PCAOB's Web site at: http://www.pcaobus.org.

In 2008, the Board issued 259 inspection reports, including 102 reports on inspections conducted in 2008, 110 reports on inspections conducted in 2007, and 47 reports on inspections conducted in 2006. By the close of 2008, the Board had issued inspection reports on 160 of the 172 firm inspections conducted in 2006, 166 of the 236 firm inspections conducted in 2007, and 102 of the 255 firm inspections conducted in 2008.

Inspecting Audits of Internal Control over Financial Reporting

The year 2008 marked the first time that the PCAOB inspected audits of internal control over financial reporting under Auditing Standard No. 5 (AS No. 5), *An Audit of Internal Control over Financial Reporting That Is Integrated with An Audit of Financial Statements*. AS No. 5 was required for all audits of internal control for financial statements for fiscal years ending on or after November 15, 2007, for issuers required to comply with Section 404(b) of the Act. These issuers were generally the larger accelerated filers of SEC reports.

The inspection staff reviewed and provided feedback to firms on the appropriateness of the modifications to their audit approaches to conform to the new standard; assessed communications and training provided to audit staff; and provided feedback to audit teams and firm leadership about how the audit teams implemented the new standard.

Remediation of Quality Control Inspection Findings

When an inspection report includes quality control criticisms, a firm is expected to make sufficient progress to address the findings before the end of the 12-month period allocated by the Act. This process of remediation is an important element of the PCAOB's oversight. Under the Act, the Board may not publicly disclose those criticisms if a firm addresses them to the Board's satisfaction before the end of 12 months; this provision serves as an incentive for a firm to improve its quality control policies and procedures.

At the end of the remediation period, the Board makes a determination as to whether a firm has identified steps responsive to the particular quality control deficiency and made reasonable, good-faith effort in implementing those steps. If a firm does not satisfactorily address the quality control criticisms in the report, the public version of the report is expanded to publicly disclose those criticisms.

The Board publishes its quality control findings only if it determines that a firm has not made a reasonable, good-faith effort to remediate those deficiencies. In 2008, the Board made determinations concerning quality control remediation efforts related to 162 inspection reports. With respect to 117 of these reports, the Board determined that the firms had implemented steps to address all of the quality control deficiencies in the reports to the Board's satisfaction and, therefore, the Board did not publish those portions of the inspection reports.

With respect to 45 of those reports, the firms either failed to submit any evidence of remediation or the Board determined, after considering the evidence submitted, that the firms had failed to satisfactorily address some or all of the quality control criticisms in the report. Accordingly (except in cases where SEC review of that determination is pending, pursuant to the firm's request), the Board has expanded the public versions of those reports to disclose the quality control criticisms that were not satisfactorily addressed. The inspection reports on the Board's Web site are marked to indicate if they have been expanded to include quality control criticisms.

Enforcement

The PCAOB is authorized by the Act to investigate auditor conduct that may violate the laws, rules or standards within the Board's jurisdiction, which includes federal securities laws that relate to the obligations and liabilities of auditors. It is empowered to impose a range of disciplinary sanctions against registered accounting firms and associated persons who violate those laws, rules or standards.

While many deficient auditing practices are addressed through the inspection and remediation processes, the Board's enforcement authority is an equally important and necessary tool. All three are needed to give the Board its full strength to improve the quality of public company audits and, thereby, protect investors and serve the public interest.

The PCAOB's enforcement function serves to address and deter poor performance of audit work and other deficiencies in audit practices. The Board's sanctions may encompass either disciplinary or remedial actions, ranging from directives to improve quality controls to, in severe cases, the expulsion of auditors from public company auditing. Accordingly, in appropriate circumstances involving serious violations of PCAOB standards or securities laws, the PCAOB takes disciplinary action against firms and audit professionals.

Formal and Informal Investigation Processes

The PCAOB's enforcement staff conducts informal inquiries as well as formal investigations. In an informal inquiry, the staff may request documents, information or testimony from any person. When it appears that a violation of applicable law has occurred, upon the staff's recommendation, the Board may authorize a formal investigation.

In a formal investigation, the staff may demand that any registered firm and associated person provide sworn testimony or documents relevant or material to an investigation. Both registered firms and their associated persons are required by law to cooperate with Board investigations. The Division also may inspect the books and records of such firms or associated persons to verify the completeness and accuracy of any documents or information supplied in an investigation.

Inquiries and investigations arise from a number of sources, including analysis from PCAOB inspections of registered firms, reports from the PCAOB's Office of Research and Analysis, information provided by other regulators, restatements and auditor changes, news reports and confidential tips. To encourage the sharing of relevant information, the PCAOB maintains an online *PCAOB Center for Enforcement Tips, Complaints and Other Information,* at http://www.pcaobus.org. Information also is submitted using a toll-free telephone number: (800) 741-3158. Tips may result in the opening of an inquiry and may be shared with other regulators, particularly the SEC, as appropriate.

PCAOB inquiries and investigations are, by law, confidential and nonpublic. Pursuant to the Act and PCAOB rules, the staff works closely with the SEC Division of Enforcement to coordinate many investigations. In appropriate circumstances, the Act provides that information gathered in PCAOB investigations may be shared with the U.S. Department of Justice, certain federal banking regulators, state attorneys general and appropriate state regulatory authorities.

In 2008, the enforcement staff initiated six formal investigations and a number of informal inquiries. Several investigations related to audits of financial statements of issuers affected by the global financial crisis. In addition, the staff continued to work on formal investigations and informal inquiries that were opened in prior years.

Completed Disciplinary Proceedings

Investigations may lead the Board to institute disciplinary proceedings that may carry a range of sanctions. Litigated disciplinary proceedings are, by law, nonpublic. Sanctions may involve severe disciplinary or remedial requirements, such as significant civil money penalties, the revocation of a firm's PCAOB registration, and the barring of an associated person from auditing any public company. Less severe sanctions include a requirement to obtain additional professional training.

In 2008, the Board imposed its first civil money penalty against an audit partner of a registered public accounting firm. The PCAOB also announced four settled disciplinary proceedings during 2008 (see the list of these actions against three registered firms and five associated persons for violations of PCAOB rules and auditing standards in Appendix 2). Other disciplinary proceedings approved by the Board in 2008 that are in litigation are nonpublic, as required by the Act.

The four settled actions involved violations of PCAOB rules and auditing standards in the audits of the financial statements of eight issuers. In each case, the Board found that the respondents failed to exercise due professional care or professional skepticism, or that they failed to obtain sufficient competent evidential matter to afford a reasonable basis for an opinion regarding the financial statements under audit. The Board also found violations of other PCAOB auditing standards.

As a result of these disciplinary proceedings, the Board censured one firm and revoked the registrations of two other firms, while granting them a right to reapply for registration after two years, in one case, and five years, in the other. The Board barred four individuals from association with any registered public accounting firm, each with a right to petition the Board to permit association after a specific period of time, ranging from one to five years. The Board also suspended one individual from association with any registered public accounting firm for one year, placed certain restrictions on his activities for an additional year, and imposed a civil money penalty.

In each of these 2008 cases, the respondents consented to the Board-ordered sanctions without admitting or denying the findings set forth in the orders. The Board's orders in these settled proceedings, and any other settled proceedings from prior years, are posted on the PCAOB Web site at: http://www.pcaobus.org.

Standard Setting

During 2008, the Board proposed or adopted a number of standards or rules.

Consistency of Financial Statements. On January 29, 2008, the Board adopted Auditing Standard No. 6 (AS No. 6), *Evaluating Consistency of Financial Statements* and related conforming amendments. This standard superseded the Board's interim standard, AU sec. 420, *Consistency of Application of Generally Accepted Accounting Principles*. AS No. 6 updated and clarified an auditor's responsibility to evaluate and report on the consistency of issuer financial statements.

Under AS No. 6, an audit report must now indicate whether an adjustment made to previously issued financial statements was the result of a change in accounting principles or a correction of a misstatement. One of the amendments related to AS No. 6 removed the hierarchy of generally accepted accounting principles (GAAP) from the PCAOB's standard, in connection with its incorporation into the accounting standards of the Financial Accounting Standards Board (FASB). The standard and related amendments were approved by the SEC on September 16, 2008, and became effective on November 15, 2008.

Engagement Quality Review. On February 26, 2008, the Board proposed a new auditing standard, *Engagement Quality Review*, that would supersede the interim standard for concurring partner review and would apply to all PCAOB registered firms. The proposed standard would strengthen the current interim standard for the engagement quality reviewer to evaluate the significant judgments made, and the conclusions reached, by the firm engagement team. The comment period for this proposal ended on May 12, 2008. At the close of 2008, staff in the Office of Chief Auditor (OCA) were preparing a recommendation to the Board, based on comments received.

Independence. On April 22, 2008, the Board adopted an ethics and independence rule, Rule 3526, *Communication with Audit Committees Concerning Independence,* to enhance communication between audit committees and registered firms regarding a firm's independence. This rule superseded the interim standard, Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and two related interpretations. Rule 3526 requires a registered public accounting firm, before accepting an initial engagement, to describe in writing to the issuer's audit committee any relationships—between the firm or any of its affiliates and the issuer or any persons in a financial reporting oversight role at the issuer—that may reasonably be thought to bear on the firm's independence. Registered firms also are required to discuss with the audit committee the potential effects of any such relationships on a firm's independence. The new rule required firms to make a similar communication annually for continuing engagements. This rule was approved by the SEC on August 22, 2008, and became effective on September 30, 2008.

The Board also adopted an amendment to Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*. As originally adopted, Rule 3523 provided that a registered firm is not independent of its audit client if the firm, or any of its affiliates, provided any tax services to a person in a financial reporting oversight role at the audit client—or an immediate family member of such a person—during the audit and professional engagement period. After an opportunity for public comment, the Board determined that providing tax services to such a person during the portion of the audit period preceding the beginning of the professional engagement does not automatically impair a firm's independence. The Board, thus, amended Rule 3523 to exclude from the scope of the rule tax services being provided during this period. The amendment became effective upon approval by the SEC on August 22, 2008.

Assessing and Responding to Risk. On October 21, 2008, the Board proposed seven new auditing standards and conforming amendments that, collectively, would update the requirements for assessing and responding to risk in an audit. The proposed standards would supersede the Board's interim auditing standards for audit risk and materiality; audit planning and supervision; consideration of internal control in an audit of financial statements; audit evidence; and performing tests of accounts and disclosures before year-end. The proposed standards would provide an improved foundation for risk assessment. The comment period for the proposed standards ended on February 18, 2009.

Goal 2

Inform, educate and obtain feedback from a broad cross section of the auditing profession, market participants and other interested parties about the PCAOB's oversight activities and best practices in the auditing profession

During 2008, the PCAOB reached out to the auditing profession, issuers, investors and other interested parties in numerous ways. The PCAOB issued guidance, reports and releases and sought feedback through a number of venues from representatives of the auditing profession and the issuer and investor communities. These venues included public events, such as the PCAOB Forum on Auditing in the Small Business Environment, the PCAOB Standing Advisory Group, special roundtables and symposiums, and other speaking events. Feedback from interested parties assisted the Board in shaping its agenda.

Reports and Guidance

In addition to the formal rulemaking activities of the Board, the PCAOB issues reports and guidance, as needed, to inform the public about its work and to heighten awareness of emerging issues. In 2008, the Board issued two such documents.

On December 5, 2008, the Board released a summary report on its first four years of full annual inspections, *A Report on the PCAOB's 2004, 2005, 2006, and 2007 Inspections of Domestic Annually Inspected Firms*. This report discussed areas of significant or frequent deficiencies in audits conducted by annually inspected U.S. firms during that period. Such areas included the testing of revenue and fair value measurements; identifying departures from GAAP; auditing management's estimates, income taxes and internal control; performing analytical procedures and audit sampling; using the work of specialists; and assessing materiality, audit scope and audit differences. The report noted observations about the firms' efforts to improve their quality control systems, as well.

In addition, the PCAOB in 2008 issued Staff Audit Practice Alert No. 3, *Audit Considerations in the Current Economic Environment*. The PCAOB issues practice alerts to highlight new and emerging issues and any other noteworthy circumstances that may affect audits by registered firms. The practice alerts are not rules of the Board and they create no new requirements for auditor conduct. They are meant to inform and assist the auditor. Issued on December 5, 2008, the practice alert assisted auditors in identifying matters related to the changing market and other financial conditions that might affect audit risk and require additional emphasis in audits of financial statements and audits of internal control over financial reporting.

Specifically, Staff Audit Practice Alert No. 3, *Audit Considerations in the Current Economic Environment,* discusses the following:

- Overall audit considerations
- Auditing fair value measurements
- Auditing accounting estimates
- Auditing the adequacy of disclosures
- Auditing consideration of going concern issues
- Additional audit considerations for selected reporting areas

Forum on Auditing in the Small Business Environment

The Board is particularly mindful of the effects of its work on smaller public companies and smaller accounting firms. To assist these groups, the Board hosts a series of meetings around the country called the Forum on Auditing in the Small Business Environment.

These meetings are designed as a venue for registered accounting firms and public companies in the small business community to provide feedback and ask questions about PCAOB activities, as well as to learn more about the work of the Board, specifically the inspection process and new auditing standards. The format promotes an open and interactive dialogue among PCAOB representatives and forum participants.

The 2008 series included seven forums for auditors, two of which included a second day of separate sessions for directors and financial executives of smaller public companies. The program agenda included a discussion of practical quality control policies and procedures, and emerging accounting and auditing issues. The 2008 forums also discussed issues related to the financial market downturn, including auditing fair value determinations, identifying other-than-temporary-impairment (OTTI) of assets and other impairment risks, going concern considerations, as well as issues pertaining to revenue recognition, and other matters. The discussions also addressed the application of various auditing standards—including the implementation of AS No. 5—and observations from the Board's recent disciplinary orders. In addition, at these sessions, staff from the SEC's Division of Corporation Finance discussed financial reporting issues facing smaller issuers.

Standing Advisory Group

The Standing Advisory Group (SAG) membership is drawn from a cross section of public companies as well as auditors from small and large accounting firms, investors, academics, and others. These individuals share their informed opinions about how the Board, consistent with its legislated mandate, can improve the quality of audits. The SAG advises on best practices and emerging issues. It is an important resource for the Board in identifying emerging standard-setting issues and hearing views on standard-setting initiatives from a broad range of perspectives.

The 2008 SAG had 36 members including those with expertise in accounting, auditing, corporate finance, corporate governance and investing. Six organizations had observer status with speaking rights at the meetings: The Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA), the Department of Labor (DOL), the FASB, the Government Accountability Office (GAO), the International Auditing and Assurance Standards Board (IAASB), and the SEC. All SAG meetings are open to the public and Webcast from the PCAOB's Web site. In 2008, the SAG's input assisted the Board in shaping its 2009 standard-setting agenda.

The February 27, 2008, SAG meeting included two panel discussions. The first addressed a proposed recommendation made by the SEC's Advisory Committee on Improvements to Financial Reporting (CIFiR)

More than 580 auditors from smaller firms and approximately 75 audit committee members and financial executives from smaller public companies attended the 2008 forums. Since the forums began in 2004, nearly 3,100 members of the small business community have attended the forums.

(final report issued August 1, 2008). In this discussion, the SAG focused on the use of professional judgment by financial statement preparers and auditors. The second panel discussion addressed quality control practices of global audit networks in the audits of financial statements, including those prepared in accordance with International Financial Reporting Standards (IFRS). Separately, the SAG also discussed accounting firms' and auditors' responsibilities to supervise audit work.

At its October 22–23, 2008 meeting, the SAG discussed two recommendations to the PCAOB made by the Treasury's Advisory Committee on the Auditing Profession (ACAP) (final report issued October 6, 2008). The SAG discussed the recommendation to determine the feasibility of developing key indicators of audit quality and the recommendation to consider mandating the engagement partner's signature on the auditor's report. The SAG also discussed audit considerations in the current economic environment.

In addition, the PCAOB discussed the following standard-setting priorities for 2009:

- Adoption of engagement quality review and risk assessment proposals
- Consideration of proposed standards on fair value measurements and specialists
- Consideration of proposed standards on confirmations, including consideration of fraud risk factors
- Consideration of proposed standards on related parties, including consideration of fraud risk factors
- Final guidance on audits of internal control over financial reporting for smaller public companies
- Action plan for review of interim standards

Audit Risk Working Group

In addition to the Board's regular interaction with the larger registered firms during the inspection process and other venues, the PCAOB senior staff met regularly with the lead technical partners of the largest accounting firms and the Center for Audit Quality (CAQ). The PCAOB's objectives in the Audit Risk Working Group are to further its efforts to identify, monitor and assess events affecting audit risk, and gain an improved understanding of risk assessment methodologies employed by the firms.

Speaking Engagements

In order to reach a broader cross section of interested parties, Board members and staff in 2008 participated in numerous external speaking events in the United States and abroad, ranging from keynote addresses to panel discussions. The audiences for these speaking events included auditors, issuers, investors, other regulators, academics and students.

Roundtable on Rule 4012 for Non-U.S. Inspections

On June 25, 2008, the PCAOB hosted a public roundtable discussion on the proposed *Policy Statement: Guidance Regarding Implementation of PCAOB Rule 4012* that was issued for public comment in December 2007. The proposal contemplates a set of essential criteria under existing PCAOB Rule 4012 that, if met by a foreign regulator, potentially could permit the Board to place full reliance on the inspection work of that non-U.S. regulator. The roundtable was meant to supplement the comment letters received on the proposal and allow for further discussion of the implications of the policy statement.

Representatives of investor groups, registered public accounting firms and U.S. and foreign regulators participated in the meeting. The group considered the proposed circumstances in which the Board might fully rely, during its inspection of a non-U.S. firm, on the work of a non-U.S. auditor oversight body. At year-end 2008, the Board was evaluating the input received from the roundtable discussion, as well as the comment letters, and other factors.

Goal 3

Further strengthen the effectiveness and coordination of auditor oversight efforts in the United States and abroad

In 2008, the PCAOB took steps to coordinate with other U.S. and international oversight bodies.

Domestic Coordination

The PCAOB maintained close working relationships with the SEC and FASB, as well as with the National Association of State Boards of Accountancy (NASBA), individual state boards and other relevant regulatory and law enforcement authorities. The PCAOB also participated in the U.S. Auditing Standards Coordinating Forum with the GAO and the ASB.

In 2008, the PCAOB engaged in regular dialogue with the SEC and the FASB to assess emerging auditing issues. Many of the issues relevant to current market conditions involve complex areas of accounting that have received significant attention from the SEC and FASB. Mark-to-market accounting and related fair value methodologies is an example of such an issue. The PCAOB participated as an observer at two SEC roundtables on mark-to-market accounting that informed the SEC's congressionally mandated study on the topic. As part of this ongoing dialogue, the PCAOB provided particular insight into the auditing challenges posed by these and other accounting standards.

The PCAOB Chairman served as an observer to the SEC's Advisory Committee on Improvements to Financial Reporting (CIFiR). CIFiR was tasked with examining the U.S. financial reporting system to identify ways to reduce unnecessary complexity and make information more useful and understandable to investors. The CIFiR released its final report in August 2008 with more than two dozen recommendations for improvements to the financial reporting system, two of which related to the PCAOB.

In addition, the PCAOB Chairman served as an observer to the Treasury's Advisory Committee on the Auditing Profession (ACAP). The ACAP examined topics pertaining to improving accounting education and strengthening its human capital; enhancing auditing firm governance, transparency, responsibility, communications and audit quality; and increasing audit market competition and auditor choice for issuers. In October 2008, the ACAP released its final report and, at year-end 2008, the Board was considering the PCAOB-related recommendations and appropriate next steps in light of its mission.

International Coordination

Almost 900 non-U.S. firms in 86 countries were registered with the PCAOB by year-end 2008. Accordingly, reaching out to non-U.S. regulatory counterparts to facilitate inspection agreements remains a priority for the PCAOB. Cross-border communication and cooperation among audit regulators directly contribute to improved audit oversight around the world and heightened attention to audit quality.

The inspections of registered non-U.S. firms often raise special considerations. The PCAOB's Office of International Affairs (OIA) represents the PCAOB in working with non-U.S. governmental authorities to enable the PCAOB to perform inspections.

During 2008, the PCAOB conducted 50 non-U.S. inspections located in 19 countries. At the same time, it worked to forge new relationships and strengthen current ones to enable it to inspect registered firms in other non-U.S.

countries. During 2008, the PCAOB had bilateral contact or discussions about auditor oversight with respect to non-U.S. inspections with many countries, including Australia, Austria, Belgium, Canada, China, Denmark, Finland, France, Germany, Greece, India, Ireland, Israel, Italy, Japan, the Republic of Korea, Luxembourg, Mexico, The Netherlands, Norway, Philippines, Portugal, the Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland and the United Kingdom.

Such bilateral discussions enabled the PCAOB to finalize new cooperative arrangements with the auditor oversight authorities in Norway (the Financial Supervisory Authority (FSA)) and Singapore (the Accounting and Corporate Regulatory Authority (ACRA)), and to strengthen established arrangements with the Australian Securities and Investments Commission (ASIC), the Canadian Public Accountability Board (CPAB), the Korean Financial Supervisory Service (KFSS) and the Professional Oversight Board (POB) in the United Kingdom. Accordingly, the PCAOB was able to conduct 17 joint inspections of PCAOB-registered firms in 2008 in these six jurisdictions.

Some non-U.S. inspections had to be delayed from their 2008 schedule due to ongoing negotiations with PCAOB's regulatory counterparts. Some agreements took additional time because the foreign regulators have only recently initiated their own inspection programs, or have requested more time to work with the PCAOB.

In two of nine jurisdictions in which the PCAOB planned to conduct joint inspections in 2008, the PCAOB was able to conduct some, but not all, of the required inspections. This was due to scheduling conflicts between the PCAOB and the home-country oversight authorities. In other jurisdictions, efforts were still underway to resolve sovereignty concerns or potential legal conflicts raised by governmental authorities.

Accordingly, on December 4, 2008, the Board adopted an amendment to Rule 4003, *Frequency of Inspections*, allowing 21 firm inspections, required for 2008, to be postponed for up to one year. As of December 31, 2008, the amendment was pending approval by the SEC.

Also on December 4, 2008, the Board proposed for public comment a rule amendment that would permit the Board to extend the current deadline for the first inspection of certain non-U.S. firms in jurisdictions where the Board had not yet conducted any inspections. This is intended to give the Board and government representatives of those jurisdictions additional time to work out inspection arrangements. Under the proposal, the Board would conduct those inspections between 2009 and 2012, scheduled according to a specific and articulated set of priorities.

The proposed amendment did not extend the deadline for any other non-U.S. inspections currently required by the end of 2009. At the same time, the Board also invited public comment on possible Board courses of action to address circumstances in which the Board might not be able to complete an inspection because of a firm's concern that doing so may violate the firm's local law. The comment period for the proposal closed on February 2, 2009.

In addition to bilateral discussions, the PCAOB used multilateral forums to enhance cooperation with and among auditor oversight authorities. On May 21, 2008, the Board hosted its second International Auditor Regulatory Institute in Washington, D.C. The three-day meeting was attended by approximately 115 representatives of 50 countries.

The first day of the program provided an in-depth view into the PCAOB's inspection and standard-setting activities, with particular attention given to considerations relevant to international inspections. The Division of Enforcement and Investigations also provided an overview of its activities and described certain enforcement actions the Board took against firms or associated persons. The Office of Research and Analysis described its consultative role with the core program areas of inspections, standards and enforcement. The remaining two days focused on broader auditor oversight topics and regional issues. In addition to PCAOB staff, the panelists included regulators and government officials from around the world.

The PCAOB also participated as a member in meetings and working groups of the International Forum of Independent Audit Regulators (IFIAR). The IFIAR is made up of 27 audit regulators from around the world, and its objectives are to share knowledge of the audit market environment and practical experience of independent audit regulatory activity; to promote collaboration in regulatory activity; and to provide a point of contact for other international organizations that have an interest in audit quality.

Lastly, the PCAOB expanded its efforts to monitor various international professional bodies that are developing professional standards for auditors. The PCAOB served as an observer, with speaking rights, at meetings of two boards associated with the International Federation of Accountants (IFAC). These boards included the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). The PCAOB also served as an observer to the two consultative advisory groups of those Boards, as well as the consultative advisory group to IFAC's International Accounting Education Standards Board. Similarly, the IAASB served as an observer at meetings of the Board's SAG.

Goal 4

Operate the PCAOB in a manner that recognizes its public mission and responsibility to exercise careful stewardship over its resources

The resource most critical to the PCAOB's ability to achieve its mission is its staff. For this reason, the PCAOB strives to attract and retain highly qualified and committed employees.

The PCAOB's financial management team performed an assessment of the PCAOB's internal control over financial reporting, which allowed the Board to conclude that its internal control over financial reporting was effective as of year-end 2008. The PCAOB's external auditors also performed an audit of internal control that was integrated with the audit of the PCAOB's financial statements, using AS No. 5 as the governing standard. In this way, the PCAOB and its auditors were held to the same standard as were many public companies and their auditors. The external auditor opinion stated that the Board maintained, in all material respects, effective internal control over financial reporting as of year-end 2008.

In preparing its budget for 2009, the PCAOB complied with the SEC rule facilitating SEC review and approval of the PCAOB's budget. The SEC approved the PCAOB's budget and accounting support fee on December 17, 2008.

In 2008, the PCAOB continued to use technology to assist in supporting its program activities and promote efficiencies in its operations. The PCAOB's Office of Information Technology (OIT) prioritizes its efforts to meet the Board's technology needs in a timely and cost-effective manner.

Of particular note, OIT made significant progress in the implementation of an inspection scheduling system and, despite certain delays, made progress toward the implementation of an annual and special reporting system. OIT also made progress in developing the inspection information system and in redesigning the PCAOB's public Web site. With regard to daily operations, OIT continued to streamline the PCAOB's technological infrastructure while, at the same time, maintaining reliable and secure information systems.

Finally, PCAOB operations were monitored through its Office of Internal Oversight and Performance Assurance (IOPA), which works to provide the Board with assurance about the quality, accountability and operational efficiency of PCAOB programs and operations. IOPA conducts performance reviews of PCAOB programs and operations, provides timely quality assurance assessments to the Board, and also may receive and review allegations of wrongdoing by PCAOB employees. IOPA conducts its performance reviews in accordance with the Government Accountability Office's Government Auditing Standards (Yellow Book).

In accordance with these standards, IOPA, itself, is required to undergo an external quality assurance review, leading to an opinion every three years. In addition, IOPA undergoes a quality review, smaller in scope, on an annual basis. These quality assurance reviews have found IOPA to be in compliance, in all material respects, with Yellow Book standards. During 2008, IOPA completed reviews of PCAOB's recruitment, retention and travel policies and programs. Summaries of these reviews are posted on the PCAOB's Web site at http://www.pcaobus.org.

FINANCIAL REVIEW

(FOR THE YEAR ENDED DECEMBER 31, 2008)

The PCAOB's financial resources are allocated to programs and operations that implement its statutory responsibilities and supporting activities. For 2008, operating expenses for all programs increased over 2007 expense levels by approximately $3.1 million, or 2.4 percent. Significant operating expense variances for each program and supporting activity are described briefly in the "Program Activities" section (page 27).

The primary source of PCAOB operating revenue is the accounting support fee assessed to public companies. An accounting support fee sufficient to fund the PCAOB's operations is assessed annually in accordance with the PCAOB's funding rules. On November 19, 2007, the Board adopted a 2008 budget of approximately $144.6 million, which the SEC approved on December 18, 2007. In approving the budget, the SEC also approved the assessment and allocation of the accounting support fee, which totaled approximately $134.5 million to fund the PCAOB's 2008 activities. The remainder of the budget is funded by excess funds from the prior year's operations.

This financial review, together with the 2008 audited financial statements and the accompanying notes, provide financial information and disclosures related to the PCAOB's programs and operations described in the other sections of this annual report.

PRESENTATION OF FINANCIAL STATEMENTS

The PCAOB's financial statements are presented in accordance with Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). A discussion of the statements of financial position and the accompanying statements of activities follows.

Statements of Financial Position

The PCAOB reported unrestricted net assets of approximately $73.2 million as of December 31, 2008, an increase of approximately $2.4 million compared to December 31, 2007. These net assets will fund the PCAOB's 2009 operations until funds are received from the 2009 accounting support fee billing cycle. The increase in net assets was primarily due to an increase in accounting support fee revenue, partially offset by an increase in operating expenses. As of December 31, 2008, unrestricted net assets included approximately $1.0 million, representing collections of civil money penalties and the associated accrued interest.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with financial institutions and short-term, highly liquid investments. The PCAOB utilizes a sweep service from a financial institution to invest in overnight repurchase agreements in U.S. government-sponsored enterprise securities. The balance also includes cash collected on behalf of the Financial Accounting Standards Board (the FASB). The Financial Accounting Foundation (the FAF) designated the PCAOB as the collection agent for invoicing and collecting the FASB accounting support fee. The PCAOB received approximately $209,000 in both 2008 and 2007 for providing this service. Cash and cash equivalents include approximately $19,000 and $5,000 collected on behalf of the FASB as of December 31, 2008, and 2007, respectively. Corresponding amounts are included in accounts payable and other liabilities in 2008 and 2007.

As a result of disciplinary actions against an individual associated with a registered public accounting firm and a registered public accounting firm, the PCAOB collected civil money penalties in 2008 and 2007 of $25,000 and $1,000,000, respectively. These funds and the associated accrued interest are included in the cash and cash equivalents balance and are statutorily designated for exclusive use towards a scholarship program by Section 109(c)(2) of the Act.

Short-Term Investments

The PCAOB invests in U.S. Treasury bills to earn additional income on its cash balance. The Board had approximately $35.0 million and $50.0 million invested in Treasury bills as of December 31, 2008 and December 31, 2007, respectively.

Accounts Receivable

Accounts receivable (less an allowance for doubtful accounts of approximately $58,000 and $3,000 in 2008 and 2007, respectively) include uncollected portions of accounting support fee from public companies and were approximately $136,000 and $66,000 as of December 31, 2008 and December 31, 2007, respectively. The collection rate for the accounting support fee was approximately 99.9 percent for both years.

Prepaid Expenses and other Assets

Prepaid expenses and other assets were approximately $3.5 million and $4.1 million as of December 31, 2008 and December 31, 2007, respectively. The decrease of approximately $564,000 in 2008 was related primarily to a decrease in prepaid health insurance and receipt of a 2007 receivable related to tenant improvements.

Fixed Assets

Net fixed assets were approximately $10.6 million and $13.9 million as of December 31, 2008 and December 31, 2007, respectively. The decrease in 2008 of approximately $3.3 million was due to the continued depreciation of fixed assets and decreased spending on information technology assets, furniture and equipment and leasehold improvements. During 2008 and 2007, the PCAOB invested approximately $1.8 million and $2.6 million, respectively, in fixed assets.

Accounts Payable and other Liabilities

Accounts payable and other liabilities consist primarily of year-end accruals, and increased from approximately $9.7 million in 2007 to $10.4 million in 2008, an increase of approximately $782,000. The increase was primarily due to an increase in the accrued employee leave liability.

Statements of Activities

Operating Revenue

Total operating revenue increased by approximately $12.2 million in 2008 compared to 2007. Operating revenue includes the accounting support fee and fees from registering accounting firms.

Accounting Support Fee

The PCAOB's activities are funded primarily by the accounting support fee (fees from issuers) that are assessed annually based on the methodology described in the Act and PCAOB rules. Generally, the fee equals the approved PCAOB budget, offset by excess funds available from the prior year's operations. The accounting support fee equalled approximately $134.5 million in 2008, compared to $122.3 million in 2007, an increase of $12.2 million.

The annual accounting support fee is allocated to equity and investment company issuers based on their relative average monthly U.S. equity market capitalization. Equity issuers with an average market capitalization of less than $25 million, and investment company issuers with an average market capitalization, or net asset value, of less than $250 million are allocated a share of the accounting support fee equal to zero. In 2008, equity issuers were assessed approximately 94 percent of the total fee and investment company issuers were assessed the remaining 6 percent.

In 2008, the PCAOB issued invoices to 10,966 issuers, compared to 10,519 issuers in 2007. Approximately 52 percent of the issuers received invoices for $1,000 or less. The largest 1,000 issuers received invoices for approximately 83 percent of the total fee.

The following table reflects the distribution of fee levels by number of issuers.

	NUMBER OF ISSUERS	
FEES	2008	2007
$100–500	4,002	3,817
$501–1,000	1,711	1,602
$1,001–5,000	2,899	2,802
$5,001–10,000	824	812
$10,001–50,000	1,058	1,046
$50,001–100,000	208	211
$100,001–500,000	229	197
$500,001–1,000,000	20	21
$1,000,001–3,000,000	15	11
Total	10,966	10,519

Fees from Registering Accounting Firms

The PCAOB receives a one-time registration fee from public accounting firms that register with the PCAOB. A firm's registration fee is based on the firm's number of public company audit clients, and ranges from $250 for a firm with no public company audit clients to $390,000 for a firm with more than 1,000 public company audit clients. In 2008, the PCAOB collected $27,000 in registration fees and approved the registration of 103 firms. As of December 31, 2008, 1,874 accounting firms were registered with the PCAOB, compared to 1,828 registered firms at the end of 2007.

Non-Operating Revenue

Non-operating revenue includes interest income generated from investments in U.S. Treasury bills and overnight repurchase agreements in U.S. government-sponsored enterprise securities, the annual fee assessed to the FAF for serving as its collection agent, and other miscellaneous income, such as civil monetary penalties collected. Non-operating revenue decreased by approximately $3.3 million from 2007 to 2008. The decrease was attributable to less interest earned in 2008, due primarily to lower interest rates. In addition, in 2008, the PCAOB collected $25,000 in civil monetary penalties, plus an additional $9,000 of related interest earnings totaling $34,000 for the year, as compared to $1 million in 2007.

Operating Expenses

Pursuant to SFAS No. 117, the PCAOB's operating expenses are presented as program and supporting activities in the audited financial statements. The expenses charged to each program or supporting activity are addressed in the discussion below. Because disclosure of functional expenses is a useful complement to this discussion, the following table and accompanying analysis of the PCAOB's functional operating expenses for 2008 are presented first.

FUNCTIONAL OPERATING EXPENSES	2008	2007
Personnel Costs	$ 97,676,000	$ 92,077,000
Travel Expenses	6,723,000	7,157,000
Information Technology Related Expenses	7,230,000	6,674,000
Depreciation	5,093,000	8,438,000
Other Operating Expenses	17,038,000	16,267,000
Total Operating Expenses	$133,760,000	$130,613,000

Total operating expenses increased by approximately $3.1 million in 2008 to $133.8 million. Personnel costs comprised approximately 73 percent of total operating expenses in 2008, compared to 70 percent in 2007. These costs include salaries, employee benefits, training, recruiting and relocation. Increases in staffing levels (from 475 employees at the end of 2007 to 481 employees at the end of 2008) and pay increases in 2008 were primarily responsible for the increase in personnel expenses from approximately $92.1 million in 2007 to $97.7 million in 2008, an increase of $5.6 million.

Travel represents a significant expense for the PCAOB and is affected by a number of factors, including the cost of accommodations and airfare, the number of trips taken and the travel destination (regional, national or international). Approximately 88 percent of total travel expenses were related to inspection activity. Total travel expenses for the PCAOB decreased approximately $500,000, from $7.2 million in 2007 to $6.7 million in 2008. The decrease was due to a shift in inspection strategy that encouraged teleconferencing and utilization of local resources for inspections. In addition, fewer international trips were taken in 2008.

Information technology-related expenses, which include expenses such as telecommunications, non-capitalized hardware, data storage, software development and data security maintenance, increased approximately $500,000, from $6.7 million in 2007 to $7.2 million in 2008. The increase was due primarily to increased software development.

Other operating expenses, which include administrative expenses (such as subscriptions, office supplies, printing and copying, and insurance), professional and consulting fees, and facilities costs, increased approximately $800,000, from $16.2 million in 2007, to $17.0 million in 2008. This was due primarily to increased spending for subscriptions for data sources, and for facilities costs due to higher rent payments related to an expansion of office space in the Washington, D.C. headquarters.

Fixed assets are depreciated under the straight-line method over their useful lives. In its sixth year of operation, a large portion of the PCAOB's initial fixed asset purchases, especially information technology-related assets, has now been fully depreciated. This resulted in a decrease in depreciation expense of approximately $3.3 million, from $8.4 million in 2007 to $5.1 million in 2008.

The following discussion of program and supporting activities addresses expenses as presented in the audited financial statements and grouped by activity classifications in accordance with SFAS No. 117.

Program Activities

The Act gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies; inspections of registered public accounting firms; establishment of auditing, quality control, ethics, independence and other standards for registered public accounting firms; and investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards. These responsibilities are designated as program activities and are reflected as such in the Statements of Activities. The financial statements include two additional program activities: research and analysis, and Board and related activities.

Costs associated with all program activities totaled approximately $100.6 million in 2008 (75 percent of total operating expenses) and approximately $96.0 million in 2007 (74 percent of total operating expenses).

Registration and Inspections

During 2008, the PCAOB continued to register and inspect public accounting firms. Operating expenses increased approximately $4.0 million to $69.7 million in 2008 from $65.7 million in 2007, due primarily to increased staff and related expenses.

Enforcement

Formal and informal investigations of registered firms continued in 2008 as operating expenses of the Division of Enforcement and Investigations increased approximately $800,000 to $9.9 million from $9.1 million in 2007. The operating expense increase was related primarily to increased staff and related expenses.

Standard Setting

The Office of the Chief Auditor assists the Board in its standard setting. Increased staffing costs resulted in an overall increase in the office's operating expenses from approximately $4.2 million in 2007 to approximately $4.8 million in 2008.

Research and Analysis

The Office of Research and Analysis identifies and analyzes emerging accounting and auditing issues, and other risk areas that could contribute to audit failures. For 2008, the office's operating expenses decreased approximately $300,000 to $7.2 million from $7.5 million in 2007. This decrease was due primarily to decreased spending on professional fees related to the development of a risk analysis model, partially offset by increased spending on subscriptions for data sources.

Board and Related Activities

Board and related activities are comprised of the operations of the Board members' offices and the Office of International Affairs. Operating expenses for Board and related activities decreased approximately $500,000 to $9.1 million in 2008 from $9.6 million in 2007. The decrease was primarily attributable to a decline in professional fees.

Supporting Activities

Supporting activities include administration and general, communications, and information technology. In 2008, these activities comprised approximately 25 percent of the total operating expenses of the PCAOB, compared to approximately 26 percent in 2007. Total operating expenses of the supporting activities decreased approximately $1.4 million from $34.6 million in 2007 to $33.2 million in 2008 and reflect program efficiencies.

Administration and General

Administration and general operating expenses consist of expenses related to the offices of human resources, finance, general counsel, budget, administration, and internal oversight and performance assurance. Collectively, operating expenses in these areas decreased approximately $100,000 to $14.1 million in 2008 from $14.2 million in 2007. The decrease was attributable to a decrease in staffing levels and travel expenses, partially offset by increased facility expenses related to the expansion of office space in Washington, D.C.

Communications

Communications includes expenses related to external relations initiatives, including public affairs and government relations. Operating expenses increased approximately $500,000 to $2.4 million in 2008 from $1.9 million in 2007, due primarily to increased staff and related expenses and professional fees related to the redesign of the public Web site.

IT Infrastructure, Security and Telecommunications

Expenses for information technology infrastructure, security and telecommunications include personnel costs and depreciation that were not directly attributable to program activities. In 2008, operating expenses decreased approximately $1.7 million to $16.8 million from $18.5 million in 2007. This was due to a significant decrease in staff and lower depreciation expense as a large portion of the PCAOB's initial information technology assets became fully depreciated in 2008. These decreases in expenses were partially offset by increased spending for consultants.

Independent Auditor's Report

TO THE BOARD OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD, WASHINGTON, D.C.

We have audited the accompanying statements of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. We have also audited the Board's internal control over financial reporting as of December 31, 2008 based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO). The PCAOB's financial reporting management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Financial Reporting Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We conducted our audit of the internal control over financial reporting in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Company Accounting Oversight Board as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Public Company Accounting Oversight Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO).

Blum, Shapiro + Company, P.C.

March 26, 2009

Statements of Financial Position

(DECEMBER 31, 2008 AND 2007)

	2008	2007
ASSETS		
Cash and cash equivalents (Note 2)	$42,174,732	$21,225,433
Short-term investments (Note 2)	34,993,700	49,695,500
Accounts receivable, net of allowance	135,763	66,313
Prepaid expenses and other assets	3,487,620	4,051,485
Furniture and equipment, leasehold improvements and technology, net (Note 4)	10,629,645	13,940,064
Total Assets	$91,421,460	$88,978,795
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other liabilities	$10,443,202	$ 9,661,173
Obligations under capital leases (Note 5)	86,598	—
Deferred rent	7,713,274	8,561,092
Total Liabilities	18,243,074	18,222,265
Unrestricted Net Assets		
Undesignated	72,143,895	69,755,780
Statutorily designated for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act (Note 2)	1,034,491	1,000,750
Total Net Assets	73,178,386	70,756,530
Total Liabilities and Net Assets	$91,421,460	$88,978,795

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

Statements of Activities

(FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007)

	2008	2007
Changes in Unrestricted Net Assets		
Operating revenue:		
Fees from issuers (Note 2)	$134,498,200	$122,285,500
Fees from registering accounting firms (Note 2)	27,000	38,750
Total operating revenue	134,525,200	122,324,250
Operating expenses:		
Program activities:		
Registration and inspections (Note 2)	69,651,602	65,664,709
Enforcement (Note 2)	9,859,889	9,066,427
Standard setting (Note 2)	4,770,886	4,211,457
Research and analysis (Note 2)	7,199,635	7,450,357
Board and related activities (Note 2)	9,082,752	9,640,540
Supporting activities:		
Administrative and general	14,050,337	14,209,871
Communications	2,369,063	1,860,165
IT infrastructure, security and telecommunications	16,775,974	18,509,323
Total operating expenses	133,760,138	130,612,849
Operating Income (Deficit)	765,062	(8,288,599)
Non-Operating Revenue		
Interest income and other	1,623,053	3,964,461
Funds generated from collection of civil monetary penalties (Note 2)	33,741	1,000,750
Total non-operating revenue	1,656,794	4,965,211
Increase (Decrease) in Unrestricted Net Assets	2,421,856	(3,323,388)
Unrestricted Net Assets—Beginning of Year	70,756,530	74,079,918
Unrestricted Net Assets—End of Year	$ 73,178,386	$ 70,756,530

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

Statements of Cash Flows

(FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007)

	2008	2007
Cash Flows from Operating Activities		
Cash received from issuers	$ 134,428,751	$ 122,262,927
Cash received from registering accounting firms	27,000	38,750
Interest income and other	1,623,053	3,964,461
Funds generated from collection of civil monetary penalties	33,741	1,000,750
Cash paid to suppliers and employees	(128,169,399)	(123,199,159)
Net cash provided by operating activities	7,943,146	4,067,729
Cash Flows from Investing Activities		
Purchases of furniture and equipment, leasehold improvements and technology	(1,696,447)	(2,566,414)
Proceeds from sale of furniture and equipment	800	8,144
Purchases of short-term investments	(144,165,133)	(157,253,394)
Proceeds from sales of short-term investments	158,866,933	169,017,244
Net cash provided by investing activities	13,006,153	9,205,580
Net Increase in Cash and Cash Equivalents	20,949,299	13,273,309
Cash and Cash Equivalents—Beginning of Year	21,225,433	7,952,124
Cash and Cash Equivalents—End of Year	$ 42,174,732	$ 21,225,433
Reconciliation of Increase (Decrease) in Unrestricted Net Assets to Net Cash Provided by Operating Activities		
Increase (decrease) in unrestricted net assets	$ 2,421,856	$ (3,323,388)
Reconciliation adjustments:		
Depreciation and amortization	5,092,663	8,437,932
Increase in accounts receivable, net of allowance	(69,449)	(22,573)
(Increase) decrease in prepaid expenses and other assets	563,865	(1,221,949)
Increase in accounts payable and other liabilities	782,029	475,483
Decrease in deferred rent	(847,818)	(277,776)
Net Cash Provided by Operating Activities	$ 7,943,146	$ 4,067,729

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

NOTES TO THE FINANCIAL STATEMENTS

(FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007)

Note 1—Nature of Activities

The Public Company Accounting Oversight Board (the PCAOB) was established by the Sarbanes-Oxley Act of 2002 (the Act) to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The Act established the PCAOB as a private, non-profit corporation.

Under the Act, the U.S. Securities and Exchange Commission (the SEC) has oversight over the PCAOB, including the appointment of Board members, approval of rules and standards, and review of the PCAOB's actions and its operations. The PCAOB's annual budget must be approved by the SEC under the Act. As part of the budget process and pursuant to the Act, the Board establishes, and the SEC approves, an annual support fee to maintain the operations of the PCAOB.

Note 2—Summary of Significant Accounting Policies

Presentation. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented pursuant to Statement of Financial Accounting Standards Statement No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). Under SFAS No. 117, the PCAOB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The net assets of the PCAOB are not subject to any donor-imposed restrictions as defined by SFAS No. 117, and, therefore, all have been classified as unrestricted in the accompanying statements. In 2008 and 2007, the PCAOB reported unrestricted net assets that are statutorily designated for specified uses. These assets consist of all funds generated from the collection of civil monetary penalties and any interest earnings thereon. Pursuant to Section 109(c)(2) of the Act, all funds generated from the collection of penalties shall be used, exclusively, to fund a scholarship program.

The PCAOB's unrestricted net assets consist primarily of amounts to fund operations in the subsequent year prior to collection of that year's accounting support fee and the organization's investments in fixed assets, particularly technology hardware and software. Registration and inspections, enforcement, standard setting, research and analysis and Board and related activities are the program activities of the PCAOB. Costs associated with these program activities include salaries, benefits, rent, program-specific technology costs and other direct operating expenses. Indirect costs are not allocated to program activities, but are included in supporting activities.

Program Activities of the PCAOB

- ***Registration and Inspections.*** The Act requires that a public accounting firm be registered with the PCAOB if it prepares or issues, or plays a substantial role in the preparation or issuance of, any audit report with respect to an issuer. The PCAOB reviews the registration application of each public accounting firm that seeks to register with the PCAOB. If the PCAOB approves its application, that registered public accounting firm is subject to the PCAOB's rules and continuing program of inspections. This program assesses each firm's compliance with the Act, the rules of the PCAOB and the rules of the SEC, as well as professional standards, in connection with the firm's performance of audits, issuance of audit reports and related matters involving issuers.
- ***Enforcement.*** The Act grants the PCAOB broad investigative authority over registered public accounting firms and persons associated with such firms. The PCAOB has authority to impose disciplinary and remedial sanctions, including civil monetary penalties, when it determines that the laws, rules or standards within the PCAOB's jurisdiction have been violated.
- ***Standard Setting.*** The PCAOB establishes auditing, related attestation, quality control, independence and ethics standards to be used by registered public accounting firms in the preparation and issuance of audit reports.

- ***Research and Analysis.*** The PCAOB's Office of Research and Analysis collects, analyzes and assimilates information from multiple sources and provides other PCAOB divisions with assessments of risks that may affect audit quality.

- ***Board and Related Activities.*** In accordance with the Act, the PCAOB Board is responsible for carrying out the PCAOB's regulatory programs and operations. The Board is responsible for determining the PCAOB's action in each program area, as well as for performing such other duties or functions as the Board (or the SEC, by rule or order) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and their associated persons, or otherwise to carry out the Act. In addition, the Board engages in communication and other outreach efforts with the accounting profession, the investing public, public companies and other U.S. and non-U.S. regulators concerning, among other things, the PCAOB's mission, programs, initiatives and its oversight of registered accounting firms. Also included in Board and Related Activities is the PCAOB's Office of International Affairs. This office represents the PCAOB in bilateral and multilateral discussions with non-U.S. authorities regarding inspections of foreign registrants.

Use of Estimates. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires financial reporting management to make estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Fees from Issuers. Fees from issuers, which are referred to as the Board's Accounting Support Fee in the Act, are amounts invoiced to certain issuers whose shares are publicly traded and to certain investment companies to fund the operations of the PCAOB. Such fees are recognized as operating revenue in the budget year to which they relate. The amount of the fee invoiced to individual entities is determined as prescribed in the Act and the rules of the PCAOB. The PCAOB reports all fees from issuers as an increase in unrestricted net assets.

Fees from Registering Accounting Firms. Fees from registering accounting firms are amounts collected from each public accounting firm that applies for registration with the PCAOB to recover the costs of processing and reviewing registration applications. These fees are not intended to, and do not, cover certain registration program expenditures that do not relate solely to processing and reviewing registration applications. The PCAOB reports all fees from registering accounting firms as an increase in unrestricted net assets, and all such fees are recognized as operating revenue in the budget year to which they relate.

Funds Generated from Collection of Civil Monetary Penalties. In October 2008 and December 2007, the PCAOB issued orders that imposed civil monetary penalties upon an individual associated with a registered public accounting firm and on a registered public accounting firm, respectively, for violations of the PCAOB's standards. These penalties totaled $25,000 and $1,000,000 for December 31, 2008 and 2007, respectively. In accordance with Section 109(c)(2) of the Act, all funds generated from the collection of civil monetary penalties are to be used, exclusively, to fund a "merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs." The PCAOB reports all funds generated from the collection of civil monetary penalties (including related interest income) as increases in unrestricted net assets statutorily designated for special uses in Section 109(c)(2) of the Act.

Cash Held for Others under Agency Agreement. On behalf of the Financial Accounting Standards Board (the FASB), the Financial Accounting Foundation (the FAF) designated the PCAOB as the collection agent for invoicing and collecting the 2008 and 2007 FASB accounting support fee. The PCAOB's fee for acting as the FASB's collection agent was $209,400 in both 2008 and 2007. This amount is included in interest income and other in the accompanying statements of activities. Otherwise, the PCAOB recognizes no revenue or expense related to this relationship and maintains a separate bank account for all fees collected on behalf of the FASB. As of December 31, 2008 and 2007, the PCAOB had $18,519 and $4,779, respectively, included in cash and cash equivalents related to the FASB. Corresponding amounts are included in accounts payable and other liabilities for amounts due to the FASB as of December 31, 2008 and 2007.

Cash and Cash Equivalents. The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits and overnight investment accounts with financial institutions, and short-term, highly liquid investments purchased with a maturity of three months or less. As noted above, in both 2008 and 2007, the PCAOB collected civil monetary penalties related to disciplinary actions. These balances, including accrued interest, were $1,034,491 and $1,000,750 as of December 31, 2008 and December 31, 2007, respectively, and are included in the cash and cash equivalents balance.

Financial reporting management has concluded that the PCAOB's demand deposits are not exposed to any significant credit risks. Cash balances are fully guaranteed by the Federal Deposit Insurance Corporation (the FDIC) and are held at an institution that participates in the FDIC's Temporary Liquidity Guarantee Program. Additionally, certain demand deposits are invested in overnight repurchase agreements in U.S. government-sponsored enterprise securities.

Short-Term Investments. Short-term investments include investments in U.S. Treasury bills with values of $34,993,700 and $49,695,500 as of December 31, 2008 and 2007, respectively, with maturities of six months from the original issued date. Income earned on these investments was $1,174,289 and $2,958,591, during the years ended December 31, 2008 and 2007, respectively.

Depreciation and Amortization. Furniture and equipment, leasehold improvements and technology are stated at cost less accumulated depreciation and amortization, computed under the straight-line method over their useful lives. Furniture and equipment and technology are depreciated over their estimated useful lives of three to five years. Leasehold improvements and assets related to capital leases are amortized over the shorter of their estimated useful lives or the remaining terms of the leases.

Taxes. The PCAOB is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Therefore, the accompanying financial statements include no provision for federal income taxes. It is the PCAOB's position that because of its status and powers under the Act, it is not subject to state and local taxation. The PCAOB has made filings with appropriate state and local taxing authorities to receive formal tax exemptions, where available. In those circumstances where the PCAOB has not received a formal tax exemption and any possible tax liability would be significant, the PCAOB will take appropriate steps to establish that it is not subject to state and local taxes in the relevant jurisdiction, pursuant to the Act.

Note 3—Fair Value Of Financial Instruments

Short-term investments include investments in U.S. Treasury bills with maturities of six months or less from the purchase date. These investments are reported at fair value, which was determined using quoted market prices in active markets for identical assets as shown in the table below:

	DECEMBER 31, 2008	
DESCRIPTION OF FINANCIAL ASSETS	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS
Investments in U.S. Treasury Bills	$34,993,700	$34,993,700

Note 4—Furniture and Equipment, Leasehold Improvements And Technology

These assets consist of the following at December 31, 2008, and December 31, 2007:

	2008	2007
Technology:		
Hardware	$ 12,587,673	$ 12,336,930
Purchased and developed software	27,897,738	27,782,993
Leasehold improvements	9,984,637	9,811,625
Furniture and equipment	6,917,994	6,817,364
Technology development and construction in progress	915,598	300,079
	58,303,640	57,048,991
Accumulated depreciation and amortization	(47,673,995)	(43,108,927)
	$ 10,629,645	$ 13,940,064

Depreciation and amortization expense was $5,092,663 and $8,437,932 for the years ended December 31, 2008 and December 31, 2007, respectively.

Note 5—Obligations Under Capital Leases

In 2008, the PCAOB entered into agreements to lease certain office equipment. The PCAOB has accounted for these leases as capital leases in accordance with Statement of Financial Accounting Standards No. 13. The cost of the equipment under capital leases is included in the Statement of Financial Position as furniture and equipment, leasehold improvement and technology and was $106,301 at December 31, 2008. Accumulated amortization of the leased equipment at December 31, 2008 was $17,717. Amortization of assets under capital leases is included in depreciation and amortization expense.

Future payments and interest are due under the capital leases as follows as of December 31, 2008:

Total minimum lease payments required	$93,245
Less amount representing interest	6,647
Present value of minimum lease payments	$86,598

Minimum lease payments due are as follows:

(YEAR ENDING DECEMBER 31)	
2009	$38,927
2010	38,927
2011	15,391
	$93,245

Interest expense related to the capital lease transactions was $3,833 for the year ended December 31, 2008.

The above capital lease transactions are non-cash items and are not included in the Statements of Cash Flows.

Note 6—Lease Commitments

As of December 31, 2008, the PCAOB occupied office space in Washington, D.C.; New York, N.Y.; Ashburn, Va.; San Mateo, Calif.; Irvine, Calif.; Atlanta, Ga.; Dallas, Texas; Chicago, Ill.; and Denver, Colo., under leases that expire between 2013 and 2017. These operating leases include provisions for scheduled rent increases over the respective terms.

Rent is being expensed using the straight-line method over the respective lease terms. Rent expense under this method was $8,848,848 and $8,340,154 for the years ended December 31, 2008 and 2007, respectively. Deferred rent that has been expensed but will not be paid until future years totaled $7,713,274 and $8,561,092 as of December 31, 2008, and December 31, 2007, respectively, and is being amortized over the remaining lives of the office leases.

Minimum rental commitments under the office leases as of December 31, 2008, are as follows:

(YEAR ENDING DECEMBER 31)	
2009	$ 8,186,569
2010	8,474,736
2011	8,611,060
2012	8,752,752
2013	7,134,186
Thereafter	5,319,064
	$46,478,367

Note 7—Retirement Benefit Plan

The PCAOB has a defined contribution retirement plan which covers active employees. The PCAOB matched 100 percent of employee contributions up to 6 percent of the eligible compensation. The PCAOB's contributions become fully vested immediately. The PCAOB's contributions to employees' accounts were $4,118,139 and $4,002,506 for the years ended December 31, 2008, and December 31, 2007, respectively.

Note 8—Litigation and Contingencies

In February 2006, the Free Enterprise Fund and Beckstead and Watts, LLP, filed a civil action in the U.S. District Court for the District of Columbia against the PCAOB and its then-current Board members in their official capacities (Case No 1:06CV00217). This action alleged that "the Board and all power and authority exercised by it violate the Constitution." On March 21, 2007, the District Court granted summary judgment for the defendants and, on March 26, 2007, dismissed the case. The plaintiffs appealed the District Court's decision to the U.S. Court of Appeals for the District of Columbia Circuit (Case No. 07-5127). On August 22, 2008, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the District Court's grant of summary judgment. The plaintiffs' request for a rehearing and rehearing *en banc* was denied on November 17, 2008. On January 5, 2009, the plaintiffs filed a petition for writ of certiorari with the U.S. Supreme Court seeking review of the District of Columbia Circuit's final decision entered on August 22, 2008. The PCAOB will continue to defend this action vigorously.

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

The PCAOB's financial reporting management, including the Interim Chief Administrative Officer and Chief Financial Officer, under the direction of the Chairman (collectively, "financial reporting management") are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

The PCAOB's financial reporting management assessed the effectiveness of the PCAOB's internal control over financial reporting as of December 31, 2008. In making this assessment, financial reporting management used the criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, the PCAOB's financial reporting management concluded that the organization's internal control over financial reporting is effective as of December 31, 2008.

March 26, 2009

Mark W. Olson
Chairman of the Board

Angela Desmond
Interim Chief Administrative Officer

Darrell Pauley
Chief Financial Officer

APPENDIX 1

Performance Measures

In its 2008–2013 Strategic Plan, the PCAOB articulated a number of performance measures and indicators for its program activities. These measures and indicators, which are organized around the four overarching goals in the strategic plan, are set forth below. The discussion for each measure and indicator includes a brief description of its relevance to the organization and summary of the Board's progress during 2008 with respect to such measure or indicator.

The results demonstrated by the measures and indicators provide insight into the PCAOB's performance, relative to each goal, in addition to numerous other qualitative factors that the Board considers when assessing its overall performance.

GOAL 1: Promote investor confidence in audited financial statements of public companies through an effective use of a supervisory model of oversight of registered accounting firms

Measure 1-1(a): Number of Annual and Triennial Inspections Completed

INSPECTIONS	2008
Projected Number of Annual Inspections	11
Actual Number of Annual Inspections	12
Projected Number of Triennial Inspections	295
Actual Number of Triennial Inspections	243

Relevance of Measure: This measure reflects the Board's performance in fulfilling its statutory requirement to inspect registered firms, annually or triennially. Recognizing its limited inspection resources, the PCAOB scheduled triennial inspections to allow a relatively consistent mix of firms by size and complexity each year (see background discussions in Measures 1-1(b) and 3-1 on progress toward cooperation with non-U.S. regulators).

2008 Results: The projected number of triennial inspections in 2008 was not reached, due to the delays discussed in Measure 1-1(b) for some non-U.S. firms and the withdrawal from registration by firms scheduled for 2008 inspections. The PCAOB completed planned inspections of all other firms.

Measure 1-1(b): Number of Non-U.S. Inspections Completed

INSPECTIONS	2008
Projected Number of Non-U.S. (Triennial) Inspections	72
Actual Number of Non-U.S. (Triennial) Inspections	49

Relevance of Measure: This measure, which is a subset of the total number of inspections, reflects the PCAOB's performance in meeting the statutory mandate for non-U.S. registrants.

2008 Results: In 2008, certain non-U.S. triennial inspections that were planned did not occur, due to the issues described in the proposed rule change, issued for public comment in December 2008, entitled *Rule Amendments Concerning the Timing of Certain Inspections of Non-U.S. Firms, and Other Issues Relating to Inspections of Non-U.S. Firms* (PCAOB Release No. 2008-007). This rule was proposed in part because some non-U.S. regulators requested a delay in the 2008 schedule to give them time to establish their operations, or to allow more time for negotiations over their agreements with the PCAOB. In addition, some inspections were delayed due to scheduling conflicts between the PCAOB and the foreign regulator, and others did not occur because certain firms withdrew from PCAOB registration. As a result of these factors, the Division conducted 49 non-U.S. inspections, which included inspections not originally projected to occur in 2008.

Measure 1-2: Timely Issuance of Inspection Reports

INSPECTION REPORTS *(in months)*	2008
Projected Average Time to Issue Annual Inspection Reports	8
Actual Average Time to Issue Annual Inspection Reports	8
Projected Average Time to Issue Triennial Inspection Reports	9
Actual Average Time to Issue Triennial Inspection Reports	10

Relevance of Measure: The PCAOB's goal is to issue inspection reports on a timely basis in order to facilitate firms' ability to promptly initiate efforts to remediate quality control deficiencies and, thereby, improve the quality of their audits. The projected average time to issue an inspection report also reflects the Board's commitment to provide the public with timely information about the performance of registered firms. The projected average time to issue inspection reports may fluctuate each year since the projection takes into consideration the actual reports (related to current or prior inspection years) that will be issued in any given year.

2008 Results: The actual performance measures above relate to inspection reports issued in 2008.* The period being measured begins with the completion of primary inspection procedures and ends with the issuance of an inspection report. In 2008, the average time to issue an inspection report for non-U.S. triennial firms contributed to the increase over the projected average time to issue triennial inspection reports.

*The 2008 Actual Average Time to Issue Annual and Triennial Inspection Reports represents the actual average number of months to issue inspection reports in 2008 related to the 2006–2008 inspection years. This differs from how this measure was designed in the PCAOB's strategic plan, which was based on Actual Average Time to Issue Annual and Triennial Inspection Reports related to the inspections conducted in 2008. Since inspection reports are often issued in the year subsequent to the inspection year, the strategic plan measure would not have resulted in an "actual" result at year-end.

Measure 1-3: Standard-Setting Activities

STANDARDS	PROJECTED PROPOSAL	PROJECTED ADOPTION	2008 RESULTS
Evaluating Consistency of Financial Statements	2007	2008	Adopted
Independence Rules 3523 and 3526	2007	2008	Adopted
Risk Assessment, Including Fraud Risk Assessment	2008	2009	Proposed
Specialists, Including How Specialists Are Used in Fair Value Measurements	2008	2009	Under consideration
Engagement Quality Review	2008	2008	Proposed
Audit Confirmations, Including Consideration of Fraud Risk Factors	2009	2009	Under consideration
Related Parties, Including Consideration of Fraud Risk Factors	2009	2009	Under consideration

Relevance of Measure: This measure reflects a reasonable expectation of when the Board would propose and adopt the standards, based on its standard-setting experience, and in light of other Board initiatives and responsibilities. The standard-setting process includes, among other things, consideration of the results of the Board's oversight activities, the work of other standard setters, advice from the SAG, research and solicitation of public comment. Priorities can change over time, and the development of a standard is dependent on internal and external factors.

2008 Results: The Board adopted Auditing Standard No. 6, *Evaluating Consistency of Financial Statements,* as well as independence-related rules 3523 and 3526. The Board also proposed for public comment several standards, including seven new auditing standards related to the auditor's assessment of and responses to risk and related conforming amendments, and a new auditing standard on engagement quality review and a conforming amendment. At the close of 2008, the Board's projects on specialists, audit confirmations and related parties were under consideration.

Measure 1-4: Timely Resolution of Formal Investigations

INVESTIGATIONS	2008
Projected Percentage Resolved within 3 Years of Formal Start of Investigation	66%
Actual Percentage Resolved within 3 Years of Formal Start of Investigation	89%

Relevance of Measure: This measure identifies the percentage of formal investigations ordered by the Board that have been resolved within three years of the opening of the formal investigation. This was accomplished by: (1) the institution of disciplinary proceedings to be litigated; (2) the settlement of instituted disciplinary proceedings; or (3) the closure of the formal investigation without a recommendation to institute a disciplinary proceeding. As the PCAOB conducts a greater number of investigations, it will assess whether its target for resolving formal investigations within three years remains the appropriate goal.

2008 Results: The PCAOB's Division of Enforcement and Investigations exceeded its performance measure goal of 66 percent for the year. Of the formal investigations resolved in 2008, 89 percent were resolved within the three-year time frame.

Measure 1-5: Timely Processing of Registration Applications and Requests for Withdrawal

REGISTRATIONS AND WITHDRAWALS	2008
Projected Percentage of Received Applications Acted Upon within the Statutory Time Frame	100%
Actual Percentage of Received Applications Acted Upon within the Statutory Time Frame	100%
Projected Percentage of Received Withdrawal Requests Acted Upon within the Time Frame Specified in Board Rule 2107(a)	100%
Actual Percentage of Received Withdrawal Requests Acted Upon within the Time Frame Specified in Board Rule 2107(a)	100%

Relevance of Measure: This measure reflects the Board's timeliness in acting on registration applications and withdrawal requests. Should there be a significant change in the number of firms seeking to register or withdraw, the Board will adjust its registration resources accordingly.

2008 Results: The Board met its goals by acting on registration applications and withdrawal requests in accordance with the required timelines.

GOAL 2: Inform, educate and obtain feedback from a broad cross section of the audit profession, market participants and other interested parties about the PCAOB's oversight activities and best practices in the auditing profession

Measure 2-1: Small Business Forum Feedback

SMALL BUSINESS FORUMS	2008
Projected Percentage of Small Business Forum Sessions Rated 4.0 or Higher out of 5.0	85%
Actual Percentage of Small Business Forum Sessions Rated 4.0 or Higher out of 5.0	100%

Relevance of Measure: This measure shows the percentage of Small Business Forum sessions that meet the stated learning objectives by a score of 4.0 or higher (on a scale of 1.0–5.0), as rated by attendees. This information is used, in turn, to shape the content and focus of future forums.

2008 Results: During the 2008 series, seven one-day forums were offered to members of triennially inspected registered auditing firms while two one-day forums were offered to directors and financial officers of smaller public companies. These events were held in seven different cities around the country, each providing six to eight separate sessions. These sessions received an average rating of 4.12 to 4.52 from the participants attending the forums offered to registered auditing firms. The forums offered to the directors and financial officers received ratings of 4.02 to 4.56. As a result, the series for 2008 achieved a performance rating of 100 percent, exceeding the projected performance measure of 85 percent of Small Business Forum sessions rated 4.0 or higher.

Indicator 2-1: Usage of the PCAOB Web Site

WEB SITE	2008
Projected Visits to Web Site	1.1 million
Actual Visits to Web Site	962,790

Relevance of Measure: This indicator tracks the number of visits to the Web site by external parties and is an indicator of the level of outside interest in the PCAOB.

2008 Results: There were 962,790 visits to the Web site, an increase of approximately 8 percent over the prior year.

GOAL 3: Further strengthen the effectiveness and coordination of auditor oversight efforts in the United States and abroad

Measure 3-1: Number of Countries/Jurisdictions where the PCAOB has Established Contact or Made Progress toward Dialogue and Cooperation

INTERNATIONAL CONTACT	2008
Projected Number of Countries/Jurisdictions	39
Actual Number of Countries/Jurisdictions	39

Relevance of Measure: This measure shows the number of countries/jurisdictions with which the PCAOB established contact or made progress toward dialogue and cooperation by year-end 2008. The Board develops relationships with non-U.S. regulators to facilitate its inspections of registered non-U.S. firms.

2008 Results: Through efforts started in 2005, the Board established contact or made progress toward dialogue and cooperation with 39 countries/jurisdictions. From 2005 to 2008, the PCAOB conducted inspections (either PCAOB-only or jointly) in 26 of those jurisdictions.

Measure 3-2: International Auditor Regulatory Institute Feedback

INTERNATIONAL INSTITUTE	2008
Projected Institute Participants Who Rated It 4.0 or Higher out of 5.0	85%
Actual Percentage of Institute Participants Who Rated It 4.0 or Higher out of 5.0	93%

Relevance of Measure: This measure shows the percentage of participants who strongly agree that the Institute was effective in meeting its learning objectives.

2008 Results: The PCAOB hosted its second International Auditor Regulatory Institute for non-U.S. regulators and government officials in 2008. After each panel, meeting attendees completed evaluations of the panel's effectiveness. The ratings and comments received were overwhelmingly positive, with 93 percent indicating strong agreement (4.0 or higher) that the Institute was effective in meeting its objectives.

Indicator 3-1: Number of Participants and Countries/Jurisdictions at the International Auditor Regulatory Institute

INSTITUTE PARTICIPANTS	2008
Projected Number of Participants	100
Actual Number of Participants	115
Projected Number of Countries/Jurisdictions Represented	50
Actual Number of Countries/Jurisdictions Represented	48

Relevance of Measure: This indicator shows the amount of interest by other countries/jurisdictions in the activities of the PCAOB.

2008 Results: The PCAOB hosted in 2008 its second International Auditor Regulatory Institute for non-U.S. regulators and government officials. Approximately 115 representatives of 48 jurisdictions attended. These numbers represent a 50 percent increase in participation from 2007, and a 20 percent increase in jurisdictions represented, with many new participants coming from developing countries in Africa and Asia.

GOAL 4: Operate the PCAOB in a manner that recognizes its public mission and responsibility to exercise careful stewardship over its resources

Measure 4-1: Receive an Unqualified Audit Opinion on the PCAOB's Financial Statements with No Material Weaknesses in its Report on Internal Control over Financial Reporting

PCAOB FINANCIAL STATEMENTS	2008
Projected Unqualified Opinion	Yes
Actual Unqualified Opinion	Yes
Projected Material Weaknesses	0
Actual Material Weaknesses	0

Relevance of Measure: This measure gauges the PCAOB's success in receiving an unqualified audit opinion with no material weaknesses in its internal control over financial reporting (ICFR).

2008 Results: In 2008, the Board achieved its goal of issuing timely and accurate financial statements that received an unqualified opinion from its auditor. In preparing its financial statements, the Board followed the current SEC guidance for the management of public companies to complete its own assessment of internal control over financial reporting (ICFR). The Board's external auditor conducted an integrated audit of the PCAOB's financial statements and ICFR pursuant to PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting that is Integrated with An Audit of Financial Statements*.

Measure 4-2: Progress in Programmatic Information Technology Initiatives

IT PROJECTS	IN PROGRESS	PROJECTED COMPLETION	2008 RESULTS
Annual and Special Reporting	2008	2008	In progress
Inspection Information System	2008	2009	In progress
PCAOB Web-Site Redesign	2008	2008	In progress
Inspection Scheduling System	2008	2008	In progress

Relevance of Measure: This measure gauges the PCAOB's progress in implementing significant program-related IT initiatives against its implementation plans.

2008 Results: Development of a new registration system, as well as an annual and special reporting system, commenced in 2008. The development of the inspection information system was in progress in 2008. Redesign of the public Web site, including a new content management system, design and layout, navigation, search, content and graphics, commenced in 2008. An inspection scheduling system was substantially completed in 2008.

Indicator 4-1: Percentage of Staff at the PCAOB for Three or more Years

PCAOB STAFF RETENTION	2008
Projected Staff Retention	35%
Actual Staff Retention	59%

Relevance of Measure: This measure reflects staff retention. It is calculated by dividing the number of employees working at the PCAOB for at least three years by the number of employees on board as of year-end 2008.

2008 Results: The PCAOB exceeded its projected staff retention rate of 35 percent.

APPENDIX 2

PCAOB Board Releases and Staff Guidance in 2008

First Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Adopting Release—Auditing Standard No. 6, Evaluating Consistency of Financial Statements and Conforming Amendments	PCAOB Release No. 2008-001	January 29, 2008
Proposed Auditing Standard—Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards	PCAOB Release No. 2008-002	February 26, 2008

Second Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions In the Matter of Wieseneck, Andres & Company, P.A. and Thomas B. Andres, CPA	PCAOB Release No. 105-2008-001	April 22, 2008
Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence; Amendment to Interim Independence Standards; Amendment to Rule 3523, Tax Services for Persons in Financial Reporting Oversight Roles; Implementation Schedule for Rule 3523	PCAOB Release No. 2008-003	April 22, 2008
Rules on Periodic Reporting by Registered Public Accounting Firms	PCAOB Release No. 2008-004	June 10, 2008

Third Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Rules on Succeeding to the Registration Status of a Predecessor Firm	PCAOB Release No. 2008-005	July 29, 2008

Fourth Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Conforming Amendments to PCAOB Standards	PCAOB Release No. 2008-006	October 21, 2008
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions In the Matter of Jaspers + Hall, PC, Thomas M. Jaspers, CPA, and Patrick A. Hall, CPA	PCAOB Release No. 105-2008-002	October 21, 2008
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions In the Matter of Christopher E. Anderson, CPA	PCAOB Release No. 105-2008-003	October 31, 2008
Rule Amendments Concerning the Timing of Certain Inspections of Non-U.S. Firms, and Other Issues Relating to Inspections of Non-U.S. Firms	PCAOB Release No. 2008-007	December 4, 2008
Report on the PCAOB's 2004, 2005, 2006, and 2007 Inspections of Domestic Annually Inspected Firms	PCAOB Release No. 2008-008	December 5, 2008
Staff Audit Practice Alert No. 3, Audit Considerations in the Current Economic Environment	n/a	December 5, 2008
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions In the Matter of Cordovano and Honeck, P.C. and Samuel D. Cordovano, CPA	PCAOB Release No. 105-2008-004	December 18, 2008

APPENDIX 3

2008 Standing Advisory Group Members*

(AS OF DECEMBER 31, 2008)

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Mayer Hoffman McCann P.C.

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Joseph V. Carcello
Director of Research, Corporate Governance Center,
and Ernst & Young Professor, University of Tennessee

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Practice Leader, PricewaterhouseCoopers LLP

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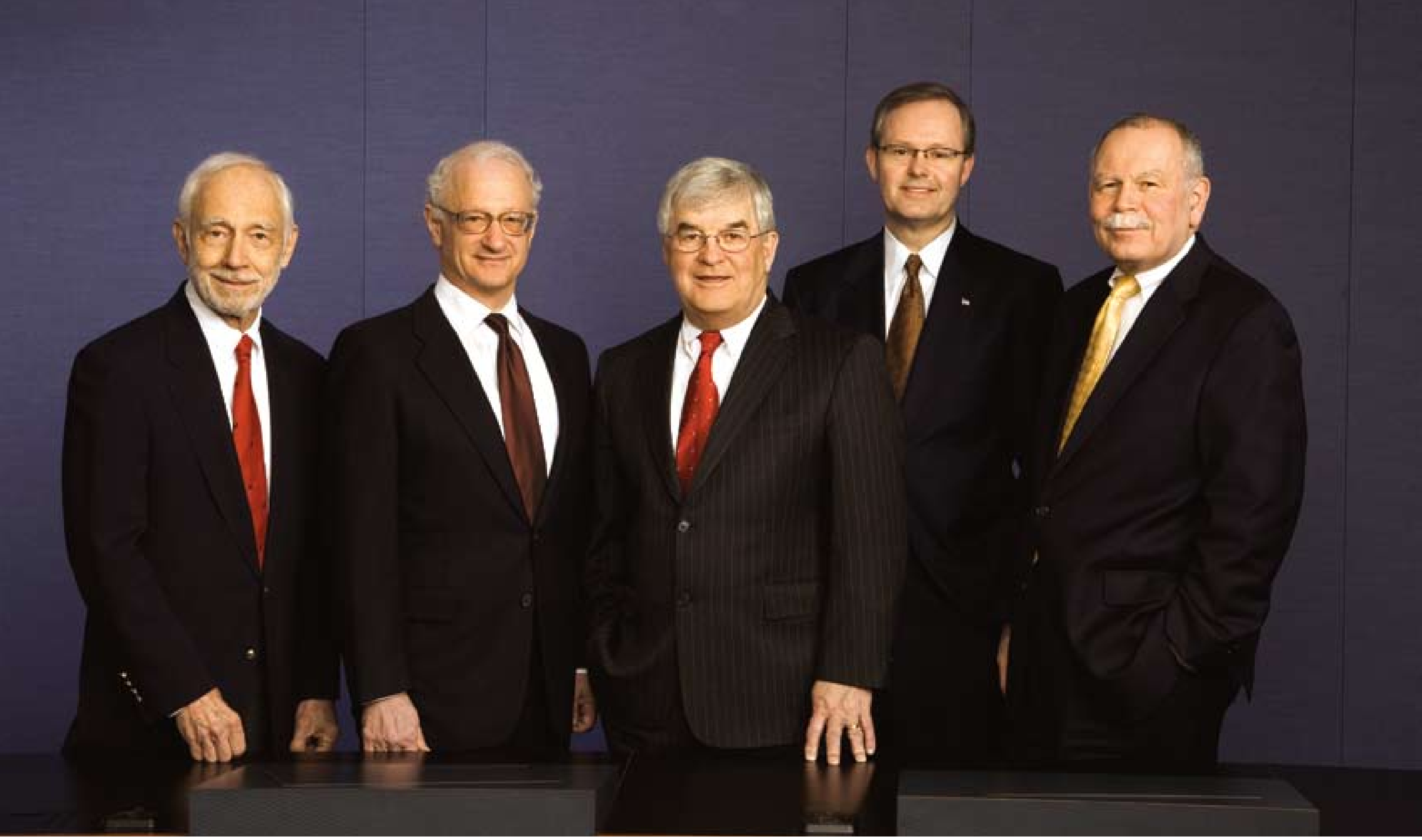
* Membership in the SAG is personal to the member.



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(From left to right)

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