PCAOB

Public Company Accounting Oversight Board

Protecting the Public Interest
Through Audit Oversight

2011 ANNUAL REPORT

PCAOB
Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board was created by the Sarbanes-Oxley Act of 2002 to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports.

The PCAOB performs its work for the benefit of investors through four program areas:

REGISTRATION

Registration with the PCAOB is a fundamental requirement for accounting firms that perform or play certain roles in the audits of public companies, brokers and dealers. Registration subjects each firm to the oversight activities assigned to the PCAOB for the protection of investors. At the end of 2011, there were 2,388 firms registered with the PCAOB, including 908 non-U.S. firms located in 88 jurisdictions.

INSPECTIONS

During inspections, the PCAOB assesses the compliance by registered accounting firms with applicable laws, rules and professional standards in the portions of audits selected for inspection and in the firms' systems of quality control. In 2011, the PCAOB examined portions of more than 825 audits of public companies performed by 213 accounting firms and began an interim inspection program for auditors of brokers and dealers.

STANDARDS

The PCAOB sets auditing and related professional practice standards to strengthen the reliability of audits for investors and other interested parties. Standards and amendments proposed in 2011 included requirements for additional disclosures about audit participants and enhancements to auditors' communications with audit committees. The Board also issued two concept releases, soliciting public comment on possible changes to PCAOB standards affecting the auditor's reporting model and auditor independence.

ENFORCEMENT

The Board uses its investigative authority to identify serious audit deficiencies that pose risks to investors and uses its disciplinary authority to impose sanctions and penalties for those deficiencies. Disciplinary cases announced in 2011 focused on audit failures related to non-U.S. companies traded in U.S. markets; failures to follow standards on quality control and auditing; and auditors' failures to comply with the Board's rules.

In Appreciation

FOUNDING PCAOB BOARD MEMBER DANIEL L. GOELZER, LEFT, WITH FORMER SEN. PAUL SARBANES.

On a cold and sleety Jan. 6, 2003, the founding members of the Public Company Accounting Oversight Board opened the doors of the PCAOB. Taking turns answering phones and loading paper in copiers, the first Board members—Daniel L. Goelzer, Bill Gradison, Kayla Gillan and Charles D. Niemeier—and four staff members set out to meet the stringent statutory deadline for the PCAOB's assigned mission.

In a little less than four months, the Board adopted bylaws for the organization and announced an aggressive campaign to hire inspectors, standard writers and other staff. At a series of public meetings, the Board proposed its rules for the registration of accounting firms, including non-U.S. firms; adopted interim auditing standards and related standards for professional practice; proposed its ethics code; and submitted its 2003 budget to the Securities and Exchange Commission. The Board also proposed the framework for the accounting support fees that would finance the PCAOB's operations in future years.

On April 25, 2003, the Board's actions enabled the SEC to issue its determination that the PCAOB had the capacity to meet the requirements of the Sarbanes-Oxley Act. By then, the Board staff had leaped in size to 24.

Nine years later, the PCAOB is a robust and respected regulator, whose regime of inspections, standard setting and enforcement is a model for non-U.S. audit regulators. The PCAOB staff numbers more than 700, with more than half of those detailed to the inspection of registered accounting firms in the U.S. and abroad. To facilitate inspections, the PCAOB operates from offices around the U.S., while maintaining its headquarter offices in Washington, D.C.

On March 2, 2012, the last of the founding Board members closed the door to his office. For more than nine years, Dan Goelzer—a CPA and lawyer—provided wise and composed counsel as he worked with his fellow Board members and PCAOB staff to establish oversight of a profession that had long policed itself.

Dan's legacy to the organization and to investors will be his devotion to high-quality standard setting, his leadership in establishing dialogue with non-U.S. audit regulators and, most distinctively, his steady hand and head as Acting Chairman while the constitutionality of the PCAOB was challenged in court.

Dan has the distinction of being the longest-serving general counsel in SEC history. He can now add to that superlative his role as the longest-serving member of the Public Company Accounting Oversight Board. Dan's presence in the PCAOB offices will be missed, but the good work he helped accomplish will continue.

FROM THE CHAIRMAN

On behalf of the Board and staff of the Public Company Accounting Oversight Board, I am pleased to present this report on our progress in 2011.

The PCAOB continues to focus on its statutory duties under the Sarbanes-Oxley Act of 2002: protecting the interests of investors and furthering the public interest in the preparation of informative, accurate and independent audit reports. With new responsibilities under the Dodd-Frank Act, the PCAOB proposed new standards and launched a pilot inspections program for the auditors of SEC-registered brokers and dealers.

This report reflects the scope and intensity of the PCAOB's efforts in 2011. Calling on the dedication, creativity and talents of our staff, the Board dealt with an expanding universe of challenges in 2011.

Those challenges included the residual and continuing effects of the global financial crisis; the need for access to non-U.S. jurisdictions for inspections of registered firms that audit U.S.-traded companies; the implications of that access in our oversight of the global networks of affiliates maintained by the largest firms; and the ongoing evolution of regulatory, legislative and judicial developments in the U.S. and elsewhere.

A strong, high quality audit function is essential to the effective functioning of the capital markets. Audit quality has improved under PCAOB standard setting, inspections and enforcement. Auditors and investors tell us so. But we see a need for much more work. That fact should not be taken to minimize what has been accomplished, and the progress made since 2002 should not become an excuse for turning back from continued improvements in audit quality.

For the good work in this cause, I thank the staff of the PCAOB and my fellow Board members. I thank our colleagues at the Securities and Exchange Commission whose support and assistance has, as in the past, proved invaluable. I especially appreciate the privilege of serving with Board member Daniel L. Goelzer in my first and his last year at the PCAOB.

Finally, we welcome our newest Board member, Jeanette Franzel, and look forward to her contributions as we seek to fulfill the worthy mission of the PCAOB.

James R. Doty, *Chairman*
Public Company Accounting Oversight Board
Washington, D.C.
May 2012

Registration and Inspections

PAUL M. KOSTER OF THE DUBAI FINANCIAL SERVICES AUTHORITY AND PCAOB CHAIRMAN JAMES R. DOTY SIGN AN AGREEMENT FOR AUDITOR OVERSIGHT.

REGISTRATION

No accounting firm may prepare or issue an audit report for a public company or an SEC-registered broker or dealer, or play certain roles in those audits, without being registered with the PCAOB.

The public accounting firms registered with the PCAOB vary in size, ranging from sole proprietorships to large audit firms that are members of extensive global networks, comprising numerous separately registered accounting firms.

In 2011, the Board considered and approved registration applications of 145 accounting firms, including 46 non-U.S. firms. The Board disapproved two registration applications. The Board also considered and granted 148 requests to withdraw from registration in 2011.

At the end of 2011, there were 2,388 firms registered with the PCAOB, including 1,480 domestic firms and 908 non-U.S. firms located in 88 jurisdictions.

In June 2011, PCAOB staff updated answers to frequently asked questions about the annual reporting requirements for registered firms. In September 2011, PCAOB staff updated answers to frequently asked questions about the registration of non-U.S. accounting firms to reflect new agreements permitting PCAOB inspections in certain non-U.S. jurisdictions.

INSPECTIONS OF AUDITORS OF PUBLIC COMPANIES

Registered firms that issue audit reports for more than 100 issuers are required to be inspected annually. In 2011, the PCAOB inspected 10 such firms. As part of these inspections, PCAOB inspectors examined portions of more than 340 audits performed by these firms.

Registered firms that issue audit reports for 100 or fewer issuers are, in general, inspected at least once every three years. At any time, the PCAOB may also inspect any other registered firm that plays a role in the audit of an issuer. The PCAOB inspected 203 firms in these categories in 2011, including 42 non-U.S. firms located in 15 jurisdictions. In the course of those inspections, PCAOB staff examined portions of more than 485 audits.

Many firms registered with the Board perform no audit work for issuers, brokers or dealers, and the Board does not inspect those firms.

During an inspection, the PCAOB assesses the compliance by each firm with applicable laws, rules and professional standards during the period covered by an inspection. As part of an inspection, PCAOB inspectors evaluate the design and effectiveness of a firm's quality control system as well as the quality of the firm's work in the portions of audits selected for inspection.

The selection of issuer audits for review is influenced by a number of factors. The selection can be based on the risk that an issuer's financial statements could be materially misstated; characteristics of the particular issuer or its industry; the audit issues likely to be encountered; considerations about the firm, a particular practice office or an individual partner; prior inspection results; and other factors.

The Board prepares a report on each inspection and makes portions of each report publicly available, subject to statutory restrictions on public disclosure. The Board issued 344 inspection reports in 2011.

If an inspection report includes criticisms of or identifies potential defects in a firm's system of quality control, the Board is prohibited from publicly disclosing those criticisms. The firm has 12 months from the issuance of the inspection report to address the criticisms to the Board's satisfaction.

The Board takes very seriously the importance of firms making sufficient progress addressing quality control weaknesses or deficiencies in the 12 months following the issuance of the report. Particularly with the largest firms, which are inspected annually, the Board's staff devotes considerable time and resources to evaluating whether the firm made sufficient progress in that period.

FIRMS WITH MORE THAN 100 PUBLIC COMPANY AUDIT CLIENTS IN 2010

Inspected in 2011 by the PCAOB

BDO USA, LLP

Crowe Horwath LLP

Deloitte & Touche LLP

Ernst & Young LLP

Grant Thornton LLP

KPMG LLP

MaloneBailey, LLP

McGladrey & Pullen, LLP

ParenteBeard LLC

PricewaterhouseCoopers LLP

INSPECTIONS OF AUDITORS OF SEC-REGISTERED BROKERS AND DEALERS

In 2011, the PCAOB continued its work to implement the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that gave the PCAOB authority for inspection, standard setting and enforcement for the audits of brokers and dealers registered with the SEC.

On June 14, 2011, the Board adopted a temporary rule that provides for an interim inspection program for firms that perform audits of the financial statements of brokers and dealers.

The interim inspection program allows the Board to assess registered public accounting firms' compliance with current laws, rules and standards in performing audits of the financial statements of brokers and dealers. As part of this program, information will be gathered to help guide the Board's decisions about the scope and elements of a permanent inspection program, including whether to differentiate between classes of brokers and dealers; whether to exempt from inspection any categories of public accounting firms; and whether different inspection schedules would be appropriate with respect to certain types of brokers and dealers.

The SEC approved the temporary rule August 18, 2011. By year-end, the PCAOB inspected eight firms and examined portions of 19 audits of brokers and dealers.

The PCAOB does not expect to issue firm-specific inspection reports as part of the interim inspection program. Instead, to keep the public informed, the Board will annually publish a report describing the progress of the interim program.

In an effort to provide information to auditors of brokers and dealers, the PCAOB in 2011 inaugurated Forums on Auditing Smaller Broker-Dealers, drawing 321 attendees in Jersey City, N.J., and Huntington Beach, Calif.

In the forums, PCAOB staff described PCAOB standards, the temporary inspection rule, the PCAOB's disciplinary process and the impact of economic trends on brokers and dealers. The forums also included presentations by SEC representatives on SEC rules applicable to broker-dealer financial statements and reports and by representatives of the Financial Industry Regulatory Authority on FINRA's audit reviews.

AUDIT REPORTS PER REGISTERED FIRM

Reports for public companies and other issuers as of Dec. 31, 2011 (used for planning 2012 inspections)

	U.S.	NON-U.S.	TOTAL
Firms that issued no issuer audit reports	1,004	708	1,712
Firms that issued audit reports for 1-5 issuers	287	140	427
Firms that issued audit reports for 6-10 issuers	69	21	90
Firms that issued audit reports for 11-25 issuers	59	30	89
Firms that issued audit reports for 26-50 issuers	34	6	40
Firms that issued audit reports for 51-100 issuers	18	3	21
Firms that issued audit reports for >100 issuers	9	0	9
TOTALS	**1,480**	**908**	**2,388**

International Oversight

Public companies, whether located in the U.S. or abroad, access U.S. capital markets by complying with certain U.S. legal requirements, including the requirement to periodically file audited financial statements with the Securities and Exchange Commission.

Under the Sarbanes-Oxley Act, the auditor of financial statements–whether a U.S. auditor or a non-U.S. auditor–must be registered with the PCAOB, and the PCAOB must regularly inspect the firm to assess its compliance with U.S. laws, rules and professional standards in connection with those audits. As of Dec. 31, 2011, 908 accounting firms located in 88 non-U.S. jurisdictions were registered with the PCAOB.

The PCAOB has conducted inspections in 37 non-U.S. jurisdictions since non-U.S. inspections began in 2005. In 2011, the PCAOB reached cooperative agreements with auditor oversight authorities in the United Kingdom, Canada, Switzerland, Norway, Japan, Taiwan, Israel, Dubai and the Netherlands.

These cooperative agreements generally provide a basis for cooperation in the oversight, including inspections and investigations, of firms subject to the jurisdiction of both parties to the agreement. Many of the PCAOB's cooperative agreements also permit the PCAOB to exchange confidential information with its non-U.S. counterparts, under authority granted to the PCAOB by the Dodd-Frank Act.

The PCAOB in 2011 remained unable to conduct inspections of registered firms in certain European Union member states and China, due to asserted restrictions under local law or objections based on national sovereignty. Due to the position taken by the authorities in China, the PCAOB also was prevented from conducting inspections of registered firms in Hong Kong to the extent that their audit clients had operations in China.

Discussions with oversight authorities in non-U.S. jurisdictions continued in 2011, including a July 2011 meeting in Beijing among representatives of the PCAOB and oversight authorities in China. During this meeting, the participants exchanged information about inspections and discussed ways to deepen cooperation on cross-border audit oversight.

TRANSPARENCY OF NON-U.S. AUDITOR OVERSIGHT AND AUDIT RISKS

The PCAOB continued to focus in 2011 on providing greater transparency to investors with respect to the status of, and observations from, the PCAOB's international inspection program, as well as potential audit risks in the global market.

To provide more information for investors, the Board made public on its website:

- A list of registered non-U.S. firms that had not yet been inspected by the PCAOB, even though more than four years had passed since the end of the calendar year in which the firm first issued an audit report while registered with the Board.
- A list of more than 400 U.S.-traded companies whose financial statements were audited by registered firms in jurisdictions where the PCAOB was denied access to conduct inspections. The list was derived from annual reports filed with the PCAOB, in which registered firms identified audit reports they issued between April 1, 2009, and March 31, 2011. The list includes U.S.-traded companies that were audited by firms in China, Hong Kong and certain EU member states.
- An updated list of the 37 jurisdictions in which the Board has conducted inspections of registered non-U.S. firms since non-U.S. inspections began in 2005.
- A list of the non-U.S. jurisdictions where the PCAOB planned to conduct inspections in 2011.

On March 15, 2011, the PCAOB issued its first public Research Note, prepared by the Office of Research and Analysis, which provided data on reverse merger transactions involving companies from the China region. The Research Note provided further context to the issues discussed in Staff Audit Practice Alert No. 6, issued by the Board in July 2010, which reminded registered firms of their obligations when using the work of other firms or using assistants engaged from outside the firm, including those based outside the U.S.

The PCAOB issued the Research Note to provide investors and other users of financial statements with more information about the volume of reverse merger transactions involving companies from the China region. The PCAOB was prevented from conducting inspections in China in 2011, which affected the inspections of audits of some Hong Kong-based companies with operations in China.

On Oct. 3, 2011, the PCAOB issued Staff Audit Practice Alert No. 8, *Audit Risks in Certain Emerging Markets,* which focused on the risks of misstatement due to fraud that auditors might encounter in audits of companies with operations in emerging markets and reminded auditors of their responsibilities for addressing those risks, as well as certain other responsibilities under the PCAOB's auditing standards. The practice alert was developed in response to observations by PCAOB staff of some conditions in audits of certain companies in emerging markets that indicated heightened fraud risk, as well as numerous public disclosures of possible financial reporting improprieties by companies in certain large emerging markets.

On Oct. 11, 2011, the PCAOB proposed amendments to its standards that would require the audit report to disclose the name of the engagement partner and provide enhanced transparency into the participants in cross-border audits by requiring disclosure of other accounting firms and persons that took part in the audit.

INVESTOR SAFEGUARDS RELATED TO REGISTRATION OF CERTAIN NON-U.S. FIRMS

In 2011, the Board continued to apply its approach, adopted in 2010, to registration applications from firms in non-U.S. jurisdictions where, because of asserted legal restrictions or objections of local authorities, the Board is denied access to information that is necessary to inspect those firms. The Board determined that its consideration of new applications from firms in those jurisdictions will no longer be premised on an expectation that such obstacles will be resolved without undue delay to any necessary PCAOB inspection of a firm.

Accordingly, with respect to registration applications from such firms, the Board will request information from the firm and, if applicable, from the local authority about whether a PCAOB inspection of the firm would be allowed. In the absence of confirmation that inspections are possible, the Board will not approve the registration application without a hearing on the question of whether registration would be consistent with the interests of investors and the public.

The Board applied this approach in 2011 to a number of registration applications. On June 9, 2011, the Board provided public notice of the disapproval of the registration application of Hong Kong-based Zhonglei (HK) C.P.A. Company Limited, as a result of obstacles to PCAOB inspections posed by the authorities in China.

INTERNATIONAL OUTREACH

In October 2011, the PCAOB convened its fifth International Auditor Regulatory Institute, drawing 77 representatives of auditor oversight bodies and government agencies from 36 countries. The institute provides a forum for regulators from around the world to share experiences and discuss approaches to auditor oversight and improvements to audit quality.

The 2011 institute included seminars on the structure of PCAOB auditor oversight programs; current topics in enforcement and standard setting; and an interactive session including inspection case studies. The institute's keynote address was delivered by retired U.S. Sen. Paul Sarbanes, co-sponsor of the Sarbanes-Oxley Act. The institute also included a panel discussion led by representatives of the PCAOB's international counterparts from Canada, France, Germany, Japan, the Netherlands, Singapore, Switzerland and the United Kingdom.

The PCAOB continued to participate as a member in meetings and working groups of the International Forum of Independent Audit Regulators (IFIAR). IFIAR's objectives include sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity; promoting collaboration in regulatory activity; and providing a point of contact for other international organizations that have an interest in audit quality.

In 2011, Board member Daniel L. Goelzer was elected Vice Chair of IFIAR. Board member Steven B. Harris represents the Board as Chairman of IFIAR's Investor Working Group. In February 2011, the PCAOB hosted IFIAR's fifth Inspection Workshop in Washington, D.C. The workshop was attended by 86 representatives of IFIAR member organizations from 29 countries and provided IFIAR members an opportunity to share their experiences related to their inspections programs and oversight activities.

The PCAOB continued its efforts in 2011 to monitor the activities of various international professional bodies that develop professional standards for auditors. The PCAOB served as an observer to three consultative advisory groups of certain standard-setting boards affiliated with the International Federation of Accountants: the International Auditing and Assurance Standards Board, the International Ethics Standards Board for Accountants and the International Accounting Education Standards Board.

NUMBER OF REGISTERED PUBLIC ACCOUNTING FIRMS BY JURISDICTION

(as of Dec. 31, 2011)

JURISDICTION	NUMBER OF REGISTERED FIRMS
United States	1,480
China*	106
India, United Kingdom**	65 each
Canada	51
Australia	41
Germany	36
France	25
Singapore	22
Mexico	20
Russian Federation	19
Israel, Turkey	18 each
Argentina, Brazil, Chile, Italy	17 each
Japan, Spain	16 each
Belgium, Netherlands	15 each
Ireland	14
New Zealand, Peru	13 each
Malaysia, Republic of Korea, South Africa, Taiwan	12 each
Colombia	10
Indonesia	9
Philippines, Sweden, United Arab Emirates	8 each
Poland, Thailand, Venezuela	7 each
Austria, Cayman Islands, Czech Republic, Greece, Hungary, Switzerland, Ukraine	6 each
Costa Rica, Denmark, Finland, Norway, Pakistan, Portugal	5 each
Bermuda, Egypt, Luxembourg, Paraguay, Romania, Uruguay	4 each
Bolivia, Dominican Republic, Kazakhstan, Panama, Vietnam	3 each
Bahamas, El Salvador, Iceland, Nigeria	2 each
Armenia, Bahrain, Barbados, Belize, Croatia, Curacao, Cyprus, Ecuador, Estonia, Ghana, Haiti, Jamaica, Lebanon, Malta, Mauritius, Nicaragua, Papua New Guinea, Saudi Arabia, Slovakia, Tanzania, Tunisia	1 each
TOTAL	**2,388**

**The number of registered firms in China includes 53 firms located in Hong Kong.*
*** The number of registered firms in the United Kingdom includes firms located in Jersey, the Isle of Man and the British Virgin Islands.*

Office of Research and Analysis

The PCAOB's Office of Research and Analysis supports the oversight activities of the Board through risk assessment, research and information management services.

On March 15, 2011, the PCAOB issued its first public Research Note, prepared by the Office of Research and Analysis, to provide new data on the growth of reverse merger transactions involving companies based in China, Hong Kong and Taiwan. A reverse merger typically occurs when an operating company merges with a U.S. shell company that had previously registered its securities under the Securities Exchange Act of 1934.

The Research Note, together with Staff Audit Practice Alerts issued in July 2010 and October 2011, represented an effort by the PCAOB to provide more information to investors and other users of financial statements about the audit environment for companies from the China region. PCAOB inspectors have been prevented from inspecting PCAOB-registered accounting firms that are based in China. Due to the position taken by the authorities in China, the PCAOB also has been prevented from conducting inspections of certain registered firms in Hong Kong to the extent that their audit clients have operations in China.

As the PCAOB prepared in 2011 to launch its interim inspections of the auditors of brokers and dealers, the Office of Research and Analysis worked with and provided data to PCAOB registration and inspections staff, aiding in the selection of firms and audits for inspection. The Office also worked with the SEC and the Financial Industry Regulatory Authority to obtain data regarding brokers and dealers, including, for example, data on clearing brokers and introducing brokers, as well as data on brokers who have custody of client funds. The Office of Research and Analysis also worked with PCAOB finance staff to appropriately allocate the accounting support fee among brokers and dealers.

As in previous years, the Office of Research and Analysis in 2011 continued to hone its ability to analyze information obtained from PCAOB inspections and other sources, including public companies' financial reporting; price and volatility information from debt and equity markets; and corporate governance data in order to identify those accounting firms, offices, partners, engagements and audit issues that present the greatest audit risks and, therefore, the greatest risks to investors.

Encouraging Future Auditors

The Sarbanes-Oxley Act of 2002 created the PCAOB to oversee accountants who are already working as auditors. But the Act and the PCAOB also recognize the importance of encouraging the auditors of the future—accounting students who may, one day, take up the vital public accounting profession as auditors.

Under the Act, civil monetary penalties collected from Board disciplinary actions must be used to fund merit scholarships for students in accredited accounting degree programs.

In 2011, the Board inaugurated the scholarship program, awarding $10,000 each to 52 students across the U.S. who demonstrated high ethical standards and an interest and aptitude in accounting and auditing.

The scholarships complemented a longstanding PCAOB practice of reaching out to students of accounting in an effort to instill in future auditors the values encouraged by the PCAOB.

Since the earliest years of the PCAOB, classes of accounting students have been welcomed to meet with Board members and staff at PCAOB offices. Among the schools represented in 2011 were the University of Tennessee, Baylor University, the College of William and Mary and the University of New Hampshire.

Board members and staff also travel to colleges and universities across the U.S. for speeches and symposiums with accounting students and educators. Among the universities visited in 2011 were Winona State University in Winona, Minn.; Utah State University in Logan, Utah; Oglethorpe University in Atlanta, Ga.; and the University of Memphis in Memphis, Tenn.

Students of accounting and auditing are also offered opportunities to learn on the job at the PCAOB. In 2011, 58 student interns worked in various PCAOB divisions and offices.

Standards

The Board continued its work on an ambitious standard-setting agenda in 2011, applying lessons learned from the financial crisis and responding to investors' concerns about the relevance, credibility and transparency of audits.

In 2011, the Board issued two concept releases, soliciting public comment and dialogue on possible changes to PCAOB standards affecting two major areas of audit practice: the auditor's reporting model and auditors' independence, objectivity and professional skepticism, including the potential for requiring mandatory term limits, or rotation, for auditors of companies traded in U.S. markets.

The Board proposed amendments to PCAOB standards, intended to improve the transparency of public company audits by requiring the disclosure of the engagement partner's name in the audit report and the disclosure of other independent public accounting firms and other persons that took part in the audit.

The Board reproposed a new auditing standard, *Communications with Audit Committees,* and related amendments that are intended to enhance the relevance and quality of the communications between the auditor and the audit committee.

The Board proposed auditing and attestation standards that would apply to the audits of SEC-registered brokers and dealers and to the supplemental information accompanying audited financial statements.

The PCAOB issued two Staff Audit Practice Alerts in 2011—one intended to increase auditors' awareness of risks when performing audits of companies with operations in emerging markets and the other to assist auditors in identifying matters related to the economic environment that might affect the risk of material misstatement in financial statements.

The Board's actions were informed by meetings and dialogue with investors, auditors, representatives of public companies and members of the academic community through the Standing Advisory Group and Investor Advisory Group, as well as a roundtable discussion on the auditor's reporting model. The Board works closely with the Securities and Exchange Commission on the development of standards and monitors the work of accounting standard setters, such as the Financial Accounting Standards Board, for developments that may affect auditing.

PCAOB standards are rules of the Board, and the Board uses a notice-and-comment process similar to the process used by federal agencies and other standard setters, under which the Board proposes standards for public comment before adopting new or amended standards in a public meeting. All Board standards must be approved by the SEC before they can become effective.

CONCEPT RELEASES

Auditor's Reporting Model

Auditors, as a result of performing required audit procedures, often have significant information regarding a company's financial statements and the audit of such financial statements. Although that information is not reported in the standard auditor's report to financial statement users, the information might be useful to investors and other financial statement users.

On June 21, 2011, the Board issued a concept release to seek public comment on potential changes to the auditor's reporting model based on concerns of investors and other financial statement users.

The concept release raised for consideration several alternatives for the auditor's reporting model that could increase its transparency and relevance to financial statement users. The alternatives include a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the auditor's view of the company's financial statements (an "Auditor's Discussion and Analysis"); required and expanded use of emphasis paragraphs in the auditor's report; auditor reporting on other information outside the financial statements; and clarification of certain language in the auditor's report. The concept release noted that the identified alternatives are not mutually exclusive and that other alternatives may exist.

The concept release was preceded by several discussions with the PCAOB's Standing Advisory Group and Investor Advisory Group, in addition to extensive outreach by PCAOB staff in 2010 and early 2011. The staff presented the findings from that outreach to the Board at an open meeting March 22, 2011, and the Board approved the concept release June 21, 2011. The Board solicited further comment at a roundtable on Sept. 15, 2011, with participants representing investors, other users and preparers of financial statements, audit committee members, academics and auditors. The deadline for comments on the concept release was Sept. 30, 2011.

Auditor Independence and Audit Firm Rotation

An audit has value to financial statement users because it is performed by a competent third party who is viewed as having no interest in the financial success of its audit client. Investors should be able to take comfort in the fact that independent professionals have performed required procedures and have a reasonable basis for the audit opinion.

Questions persist, however, about whether more can and should be done to enhance auditor independence, objectivity and professional skepticism. As a result of PCAOB inspections, the experience of other audit regulators and concerns expressed by investors, the Board issued a concept release Aug. 16, 2011, seeking public comment on a variety of possible approaches to improving auditor independence, objectivity and professional skepticism.

One possible approach is mandatory audit firm rotation, which would limit the number of consecutive years a registered public accounting firm could serve as the auditor of a public company.

The release sought comments on, among other things, whether a rotation requirement would risk significant cost and disruption and how mandatory rotation would serve the Board's goals of protecting investors and enhancing audit quality. The Board also sought comment on whether other measures could meaningfully enhance auditor independence.

The deadline for comments was Dec. 14, 2011. The Board scheduled a two-day public meeting in March 2012 to hear a variety of opinions on the concept release. The Board also reopened the comment period until April 22, 2012.

PROPOSED STANDARDS AND AMENDMENTS

Audits of SEC-Registered Brokers and Dealers

The Dodd-Frank Act gave the PCAOB the authority to oversee auditors of SEC-registered brokers and dealers, including authority to set standards and rules for audits of brokers and dealers.

In June 2011, the SEC proposed to amend its rules to require that certain audit and attest reports filed by registered brokers and dealers be prepared by PCAOB-registered auditors using standards established by the PCAOB.

On July 12, 2011, the Board proposed attestation standards for auditors tailored to the SEC-proposed rule amendments. The Board also proposed a standard for audits of supplemental information accompanying audited financial statements that would apply to audits of brokers and dealers and audits of issuers. The deadline for comments on the proposed PCAOB standards was Sept. 12, 2011. Further action on the Board's proposals is dependent on the SEC's adoption of the proposed amendments to its rules.

Audit Transparency

The audit report is typically an investor's primary source of information about the audit. Usually a single page, the report provides general information about how every audit must be conducted, states that the audit complied with applicable standards, gives the firm's opinion on the company's financial statements or internal control over financial reporting, and includes the signature of the firm that issued it. While the report provides useful information—primarily, the opinion—it tells the reader little about the key participants in the audit.

On Oct. 11, 2011, the Board proposed amendments to its standards that would improve the transparency of public company audits by requiring that audit reports disclose the name of the engagement partner as well as the names of other independent public accounting firms and other persons that took part in the audit. The amendments would also require registered public accounting firms to disclose the name of the engagement partner for each audit listed on the firms' annual reports filed with the PCAOB. The deadline for comments on the proposed amendments was Jan. 9, 2012.

Communications with Audit Committees

On Dec. 20, 2011, the Board reproposed a new auditing standard, *Communications with Audit Committees* and related amendments. The standard is intended to benefit investors by establishing requirements that enhance the relevance and quality of the communications between the auditor and the audit committee.

The Board originally proposed the auditing standard in March 2010. Interest in the proposed standard prompted the Board to reopen the comment period and host a roundtable discussion with representatives of audit committees, investors, auditors, issuers and others.

The reproposed standard incorporates comments and suggestions received; reflects information that is aligned with the Board's risk assessment standards that took effect in 2011; and adds a requirement to communicate information about significant unusual transactions. The reproposal also provided commenters with an opportunity to comment on the standard in relation to the audits of brokers and dealers. The deadline for comments was Feb. 29, 2012.

STAFF AUDIT PRACTICE ALERTS

The PCAOB publishes Staff Audit Practice Alerts to highlight new, emerging or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws. The PCAOB issued two alerts in 2011 in response to events in emerging markets and in the global economic environment that exposed possible threats to the reliability of some companies' financial statements and heightened the need for vigilance on the part of auditors.

Audit Risks in Certain Emerging Markets

On Oct. 3, 2011, the PCAOB issued Staff Audit Practice Alert No. 8, *Audit Risks in Certain Emerging Markets,* to increase auditors' awareness of risks when performing audits of companies with operations in emerging markets.

The alert was prompted by disclosures of possible improprieties in financial reporting by companies based in certain large emerging markets in Asia and observations from the Board's oversight activities. The practice alert focuses on risks of misstatement due to fraud that auditors might encounter in audits of companies with operations in emerging markets—risks that also may be present in companies in developed markets.

Conditions and situations indicating heightened fraud risk include discrepancies between a company's financial records and audit evidence obtained from third parties; auditors' difficulties in confirming cash and receivable balances; and the recognition of revenue from contracts or customers whose existence cannot be corroborated.

Risk in the Current Economic Environment

On Dec. 6, 2011, the PCAOB issued Staff Audit Practice Alert No. 9, *Assessing and Responding to Risk in the Current Economic Environment,* to assist auditors in identifying matters related to the economic environment that might affect the risk of material misstatement in financial statements and, therefore, require additional audit attention.

The alert updated Staff Audit Practice Alert No. 3, issued in December 2008, in light of global economic conditions and risk assessment standards that took effect for audits in 2011. The alert directs auditors' attention to considering the impact of economic conditions on the audit; auditing fair value measurements and estimates; considering a company's ability to continue as a going concern; and auditing financial statement disclosures.

FUTURE STANDARD SETTING

The Board bases its standard-setting agenda on information from a variety of sources, including issues identified during PCAOB inspections of registered accounting firms; lessons learned from the economic crisis; changes in accounting standards; and discussions with its Standing Advisory Group, Investor Advisory Group and others. Among the auditing issues on the Board's standard-setting agenda are those dealing with:

Related parties. In response to financial reporting frauds that have involved related parties or corporate transactions with related parties, the Board is considering a possible new auditing standard, *Related Parties,* and possible amendments to certain PCAOB standards.

Specialists. The Board is considering possible revisions to the standard on the auditors' use of specialists to strengthen requirements related to certain aspects of specialists' work, such as the auditor's evaluation of the work of a specialist.

Part of the audit performed by other auditors. In many public company audits, the accounting firm issuing the audit report does not perform 100 percent of the audit procedures. This may be especially common in, but not limited to, audits of companies with operations in more than one country. In these situations, audit procedures on or audits of the company's foreign operations are performed by other accounting firms or other participants in the audit not employed by the auditor. The Board is considering possible revisions to its standards to strengthen requirements regarding the work performed by the various auditors participating in the audit.

Assignment and documentation of firm supervisory responsibilities (failure to supervise). The Sarbanes-Oxley Act authorizes the PCAOB to impose sanctions on registered public accounting firms and their supervisory personnel for failing to reasonably supervise associated persons. To assist its oversight, the Board is considering possible rulemaking or standard setting that would require firms to make and document clear assignments of the supervisory responsibilities that should already be part of any audit practice. The Board sought comment on rulemaking concepts related to supervision in a release issued Aug. 5, 2010.

Fair value measurements. The Board is evaluating potential revisions to the PCAOB standards on fair value measurements and other accounting estimates.

To assist in its evaluation, the Board formed the Pricing Sources Task Force in March 2011. This group of investors, financial statement preparers, auditors and representatives of pricing services and brokers met three times in 2011 to discuss the valuation of financial instruments that are not actively traded and the use of third-party pricing sources to value such instruments.

Going concern. The Board is considering possible revisions to the auditing standard on the auditor's evaluation of a company's ability to continue as a going concern. Among other things, the Board is considering how to enhance the auditor's evaluation process and the usefulness of the auditor's communication to investors regarding going concern uncertainty.

Confirmation. In 2011, the Board continued its consideration of possible revisions to the proposed standard, *Confirmation,* that would update and expand the requirements related to the auditor's use of confirmations. Confirmations are the direct communications between an auditor and a third party about a particular item affecting a company's financial statements. The standard was proposed July 13, 2010.

Quality control. The Board is in the process of evaluating potential revisions to its quality control standards, including the SEC Practice Section standards.

Codification of PCAOB standards. The Board is considering a potential framework of organization and codification of its auditing standards.

Subsequent events. The Board is also considering possible revisions to the auditing standards related to events or transactions that occur subsequent to the balance-sheet date.

STANDING ADVISORY GROUP

The Standing Advisory Group advises the PCAOB on the development of auditing and related professional practice standards. SAG members include investors, auditors and representatives of public companies and the academic community.

At the March 24, 2011, meeting, SAG members received updates on PCAOB activities. The SAG members also discussed possible audit implications of joint projects involving the Financial Accounting Standards Board and the International Accounting Standards Board. The SAG also discussed possible audit implications of the project of the Committee of Sponsoring Organizations of the Treadway Commission to update the COSO *Internal Control-Integrated Framework.* Also discussed were auditing financial statement disclosures and the auditor's reporting model.

At the Nov. 9-10, 2011, SAG meeting, PCAOB staff provided an update and sought SAG members' views on the Board's standard-setting agenda. SAG members also discussed the auditor's evaluation of a company's ability to continue as a going concern. PCAOB staff provided SAG members with an update on the work of the Pricing Sources Task Force.

Briefing papers, slide presentations and recordings of the discussions are available on the PCAOB's website.

On Nov. 29, 2011, the Board expanded the membership of the SAG to 42 and increased members' terms from two years to three years, which will allow the PCAOB to benefit from the insight and advice of the SAG members for a longer period of time.

Outreach

The PCAOB makes a concerted effort to inform, educate and obtain input from a broad cross section of the public, including investors, auditors, the academic community and other interested parties.

The Board believes that public awareness and interaction with its members and staff enhances the effectiveness of its oversight of auditors by providing the PCAOB with insight into audit risks and environmental factors that may affect such risks. The interaction also enables the PCAOB to provide guidance that may contribute to improving audit quality.

Investor Advisory Group

The PCAOB's Investor Advisory Group was created to provide a forum for the Board to obtain the views of, and advice from, the investor community on matters affecting investors and the work of the PCAOB. Members of the Investor Advisory Group represent a broad spectrum of the investment community as well as individuals who have a demonstrated history of commitment to investor protection.

The Investor Advisory Group and the Board held a public meeting March 16, 2011, for the presentation and discussion of reports from IAG working groups on the auditor's report and the role of the auditor; lessons learned from the financial crisis; and global networks and audit firm governance.

Briefing papers, slide presentations and recordings of the discussions are available on the PCAOB's website.

Forums on Small Business and Broker-Dealer Auditing

In 2011, the Board continued its series of Forums on Auditing in the Small Business Environment—hosting seven day-long presentations designed to allow auditors in smaller firms to learn about the PCAOB's work, to provide feedback and to ask questions about PCAOB activities, including inspections and new auditing standards and guidance. The format promotes an open dialogue among PCAOB representatives and forum participants. In 2011, 762 people attended small business forums in seven cities across the U.S.

In light of its new authority to oversee auditors of SEC-registered brokers and dealers, the Board hosted two Forums on Auditing Smaller Broker-Dealers in 2011, drawing 321 attendees in Jersey City, N.J., and Huntington Beach, Calif.

Academic Conference

In April 2011, the PCAOB hosted its seventh Academic Conference, planned jointly by the staff of the PCAOB and the staff of the Auditing Section of the American Accounting Association, a voluntary organization of people interested in accounting education and research.

The conference provides an opportunity for the exchange of ideas among PCAOB representatives and members of the academic community regarding matters of mutual interest.

The conference was attended by 74 members of the academic community, as well as PCAOB Board members and staff and representatives of the SEC, Financial Accounting Standards Board and the Government Accountability Office. The attendees discussed research projects, received updates on PCAOB activities and discussed the auditor's reporting model.

Participation in Other Forums

Board members and staff participated in numerous forums and conferences in 2011 to provide information and obtain feedback about the PCAOB's standards and other initiatives. Audiences for these events included investors, auditors, issuers and other regulators.

Conference hosts included the Council of Institutional Investors, the American Institute of Certified Public Accountants, the National Association of State Boards of Accountancy, several state accounting boards, the National Association of Corporate Directors, the Association of Audit Committee Members, the American Law Institute—American Bar Association, the Practising Law Institute and the Association of the Bar of the City of New York.

Enforcement

The Board uses its investigative authority to identify serious audit deficiencies that pose risks to investors. The Board uses its disciplinary authority to demonstrate that auditors who run afoul of their professional obligations, particularly professional skepticism, will face real consequences.

The PCAOB set milestones in 2011 in enforcing compliance by auditors and registered accounting firms with auditing rules, laws and professional standards for the protection of investors.

Disciplinary cases that became public in 2011 focused on audit failures related to non-U.S. companies traded in U.S. markets; failures to follow standards on quality control and auditing; and auditors' failures to comply with the Board's processes and rules.

In 2011, the PCAOB announced the largest civil monetary penalty imposed since it began its work in 2003 and imposed the longest bar to date on the partner of a Big Four firm.

Failures in Connection with Audits of Non-U.S. Companies

The PCAOB's focus on audits of non-U.S. companies advances the Board's mission to improve audit quality and protect investors in the global marketplace.

In a settled disciplinary order announced April 5, 2011, the Board found that five India-based affiliates of PricewaterhouseCoopers International violated quality control standards in an audit of Satyam Computer Services, Limited, an India-based IT service provider whose stock traded on the New York Stock Exchange.

The Board found that two of the affiliates also failed to identify a $1 billion overstatement of assets because, in part, of flawed audit procedures used to test the existence of the company's reported cash balance.

To settle the matter, those two affiliates agreed to pay a penalty of $1.5 million—the largest imposed to date by the PCAOB.

The five affiliates also agreed to a six-month prohibition on accepting certain engagements and to the appointment of an independent monitor to review the firms' compliance with undertakings designed to improve quality controls.

In another settled case announced Dec. 20, 2011, the Board found that an Australian audit firm and auditor violated PCAOB standards in connection with their audit of an Australian company whose stock was quoted on the OTC Bulletin Board. The Board revoked the registration of Bentleys Brisbane Partnership with a right to reapply after two years and imposed a $10,000 civil monetary penalty on the firm. The Board also barred Robert John Forbes, the firm's office managing partner, from being an associated person of a registered public accounting firm with a right to reapply after two years.

Failures to Follow Standards on Quality Control and Auditing

On April 8, 2011, the Board found that managing partner Todd D. Chisholm and the Utah-based firm Chisholm, Bierwolf, Nilson & Morrill, LLC violated PCAOB rules, quality control standards and auditing standards, in part by accepting more engagements than the firm's partners and staff could appropriately manage and conduct.

The Board found that Chisholm and the firm also failed to cooperate with a Board inspection and a Board investigation. The Board found that partner Troy F. Nilson and the firm violated PCAOB rules and auditing standards in connection with audits of two issuer clients between 2007 and 2008 and failed to cooperate with a Board inspection and a Board investigation.

Based on these findings and in response to offers of settlement from the firm and the two partners, the Board revoked the firm's registration, permanently barred Chisholm and barred Nilson with the right, after five years, to petition to remove the bar.

Auditors' Failures to Comply with the Board's Rules

The PCAOB also focuses on auditors' failures to comply with the Board's processes, including failures to cooperate with inspections and investigations and violations of Board orders and rules.

Without cooperation, the PCAOB cannot adequately assess firms' compliance with the Sarbanes-Oxley Act, rules and professional standards, increasing the risks to investors that an audit has not met PCAOB standards. Accordingly, the Board has imposed significant sanctions for such misconduct.

On Aug. 1, 2011, the PCAOB announced settled disciplinary orders against a former Ernst & Young LLP partner and senior manager after finding that, shortly before a PCAOB inspection, the two improperly created, backdated and added a document to the audit working papers that related to the most significant issue in that audit, violating PCAOB rules and auditing standards.

The Board accepted offers of settlement from the former partner Peter C. O'Toole and former senior manager Darrin G. Estella.

The Board barred O'Toole from associating with a PCAOB-registered accounting firm, with the right to petition to remove the bar after three years—the longest bar imposed on a partner of a Big Four accounting firm since the PCAOB was formed in 2003. The Board also imposed a $50,000 civil money penalty against O'Toole. The Board barred Estella from associating with a PCAOB-registered accounting firm, with the right to petition to remove the bar after two years.

In a settled proceeding announced Jan. 19, 2011, the Board found that James Crane, formerly of Massachusetts, and his firm, J. Crane CPA, P.C., failed to cooperate with PCAOB inspections and that the firm violated the Sarbanes-Oxley Act and PCAOB rules by failing to file an annual report and pay an annual fee.

Based on these findings and in response to offers of settlement from Crane and his firm, the Board permanently revoked the registration of Crane's firm and permanently barred Crane from being an associated person of a registered public accounting firm.

The PCAOB also focuses on auditors' failures to cooperate with investigations, including failures to produce documents and information that would allow the PCAOB to determine whether firms and individual auditors have followed the rules and standards designed to protect investors.

Enforcement

On March 29, 2011, the Board issued a final decision and order imposing sanctions against Utah-based Davis Accounting Group, P.C. and Edwin R. Davis, Jr. CPA after finding that Davis and his firm had engaged in conduct constituting noncooperation with an investigation. The Board found that the firm and Davis failed to produce documents in response to investigative demands and continued to issue audit reports for numerous issuers while failing to comply with investigation demands.

The Board permanently barred Davis from being associated with a registered accounting firm, revoked the firm's registration and imposed a $75,000 civil monetary penalty against Davis. Davis and the firm filed an application for SEC review of the disciplinary action, which stayed the effect of the Board's sanctions. The bar and revocation became effective June 14, 2011, when the SEC, on the Board's motion, lifted the stay as to those sanctions. The civil monetary penalty became effective Oct. 18, 2011, when the SEC lifted the stay on that sanction and dismissed the petition for review because of the failure of Davis and the firm to file briefs.

In a separate litigated case, the PCAOB hearing officer found that auditor Samuel D. Cordovano violated a previous Board order barring him from associating with a registered firm.

In imposing the bar in 2008, the Board had provided Cordovano with a right to petition to terminate the bar after one year, but Cordovano never did so. The hearing officer found that, through Cordovano's participation in four issuer audits while subject to the bar, both Cordovano and the Denver-based firm Cordovano and Honeck LLP violated provisions of the Sarbanes-Oxley Act and PCAOB rules.

The hearing officer ordered that Cordovano be permanently barred from association with any registered public accounting firm and that the firm's PCAOB registration be permanently revoked. Neither Cordovano nor the firm sought SEC review following the Board's notice of finality, and the sanctions took effect Oct. 12, 2011.

Board rules also require each registered accounting firm to file annual reports disclosing information about its issuer-related practice; internal and external resources on which the firm draws in performing audits; and certain new relationships and acquisitions. The annual report also requires an affirmation related to the firm's statutory obligations to cooperate with the Board.

In 2011, the Board censured two firms and imposed civil money penalties for the firms' failure to timely file annual reports and pay annual fees. The firms were GLO CPAs, LLLP of Houston and Reuben E. Price & Co., Public Accountancy Corp. of San Francisco.

Confidentiality of PCAOB Disciplinary Actions

In each enforcement case in which litigation is initiated, the PCAOB is prohibited by the Sarbanes-Oxley Act from publicly disclosing the allegations and proceedings. Even after a disinterested hearing officer has found that the alleged violations occurred, the matter may still remain unknown to the public at least until the case is appealed to the SEC.

As a result, for substantial periods, investors are unaware that companies in which they may have invested are being audited by accountants who have been charged, or even sanctioned, by the Board. As of Dec. 31, 2011, disciplinary proceedings involving formal allegations of misconduct against 19 firms and individual auditors were pending but could not be publicly disclosed by the Board because of the statutory restriction.

In testimony and correspondence, members of the Board have urged Congress to amend the Sarbanes-Oxley Act to allow PCAOB disciplinary proceedings to be public. This would enable investors and other interested parties to know when the PCAOB has leveled allegations of improprieties against auditors of public companies and auditors of SEC-registered brokers and dealers. In late 2011, legislation was introduced in the House and Senate that would allow PCAOB disciplinary proceedings to be made public.

Operations

The PCAOB is committed to protecting investors and serving the public interest. In light of that commitment, the PCAOB strives to carry out its responsibilities in a manner that demonstrates careful stewardship over its resources.

The Sarbanes-Oxley Act established the PCAOB as a nonprofit, non-governmental organization. As a result, the PCAOB does not receive federal appropriations for its operations. Under the provisions of the Sarbanes-Oxley Act and the Dodd-Frank Act, the PCAOB was funded in 2011 by fees collected from public companies, other issuers and brokers and dealers registered with the Securities and Exchange Commission.

In light of its accountability to the SEC and the public, the PCAOB devotes resources to maintaining and assessing the effectiveness of its internal control over financial reporting and monitors its operations through its Office of Internal Oversight and Performance Assurance.

SEC OVERSIGHT

The Sarbanes-Oxley Act gives the SEC oversight authority over the PCAOB. The PCAOB is subject to rules and orders promulgated by the SEC. PCAOB rules, including its auditing and related professional practice standards, are not effective unless approved by the SEC.

As provided in the Sarbanes-Oxley Act, adverse PCAOB inspection reports, remediation determinations and disciplinary actions against registered firms and their associated persons are subject to review by the SEC. The SEC also is responsible for approving the PCAOB's annual budget and accounting support fee.

The SEC is responsible for appointing and removing Board members. On Jan. 7, 2011, the SEC announced the appointment of three Board members: Chairman James R. Doty, Lewis H. Ferguson and Jay D. Hanson. They joined Steven B. Harris and Daniel L. Goelzer. On Feb. 3, 2012,

Operations

the SEC announced the appointment of Jeanette M. Franzel to succeed Board member Goelzer, whose term had expired. Board member Franzel began her term March 5, 2012.

BUDGETING

The PCAOB's budget for 2011, as approved by the Board on Nov. 23, 2010, was $204.4 million. The SEC approved the budget and accounting support fee on Dec. 22, 2010.

The 2011 budget was 11.5 percent above the Board's 2010 budget, with more than 50 percent of the increase attributable to the PCAOB's increased responsibilities for oversight of the auditors of SEC-registered brokers and dealers as required by the Dodd-Frank Act.

Under the Sarbanes-Oxley Act, the PCAOB budget provides the foundation for the assessment of accounting support fees paid by public companies and other issuers. The Dodd-Frank Act required the Board to allocate an appropriate portion of the accounting support fee to SEC-registered brokers and dealers.

On Aug. 18, 2011, the SEC approved the Board's funding rules for allocation of the fee among public companies and SEC-registered brokers and dealers. The rule distinguished classes of brokers and dealers and revised the Board's existing funding rule in a way that will result in an increase in the number of smaller issuers and investment companies that will not pay a portion of the accounting support fee to the PCAOB.

The total accounting support fee for 2011 was $202.3 million, with approximately $187.9 million allocated to public companies and approximately $14.4 million allocated to SEC-registered brokers and dealers.

Each year, the PCAOB's budget-setting process is subject to SEC oversight, including review, comment and approval. On Nov. 30, 2011, the Board approved a budget of approximately $227.7 million for 2012, along with the strategic plan for 2011-2015 that served as the foundation for the budget. The SEC approved the 2012 budget on Jan. 12, 2012.

STAFFING

In 2011, the PCAOB increased its staff by 90, including 73 inspections staff members, ending the year with a total of 690 staff. More than 60 percent of PCAOB staff work in registration and inspections.

New PCAOB staff are required to attend orientation, which includes a session on the PCAOB's Ethics Code, and all members of the PCAOB Board and staff are required to certify annually their compliance with the Ethics Code. In June 2011, the PCAOB's ethics officer and the director of compliance and risk management issued an Ethics and Compliance Alert on the proper use of PCAOB information technology and enhancements to the PCAOB's Internet monitoring technologies.

TECHNOLOGY

The PCAOB undertook significant steps in the management of its information technology in 2011. A deputy chief administrative officer joined the PCAOB in October 2011 to head IT operations. The PCAOB adopted an IT governance framework; commenced the creation and implementation of a formal IT strategic plan and benchmarking process; and made progress on a comprehensive review of its IT program.

Work continued in 2011 on IT projects designed to assist the PCAOB in fulfilling its mission. Those projects included progress on development of a data management and analysis system; updates to the registration and reporting system to facilitate reporting by registered public accounting firms with broker and dealer audit clients; and identifying a replacement for the PCAOB's outdated human resources information system.

OFFICE OF INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE

The Office of Internal Oversight and Performance Assurance performs a role similar to that of an inspector general in a government agency. IOPA conducts performance reviews of PCAOB programs and operations, provides timely quality assurance assessments to the Board, and also may receive and review allegations of wrongdoing by PCAOB employees. IOPA conducts its performance reviews in accordance with the GAO's Government Auditing Standards (Yellow Book).

In 2011, IOPA completed reviews of the governance and staffing of the PCAOB's information technology functions and controls over employee Internet activity. Summaries of the reviews were sent to the Chairman of the SEC and are posted on the PCAOB's website.

PCAOB OFFICES

Headquarters

Washington, D.C.

Regional and Satellite Offices

Ashburn, Virginia	Denver, Colorado	Irving, Texas
Atlanta, Georgia	Detroit, Michigan	Los Angeles, California
Boston, Massachusetts	Fort Lauderdale, Florida	New York, New York
Charlotte, North Carolina	Houston, Texas	San Mateo, California
Chicago, Illinois	Irvine, California	Tampa, Florida

2011 FINANCIAL REVIEW

FINANCIAL REVIEW

This financial review, together with the 2011 audited financial statements and the accompanying notes, provides financial information and disclosures related to the PCAOB's programs and activities described in the other sections of this annual report.

The PCAOB's budget, once approved by the Securities and Exchange Commission, is funded through an accounting support fee assessed on issuers and brokers and dealers registered with the SEC. The accounting support fee is based on the PCAOB's budget, less registration and annual fees received in the prior year from registered accounting firms, estimated interest income and excess funds from the prior year's operations. Beginning in 2011, and pursuant to the Dodd-Frank Act, which amended the Sarbanes-Oxley Act, the PCAOB equitably allocated its $202.3 million accounting support fee among brokers and dealers as well as issuers.

Section 102(f) of the Sarbanes-Oxley Act requires the PCAOB to assess and collect registration application fees from applicants and annual fees from registered firms in amounts sufficient to cover the costs incurred by the PCAOB to process and review registration applications and required reports.

Presentation of Financial Statements

The PCAOB's financial statements are presented in accordance with accounting principles generally accepted in the United States of America using the standards applicable to Not-for-Profit Entities. A discussion of the statements of financial position and the statements of activities follows.

STATEMENTS OF FINANCIAL POSITION

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits in non-interest bearing accounts maintained with a major financial institution. The amounts maintained in these accounts are fully insured under Section 343 of the Dodd-Frank Act, which provides temporary insurance coverage through Dec. 31, 2012, for the full balance maintained in non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation-insured depository institutions.

The PCAOB's monthly cash outflows increased steadily throughout the year due to the effects of additional, planned hiring, as compared to its cash inflows. Cash inflows were cyclical because the majority of cash was collected in the second quarter of the year from the assessments of the issuer accounting support fee and annual fees from registered firms. As in prior years, the timing of the cash inflows require the PCAOB to maintain a substantial cash balance sufficient to fund its operations for the first several months of the subsequent year.

Short-term Investments

The PCAOB continued its cash and investment strategy in 2011 to maximize investment return and minimize exposure to credit risk. As a result, the Board continued investing in U.S. Treasury bills during 2011. The Board had approximately $80.0 million invested in U.S. Treasury bills as of Dec. 31, 2011.

Net Accounts Receivable

Net accounts receivable consists of uncollected accounting support fees from issuers and brokers and dealers, and annual fees from registered accounting firms, less an allowance for doubtful accounts. Net accounts receivable increased from approximately $41,000 in 2010 to $13.9 million in 2011. The increase was primarily due to the timing of the 2011 broker-dealer accounting support fee that was invoiced in December 2011 and due Jan. 17, 2012. The allowance for doubtful accounts decreased by approximately $10,000. In 2011, the PCAOB wrote off approximately $209,000 of the previously reserved balances related to certain bankrupt issuers. The decrease was partially offset by the allowance for the broker-dealer accounting support fee.

The collection rate for the issuer accounting support fee was approximately 99.9 percent for both 2011 and 2010. Approximately 94.4 and 91.8 percent of the annual fees billed to registered accounting firms were collected as of Dec. 31, 2011, and Dec. 31, 2010, respectively. As of March 14, 2012, the 90-day due date for the invoices, the PCAOB has collected 99.5 percent of the broker-dealer accounting support fee.

FINANCIAL REVIEW

Leasehold incentives represent amounts owed to the PCAOB by its landlords, who have contractually agreed to reimburse the PCAOB for the cost, or a portion of the cost, of leasehold improvements to be made by the PCAOB. Leasehold incentives are recorded when the PCAOB obtains control of the leased space to which the leasehold incentives relate. In November 2011, the PCAOB amended its leases for its headquarters office space in Washington, D.C., to extend through July 2028. As part of these lease amendments, the PCAOB's landlord agreed to provide leasehold incentives totaling approximately $9.9 million, $7.7 million of which relates to currently leased office space. The PCAOB intends to use these incentives for remodeling and renovations.

Furniture and Equipment, Leasehold Improvements and Technology

Net fixed assets were approximately $10.6 million and $10.7 million as of Dec. 31, 2011, and 2010, respectively. Spending on fixed assets decreased from approximately $5.0 million in 2010 to $4.8 million in 2011. Major investments in fixed assets included the replacement of certain hardware components at the end of their projected lives, expenditures to develop a system for billing brokers and dealers, expenditures related to a data management and analysis system, as well as leasehold improvements and furniture for various office expansions.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist primarily of payroll-related liabilities, such as accrued employee leave, annual performance awards and vendor payables. The account balance increased by approximately $5.0 million from $13.9 million as of Dec. 31, 2010, to $18.9 million as of Dec. 31, 2011, primarily due to increases in the accrued employee leave liability and other personnel-related accruals and increases in vendor payables. The increase in employee leave liability is consistent with the increased average leave balances per employee and increased overall number of employees in 2011.

Deferred Rent

As noted above, in 2011, the PCAOB's amended lease agreement for the Washington, D.C. office space provided incentives totaling approximately $7.7 million related to currently occupied office space, which are recorded as deferred rent and amortized over the life of the lease. These incentives contributed to the overall increase in deferred rent of approximately $6.5 million in 2011. The increase was partially offset by the continued amortization of pre-existing incentives from regional office leases.

Statutorily Designated Net Assets

In accordance with Section 109(c)(2) of the Sarbanes-Oxley Act, all funds generated from the collection of civil monetary penalties are to be used exclusively to fund a "merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs." In 2011, the PCAOB awarded 52 scholarships of $10,000 each.

STATEMENTS OF ACTIVITIES

Net Operating Revenue

Total net operating revenue increased by approximately $24.1 million in 2011 compared to 2010 as the Board increased the annual accounting support fee primarily to support a larger budgeted staff, including additional responsibilities for oversight of audits of brokers and dealers. Net operating revenue for 2011 includes the issuer and broker-dealer accounting support fees and registration and annual fees from accounting firms.

Issuer Accounting Support Fee

The issuer accounting support fee is allocated annually to equity and investment company issuers based on their relative average monthly U.S. equity market capitalization during the preceding calendar year. Equity issuers with a market capitalization greater than $25 million and investment company issuers with an average monthly market capitalization, or net asset value, greater than $250 million were invoiced a proportionate share of the accounting support fee.[1] In

1 *In June 2011, the Board adopted technical amendments to its funding rules, revising the basis for calculating an issuer's market capitalization to include the market capitalization of all classes of the issuer's voting and non-voting common equity. The revised funding rules also increase the average monthly market capitalization thresholds for classes of equity issuers and investment companies. These amendments, which were approved by the SEC in August 2011, will be effective for the assessment of the 2012 issuer accounting support fee.*

2011, equity issuers were assessed approximately 93 percent of the total issuer accounting support fee, and investment company issuers were assessed the remaining 7 percent.

The PCAOB invoiced 9,784 issuers in 2011, compared to 9,215 issuers in 2010. Approximately 40 percent of the issuers billed received invoices for $1,000 or less.

Issuer Accounting Support Fee

	NUMBER OF ISSUERS	
ISSUER FEE RANGES	2011	2010
$100–500	2,138	1,698
$501–1,000	1,752	1,788
$1,001–5,000	3,054	3,012
$5,001–10,000	900	868
$10,001–50,000	1,321	1,289
$50,001–100,000	279	251
$100,001–500,000	285	258
$500,001–1,000,000	30	27
$1,000,001+	25	24
Total	**9,784**	**9,215**

Broker-Dealer Accounting Support Fee

In 2011, the PCAOB funding rules were amended based on the Dodd-Frank Act, to provide for the equitable allocation and assessment among brokers and dealers of an appropriate portion of the accounting support fee. Accordingly, the broker-dealer accounting support fee was allocated to brokers and dealers with an average quarterly tentative net capital greater than $5 million during the preceding calendar year.

The PCAOB invoiced 681 brokers and dealers approximately $14.4 million in 2011. Approximately 38 percent of the brokers and dealers billed received invoices for $1,000 or less. In 2011, the largest 100 invoice amounts comprised approximately 91 percent of the total fee.

2011 Broker-Dealer Accounting Support Fee

BROKER-DEALER FEE RANGES	NUMBER OF BROKERS AND DEALERS
$100–500	100
$501–1,000	159
$1,001–5,000	250
$5,001–10,000	65
$10,001–50,000	65
$50,001–100,000	17
$100,001–500,000	16
$500,001–1,000,000	6
$1,000,001+	3
Total	681

Registration and Annual Fees from Accounting Firms

Fees from accounting firms consist of both registration fees and annual fees. In 2011, the PCAOB assessed annual fees of approximately $1.7 million to 2,406 registered accounting firms. Annual fees are based on firms' headcount and the firms' number of public company audit clients.

Annual Fees from Accounting Firms

	NUMBER OF ACCOUNTING FIRMS	
FEE AMOUNT	2011	2010
$100,000	4	4
$25,000	3	2
$500	2,399	2,438
Total	**2,406**	**2,444**

The PCAOB also receives a one-time registration fee when a public accounting firm applies for registration with the PCAOB. In 2011, the PCAOB collected approximately $71,000 in registration fees from 143 firms, compared to $118,000 in registration fees collected from 308 firms in 2010.

FINANCIAL REVIEW

Other Revenue (Expenses)

Other revenue includes interest income generated from investments, the annual fee assessed to the Financial Accounting Standards Board for serving as its collection agent, and other miscellaneous income, such as civil monetary penalties and reimbursements for the PCAOB's role in supporting the secretariat role of the International Forum of Independent Audit Regulators. In 2011, the PCAOB imposed civil monetary penalties totaling approximately $1.6 million. Other expenses include the funding for the merit scholarships awarded to undergraduate and graduate students enrolled in accredited accounting degree programs.

Operating Expenses

Operating expenses are presented as program and supporting activities in the financial statements. The expenses charged to each program or supporting activity are addressed in the discussion that follows. 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 the years ended Dec. 31, 2011, and 2010, are presented first.

FUNCTIONAL OPERATING EXPENSES	2011	2010
Personnel Costs	$141,712,000	$123,050,000
Travel Expenses	10,903,000	9,464,000
Information Technology-Related Expenses	8,183,000	8,889,000
Depreciation	4,771,000	4,084,000
Other Operating Expenses	24,466,000	21,944,000
Total Operating Expenses	**$190,035,000**	**$167,431,000**

Total operating expenses increased by approximately $22.6 million in 2011 to $190.0 million. Personnel costs increased by $18.7 million, accounting for 83 percent of the net increase in operating expenses. Increases in staffing levels from 600 employees at the end of 2010 to 690 employees at the end of 2011 and pay increases in 2011 were primarily responsible for the increase in personnel expenses. The increases in staffing levels were driven by the Board's new responsibilities for inspecting auditors of brokers and dealers, as well as expanded inspections access in non-U.S. jurisdictions.

A significant portion of the PCAOB's travel expenses are the result of the PCAOB's responsibility for inspecting registered public accounting firms. Inspections travel accounted for approximately 88 percent of the PCAOB's total travel expenses. Increased inspections activity in 2011 was the primary reason for a $1.4 million increase in travel from $9.5 million in 2010 to $10.9 million in 2011.

Information technology-related (IT) expenses, which include telecommunications, non-capitalized hardware and maintenance, data storage, non-capitalized software development and data security maintenance, decreased approximately $700,000 from $8.9 million in 2010 to $8.2 million in 2011. The decrease was primarily due to decreased consulting costs, specifically for a data management and analysis system. Consistent with the accounting treatment for the system's development life cycle, a majority of costs in 2011 were for the design and construction of the system and thus were capitalized as assets. In 2010, most of these costs were related to planning and the finalizing of requirements and therefore were expensed.

Other operating expenses, which include occupancy costs (rent, real estate taxes, maintenance, utilities and security fees), administrative expenses (such as subscriptions, office supplies, printing and copying, and business insurance), and professional and non-IT consulting fees, increased from approximately $21.9 million in 2010 to $24.5 million in 2011. Non-IT consulting fees increased $1.9 million from $5.7 million in 2010 to $7.6 million in 2011 due primarily to outsourced recruiting consultants and expert witnesses supporting litigation activity. Occupancy costs increased from $11.0 million in 2010 to $11.6 million in 2011 due to expansions in existing office locations and increased capacity in satellite office locations. The remaining variance was due to several factors, including increased subscriptions and office supply expenses.

The following are descriptions of program and supporting activity expenses as presented in the financial statements.

Program Activities

The Sarbanes-Oxley Act, as amended, gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies or brokers or dealers; inspection of registered public accounting firms that audit public companies or brokers or dealers; establishment of auditing, quality control, ethics, independence and other standards for registered public accounting firms; and investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards. 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: Office of Research and Analysis and Board and related activities, which include the Office of International Affairs (OIA).

Costs associated with program activities totaled approximately $148.1 million in 2011 (78 percent of total operating expenses) and approximately $129.7 million in 2010 (77 percent of total operating expenses). The increase in costs in 2011 was primarily due to a larger Inspections staff, required to meet new responsibilities for inspecting the auditors of brokers and dealers as well as expanded access to non-U.S. jurisdictions.

Registration and Inspections

Expenses increased approximately $12.6 million to $103.3 million in 2011 from $90.7 million in 2010, due primarily to increased staffing and the related personnel, travel and other expenses.

Enforcement

Expenses of the Division of Enforcement and Investigations increased to approximately $17.9 million in 2011 from $15.6 million in 2010. This approximate $2.3 million increase was related primarily to increased staffing and the related personnel and other expenses and increased consulting and professional fees related to litigation support.

Standard Setting

The Office of the Chief Auditor had a decrease in expenses to approximately $7.1 million in 2011 from $7.2 million in 2010. This decrease was related to decreased personnel expenses resulting from decreased staffing as a result of voluntary staff attrition.

Research and Analysis

The Office of Research and Analysis expenses increased to approximately $10.1 million from $9.1 million in 2010. The expense increase of approximately $1.0 million was related primarily to increased staff and related expenses.

Board and Related Activities

Board and related activities comprise the operations of Board members' offices and OIA. Operating expenses for the Board and related activities increased to approximately $9.7 million in 2011 from $7.2 million in 2010. The increase of approximately $2.5 million was primarily attributable to an increase in personnel expenses resulting from increased staffing and increased travel costs. The PCAOB had a full complement of five Board members and supporting staff for most of 2011 as compared to four Board members for 2010, and OIA increased its staffing in 2011 in support of increased activity to reach cooperative arrangements with certain jurisdictions related to inspections of registered non-U.S. accounting firms.

Supporting Activities

As described below, supporting activities included administration and general expenditures, communications and IT infrastructure, security and telecommunications. In 2011, these activities comprised approximately 22 percent of the total operating expenses of the PCAOB compared to approximately 23 percent in 2010. Total operating expenses of the supporting activities increased by approximately $4.2 million to $41.9 million in 2011 from $37.7 million in 2010. This increase was primarily due to an increase in recruiting costs and IT support costs.

Administration and General

Administration and general operating expenses consisted of expenses related to human resources, finance, general counsel, hearing officer, budget office, compliance and risk management, administration, and internal oversight and performance assurance. Collectively, operating expenses in these areas increased to approximately $21.0 million in 2011 from $18.0 million in 2010. The approximate $3.0 mil-

FINANCIAL REVIEW

lion increase was attributable to increased personnel expenses primarily due to increased consulting costs in support of overall PCAOB recruiting activity and increased staff and related expenses, and increased occupancy costs.

Communications

Communications included expenses related to external relations initiatives, such as public affairs, government relations, Forums on Auditing in the Small Business Environment and Forums on Auditing Smaller Broker-Dealers. Operating expenses decreased approximately $200,000 to $2.5 million in 2011 from $2.7 million in 2010, which was attributable to decreased personnel expenses due to decreased staffing.

Information Technology Infrastructure, Security and Telecommunications

Expenses for IT infrastructure, security and telecommunications include personnel costs and depreciation that were not directly attributable to program activities. In 2011, operating expenses increased approximately $1.4 million to $18.4 million from $17.0 million in 2010. This increase was due to increased personnel expenses that could not be directly attributed to a program activity, increased non-capitalized consulting costs in support of maintenance of existing systems and higher depreciation expense related to IT assets.

Financial Reporting Management and Internal Control over Financial Reporting

The PCAOB's financial reporting management—comprising the chairman, chief administrative officer, deputy chief administrative officer and director of finance—performed an assessment of the PCAOB's internal control over financial reporting and concluded that the PCAOB's internal control over financial reporting was effective as of year-end 2011. The Board also engaged its independent auditor to perform an audit of the PCAOB's internal control over financial reporting, consistent with Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting that Is Integrated with An Audit of Financial Statements.*

INDEPENDENT AUDITORS' 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, 2011, and 2010, 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, 2011 based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of 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 2011 audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

We conducted our 2010 audit 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 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, 2011, and 2010, 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, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
April 5, 2012

STATEMENTS OF FINANCIAL POSITION

December 31, 2011, and 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 23,944,823	$ 20,598,551
Short-term investments	79,996,950	79,986,200
Accounts receivable, net of allowance	13,877,409	41,208
Prepaid expenses and other assets, net of allowance	6,135,747	4,623,053
Leasehold incentives	7,715,835	74,955
Furniture and equipment, leasehold improvements and technology, net	10,613,862	10,690,395
Total Assets	$142,284,626	$116,014,362
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other liabilities	$ 18,940,115	$ 13,850,607
Installment note payable	—	822,890
Obligations under capital leases	41,768	105,650
Deferred rent	12,666,731	6,162,447
Total Liabilities	31,648,614	20,941,594
Unrestricted Net Assets		
Undesignated	108,481,950	93,961,571
Statutorily designated for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act	2,154,062	1,111,197
Total Net Assets	110,636,012	95,072,768
Total Liabilities and Net Assets	$142,284,626	$116,014,362

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

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2011, and 2010

	2011	2010
Changes in Unrestricted Net Assets		
Net operating revenue:		
Issuer accounting support fee	$187,704,262	$177,986,370
Broker-dealer accounting support fee	14,365,600	—
Registration and annual fees from accounting firms	1,685,000	1,698,250
Total net operating revenue	203,754,862	179,684,620
Operating expenses:		
Program activities:		
Registration and inspections	103,339,096	90,661,945
Enforcement	17,877,680	15,613,605
Standard-setting	7,091,446	7,191,839
Research and analysis	10,131,129	9,056,129
Board and related activities	9,677,024	7,152,514
Supporting activities:		
Administration and general	21,007,615	18,006,130
Communications	2,493,489	2,714,480
Information technology infrastructure, security and telecommunications	18,417,146	17,034,050
Total operating expenses	190,034,625	167,430,692
Operating Income	13,720,237	12,253,928
Other Revenue (Expenses)		
Interest income and other	800,142	577,131
Net civil monetary penalties and interest	1,562,865	48
Scholarship payments	(520,000)	—
Total other revenue, net of expenses	1,843,007	577,179
Increase in Unrestricted Net Assets	15,563,244	12,831,107
Unrestricted Net Assets—Beginning of Year	95,072,768	82,241,661
Unrestricted Net Assets—End of Year	$110,636,012	$ 95,072,768

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011, and 2010

	2011	2010
Cash Flows from Operating Activities		
Cash received from issuers	$ 187,913,100	$ 178,183,758
Cash received from accounting firms	1,660,500	1,691,750
Cash received from brokers and dealers	354,900	—
Interest income and other	800,142	577,131
Cash received from civil monetary penalties and interest	1,562,865	48
Statutorily designated cash paid for scholarships	(520,000)	—
Cash paid to suppliers and employees	(182,833,584)	(161,549,254)
Net cash provided by operating activities	8,937,923	18,903,433
Cash Flows from Investing Activities		
Purchases of furniture and equipment, leasehold improvements and technology	(4,758,011)	(4,245,131)
Purchases of short-term investments	(149,979,301)	(89,849,555)
Proceeds from maturity of short-term investments	149,968,551	9,863,355
Net cash used by investing activities	(4,768,761)	(84,231,331)
Cash Flows from Financing Activities		
Payment of installment note payable	(822,890)	—
Net cash used by financing activities	(822,890)	—
Net Increase (Decrease) in Cash and Cash Equivalents	3,346,272	(65,327,898)
Cash and Cash Equivalents—Beginning of year	20,598,551	85,926,449
Cash and Cash Equivalents—End of year	$ 23,944,823	$ 20,598,551
Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities:		
Increase in unrestricted net assets	15,563,244	12,831,107
Reconciliation adjustments:		
Depreciation and amortization	4,770,662	4,084,422
(Increase) decrease in accounts receivable, net of allowance	(13,836,201)	190,888
(Increase) decrease in prepaid expenses and other assets	(1,512,694)	299,265
(Increase) decrease in leasehold incentives	(7,640,880)	102,500
Increase in accounts payable and other liabilities	5,089,508	2,450,405
Increase (decrease) in deferred rent	6,504,284	(1,055,154)
Net Cash Provided by Operating Activities	$ 8,937,923	$ 18,903,433

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. Nature of Activities

The Public Company Accounting Oversight Board (the PCAOB) was established by the Sarbanes-Oxley Act of 2002, as amended (the Sarbanes-Oxley 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 Sarbanes-Oxley Act established the PCAOB as a private, non-profit corporation.

Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), signed into law on July 21, 2010, amended the Sarbanes-Oxley Act to provide the PCAOB with the authority to oversee auditors of brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC) including inspections, enforcement and standard-setting authority. All references in these statements to "brokers" or "dealers" are to SEC-registered brokers and dealers.

Under the Sarbanes-Oxley Act, the SEC has oversight over the PCAOB, including the appointment of Board members, approval of PCAOB 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 Sarbanes-Oxley Act. As part of the annual budget process and pursuant to the Sarbanes-Oxley Act, the Board establishes and the SEC approves an annual accounting 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 accounting principles generally accepted in the United States and are presented pursuant to the Accounting Standards Codification Topic 958, *Not-for-Profit Entities* (ASC 958). Under ASC 958, the PCAOB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The net assets of the PCAOB are not subject to any donor-imposed restrictions, and, therefore, all have been classified as unrestricted in the accompanying statements. In addition, the PCAOB reports unrestricted net assets that are statutorily designated pursuant to Section 109(c)(2) of the Sarbanes-Oxley Act. These assets consist of all funds generated from the collection of civil monetary penalties and any interest earnings thereon, which are to be used, exclusively, to fund the PCAOB's scholarship program.

The PCAOB's operations consist of program activities and supporting activities. The program activities of the PCAOB are: registration and inspections, enforcement, standard setting, research and analysis, and Board and related activities. Costs associated with these program activities include salaries, benefits, rent, program-specific technology costs and other direct operating expenses. Indirect costs, including certain occupancy and depreciation costs, are allocated to program and supporting activities based on numbers of personnel.

Program Activities of the PCAOB

Registration and Inspections. Under the Sarbanes-Oxley Act and the PCAOB's rules, no accounting firm may prepare or issue an audit report for an issuer or an SEC-registered broker or dealer, or play certain roles in those audits, without being registered with the PCAOB. The PCAOB reviews the registration application of each public accounting firm that seeks to register with the PCAOB. If the PCAOB Board approves its application, that registered public accounting firm is subject to the PCAOB's rules and continuing program of inspections. This program assesses firms' compliance with the Sarbanes-Oxley Act, the rules of the PCAOB and the rules of the SEC, as well as professional standards, in connection with firms' performance of audits, issuance of audit reports and related matters involving issuers. A registered firm may also be subject to inspection in the Board's interim inspection program of auditors of brokers and dealers.

Enforcement. The Sarbanes-Oxley 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.

NOTES TO THE FINANCIAL STATEMENTS

Standard Setting. The PCAOB establishes auditing, related attestation, quality control, independence and ethics standards and rules to be followed 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 and offices with assessments of risks that may affect audit quality.

Board and Related Activities. In accordance with the Sarbanes-Oxley Act, the PCAOB Board is responsible for carrying out the PCAOB's 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 Sarbanes-Oxley Act. 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 primarily regarding inspections of foreign registered public accounting firms.

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.

Fair Value of Financial Instruments. The fair values of cash and cash equivalents, accounts receivable, accounts payable and installment notes payable approximate their carrying values due to the short-term nature of these items.

Accounting Support Fee. The Sarbanes-Oxley Act provides for funding of the PCAOB's operations through an accounting support fee assessed on certain issuers whose shares are publicly traded and investment companies (collectively referred to as "issuers") and certain brokers and dealers. The accounting support fee is established annually by the Board based upon the PCAOB's operating budget for each calendar year and any additional amounts required to fund the PCAOB's operations until the subsequent year's accounting support fee is collected, and is subject to SEC approval. The accounting support fee is recognized as operating revenue in the budget year to which it relates.

In 2011, pursuant to the Sarbanes-Oxley Act, the PCAOB equitably allocated its annual accounting support fee between issuers and brokers and dealers. The resulting portions of the accounting support fee were then allocated to eligible issuers and brokers and dealers based on the PCAOB Funding Rules. Fees from issuers and brokers and dealers are recognized as operating revenue in the budget year to which it relates.

Fees from Accounting Firms. All public accounting firms registered with the PCAOB are required to file annual reports, file timely special reports if certain specified events occur, and pay an annual fee. The annual fee covers all costs related to the review and processing of the annual reports and any costs related to processing and reviewing registration applications not covered by registration application fees.

Application fees from registering accounting firms are applied to cover 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 application fees and annual fees from accounting firms as an increase in unrestricted net assets, and all such fees are recognized as operating revenue in the year in which the registrations are approved by the Board.

Net Civil Monetary Penalties and Scholarship Payments. PCAOB sanction orders may impose civil monetary penalties pursuant to the Board's authority under Section 105 of the Sarbanes-Oxley Act. The civil monetary penalties imposed totaled $1,638,000 and $75,000 for the years ended December 31, 2011 and 2010, respectively. Where applicable, the PCAOB records an allowance against civil monetary penalties ordered, but not yet collected. The allowance for civil monetary penalties was $150,000 and $75,000 as of December 31, 2011 and 2010, respectively.

The PCAOB reports all funds generated from the collection of civil monetary penalties (including interest income, net of bank fees) as increases in unrestricted net assets statutorily designated for specified uses in Section 109(c)(2) of the Sarbanes-Oxley Act, and all funding for the merit scholarships is reported as decreases in unrestricted net assets statutorily designated for specified uses in Section 109(c)(2) of the Sarbanes-Oxley Act. In 2011, the PCAOB awarded 52 scholarships of $10,000 each as merit scholarships for undergraduate and graduate students enrolled in accredited accounting degree programs.

Cash Held for Others under Agency Agreement. The PCAOB served as the collection agent for invoicing and collecting the 2011 and 2010 accounting support fee for the Financial Accounting Standards Board (the FASB). The PCAOB's fee for acting as the FASB's collection agent was $209,400 in both 2011 and 2010. This amount is included in interest income and other in the accompanying statements of activities. Other than this, the PCAOB recognizes no revenue related to this relationship and maintains a separate bank account for all fees collected on behalf of the FASB. As of December 31, 2011, and 2010, the PCAOB had $70,647 and $25,886, 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, 2011, and 2010.

Cash and Cash Equivalents. The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in non-interest bearing accounts, allowing for full insurance coverage by the Federal Deposit Insurance Corporation (FDIC) per Section 343 of the Dodd-Frank Act. Section 343 of the Dodd-Frank Act provides temporary insurance coverage for non-interest bearing transactions accounts at all FDIC-insured depository institutions. This temporary insurance coverage ends on December 31, 2012. Cash and cash equivalents included approximately $2.1 million and $1.1 million as of December 31, 2011, and 2010, respectively, to be used for merit scholarships.

The PCAOB maintains substantially all its cash and cash equivalents in non-interest bearing transaction accounts with a major financial institution. Under its arrangement with this financial institution, the PCAOB earns monthly bank rebates that offset various bank fees.

Short-Term Investments. Short-term investments consist of investments in U.S. Treasury bills. As of December 31, 2011, and 2010, the treasury bills were valued at $79,996,950 and $79,986,200, respectively. Interest income earned on these investments was $44,383 and $158,085, during the years ended December 31, 2011, and 2010, respectively.

Leasehold Incentives. Leasehold incentives represent amounts that the PCAOB's landlords have contractually agreed to reimburse the PCAOB for the costs or portions of the costs of leasehold improvements to be made by the PCAOB. These incentives are recognized when the PCAOB obtains control of the leased space to which the incentives relate. As construction is completed, the amounts are capitalized as leasehold improvements. The incentive receivable is reduced as the related construction amounts are paid or reimbursed by the landlord.

Furniture and equipment, leasehold improvements, and technology. 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. Costs to acquire or develop internal-use software that are incurred subsequent to the preliminary project stage are capitalized. Capitalized costs related to internal-use software are amortized over a three-year useful life.

Deferred Rent. The PCAOB recognizes rent on a straight-line basis over the life of its leases. The differences between rent expense recognized and rental payments made as stipulated in the leases are recognized as increases or decreases to deferred rent.

In addition, leasehold incentives obligated to the PCAOB under facilities leases are recorded as deferred rent when the PCAOB obtains control of the leased space to which the leasehold incentives due from the landlord relate. Deferred rent is amortized on a straight-line basis over the lease term as a reduction of rent expense.

NOTES TO THE FINANCIAL STATEMENTS

Unrestricted Net Assets, Undesignated. Unrestricted net assets, undesignated at the end of each year represents the working capital reserve that the PCAOB maintains to fund its operations during the five-month period prior to the invoicing and collection of the accounting support fee for the subsequent year. The amount of reserve includes the residual amount of the annual accounting support fee collected from issuers and, beginning in 2011, brokers and dealers; under spending from budgeted expenditures for the calendar year; and the differences in estimated expenditures due to timing and other factors. Through the annual budget process, unrestricted net assets, undesignated in excess of the necessary working capital reserve are used to reduce that budget year's total accounting support fee.

Taxes. The PCAOB is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The accompanying financial statements include no provision for income taxes.

Reclassification. Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported operating income or unrestricted net assets.

Subsequent Events. In preparing these financial statements, financial reporting management has evaluated subsequent events through April 5, 2012, which represents the date the financial statements were available to be issued.

NOTE 3. Fair Value of Financial Instruments

Short term investments include investments in U.S. Treasury bills with maturities of nine months or less from the purchase date. Total investments, measured at fair value using quoted market prices in active markets for identical assets (level 1), were $79,996,950 and $79,986,200 as of December 31, 2011, and 2010, respectively.

NOTE 4. Accounts Receivable

Accounts receivable consist of the following as of December 31, 2011, and 2010:

	2011	2010
Accounts receivable—issuers	$ 125,837	$ 334,675
Accounts receivable—brokers and dealers	14,010,700	—
Accounts receivable—accounting firms	79,000	54,500
	14,215,537	389,175
Less allowance for doubtful accounts	(338,128)	(347,967)
Accounts receivable, net	$13,877,409	$ 41,208

The allowance for doubtful accounts is an estimate based on financial reporting management's review, specific identification, and, to the extent applicable, the PCAOB's historical experience.

NOTE 5. Furniture and Equipment, Leasehold Improvements and Technology

These assets consist of the following as of December 31, 2011, and 2010:

	2011	2010
Technology		
Hardware	$ 10,197,933	$ 11,794,354
Purchased and developed software	30,410,063	29,764,350
Leasehold improvements	13,170,731	12,023,158
Furniture and equipment	8,687,375	8,123,015
Technology development and facilities construction in process	873,681	86,260
Total	63,339,783	61,791,137
Less accumulated depreciation and amortization	(52,725,921)	(51,100,742)
	$ 10,613,862	$ 10,690,395

Depreciation and amortization expense was $4,770,662 and $4,084,422 for the years ended December 31, 2011, and 2010, respectively.

NOTE 6. Installment Note Payable

Installment note payable as of December 31, 2010, consisted of a non-interest bearing installment note payable to a bank, secured by $1.6 million of related equipment, which was paid in full in June 2011.

NOTE 7. Obligations Under Capital Leases

The PCAOB has entered into agreements to lease certain office equipment. The PCAOB has accounted for these leases as capital leases in accordance with Accounting Standards Codification Topic 840, *Leases.* The cost of the equipment under capital leases is included in the statements of financial position as furniture and equipment, leasehold improvement and technology and was $259,956 as of December 31, 2011, and 2010. Accumulated amortization of the leased equipment was $215,201 and $152,127 as of December 31, 2011, and 2010, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

Minimum lease payments due are as follows:

Total minimum lease payments required	$42,545
Less amount representing interest	(777)
Present value of minimum lease payments	$41,768

YEARS ENDING DECEMBER 31,	
2012	38,969
2013	3,576
	$42,545

Interest expense related to the capital lease transactions was $2,501 and $5,844 for the years ended December 31, 2011, and 2010, respectively.

NOTE 8. Lease Commitments

As of December 31, 2011, the PCAOB occupied office space in Washington, DC; New York, NY; Ashburn, VA; San Mateo, CA; Irvine, CA; Atlanta, GA; Dallas, TX; Chicago, IL; and Denver, CO. All of these offices, other than the Washington, DC office, are under leases that expire from 2013 to 2017. These operating leases include provisions for scheduled rent increases over the respective terms and several include renewal options at the end of the lease terms, which are subject to approval by both parties. In 2011, the PCAOB entered into lease agreements that increased its office space and extended its stay at the Washington, DC office through 2028.

The PCAOB also occupied temporary office space in Charlotte, NC; Boston, MA; Houston, TX; Tampa, FL; Troy, MI; Fort Lauderdale, FL; and Minnetonka, MN, under leases that expire in 2012.

Rent is being expensed using the straight-line method over the respective lease terms. Rent expense under this method was $11,005,429 and $10,413,829 for the years ended

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011, and 2010, respectively. Deferred rent arises from leasehold incentives previously reimbursed or relate to future amounts from the PCAOB's landlord for reimbursements of leasehold improvement costs, as well as the difference each month between the cash rent payment due and the amount that is recorded as straight-lined rent expense. Deferred rent totaled $12,666,731 and $6,162,447 as of December 31, 2011, and 2010, respectively, and is being amortized over the remaining lives of the office leases.

Under its lease extensions for the Washington, DC office, the PCAOB will receive leasehold incentives from the landlord totaling $9,860,145, related to space currently controlled by the PCAOB, as well as additional spaces to come into the PCAOB's control in future years. For 2011, the PCAOB recorded leasehold incentives of $7,715,835 related to space controlled by the PCAOB as of December 31, 2011. These lease agreements impose annual limits on these leasehold incentives due from the landlord, specifying that the PCAOB will receive not more than $3,038,640 in 2012, $3,124,475 in 2013, $1,848,515 in 2014, and $1,848,515 in 2015, some of which will be recognized as deferred rent and leasehold incentives once the PCAOB obtains control of the related spaces.

Minimum rental commitments under the office leases as of December 31, 2011, including the rental commitments for temporary office spaces having remaining lease terms of one year or less, are as follows:

YEARS ENDING DECEMBER 31,	
2012	$ 11,898,586
2013	10,989,177
2014	10,161,480
2015	7,560,335
2016	7,101,551
Thereafter	91,103,107
	$138,814,236

NOTE 9. Retirement Benefit Plan

The PCAOB has a defined contribution retirement plan which covers active employees. For the years ended December 31, 2011, and 2010, the PCAOB matched 100% of employee contributions up to 7% of the eligible compensation. The PCAOB's contributions become fully vested immediately. The PCAOB's contributions to employees' accounts were $6,484,667 and $6,006,463 for the years ended December 31, 2011, and 2010, respectively.

NOTE 10. Statutorily Designated Funds for Specific Uses in Section 109(C)(2) of the Sarbanes-Oxley Act

In 2011, the PCAOB Scholarship Program was established in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act, which provides that funds generated from the collection of monetary penalties imposed by the PCAOB must be used to fund a merit scholarship program for students of accredited accounting degree programs. In July 2011, the Board launched the PCAOB Scholarship Program and awarded 52 merit-based scholarships of $10,000 each to eligible students for the 2011-2012 academic year. The activity of the statutorily designated funds for the years ended December 31, 2011, and 2010, is as follows:

Statutorily designated funds, as of December 31, 2009	$1,111,149
Net civil monetary penalties and interest collected	48
Statutorily designated funds, as of December 31, 2010	$1,111,197
Net civil monetary penalties and interest collected	1,562,865
Less scholarship payments for the 2011-2012 academic year	(520,000)
Statutorily designated funds, as of December 31, 2011	$2,154,062

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

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

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, 2011. 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, 2011.

April 5, 2012

James R. Doty, *Chairman*

Darrell R. Pauley, *Chief Administrative Officer*

William F. Wiggins, *Deputy Chief Administrative Officer*

Bela Daruwala, *Director of Finance*

BOARD RELEASES AND STAFF GUIDANCE ISSUED IN 2011

First Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Order Making Findings and Imposing Sanctions in the Matter of J. Crane CPA, P.C. and James Crane	PCAOB Release No. 105-2011-001	Jan. 19, 2011

Second Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Price Waterhouse, Bangalore, Lovelock & Lewes, Price Waterhouse & Co., Bangalore, Price Waterhouse, Calcutta, and Price Waterhouse & Co., Calcutta	PCAOB Release No. 105-2011-002	April 5, 2011
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Chisholm, Bierwolf, Nilson & Morrill, LLC, Todd D. Chisholm, CPA, and Troy F. Nilson, CPA	PCAOB Release No. 105-2011-003	April 8, 2011
Order Making Findings and Disapproving Registration Application in re Registration Application of RAM Associates	PCAOB Release No. 102-2011-001	May 25, 2011
Public Notice of Disapproval of Registration Application in re Registration Application of Zhonglei (HK) C.P.A. Company Limited	PCAOB Release No. 102-2011-002	June 9, 2011
Adjudicated Disciplinary Order in the Matter of Davis Accounting Group, P.C. and Edwin R. Davis, Jr., CPA	PCAOB File No. 105-2009-004	June 14, 2011
Final Temporary Rule for an Interim Inspection Program for the Audits of Brokers and Dealers	PCAOB Release No. 2011-001	June 14, 2011
Final Funding Rule Amendments for Allocating the Board's Accounting Support Fee Among Issuers, Brokers, and Dealers	PCAOB Release No. 2011-002	June 14, 2011
Update to Staff Questions and Answers on Annual Reporting on Form 2	N/A	June 17, 2011
Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards	PCAOB Release No. 2011-003	June 21, 2011

Third Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Proposed Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards	PCAOB Release No. 2011-004	July 12, 2011
Proposed Auditing Standard on Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards	PCAOB Release No. 2011-005	July 12, 2011
Order Making Findings and Imposing Sanctions in the Matter of Darrin G. Estella, CPA	PCAOB Release No. 105-2011-004	Aug. 1, 2011
Order Making Findings and Imposing Sanctions in the Matter of Peter C. O'Toole, CPA	PCAOB Release No. 105-2011-005	Aug. 1, 2011
Concept Release on Auditor Independence and Audit Firm Rotation	PCAOB Release No. 2011-006	Aug. 16, 2011
Update to Frequently Asked Questions Regarding Issues Relating to Non-U.S. Accounting Firms	N/A	Sept. 16, 2011

Fourth Quarter

DOCUMENT	DOCUMENT NUMBER	DATE
Staff Audit Practice Alert No. 8: Audit Risks in Certain Emerging Markets	N/A	Oct. 3, 2011
Proposed Rule on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits	PCAOB Release No. 2011-007	Oct. 11, 2011
Adjudicated Disciplinary Order in the Matter of Cordovano and Honeck LLP and Samuel D. Cordovano, CPA	PCAOB File No. 105-2010-004	Oct. 12, 2011
Order Making Findings and Imposing Sanctions in the Matter of GLO CPAs, LLLP	PCAOB Release No. 105-2011-006	Nov. 30, 2011
Staff Audit Practice Alert No. 9: Assessing and Responding to Risk in the Current Economic Environment	N/A	Dec. 6, 2011
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Bentleys Brisbane Partnership and Robert John Forbes, CA	PCAOB Release No. 105-2011-007	Dec. 20, 2011
Order Making Findings and Imposing Sanctions in the Matter of Reuben E. Price & Co., Public Accountancy Corp.	PCAOB Release No. 105-2011-008	Dec. 20, 2011
Reproposed Auditing Standard on Communications with Audit Committees and Related Amendments to PCAOB Standards	PCAOB Release No. 2011-008	Dec. 20, 2011

STANDING ADVISORY GROUP

As of Jan. 1, 2012

John L. Archambault	*Senior Partner, Professional Standards and Global Public Policy*	Grant Thornton LLP
Dennis R. Beresford	*Public company board member* *Ernst & Young Executive Professor of Accounting*	Terry College of Business The University of Georgia
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Wayne A. Kolins	*Partner* *Global Head of Audit and Accounting*	BDO USA, LLP BDO International Limited

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Roman L. Weil	*Visiting Professor of Accounting, Taxation and Law*	Stern School of Business New York University
John W. White	*Partner, Corporate Department*	Cravath, Swaine & Moore LLP

Seven organizations have observer status at the meetings of the SAG: the Securities and Exchange Commission, the Financial Accounting Standards Board, the Government Accountability Office, the Department of Labor, the Auditing Standards Board of the American Institute of Certified Public Accountants, the International Federation of Accountants' International Auditing and Assurance Standards Board and the U.S. Federal Financial Institution Regulatory Agencies.

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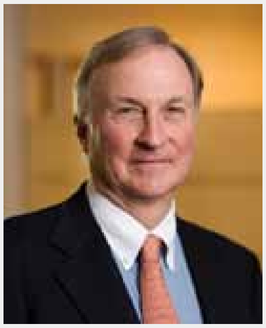
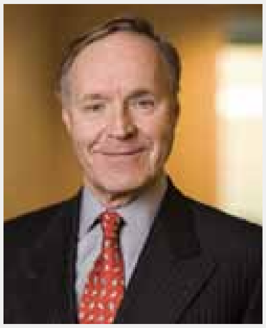
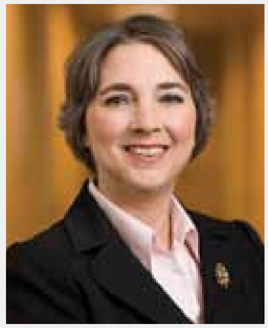


JAMES R. DOTY



LEWIS H. FERGUSON



JEANETTE M. FRANZEL

JAY D. HANSON

STEVEN B. HARRIS

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As of March 5, 2012

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Chairman

Samantha Ross
Special Counsel

Steven Richards
Special Advisor

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Bella Rivshin
Special Advisor

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Karen B. Dietrich
Special Counsel

Steven B. Harris
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Joanne O'Rourke Hindman
Special Advisor

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As of March 5, 2012

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Phoebe W. Brown, Secretary

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Martin F. Baumann, Chief Auditor and Director of Professional Standards

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Claudius B. Modesti, Director

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Darrell Pauley, Chief Administrative Officer

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Peter Schleck, Director

Office of Outreach and Small Business Liaison
Mary M. Sjoquist, Director

Office of Government Relations
Kent Bonham, Director

Office of Public Affairs
Colleen Brennan, Director

PCAOB

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