PCAOB | 15 YEARS

Public Company Accounting Oversight Board

To protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports.

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2017 Annual Report

15 YEARS OF PROTECTING INVESTORS

PCAOB | 15 YEARS

Public Company Accounting Oversight Board

15 years of fulfilling our mission

The PCAOB is a nonprofit corporation established by Congress to oversee the audits 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 PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

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As set out in the Sarbanes-Oxley Act of 2002, the PCAOB performs its work 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 firms to all applicable PCAOB rules, including those requiring registered firms to file annual reports and pay annual fees. At the end of 2017, 1,925 firms were registered with the PCAOB, including 1,036 domestic firms and 889 non-U.S. firms located in 88 jurisdictions.

Inspections

PCAOB inspections assess registered accounting firms' compliance with applicable laws, rules and professional standards in the portions of audits selected for inspection and in firms' systems of quality control. In 2017, the PCAOB examined portions of more than 760 audits of public companies performed by 195 accounting firms. Under an interim inspection program, the PCAOB examined 116 audits of brokers and dealers and the related attestation engagements performed by 75 firms.

Standards

The PCAOB sets auditing and related professional practice standards to strengthen the reliability of audits for investors and other interested parties. In 2017, the PCAOB received approval of its new auditing standard for the auditor's reporting model, which is intended to enhance the relevance and usefulness of the auditor's report by providing additional information to investors and other financial statement users.

Enforcement

The PCAOB 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. Sanctions range from censures to monetary penalties to revocations of registration and bars on auditors' association with registered accounting firms.

From the Chairman

The Public Company Accounting Oversight Board was established by the Sarbanes-Oxley Act of 2002 to oversee the audits 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. Since 2010, the PCAOB's mission has also included overseeing the audits of SEC-registered brokers and dealers to promote investor protection.

William D. Duhnke III, *Chairman*

For more than 15 years, the Board Members and staff of the PCAOB have built this organization and worked tirelessly to fulfill its important mission.

This annual report summarizes the PCAOB's operational and financial results from 2017. It details, by program area, key initiatives carried out under the leadership of former Chairman James R. Doty and former Board Members Steven B. Harris, Lewis H. Ferguson and Jeanette M. Franzel. Their contributions and achievements, for which I thank them, are reflected in this report.

On Dec. 12, 2017, the Securities and Exchange Commission appointed five new members of the Board. This means that 2018 necessarily will be a year of transition for the PCAOB. With change, however, comes opportunity. The new Board fully intends to use this opportunity to examine all aspects of the PCAOB's activities. Every organization should, from time to time, reflect on lessons learned and make improvements where possible. The PCAOB is no exception.

As I begin my tenure as the PCAOB's newest Chairman, I look forward to working cooperatively with my fellow Board Members and our committed staff as we chart a new course for the next 15 years.

William D. Duhnke III, *Chairman*
Public Company Accounting Oversight Board
Washington, D.C.
March 27, 2018

IN MEMORIAM

William J. McDonough served as Chairman of the Public Company Accounting Oversight Board from June 2003 through November 2005. He died in January 2018, 15 years after the PCAOB began operations. The letter he wrote to open the PCAOB's 2003 annual report reflects the inspiration and eloquence with which he led the PCAOB.

From the PCAOB's 2003 Annual Report

I am pleased to present the annual report of the Public Company Accounting Oversight Board, recounting the accomplishments of the Board in the first year of operation of this remarkable organization.

What you will read in these pages is the story of the creation of an unparalleled regulatory body, charged by federal law to build a system of oversight that had never before existed, entailing the registration of public accounting firms, regular inspections of those firms, and provisions for the investigation and discipline of accounting firms that betray the public trust in their audits of publicly traded companies. This new body is required by federal law to set the standards that guide the audits of publicly traded companies and to establish and implement the funding structure that supports its activities.

The events that led Congress to take the radical step of ordering a new oversight regime for the accounting profession are well known: Beginning with the collapse of Enron in late 2001, investors and the American public were beset by a series of corporate failures that undermined confidence in U.S. securities markets and pointed to deep flaws in both corporate and regulatory governance.

The role of auditors in those corporate collapses caused the American people and their representatives in Congress to question—and reject—the existing system for policing of accounting firms, and the Public Company Accounting Oversight Board was conceived.

The PCAOB became reality on July 30, 2002, when President George W. Bush signed the Sarbanes-Oxley Act into law. In addition to creating new oversight of auditors of public companies, the Act prescribed specific steps to address specific failures and codify the responsibilities of corporate executives, corporate directors, lawyers and accountants.

The merits, benefits, cost and wisdom of each of the prescriptions continue to fuel debate. But the context for the passage of the Sarbanes-Oxley Act, and the President's signing it into law, cannot be ignored: Corporate leaders and advisors failed. People lost their livelihoods and their life savings. The faith of America and the world in U.S. markets was shaken to the core.

To help restore faith in the audits of public companies, the Act first required the appointment of the Public Company Accounting Oversight Board, comprising five members "who have a demonstrated commitment to the interests of investors and the public."

I hope that this report on the first year of the PCAOB will leave you with the conviction that not just the Board members, but the entire staff of this new organization have indeed demonstrated their commitment to the interests of investors and the public. None of what is described in these pages could have been accomplished without the dedication and self-sacrifice of a staff that numbered a mere 25 people a year ago.

You may have noticed the lack of a salutation on my letter. We are a private-sector, nonprofit organization, so addressing "shareholders," as you might see in the annual report of a public company, would not be appropriate. The law, in fact, requires that we submit our annual report to the Securities and Exchange Commission, which will then transmit a copy to the committees that created the PCAOB in the U.S. Congress.

I thank our colleagues at the SEC and the members of Congress whose support undergirded our efforts. I believe they would join me in submitting the first annual report of the PCAOB to the people, in the United States and around the world, who look to U.S. securities markets as a model for fairness and reliability. The people will ultimately judge how well we at the PCAOB have done our jobs. I humbly submit that we have done our best to fulfill that awesome responsibility in this first year and that we will continue to do nothing less in the years to come.

—William J. McDonough

Registration

Any accounting firm that prepares or issues an audit report for an issuer or SEC-registered broker or dealer, or plays certain roles in those audits, must be registered with the PCAOB. Issuers, generally, are public companies with SEC reporting obligations.

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 located in multiple jurisdictions.

In 2017, the Board considered and approved registration applications of 43 accounting firms, including 16 non-U.S. firms. The Board disapproved two registration applications, revoked the registration of 20 firms and suspended the registration of one firm. During the year, 111 firms withdrew from registration.

At the end of 2017, there were 1,925 firms registered with the PCAOB, including 1,036 domestic firms and 889 non-U.S. firms located in 88 jurisdictions.

Firms with More than 100 Public Company Audit Clients in 2016

Inspected in 2017 by the PCAOB

BDO USA, LLP	Deloitte & Touche LLP	KPMG LLP	PricewaterhouseCoopers LLP
Cohen & Company, Ltd.	Ernst & Young LLP	MaloneBailey, LLP	RSM US LLP
Crowe Horwath LLP	Grant Thornton LLP	Marcum LLP	

Audit Reports per Registered Firm*

Reports for public companies and mutual funds as of Dec. 31, 2017 (used for planning 2018 inspections)

	U.S.	NON-U.S.	TOTAL
Firms that issued no issuer audit reports	698	692	1,390
Firms that issued audit reports for 1–5 issuers	207	154	361
Firms that issued audit reports for 6–10 issuers	41	21	62
Firms that issued audit reports for 11–25 issuers	47	11	58
Firms that issued audit reports for 26–50 issuers	21	8	29
Firms that issued audit reports for 51–100 issuers	11	3	14
Firms that issued audit reports for >100 issuers	11	0	11
TOTALS	**1,036**	**889**	**1,925**

* Includes audit reports signed by firms with a registration status of Currently Registered, Withdrawal Pending and Registration Suspended as of Dec. 31, 2017.

Broker or Dealer Audits per Registered Firm

For fiscal years that ended during 2016

Number of Broker or Dealer Audits per Firm	Number of Firms
1	155
2–20	286
21–50	23
51–100	9
More than 100	5
TOTAL	**478**

There were 478 registered public accounting firms that issued audit reports on the financial statements of 3,728 brokers and dealers that were filed for fiscal periods ended during 2016. This information is based on the brokers and dealers who filed financial statements through May 15, 2017, for fiscal years ended during 2016 that included audit reports issued by firms registered with the PCAOB at the time of issuance.

Inspections

The PCAOB regularly inspects registered accounting firms that perform audits of public companies and other issuers. In 2017, the PCAOB inspected 195 such firms and examined portions of more than 760 audits.

The PCAOB also conducts an interim program of inspections of firms that audit SEC-registered brokers and dealers. In 2017, the PCAOB inspected 75 such firms, covering portions of 116 audits and the related attestation engagements, and issued its annual report on the interim inspection program, covering inspections during 2016.

PCAOB inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, PCAOB inspections include an evaluation of the firm's performance in selected audit engagements, as well as an evaluation of the design and operating effectiveness of a firm's quality control policies and procedures.

For firms involved in audits of issuers, the PCAOB prepares a report on each inspection and makes portions of each report publicly available, subject to statutory restrictions on public disclosure. In 2017, the PCAOB issued 190 reports on inspections of individual firms.

The PCAOB also publishes general reports and staff inspection briefs that are not firm-specific. General reports provide information and analysis concerning specific audit issues or a summary and analysis of results from inspections of a specified category of firms over a particular period.

PCAOB staff members prepare inspection briefs to assist auditors, audit committees, investors and preparers in understanding the PCAOB inspection process and its results.

During 2017, the PCAOB issued staff inspection briefs previewing the observations of the 2016 inspections of auditors of public companies and other issuers and of auditors of brokers and dealers. The PCAOB also issued staff inspection briefs detailing information about the 2017 inspections of auditors of public companies and other issuers and of auditors of brokers and dealers.

Auditors of Public Companies and Other Issuers

Registered firms that issue audit reports for more than 100 issuers are required to be inspected annually. In 2017, the PCAOB inspected 11 such firms. As part of these inspections, PCAOB inspectors examined portions of more than 330 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. In addition, the PCAOB conducts, in each year, inspections of at least five percent of all registered firms that play a substantial role in the audit of an issuer but do not issue audit reports for issuers. The PCAOB inspected 184 firms in these two categories in 2017, including 60 non-U.S. firms located in 28 jurisdictions. In the course of those inspections, PCAOB staff examined portions of more than 430 audits.

The PCAOB carries out these inspections through two programs. The Global Network Firm Inspection Program is responsible for inspecting the six largest U.S. firms and the non-U.S. members of the international networks with which they are affiliated. Those networks are: BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited. The Non-Affiliate Firm Inspection Program carries out the inspections of the other registered firms.

In 2017, the Global Network Firm Inspection Program inspected 54 firms, including the six largest U.S. firms and 48 non-U.S. firms. The U.S. firms are among the firms that the Board inspects annually, and in 2017 PCAOB inspectors examined portions of more than 270 audits performed by them. The 48 non-U.S. firms are among the firms that are required to be inspected at least triennially, and in 2017 PCAOB inspectors examined portions of more than 140 audits performed by those firms.

In 2017, the Non-Affiliate Firm Inspection Program inspected 141 firms, including 12 non-U.S. firms. Five of those U.S. firms are inspected annually by the Board, and in 2017 PCAOB inspectors examined portions of 60 audits performed by them. Another 124 U.S. firms and 12 non-U.S. firms are among the firms that are required to be inspected at least triennially, and in 2017 PCAOB inspectors examined portions of more than 280 audits performed by those firms.

Inspections *continued*

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

PCAOB inspections staff plan each year's inspections by selecting issuer audits to inspect based largely on an analysis of risk, including risk emanating from economic trends; company or industry developments; audit areas with significant recurring deficiencies; and the audit firm's inspection history.

A staff inspection brief, released Aug. 30, 2017, highlighted the objectives, focus and scope of the PCAOB's 2017 inspections of auditors and certain audits of public companies and other issuers. Key areas of inspection focus in 2017 included:

- Economic factors: Audit areas affected by factors related to current economic conditions, including Brexit and its effect in the European financial sector, the continued high rate of merger and acquisition activity, the search for higher yielding investment returns in a low interest rate environment and the fluctuations in oil and natural gas prices.
- Financial reporting areas: Audit areas that may involve significant judgment from management and/or auditors, such as the auditor's consideration of the entity's ability to continue as a going concern, and income tax disclosures.
- New Form AP reporting requirements: Implementation of new PCAOB audit rules and related amendments designed to provide investors and other financial statement users with information about engagement partners and accounting firms that participate in audits of issuers.
- New accounting standards: Changes firms may have made in their processes and/or the procedures that firms plan to undertake in light of new accounting standards issued by the Financial Accounting Standards Board related to revenue recognition and lease accounting.
- Multinational audits: Work performed by other firms at the request of the principal auditor, as well as audit work performed by the principal auditor with respect to the use of the work of other auditors.
- Information technology: Auditors' use of software audit tools in the audit and audit procedures performed to assess and address risks of material misstatement to the financial statements posed by cybersecurity.
- Firms' systems of quality control: Policies and procedures for (1) identifying the "root causes" of audit deficiencies and positive quality events, (2) monitoring and maintaining independence, (3) performing engagement quality reviews with due professional care, and (4) applying professional skepticism throughout the audit.
- Audit areas in which the most frequent and recurring audit deficiencies were identified in previous inspections, including procedures performed related to the audit of internal control over financial reporting, assessing and responding to risks of material misstatement and auditing accounting estimates.

In February 2017, the PCAOB learned that information about audit engagements selected for an upcoming inspection had come into the possession of the firm to be inspected, KPMG. Upon learning of the breach, the PCAOB immediately investigated the matter and identified inappropriate disclosures by a PCAOB employee, who is no longer with the PCAOB. As the PCAOB's then-Chairman Doty said, "The improper disclosure here was clearly a violation of (the PCAOB's ethics) code and does not reflect the integrity and honor that the majority of PCAOB employees bring to their jobs every day."

In January 2018, the U.S. Department of Justice brought charges, and the SEC initiated enforcement actions against several former KPMG LLP and former PCAOB personnel arising out of this incident and related misconduct. The PCAOB cooperated with and appreciates the government's actions to preserve and reinforce the integrity of the PCAOB's regulatory oversight programs. PCAOB Chairman Duhnke said the government's actions "send a clear signal that the misappropriation of confidential PCAOB information or otherwise undermining the integrity of our programs will not be tolerated."

Immediately upon learning of the breach, the PCAOB Board and staff reviewed and reinforced the PCAOB's safeguards against the improper disclosure of confidential information. In 2018, the new PCAOB Board is reviewing the organization's information technology and security controls, as well as its compliance and ethics protocols, to assess their effectiveness.

Auditors of Brokers and Dealers

On Aug. 18, 2017, the PCAOB issued its annual report on the inspections of auditors of brokers and dealers, covering inspections performed in 2016. This report describes the inspections and observations from the inspections of 75 firms covering portions of 115 audits and the related attestation engagements.

Deficiencies were observed in the audits at 73 of the 75 firms inspected during 2016 and in the related attestation engagements at 46 of the 75 firms. Deficiencies were observed in 96 of the 115 audits covered by the 2016 inspections, an increase to 83 percent from 77 percent in 2015, and in 55 of the 115 related attestation engagements, a decrease from 55 percent in 2015 to 48 percent in 2016.

Inspections staff identified independence findings in 11 audits, all of which were instances in which the auditors were involved in the preparation of the financial statements or performed bookkeeping or other prohibited services, representing 10 percent of the audits covered by the inspections in 2016 compared to seven percent of the audits covered by the inspections in 2015. All audits with independence findings in 2016 were conducted by firms that did not audit issuers.

As set out in the staff inspection brief issued June 29, 2017, inspections of auditors of brokers and dealers in 2017 focused on:

- Auditor independence
- Financial statement audit areas where deficiencies were identified in past inspections, including revenue, the assessment and response to risks of material misstatement due to fraud, financial statement presentation and disclosure, fair value measurements, and related party transactions
- Audit procedures on the supporting schedules that accompany the financial statements
- Procedures for the attestation engagements: the examination of compliance reports and the review of exemption reports
- Engagement quality reviews

Forums on Small Business and Broker-Dealer Auditing

In 2017, the PCAOB continued its educational forums for auditors. The forums provide presentations by Board members and staff from the PCAOB, as well as staff of the SEC and, for auditors of brokers and dealers, staff from the Financial Industry Regulatory Authority.

The PCAOB hosted two Forums on Auditing in the Small Business Environment, drawing more than 300 participants in Los Angeles and New York. The forums included a panel on professional skepticism and case studies on auditing estimates, revenue, related parties and substantive analytical procedures. For the first time, the PCAOB offered a live stream for those unable to attend the forum in New York, reaching more than 360 participants via the internet.

Separately, the PCAOB hosted two Forums for Auditors of Broker-Dealers, drawing 370 participants to Las Vegas and Jersey City. The forums featured a panel on professional skepticism along with a two-part case study on revenue and tests of controls. The PCAOB offered a live stream for those unable to attend the forum in Las Vegas, reaching almost 300 additional participants. In addition, the PCAOB hosted a webinar June 6, 2017, for auditors of brokers and dealers on auditing related party transactions, drawing 594 participants.

Registered Public Accounting Firms by Jurisdiction as of Dec. 31, 2017

Jurisdiction	Number of Registered Firms
United States	1,036
China*	76
India	69
United Kingdom**	59
Canada	40
Germany	39
Australia	38
France	27
Peru, Singapore	24 each
Mexico	22
Chile	20
Spain, Turkey	19 each
Israel, Netherlands	18 each
Argentina, Russian Federation	17 each
Malaysia	16
Brazil, Italy, Japan, Taiwan	15 each
Republic of Korea	13
Ireland, South Africa	12 each
Belgium	11
Colombia	10
New Zealand, Sweden, United Arab Emirates	9 each
Indonesia, Philippines	8 each
Cayman Islands, Denmark, Greece, Switzerland, Ukraine	7 each
Austria, Hungary, Pakistan, Poland, Venezuela	6 each
Czech Republic, Finland, Norway, Portugal, Uruguay	5 each
Bermuda, Bolivia, Costa Rica, Egypt, Luxembourg, Nigeria, Thailand	4 each
Dominican Republic, Kazakhstan, Panama, Paraguay, Saudi Arabia, Vietnam	3 each
Bahamas, Bahrain, Barbados, Ghana, Iceland, Romania	2 each
Armenia, Belize, Curacao, Cyprus, Ecuador, El Salvador, Estonia, Guatemala, Haiti, Jamaica, Kuwait, Libya, Malta, Mauritius, Papua New Guinea, Slovakia, Tanzania, Tunisia	1 each
TOTAL	**1,925**

*The number of registered firms in China includes 35 firms located in Hong Kong.
**The number of registered firms in the United Kingdom includes firms located in Jersey, Isle of Man and the British Virgin Islands.

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. Their auditors, whether located in the U.S. or abroad, must be registered with and inspected by the PCAOB.

The PCAOB has conducted inspections in 50 non-U.S. jurisdictions since non-U.S. inspections began in 2005. In many jurisdictions, the PCAOB is able to conduct inspections without having to enter into a cooperative agreement with the local audit regulator; however, in a number of jurisdictions, such as the European Union member states, such cooperative agreements are required for the PCAOB to conduct inspections of registered auditors from those jurisdictions.

These agreements generally provide a basis for cooperation in 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 enable the PCAOB to exchange confidential information with its non-U.S. counterparts under authority granted to the PCAOB by the Dodd-Frank Act.

In October 2017, the PCAOB entered into a cooperative agreement with the Irish Auditing and Accounting Supervisory Authority.

The PCAOB in 2017 continued to face varying obstacles to conducting inspections of registered firms in five foreign jurisdictions where it is required to inspect. In three European Union member states where the PCAOB is required to inspect (Austria, Belgium and Portugal), the PCAOB remained unable to conduct inspections of registered firms due to asserted restrictions under local law, although the PCAOB made progress during the year on the negotiation of cooperative agreements with these local regulators.

The PCAOB also continued to face obstacles preventing it from conducting inspections in China due to asserted restrictions under local law and objections based on national security and sovereignty. Due to the position taken by the authorities in China, the PCAOB also continued to be prevented from conducting inspections in 2017 of the mainland China-related work of any registered firm in Hong Kong.

Notwithstanding these obstacles, the PCAOB continued in 2017 to engage with the China Securities Regulatory Commission (CSRC) and China's Ministry of Finance (MOF) regarding inspections of PCAOB-registered audit firms based in China and Hong Kong that audit companies listed on U.S. exchanges.

The position taken by authorities in mainland China in some circumstances causes a registered firm located in another jurisdiction to attempt to resist PCAOB inspection of issuer audit work that the firm has performed relating to the issuer's operations in mainland China. Only in mainland China and Hong Kong, however, is the position of the Chinese authorities effectively an obstacle to inspection of all, or nearly all, registered firms in the jurisdiction.

As of Dec. 31, 2017, 41 audit firms in mainland China and 35 audit firms in Hong Kong were registered with the PCAOB. Twenty-two of these firms are required to be inspected because they issue audit reports for issuers, and another six of these firms have reported playing a substantial role in an audit of an issuer.

International Outreach

In December 2017, the PCAOB convened its 11th International Institute on Audit Regulation, drawing approximately 85 officials from auditor oversight bodies and government agencies in 39 non-U.S. jurisdictions and seven international organizations.

The Institute provides a forum for robust dialogue among regulators from all over the world on timely and relevant audit issues that affect investor protection and the health and stability of the global financial markets.

In 2017, the PCAOB continued to serve in various leadership roles with the International Forum of Independent Audit Regulators (IFIAR), including as Chair of IFIAR's Global Audit Quality Working Group and Chair of the Enforcement Working Group. In addition, the PCAOB joined the newly created IFIAR Board upon its establishment in April 2017. The IFIAR Board has primary responsibility for the forum's operations under its revised governance structure.

The PCAOB continued its involvement in 2017 in the activities of various international professional bodies that develop professional standards for auditors. The PCAOB participates on three consultative advisory groups of certain standard-setting boards operating under the auspices of 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.

Economic and Risk Analysis

The Office of Economic and Risk Analysis (ERA) conducts economic analysis, research, risk assessments, and other data analysis to inform PCAOB activities, including standard setting, inspection, enforcement and other oversight activities. ERA applies both quantitative and qualitative approaches to help the PCAOB evaluate issues in a way that maximizes regulatory effectiveness and minimizes unintended consequences.

ERA was created in May 2017 by integrating staff previously assigned to the Center for Economic Analysis, which conducted economic analysis and research, and the Office of Research and Analysis, which conducted risk assessment and data analysis. In so doing, the PCAOB intends to further integrate financial economics and rigorous data analytics into the PCAOB's core mission.

Economic Analysis in Standard Setting

Economic analysis in standard setting encompasses both prospective economic analysis to inform standard setting and post-implementation reviews of previously adopted rules and standards.

ERA conducts prospective economic analysis to ensure that regulatory decisions, including whether to adopt new requirements and impose corresponding burdens, are informed by rigorous economic analysis. ERA economists help tailor solutions to identified problems and provide information and analysis that allows the Board, the SEC and the public to compare the relative merits of different approaches.

In 2017, ERA provided economic analyses for four standard-setting projects: the Auditor's Reporting Model; Supervision of Audits Involving Other Auditors; Auditing Accounting Estimates, Including Fair Value Measurements; and the Auditor's Use of the Work of Specialists. In addition, ERA conducted economic research for projects on the PCAOB research agenda and provided economic input to inform the standard-setting initiative on Going Concern.

Post-implementation reviews complement prospective economic analysis by evaluating significant rulemakings, after a reasonable period of time has passed, to gauge the overall effect of a rule or standard and to gather perspectives on whether rules and standards can be improved.

ERA is in the process of conducting a post-implementation review related to AS 1220, *Engagement Quality Review*. ERA also began planning in 2017 for post-implementation reviews of the rule on Improving Transparency Through Disclosure of Engagement Partner and Certain Audit Participants and the recently adopted rule on the Auditor's Reporting Model.

In addition to its work with standard setting, ERA also applies economic analysis and statistical techniques to enhance other aspects of PCAOB oversight, including inspections and enforcement. For example, ERA conducted economic research in 2017 for the rulemaking project regarding a permanent program for inspections of auditors of brokers and dealers.

Economic Research

Fellowship Program—The PCAOB maintains an Economic Research Fellowship Program that is intended to generate high-quality publishable economic research on topics of direct relevance to the mission of the PCAOB. Among other things, the program provides a way for the Board to obtain an outside perspective in analyzing data collected by the PCAOB through its oversight activities. In 2017, six working papers developed by economic research fellows and staff economists were made public for peer review. These papers, as well as eight others made public in prior years, can be accessed via the PCAOB website. The findings and implications of two of these papers were discussed at the May 24-25, 2017, Standing Advisory Group meeting.

Conference on Auditing and Capital Markets—The PCAOB hosts an annual Conference on Auditing and Capital Markets, organized by ERA in conjunction with the Journal of Accounting Research, to foster high-quality economic analysis on auditing related topics, including the economic impact of auditing and audit regulation on capital markets.

The 2017 conference, held Oct. 26-27 in Washington, D.C., was attended by more than 140 researchers from around the world. Seven research papers, out of more than 80 submitted, were presented at the conference. The conference agenda is available on the PCAOB website.

Emerging Growth Companies—ERA maintains a list of emerging growth companies—a group defined by the Jumpstart Our Business Startups Act (JOBS Act)—together with descriptive statistics regarding their size and activities, for consideration in the standard-setting process. In 2017, ERA published its second white paper summarizing basic characteristics of emerging growth companies.

Risk Assessment

ERA supports the PCAOB's risk-based inspection program by identifying and analyzing emerging audit and accounting issues that present elevated risk of audit failure, including by analyzing macroeconomic and sector risks that may affect the audit and through the use of econometric risk models.

Standards

The PCAOB seeks to establish and maintain high-quality auditing and related professional practice standards for audits of issuers, brokers and dealers in support of the PCAOB's overall mission of protecting investors and furthering the public interest in the preparation of informative, accurate and independent audit reports.

The standard-setting process begins with a PCAOB interdivisional team that considers observations from PCAOB oversight activities, external developments and outreach to identify current or emerging audit issues and inform the Board regarding matters that potentially warrant changes to PCAOB standards or additional staff guidance. The interdivisional team also continues to monitor current or emerging issues throughout the year to identify issues that may merit further consideration. The evaluation of these potential issues may result in a project being added to the PCAOB research agenda.

For each project on the research agenda, a PCAOB interdivisional research team performs research, outreach and economic analysis to assess the need for changes to PCAOB standards; consider alternative regulatory responses; and, if standard setting is needed, evaluate potential approaches. If standard setting is pursued, the project will be added to the standard-setting agenda. If standard setting is not pursued, consideration will be given to whether or not any other action is needed.

The Board uses a notice-and-comment process, whereby proposed changes to PCAOB standards are issued for public comment. Consideration of changes to PCAOB standards also involves conducting an economic analysis and analyzing potential impacts of changes on audits of emerging growth companies. After consideration of comments on a proposal, the Board can seek further comment or adopt the changes with or without revision. Changes to standards and rules adopted by the Board must be approved by the SEC to become effective.

The PCAOB's standard-setting related processes, including identifying current or emerging audit issues, developing the research agenda, and working on standard-setting projects, are informed by a range of activities and outreach, including monitoring of PCAOB oversight activities, consultation with the Board's Standing Advisory Group, input from the Board's Investor Advisory Group, discussions with SEC staff, and consideration of the work of other standard setters such as the International Auditing and Assurance Standards Board, the Financial Accounting Standards Board, and the International Accounting Standards Board.

Approved Standard and Amendments

Auditor's Reporting Model—On June 1, 2017, the Board adopted a new auditing standard, AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion,* to enhance the relevance and usefulness of the auditor's report by providing additional and important information to investors and other financial statement users. The standard and related amendments were approved by the SEC on Oct. 23, 2017.

The standard retains the pass/fail opinion of the existing auditor's report but makes significant changes to the report, including the communication of critical audit matters (CAMs), disclosure of auditor tenure and other improvements. All of the changes, except those relating to CAMs, took effect for audits of fiscal years ending on or after Dec. 15, 2017.

Auditor communication of CAMs is permissible on a voluntary basis but will not be required until audits of fiscal years ending on or after June 30, 2019, for audits of large accelerated filers or Dec. 15, 2020, for audits of all other companies to which the requirements apply.

To assist accounting firms and others with implementation of the changes to the auditor's report, the PCAOB held two webinars on Dec. 12, 2017, and Jan. 10, 2018. In addition, the PCAOB staff issued staff guidance on implementation of changes to the auditor's report that became effective for audits for fiscal years ending on or after Dec. 15, 2017. The guidance was first issued on Dec. 4, 2017, and updated on Dec. 28, 2017. The staff plans to monitor implementation to determine if further guidance may be needed.

Standard-Setting Projects

Auditing Accounting Estimates, Including Fair Value Measurements—On June 1, 2017, the Board issued for public comment a proposed single auditing standard to replace the existing standards for auditing accounting estimates and fair value measurements and proposed other related amendments to PCAOB auditing standards to strengthen and enhance the requirements for auditing accounting estimates, including fair value measurements. The proposed single auditing standard also would include a special topics appendix that addresses auditing the fair value of financial instruments, including the use of information from pricing sources. Accounting estimates are becoming more prevalent and significant as financial reporting frameworks evolve and require greater use of estimates, including those based on fair value measurements. Accounting estimates are some of the areas of greatest risk in the audit, requiring additional audit attention and appropriate application of professional skepticism. Auditing accounting estimates has proven challenging for auditors, as indicated by PCAOB inspections. The proposal emphasizes that auditors need to apply professional skepticism and devote greater attention to potential management bias when auditing accounting estimates. This proposal was issued in conjunction with a companion proposal on the auditor's use of the work of specialists.

The Auditor's Use of the Work of Specialists—On June 1, 2017, the Board issued for public comment proposed amendments to PCAOB auditing standards to strengthen the requirements for the auditor's use of the work of specialists. Many companies employ or engage specialists, such as engineers, to provide information used in the preparation of financial statements. Auditors often use the work of company specialists as audit evidence. Auditors also employ or engage their own specialists to assist in obtaining and evaluating audit evidence. The proposal calls for auditors to devote more attention to areas of the audit where a specialist's work is used by the auditor. This proposal was issued in conjunction with a companion proposal on auditing accounting estimates, including fair value measurements.

Supervision of Audits Involving Other Auditors—On April 12, 2016, the Board issued for public comment amendments to improve the auditing standards that govern the supervision of audits involving other auditors, and a new auditing standard for situations in which the auditor divides responsibility for the audit with another accounting firm. The roles of other accounting firms and individual accountants in audits (collectively, "other auditors") have taken on greater significance with the increasingly global operations of companies. The lead auditor often involves other auditors at various locations of the company, including in areas of the audit where there is a high risk of material misstatement in the financial statements. After consideration of comments received on the proposal and discussions with the Standing Advisory Group, the Board issued a supplemental request for comment Sept. 26, 2017, on revisions to the proposed amendments and standard.

Going Concern—The auditor's evaluation of a company's ability to continue as a going concern is an important part of an audit under PCAOB standards and federal securities law. This project is assessing the need for regulatory action— such as changes to the existing PCAOB standard on the auditor's going concern evaluation, staff guidance or other actions—in light of changes in the relevant accounting requirements and concerns from investors about the effectiveness of auditor going concern reporting. The staff plans to continue its research and outreach activities, including monitoring the effect on audits of the changes to the relevant accounting standards. For audits under PCAOB standards, the applicable requirements are provided in AS 2415, Consideration of an Entity's Ability to Continue as a Going Concern, and guidance is provided in Staff Audit Practice Alert No. 13.

Staff Audit Practice Alert

Matters Related to Auditing Revenue from Contracts with Customers—On Oct. 5, 2017, the PCAOB published a staff audit practice alert to assist auditors in applying PCAOB standards when auditing companies' implementation of the new revenue accounting standard from the Financial Accounting Standards Board.

Staff Audit Practice Alert No. 15, *Matters Related to Auditing Revenue from Contracts with Customers,* highlights PCAOB requirements for audits of a company's implementation of the new revenue accounting standard, including transition disclosures and transition adjustments, internal control over financial reporting, fraud risks, revenue recognition and disclosures. The PCAOB will continue to monitor the auditing of revenue as part of its ongoing oversight activities.

Other Staff Guidance

Auditor Reporting of Certain Audit Participants—
Disclosures on Form AP of the engagement partner were required beginning with audit reports issued on or after Jan. 31, 2017. Disclosure on Form AP of other accounting firms participating in the audit began for audit reports issued on or after June 30, 2017.

To continue assisting audit firms with implementation of the rules, in January and February 2017, the PCAOB published updates to its June 26, 2016, Staff Guidance—Form AP, *Auditor Reporting of Certain Audit Participants* and Related Voluntary Audit Report Disclosure Under AS 3101, *Reports on Audited Financial Statements*. On Oct. 18, 2017, the PCAOB held a webinar on disclosure requirements regarding information about other accounting firms as well as general filing requirements and when to amend Form AP.

Research Projects

The following projects were on the PCAOB research agenda as of Dec. 31, 2017:

Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities—The staff is exploring whether there is a need for changes to PCAOB quality control standards—including improvements related to assignment and documentation of firm supervisory responsibilities—that would prompt firms to improve their quality control systems and more proactively identify and address emerging risks and deficiencies, thereby enhancing audit quality.

Changes in the Use of Data and Technology in the Conduct of Audits—The staff is exploring whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions in light of increased use of new and emerging technology-based tools. In November 2017, the Board approved the formation of a task force to assist the staff in assessing current and emerging audit practices. In addition, as part of the project's outreach activities, this topic was discussed at the May 2017 and November 2017 SAG meetings.

The Auditor's Role Regarding Other Information and Company Performance Measures, Including Non-GAAP Measures—The staff is exploring the need for changes to the auditing standards, including the standard on other information in documents containing audited financial statements, in response to the use of company performance measures such as non-GAAP financial measures and operating measures. As part of the project's outreach activities, this topic was discussed at the October 2017 IAG and November 2017 SAG meetings.

Auditor's Consideration of Noncompliance with Laws and Regulations—The staff is exploring the need for improvements to the auditing standards to provide better direction to auditors regarding their responsibilities with respect to illegal acts. As part of the project's outreach activities, this topic was discussed at the October 2017 IAG and November 2017 SAG meetings.

Advisory Groups

The Sarbanes-Oxley Act authorizes the Board to convene expert advisory groups to make recommendations concerning auditing, quality control, ethics, independence or other standards.

Under that authority, the Board created the Standing Advisory Group in June 2003 and the Investor Advisory Group in July 2009. Their meetings are held in Washington, D.C., and are open to the public. Details of the meetings, including archived webcasts, briefing papers and presentations, are available on the PCAOB's website.

Standing Advisory Group members provide views to the PCAOB on the development of auditing and related professional practice standards and on other aspects of the Board's programs. The advisory group includes auditors, investors and public company executives.

At a meeting May 24–25, 2017, SAG members discussed, among other things, the use of data and technology in the conduct of audits; emerging issues that may affect audits, auditors, or the work of the PCAOB; and research conducted by former fellows in the PCAOB Office of Economic and Risk Analysis.

At a meeting Nov. 29–30, 2017, SAG members discussed, among other things, professional skepticism, audit quality indicators, PCAOB research projects, comments received on standard-setting proposals, and the recent rulemakings by the Financial Accounting Standards Board and their effects on audits. SAG members also received updates on the activities of the International Auditing and Assurance Standards Board.

Investor Advisory Group members provide views and advice to the Board on broad policy issues and other matters that affect investors and are related to the work of the Board. Members of the IAG represent a wide range of professionals within the investor community.

At a meeting Oct. 24, 2017, members of IAG working groups presented reports summarizing their views and initiating discussions on non-GAAP financial measurements; an auditor's consideration of a client's noncompliance with laws and regulations; and audit quality initiatives.

Enforcement

The Board uses its investigative authority to address serious audit deficiencies that pose significant risks to investors and other potential violations of the federal securities laws and rules. The Board uses its disciplinary authority to sanction auditors who fail to meet their professional obligations and to demonstrate the consequences of such failures. The Board also takes disciplinary action against auditors who undermine the Board's regulatory processes, such as by failing to cooperate in a Board inspection or investigation.

The Board made public 54 settled disciplinary orders in 2017, revealing sanctions on auditors ranging from censures to monetary penalties to revocations of registration and bars on association with registered accounting firms.

The settled orders included one imposing a $1.5 million penalty against Grant Thornton LLP for violations of the Board's quality control standards and an audit failure in the audit of a public company. In two separate cases, monetary penalties of $1 million each were imposed against the Indonesian member firm of the Ernst & Young global network for audit failure, noncooperation and violations of the Board's quality control standards and against PricewaterhouseCoopers LLP for violations in its examination and audit of a broker-dealer's compliance report.

In those cases, as in many others, the firms agreed to the disciplinary orders without admitting or denying the Board's findings. When accompanied by appropriate settlement terms, this practice is a useful mechanism for promptly resolving matters, particularly in light of the fact that the Board's litigated disciplinary proceedings are nonpublic by law. As a result, the Board has allowed most respondents to settle without admitting or denying the findings. In 2017, 13 firms and individuals made at least partial admissions to the findings in their orders.

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 unless the Board finds good cause to make them public and all parties consent to open them to the public. The PCAOB routinely seeks the consent of the parties to litigated disciplinary proceedings to make the proceedings public. To date, no party has provided such consent.

Even after the PCAOB's hearing officer issues an initial ruling that the alleged violations occurred, and the Board has acted on an appeal, if any, the matter may still remain unknown to the public at least until the case is appealed to the SEC or the opportunity for SEC review has passed. In 2017, the final outcome of one adjudicated disciplinary proceeding was made public.

As of Dec. 31, 2017, Board disciplinary proceedings involving formal allegations of misconduct involving five firms and five individual auditors were pending but could not be publicly disclosed by the Board because of the statutory restriction.

- The Sarbanes-Oxley Act of 2002 requires that monetary penalties imposed by the PCAOB in its disciplinary proceedings be used to fund a merit scholarship program for students in accredited accounting degree programs.
- On Aug. 2, 2017, the PCAOB announced that it would award a $10,000 scholarship to one student at each of 167 colleges and universities for the 2017-2018 academic year.

Disciplinary Orders Related to Audits of Issuers

In 2017, the PCAOB made public 32 settled disciplinary orders related to the performance of audits of issuers. Unless otherwise noted, the respondents neither admitted nor denied the Board's findings. Among the cases:

- The Board censured and imposed a $1 million civil penalty on KAP Purwantono, Sungkoro & Surja, the Indonesian member firm of the Ernst & Young global network, for audit failure, noncooperation and violations of the Board's quality control standards in connection with the 2011 audit of an Indonesian telecommunications company. The disciplinary order was announced Feb. 9, 2017.

  Roy Iman Wirahardja, the 2011 engagement partner, was censured, fined $20,000, and barred for five years from association with a PCAOB-registered public accounting firm for his role in the audit failure and for noncooperation with a Board inspection and investigation. He is no longer associated with EY Indonesia.

  James Randall Leali, former professional practice director for the EY network's Asia-Pacific region, was censured, fined $10,000 and restricted for one year from serving as an engagement partner, an engagement quality reviewer or professional practice director.

- The Board sanctioned a former partner of PricewaterhouseCoopers Auditores Independentes in Brazil for audit failures and violations of PCAOB rules and standards in an order announced March 20, 2017.

  Wander Rodrigues Teles was the lead partner for PwC Brazil's 2010 and 2011 audit work on the Brazilian subsidiaries of Sara Lee Corp., including Sara Lee Cafés do Brasil Ltda. The Board found that Teles failed to adequately respond to indications that Sara Lee Cafés may have overstated its accounts receivable. Teles was censured, fined $10,000, and barred for two years from associating with a registered public accounting firm.

- In an order released March 29, 2017, the Board announced sanctions against the former chairman and the former chief executive officer of Brazil-based Deloitte Touche Tohmatsu Auditores Independentes (Deloitte Brazil) for violations related to failures to cooperate with a Board investigation. Neither is currently associated with Deloitte Brazil.

  In December 2016, the PCAOB announced an $8 million civil penalty against Deloitte Brazil to settle charges that the firm issued materially false audit reports and attempted to cover up audit violations by improperly altering documents and providing false testimony to investigators.

  In the March 2017 order, the Board found that Michael John Morrell, the former chairman of Deloitte's governing body in Brazil, contributed to the firm's failure to cooperate with a PCAOB investigation. The Board censured Morrell, barred him from associating with a PCAOB-registered firm for five years and imposed a civil penalty of $35,000.

  The Board sanctioned Juarez Lopes de Araújo, the former CEO and managing partner of Deloitte Brazil, for refusing to testify in the PCAOB investigation about any knowledge he had of the firm's provision of false documents and information. The Board censured Araújo and permanently barred him from associating with a PCAOB-registered firm.

- On July 25, 2017, the PCAOB announced sanctions against the Hong Kong-based audit firm Crowe Horwath (HK) CPA Limited for refusing to cooperate with a Board investigation of the firm's audits of a China-based issuer. The firm consented to the sanctions and admitted to the facts, findings and violations in the order. Crowe Horwath HK's registration was revoked with a right to reapply after three years. The firm also was censured.

- The Board censured and imposed a $1.5 million civil penalty on Grant Thornton LLP for quality control violations and violations of audit standards in an order announced Dec. 20, 2017. This was the first case finding quality control violations by a U.S.-based member of a global network firm. The Board found, among other things, that Grant Thornton knew that two partners in the financial services practice based in Philadelphia had failed to properly perform audits in prior years, yet continued to allow them to serve as engagement partners, without sufficient support or monitoring, when it assigned them to serve as engagement partners on two separate 2013 public company audits. The Board also found that Grant Thornton violated PCAOB auditing standards in one of those audits, the 2013 audit of Bancorp Inc.

  The Board found that David Burns, a former Grant Thornton partner who served as the engagement partner for the 2013 Bancorp audit, violated PCAOB auditing standards in that audit. The Board censured Burns, barred him from associating with a PCAOB registered firm for one year, with further limits on his auditing activities for an additional year, and ordered him to pay a $15,000 penalty.

- On Dec. 20, 2017, the Board announced sanctions against the Turkey-based member of the Deloitte global network, DRT Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.Ş. (Deloitte Turkey), for failure to cooperate with a board inspection, as well as quality control, ethics and audit documentation violations. The Board found that Deloitte Turkey devised and implemented a plan to improperly alter documents in advance of the PCAOB's first inspection of the firm in 2014. Deloitte Turkey was censured, ordered to pay a penalty of $750,000 and ordered to undertake remedial measures. Deloitte Turkey self-reported the matter to the PCAOB and both the firm and the two individual respondents in the case were given credit for extraordinary cooperation.

Berkman Özata, Deloitte Turkey's national professional practice director from 2010 to 2016, who was involved in devising the plan to alter documents, was censured and barred from associating with a PCAOB-registered accounting firm for two years.

Şule Firuzment, a Deloitte Turkey partner who altered numerous documents, was suspended from associating with a PCAOB-registered accounting firm for one year, and restricted for an additional year from serving as an engagement partner or an engagement quality reviewer.

Disciplinary Orders Related to Audits of Brokers and Dealers

In 2017, the PCAOB made public 14 settled disciplinary orders related to the performance of audits of brokers and dealers. Of those orders, six related to violations of SEC independence criteria that prohibit auditors from preparing and auditing a client's financial statements. Among the other cases:

- In an order released June 27, 2017, the PCAOB imposed sanctions on New York-based Fulvio & Associates, L.L.P. in connection with the firm's 2014 audit and examination engagement of Vision Financial Markets LLC (VFM). The case was the first brought by the PCAOB in connection with the audit and examination of a carrying broker-dealer (a broker-dealer that maintains custody of customer assets), as well as the first order charging violations of PCAOB Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers,* and PCAOB Auditing Standard No. 7, *Engagement Quality Review.*

  The Board found that the audit firm violated AT 1 by failing to develop a sufficient basis for its opinion that VFM's assertions in its 2014 compliance report were fairly stated concerning, among other things, the effectiveness of VFM's internal controls over compliance with the SEC's financial responsibility rules. In addition, the firm, among other things, violated PCAOB standards by failing to obtain sufficient audit evidence regarding two supporting schedules that VFM was required to file to report on its compliance with the SEC's financial responsibility rules.

  The Board censured the firm, revoked its registration with right to reapply in one year and imposed a $20,000 civil penalty against the firm. The engagement partner, Kenneth Werner, and senior manager on the audit, Kevin Clark, were barred from associating with a registered accounting firm for two years and one year, respectively, for improperly altering audit documentation and failing to cooperate with the Board's inspection. Werner was assessed a $10,000 penalty.

  The Board found that the engagement quality reviewer, Gennaro Fulvio, violated AS 7 by failing to obtain and evaluate any audit documentation with respect to the significant judgments made in either the firm's audit or the examination. The Board censured Fulvio and prohibited him from serving in certain capacities in any audit for one year.

- On Aug. 2, 2017, the PCAOB announced a $1 million civil penalty against PricewaterhouseCoopers LLP for violations in its examination and audit of Merrill Lynch, Pierce, Fenner & Smith Inc.'s compliance with the Securities and Exchange Commission's Customer Protection Rule.

  In June 2016, the SEC found that for several years, including fiscal year 2014, Merrill Lynch held tens of billions of dollars of its customers' fully paid and excess margin securities in accounts that were subject to liens by third parties, in violation of the Customer Protection Rule.

  The Board found that, in February 2015, PricewaterhouseCoopers issued audit and examination reports without obtaining sufficient evidence about Merrill Lynch's compliance assertions, as required by PCAOB auditing and attestation standards.

Administration

The Sarbanes-Oxley Act of 2002 established the PCAOB as a nonprofit, non-governmental corporation that does not receive federal appropriations for its operations. Under the provisions of the Sarbanes-Oxley Act, as amended by the Dodd-Frank Act, the PCAOB is primarily funded by fees collected from issuers and brokers and dealers registered with the Securities and Exchange Commission.

Each year, the PCAOB develops a strategic plan that guides the PCAOB's operations and programs, as well as the development of its budget. The PCAOB's strategic plan for 2016-2020, which supported the 2017 budget, focused on, among other areas: consolidating and strengthening economic and risk analysis and further integrating this program area with other PCAOB oversight programs; further improving the standard-setting program; developing the approach to inspections of broker-dealer auditors under a permanent program; continuing to identify ways to further automate, streamline and improve PCAOB processes; and pursuing a diversity and inclusion project to foster a culture of inclusion, collaboration and innovation within the PCAOB workforce.

SEC Oversight

The Sarbanes-Oxley Act gives the SEC oversight authority over the PCAOB, including authority for appointing and removing Board members, as well as responsibility for reviewing and approving the PCAOB's annual budget and accounting support fee.

On Dec. 12, 2017, the SEC announced the appointment of William D. Duhnke III as Chairman of the PCAOB and J. Robert Brown, Kathleen M. Hamm, James G. Kaiser and Duane M. DesParte as Board Members.

PCAOB rules, including its auditing and related professional practice standards, do not go into effect until approved by the SEC. In addition, adverse PCAOB inspection reports and disciplinary actions against registered firms and their associated persons are subject to review by the SEC.

Budget

On Nov. 17, 2016, the Board adopted its strategic plan for 2016-2020 and its 2017 budget of approximately $268.5 million. The SEC approved the 2017 budget and accounting support fee on Dec. 14, 2016.

On Nov. 16, 2017, the Board approved its 2018 budget of approximately $259.9 million and its 2017-2021 strategic plan. The 2018 budget is $8.6 million, or 3.2 percent, less than the 2017 budget. The SEC approved the PCAOB's 2018 budget and accounting support fee on Jan. 10, 2018.

Staffing

The PCAOB's staff totaled 785 as of Dec. 31, 2017, and worked in 16 offices during 2017, including the headquarters in Washington, D.C. More than 60 percent of the PCAOB's staff work in the Division of Registration and Inspections.

Information Technology

In 2017, the PCAOB continued its focus on enhancing the existing technology environment through the use of user experience design and business process reengineering. It implemented a new time and attendance system; started piloting and continued to iteratively develop an integrated, secure portal for the exchange of information with registered firms; and launched a multi-year effort to upgrade its funding systems. In addition, the PCAOB continued to adjust its information security posture in response to evolving cybersecurity threats.

Internal Oversight and Performance Assurance

The Office of Internal Oversight and Performance Assurance (IOPA) 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 reviews allegations of wrongdoing by PCAOB employees that it may receive.

IOPA conducts its performance reviews in accordance with Government Auditing Standards, which provide a framework for conducting high-quality audits with competence, integrity, objectivity and independence.

In 2017, IOPA completed a review of the PCAOB's regional office space utilization. Summaries of IOPA's completed performance reviews are transmitted to the Chair and Commissioners of the SEC and posted on the PCAOB's website.

Funding

The PCAOB's funding is derived from accounting support fees, registration fees and annual fees.

Under the Sarbanes-Oxley Act, as amended by the Dodd-Frank Act, the PCAOB budget provides for the assessment of an accounting support fee paid by issuers as well as SEC-registered brokers and dealers. (Issuers, generally, are public companies with SEC reporting obligations.) The total accounting support fee for 2017 was approximately $268 million, with approximately $232.6 million allocated to issuers and $35.3 million to brokers and dealers.

The Sarbanes-Oxley Act, as amended, requires the PCAOB to assess and collect a registration fee and an annual fee from each registered public accounting firm in amounts that are sufficient to recover the costs of processing and reviewing applications and annual reports.

Issuer Accounting Support Fee—The issuer accounting support fee is allocated annually to issuers based on their relative average, monthly U.S. equity market capitalization during the preceding calendar year.

In 2017, equity issuers with an average, monthly market capitalization greater than $75 million during the preceding calendar year and investment company issuers with an average, monthly market capitalization, or net asset value, greater than $500 million during the preceding calendar year were allocated shares of the issuer accounting support fee. In 2017, equity issuers were assessed approximately 93.2 percent of the total issuer accounting support fee, and investment company issuers were assessed the remaining 6.8 percent, similar to the allocations in 2016.

The PCAOB invoiced 8,455 issuers approximately $232.6 million in 2017, compared to 8,780 issuers invoiced approximately $220.8 million in 2016. Approximately 28.4 percent of the issuers billed in 2017 received invoices for $1,000 or less.

Issuer Accounting Support Fee

Assessment Range	**Number Of Issuers**	
	2017	**2016**
$100-500	648	808
$501-1,000	1,755	1,818
$1,001-5,000	3,009	3,097
$5,001-10,000	889	922
$10,001-50,000	1,419	1,416
$50,001-100,000	323	315
$100,001-500,000	337	334
$500,001-1,000,000	42	39
$1,000,001+	33	31
Total	**8,455**	**8,780**

Broker-Dealer Accounting Support Fee—The broker-dealer accounting support fee is allocated annually to SEC-registered brokers and dealers based on their relative average, quarterly tentative net capital during the preceding calendar year. In 2017, SEC-registered brokers and dealers with average, quarterly tentative net capital greater than $5 million during the preceding calendar year were allocated shares of the broker-dealer accounting support fee.

The PCAOB invoiced 659 brokers and dealers approximately $35.3 million in 2017, compared to 661 brokers and dealers invoiced approximately $32.4 million in 2016. In 2017, approximately 10.9 percent of the brokers and dealers billed received invoices for $1,000 or less, and the largest 100 invoice amounts comprised approximately 92.4 percent of the total broker- dealer accounting support fee.

Broker-Dealer Accounting Support Fee

Assessment Range	**Number of Brokers And Dealers**	
	2017	**2016**
$100-500	—	—
$501-1,000	72	106
$1,001-5,000	330	305
$5,001-10,000	74	82
$10,001-50,000	117	103
$50,001-100,000	20	16
$100,001-500,000	29	33
$500,001-1,000,000	9	6
$1,000,001+	8	10
Total	**659**	**661**

Annual and Registration Fees from Accounting Firms—In 2017, the PCAOB assessed annual fees totaling approximately $1.5 million to 1,983 registered public accounting firms, compared to approximately $1.5 million to 2,061 registered firms in 2016. Annual fees are determined based on each firm's headcount and the number of issuer audit clients.

Annual Fees from Accounting Firms

Fee Amount	**Number of Accounting Firms**	
	2017	**2016**
$100,000	4	4
$25,000	3	3
$500	1,976	2,054
Total	**1,983**	**2,061**

In 2017, the PCAOB collected approximately $34,000 in registration fees from 68 firms, compared to $37,500 in registration fees collected from 75 firms in 2016.

Financial Review

Overview

This financial review, together with the 2017 audited financial statements and the accompanying notes, provides financial information related to the PCAOB's programs and activities described in other sections of this annual report.

The PCAOB is a nonprofit corporation established under the Sarbanes-Oxley Act of 2002, as amended, (the Sarbanes-Oxley Act) to oversee the audits 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 PCAOB also oversees the audits of SEC-registered brokers and dealers, as well as examinations of compliance reports and reviews of exemption reports, to further promote investor protection.

The Sarbanes-Oxley Act gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies or SEC-registered brokers or dealers; inspection of registered public accounting firms; establishment of auditing, quality control, ethics, independence and other standards for registered public accounting firms; and investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards. In the Statements of Activities, the registration and inspection responsibilities are presented together as one program activity for financial reporting purposes. The other program activities presented for these purposes are: enforcement, standard setting, economic and risk analysis, and Board and related activities.

In addition, the Statements of Activities include the following supporting activities: administration and general, communications, and information technology. "Administration and general" includes costs associated with the Office of Administration, the Office of the General Counsel and the Office of the Chief Hearing Officer, and the Office of Internal Oversight and Performance Assurance. "Communications" includes costs associated with the Office of Outreach and Small Business Liaison, the Office of Government Relations and the Office of Public Affairs. "Information technology" includes costs associated with the Office of Information Technology.

The PCAOB obtains its funding from three sources: accounting support fees assessed on issuers and SEC-registered brokers and dealers; annual fees paid by registered public accounting firms; and registration fees paid by firms seeking registration with the PCAOB.

Summary of Operations

The following table provides an overall summary of the PCAOB's operations for the years ended Dec. 31, 2017, and 2016:

(in millions)	2017	2016
Net revenues	$ 269.4	$ 254.7
Total operating expenses	(253.2)	(249.7)
Operating income	16.2	5.0
Interest income and other	1.4	0.2
Net civil monetary penalties and interest	4.9	9.5
Scholarship payments	(1.7)	(0.7)
Increase in unrestricted net assets	**$ 20.8**	**$ 14.0**

Net revenues increased by $14.7 million or 5.8%, due to a larger accounting support fee for 2017 as compared to 2016 primarily due to an increase in the PCAOB's budget to fund an increase in headcount, compensation- and benefit-related expenses, and travel-related expenses. The accounting support fee is calculated based on an estimate of annual expenses and an estimate of expenses for the first five months of the subsequent year, net of cash on hand and certain other adjustments.

Expenses increased by $3.5 million or 1.4%. See the Expenses section below for the primary drivers of the net increase in expenses in 2017 as compared to 2016.

Financial Review *continued*

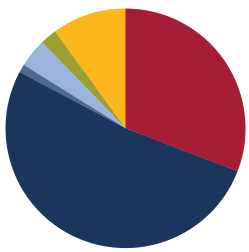
As of Dec. 31, 2017, the PCAOB had net assets of $157.4 million, as compared to net assets of $136.6 million at Dec. 31, 2016. The PCAOB has not incurred any debt; however, there are operating lease obligations with future minimum lease payments totaling $177.4 million through 2028.

ASSETS

The PCAOB's total assets increased by $20.5 million from $183.0 million at Dec. 31, 2016, to $203.5 million at Dec. 31, 2017, primarily due to an overall increase in cash and cash equivalents and furniture and equipment, leasehold improvements, and technology.

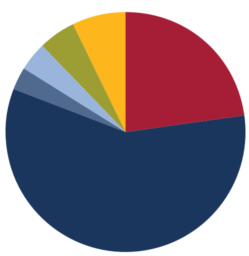
Assets by Type
As of Dec. 31, 2017

31% Cash and cash equivalents
52% Short-term Investments
1% Accounts & other receivables
4% Prepaid expenses & other assets
2% Leasehold incentives
10% Property and equipment



Assets by Type
As of Dec. 31, 2016

23% Cash and cash equivalents
58% Short-term Investments
3% Accounts & other receivables
4% Prepaid expenses & other assets
5% Leasehold incentives
7% Property and equipment



Assets by Type as of Dec. 31, 2017 and 2016:

(in millions)	2017	2016
Cash and cash equivalents	$ 62.2	$ 42.9
Short-term investments	106.9	106.0
Accounts and other receivables, net	1.7	4.5
Prepaid expenses and other assets	9.0	7.4
Leasehold incentives	4.3	9.5
Furniture and equipment, leasehold improvements, and technology, net	19.4	12.7
Total assets	**$203.5**	**$183.0**

Cash and Cash Equivalents

The PCAOB's cash inflows are cyclical because the majority of cash is generally collected in the second quarter of the year from assessments of the issuer accounting support fee and annual fees paid by registered firms. Assessments of the broker-dealer accounting support fee generally occur in the fourth quarter of the year. The timing of cash inflows requires the PCAOB to maintain a sufficient cash balance to fund its operations for the first five months of the subsequent year.

Cash and cash equivalents increased $19.3 million from $42.9 million at Dec. 31, 2016, to $62.2 million at Dec. 31, 2017. This increase is due to a larger accounting support fee in 2017, an increase in civil monetary penalties collected, and less spending than budgeted.

At Dec. 31, 2017 and 2016, cash and cash equivalents included $14.9 million and $8.4 million, respectively, which have been statutorily designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act.

Short-Term Investments

The PCAOB's short-term investments represent the largest portion of total assets, approximately 52.5% as of Dec. 31, 2017, and 57.9% as of Dec. 31, 2016. As of Dec. 31, 2017, the PCAOB held $106.9 million in investments in U.S. government securities. This represents an increase of $0.9 million from the $106.0 million invested in U.S. government securities as of Dec. 31, 2016.

The short-term investment amount was relatively consistent with the prior year.

Accounts and Other Receivables

Accounts and other receivables consist primarily of uncollected accounting support fees from issuers and brokers and dealers, annual fees from registered accounting firms and enforcement penalties, less an allowance for doubtful accounts. Accounts and other receivables decreased from approximately $4.5 million as of Dec. 31, 2016, to $1.7 million as of Dec. 31, 2017. The decrease is primarily a result of the collection of a $4.0 million civil monetary penalty in 2017 that was outstanding as of Dec. 31, 2016.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets increased by $1.6 million from $7.4 million as of Dec. 31, 2016, to $9.0 million as of Dec. 31, 2017. Generally, the types of prepayments were consistent with those of the prior year, such as for office rent, business insurance, IT software licenses and maintenance expenses, and health insurance premiums. The increase primarily relates to increased IT software and maintenance contracts and an increase in health insurance premium rates.

Leasehold Incentives

Leasehold incentives decreased by $5.2 million from $9.5 million as of Dec. 31, 2016, to $4.3 million as of Dec. 31, 2017. The decrease primarily relates to the use of leasehold incentives for the renovation project in the PCAOB's Washington, D.C., office in 2017.

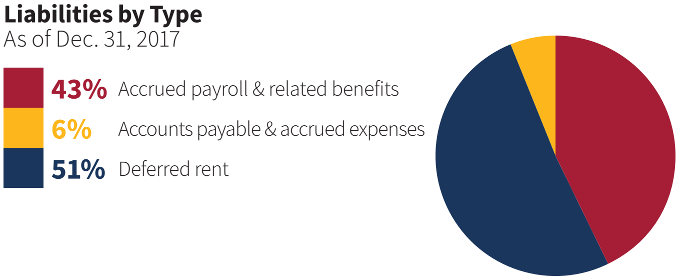
Furniture and Equipment, Leasehold Improvements, and Technology

Furniture and equipment, leasehold improvements, and technology increased from $12.7 million at Dec. 31, 2016, to $19.4 million at Dec. 31, 2017. The increase relates to additions of fixed assets of $10.9 million (including an $8.5 million increase in leasehold improvements and furniture related to construction projects in the PCAOB's Atlanta, Chicago, Dallas, and Washington offices and $2.4 million of hardware and software purchases/costs (including internally developed software costs)) partially offset by depreciation and amortization expenses of $4.1 million.

LIABILITIES

The PCAOB's total liabilities decreased from $46.3 million at Dec. 31, 2016, to $46.1 million at Dec. 31, 2017, or 0.4%, primarily due to decreases in accrued payroll and related benefits and accounts payable and accrued expenses offset by an increase in deferred rent.

Liabilities by Type
As of Dec. 31, 2017



Liabilities by Type
As of Dec. 31, 2016

Liabilities by Type as of Dec. 31, 2017 and 2016:

(in millions)	2017	2016
Accrued payroll and related benefits	$ 19.9	$ 20.6
Accounts payable and accrued expenses	2.6	3.0
Deferred rent	23.6	22.7
Total liabilities	**$46.1**	**$46.3**

Accrued Payroll and Related Benefits

Accrued payroll and related benefits consist primarily of personnel-related liabilities. Accrued payroll and related benefits decreased from $20.6 million as of Dec. 31, 2016, to $19.9 million as of Dec. 31, 2017. The net decrease of $0.7 million was primarily due to a decrease in accrued compensation due to a reduction in staff headcount.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist primarily of vendor payables. Accounts payable and accrued expenses decreased by $0.4 million primarily due to the timing of payments.

Deferred Rent

Deferred rent increased to $23.6 million as of Dec. 31, 2017, from $22.7 million as of Dec. 31, 2016. The increase of $0.9 million relates to the recognition of rent of $1.1 million and the commencement of new lease terms that included a tenant improvement allowance of approximately $0.8 million for the Chicago office. These increases were partially offset by the amortization of tenant improvement allowances of $1.1 million.

Designated Net Assets

The PCAOB's net assets are not subject to any donor-imposed restrictions, and are therefore considered unrestricted. However, the PCAOB's net assets include funds designated for specific uses, as described below.

Designated for Scholarship Funds—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. As of Dec. 31, 2017, $15.6 million of the PCAOB's net assets were designated for scholarship funds. This represents an increase of $3.2 million from the $12.4 million designated for scholarship funds as of Dec. 31, 2016. The net increase results from the PCAOB's imposition of civil monetary penalties of $4.9 million offset by $1.7 million in scholarships awarded during 2017.

Designated for Sequestration—The Statements of Financial Position include unrestricted net assets designated for sequestration. In March 2013, OMB determined that the PCAOB's budget and scholarship program are potentially subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. On Feb. 9, 2016, OMB issued a report, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2017," specifying that $17 million of the PCAOB's 2017 budget funds were subject to sequestration. These sequestered funds remained unspent as of Dec. 31, 2017, and are included in short-term investments in the accompanying Statements of Financial Position. In a separate report issued on May 23, 2017, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2018," OMB specified that the PCAOB's sequestration amount was 6.6% of the PCAOB's approved 2018 budget, which calculates to $17.2 million. In 2018, the PCAOB will use the $17 million sequestered in 2017 to offset the $17.2 million sequestered in 2018. The deficit will be covered by submitting a revised spending plan for 2018 which reduces the PCAOB's approved budget by $0.2 million. The scholarship funds were not subject to sequestration in 2017.

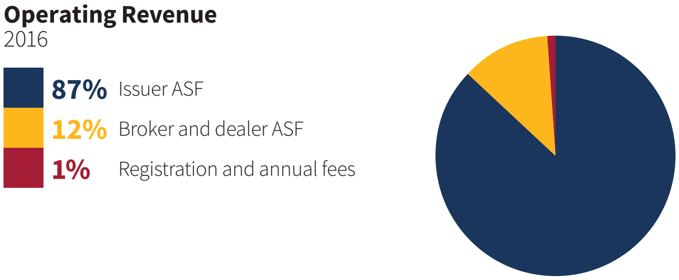
STATEMENTS OF ACTIVITIES

Overall, revenues for 2017 increased by $14.7 million or 5.8% compared to 2016 as a result of an increase in the accounting support fee assessed on issuers and brokers and dealers.

REVENUES

Operating Revenue
2017

Operating Revenue
2016



Components of operating revenue in 2017 and 2016:

(in millions)	2017	2016
Issuer accounting support fee	$ 232.6	$ 220.8
Broker-dealer accounting support fee	35.3	32.4
Registration and annual fees from PCAOB-registered public accounting firms	1.5	1.5
Total operating revenue	**$269.4**	**$254.7**

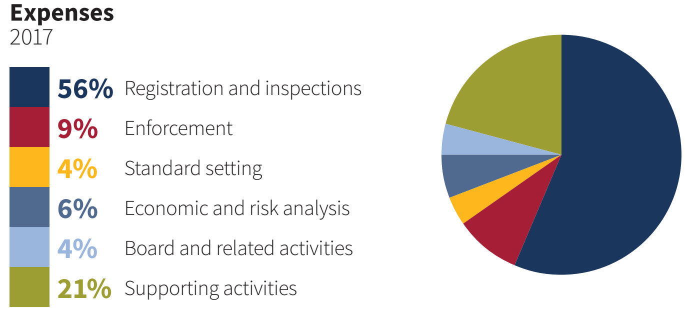
The PCAOB assesses an accounting support fee on equity issuers, investment company issuers, and SEC-registered brokers and dealers. This fee funds the expenses and other cash requirements necessary to support the Board's activities as reflected in the PCAOB's annual budget that is approved by the SEC. The issuer portion of the PCAOB's accounting support fee for 2017 and 2016 was $232.6 million and $220.8 million, respectively, and the broker-dealer portion for 2017 and 2016 was $35.3 million and $32.4 million, respectively. The overall increase in the 2017 accounting support fees as compared to 2016 was due to an increase in the PCAOB's 2017 budget.

All public accounting firms registered with the PCAOB are required to file annual reports and pay annual fees. The annual fees cover costs related to the review and processing of annual reports. The PCAOB also assesses registration application fees. The $1.5 million in registration and annual fees assessed in 2017 were generally consistent with the fees assessed in 2016.

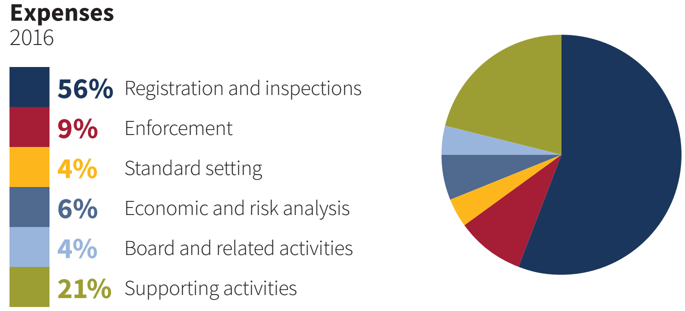
EXPENSES

The PCAOB's expenses are largely driven by employee-related costs. Overall, operating expenses increased by $3.5 million, or 1.4% from 2016 to 2017. This increase is discussed below.

Expenses
2017



Expenses
2016

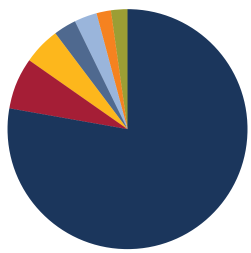


Operating expenses (by program) in 2017 and 2016:

(in millions)	2017	2016
Program Activities:		
Registration and inspections	$ 143.3	$ 140.7
Enforcement	22.2	22.1
Standard setting	9.4	8.7
Economic and risk analysis	15.0	15.6
Board and related activities	9.5	10.7
Supporting activities	53.8	51.9
Total operating expenses	**$253.2**	**$249.7**

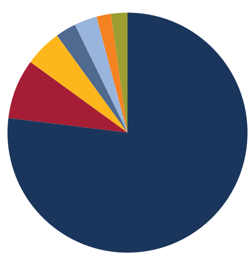
Expenses by Type
2017

78% Personnel costs
7% Occupancy costs
5% Travel expenses
3% IT-related expenses
3% Consulting and professional services
2% General and administrative expenses
2% Depreciation



Expenses by Type
2016

77% Personnel costs
8% Occupancy costs
5% Travel expenses
3% IT-related expenses
3% Consulting and professional services
2% General and administrative expenses
2% Depreciation



Operating expenses (by function) in 2017 and 2016:

(in millions)	2017	2016
Personnel costs	$ 195.4	$ 192.2
Occupancy costs	18.6	18.7
Travel expenses	12.4	12.4
Information technology-related expenses	8.6	8.4
Consulting and professional services	8.1	8.1
General and administrative expenses	6.0	5.5
Depreciation	4.1	4.4
Total operating expenses	**$253.2**	**$249.7**

Personnel-related costs are the PCAOB's largest expense. These costs increased by $3.2 million in 2017. The increase was primarily driven by annual increases related to employee merit, promotion, and variable compensation, and the costs associated with the PCAOB's execution of a voluntary exit program for eligible employees that resulted in reduced year-end PCAOB headcount. The PCAOB ended 2017 with a Dec. 31 headcount of 785 as compared to a Dec. 31, 2016 headcount of 856. This difference is attributable to vacancies that remained unfilled at year-end and the reduction of 43 staff positions through the voluntary exit program.

Occupancy costs, travel expenses and consulting and professional services remained generally consistent as compared to the prior year.

Costs associated with information technology increased by $0.2 million due to an increase in service and maintenance costs.

General and administrative expenses, which include business insurance, office supplies, printing and copying, and subscriptions, increased by $0.5 million, from $5.5 million in 2016 to $6.0 million in 2017. Higher costs associated with moving and repairs and maintenance due to the renovation in the Washington, D.C., headquarters were the primary reason for the variance. Depreciation expense decreased from $4.4 million in 2016 to $4.1 million in 2017 due to hardware and furniture purchases in prior years being fully depreciated.

Other Revenue and Expenses

Components of other revenue (expenses) in 2017 and 2016:

(in millions)	2017	2016
Interest and other income	$ 1.4	$ 0.2
Net civil monetary penalties and interest	4.9	9.5
Scholarship payments	(1.7)	(0.7)
Total other revenue	**$4.6**	**$9.0**

Interest and other income

Interest and other income includes interest generated by the PCAOB's investments, the annual fee paid by the Financial Accounting Foundation for the PCAOB serving as the collection agent for the Financial Accounting Standards Board's (FASB) accounting support fee, and other miscellaneous income offset by a loss associated with the write-off of certain IT costs. Interest and other income increased by $1.2 million primarily due to higher earnings rates on short-term investments.

Net Civil Monetary Penalties and Interest

The decrease in net civil monetary penalties and interest is due to a decrease in civil monetary penalties imposed in 2017 as compared to 2016.

Scholarship Payments

Scholarship payments increased in 2017 by $1.0 million since the PCAOB awarded 167 merit-based scholarships of $10,000 each in 2017 as compared to 72 in 2016.

FINANCIAL REPORTING MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The PCAOB's financial reporting management—the Chief Administrative Officer and the Director of Finance, under the direction of the Chairman (collectively, "financial reporting management")—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 Dec. 31, 2017. The Board also engaged its independent auditor to perform an audit of the PCAOB's internal control over financial reporting, consistent with AS 2201, *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements.*

Report of Independent Public Accounting Firm

To the Board of the
Public Company Accounting Oversight Board
Washington, D.C.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying statements of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2017, and 2016, and the related statements of activities and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). We also have audited the PCAOB's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PCAOB as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the PCAOB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

Basis for Opinion

The PCAOB's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Financial Reporting Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the PCAOB's financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits. We are required to be independent with respect to the PCAOB in accordance with the relevant ethical requirements relating to our audit.

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

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

We have served as the PCAOB's auditor since 2006.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 27, 2018

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 62,194,056	$ 42,852,718
Short-term investments	106,849,669	106,004,999
Accounts and other receivables, net of allowance	1,707,389	4,534,753
Prepaid expenses and other assets	9,031,049	7,412,414
Leasehold incentives	4,345,423	9,466,800
Furniture and equipment, leasehold improvements, and technology, net	19,398,924	12,681,440
TOTAL ASSETS	$203,526,510	$182,953,124
Liabilities and Net Assets		
Liabilities		
Accrued payroll and related benefits	$ 19,927,185	$ 20,663,823
Accounts payable and accrued expenses	2,593,141	2,955,293
Deferred rent	23,575,917	22,708,983
Total liabilities	46,096,243	46,328,099
Unrestricted Net Assets		
Undesignated	124,805,523	108,219,689
Statutorily designated for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act	15,624,744	12,405,336
Statutorily designated for sequestration	17,000,000	16,000,000
Total net assets	157,430,267	136,625,025
TOTAL LIABILITIES AND NET ASSETS	$203,526,510	$182,953,124

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

Statements of Activities

For the years ended December 31, 2017 and 2016

	2017	2016
Changes in Unrestricted Net Assets		
Net operating revenue		
Issuer accounting support fee	$232,622,500	$220,784,400
Broker-dealer accounting support fee	35,345,300	32,421,400
Registration and annual fees from PCAOB-registered public accounting firms	1,481,000	1,514,500
Total net operating revenue	269,448,800	254,720,300
Operating expenses		
Program activities		
Registration and inspections	143,325,322	140,745,675
Enforcement	22,231,239	22,117,476
Standard setting	9,403,768	8,709,282
Economic and risk analysis	14,995,674	15,573,473
Board and related activities	9,458,521	10,686,551
Supporting activities		
Administration and general	27,317,891	25,788,719
Communications	2,980,534	2,660,419
Information technology	23,510,961	23,445,349
Total operating expenses	253,223,910	249,726,944
Operating Income	16,224,890	4,993,356
Other Revenue (Expenses)		
Interest income and other	1,360,944	249,598
Net civil monetary penalties and interest	4,865,636	9,475,500
Scholarship payments	(1,646,228)	(696,440)
Total other revenue	4,580,352	9,028,658
Increase in Unrestricted Net Assets	20,805,242	14,022,014
Net Assets—Beginning of Year	136,625,025	122,603,011
Net Assets—End of Year	$157,430,267	$136,625,025

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

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from issuers	$ 232,722,980	$ 221,590,540
Cash received from brokers and dealers	35,177,882	32,435,916
Cash received from registered public accounting firms	1,488,920	1,517,129
Interest income and other	1,266,139	480,389
Cash received from civil monetary penalties and interest	8,130,627	5,461,459
Cash paid to fund scholarships (net of refunds)	(1,646,228)	(696,440)
Cash paid to suppliers and employees	(251,092,545)	(246,791,724)
Net cash provided by operating activities	26,047,775	13,997,269
Cash Flows from Investing Activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(5,868,484)	(2,730,900)
Proceeds from the disposal of technology equipment	6,717	—
Purchases of short-term investments	(166,015,002)	(180,805,558)
Proceeds from the maturity of short-term investments	165,170,332	159,776,720
Net cash used in investing activities	(6,706,437)	(23,759,738)
Increase (Decrease) in Cash and Cash Equivalents	19,341,338	(9,762,469)
Cash and Cash Equivalents—Beginning of Year	42,852,718	52,615,187
Cash and Cash Equivalents—End of Year	$ 62,194,056	$ 42,852,718
Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities		
Increase in unrestricted net assets	$ 20,805,242	$ 14,022,014
Reconciliation adjustments		
Provision for (recoveries of) doubtful accounts receivable	127,421	(142,049)
Depreciation and amortization	4,107,277	4,436,807
Loss on disposal of fixed assets	44,764	345,832
Operating expenses paid by the use of leasehold incentives	55,587	—
Decrease (increase) in accounts and other receivables	2,699,942	(3,313,865)
Increase in prepaid expenses and other assets, net of allowance	(1,314,853)	(763,758)
(Decrease) increase in accrued payroll and related benefits	(736,638)	172,610
Increase (decrease) in accounts payable and accrued expenses	225,722	(1,031,590)
Increase in deferred rent	33,311	271,268
Net cash provided by operating activities	$ 26,047,775	$ 13,997,269
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Fixed asset purchases acquired but not paid for as of year-end	$ 726,790	$ 1,314,666
Fixed asset purchases acquired through the use of leasehold incentives	5,595,633	1,103,125
Leasehold incentives acquired through entering into new or amended leases	833,625	386,955

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

Notes to the Financial Statements

NOTE 1—ORGANIZATION

The Public Company Accounting Oversight Board (PCAOB) is a nonprofit corporation established by the Sarbanes-Oxley Act of 2002, as amended, (the Sarbanes-Oxley Act) to oversee the audits 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 PCAOB also oversees the audits of brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC).

The SEC has oversight authority over the PCAOB, including the appointment of Board members and the approval of the Board's rules, standards and budget. The Sarbanes-Oxley Act, established funding for PCAOB activities, primarily through an annual accounting support fee assessed on issuers based on their relative average, monthly market capitalization and on brokers and dealers based on their relative average, quarterly tentative net capital. The annual accounting support fee is also approved by the SEC.

The PCAOB's operations consist of program activities and supporting activities. The program activities of the PCAOB for financial reporting purposes are: registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. The supporting activities are administration and general, communications, and information technology.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and are presented pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification 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. These classifications are based on the existence or absence of donor imposed restrictions. The net assets of the PCAOB are not subject to any donor imposed restrictions, and, therefore, have been classified as unrestricted in the accompanying financial statements.

The Statements of Activities reflect program activities related to registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Program expenses include salaries, benefits, rent, program-specific technology costs, and other direct and indirect operating expenses. The Statements of Activities also reflect costs associated with supporting activities such as accounting and finance, legal, human resources, and information technology. Indirect costs, including certain occupancy and depreciation costs, are allocated to program and supporting activities proportionately based on numbers of personnel.

Cash and Cash Equivalents—The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in noninterest-bearing accounts with a domestic high-credit-quality financial institution as well as investments in securities made pursuant to an overnight automated investment sweep agreement. Pursuant to this agreement, the PCAOB invests its excess cash at the end of each business day in a money market fund that invests in high-quality money market instruments (primarily U.S. Government/Agency obligations and repurchase agreements). Purchased money market fund shares are held by the financial institution, as agent, on an overnight basis and are liquidated by the financial institution on the next business day at an agreed-upon price. In the event of the financial institution's failure or default, the PCAOB could experience a delay in disposing of such securities.

Short-term Investments—The PCAOB's investments are recorded at fair value and consist of investments in US Treasury bills that mature within one year of purchase. The PCAOB estimates fair value based on pricing from observable trading activity for similar securities or from a third party pricing service; accordingly, the PCAOB has classified these instruments as Level 2. Purchases and sales of securities are recorded on a trade-date basis. Interest income and net gains and losses are recorded on the accrual basis and are included in "Interest income and other" on the accompanying Statements of Activities.

Concentration Risk—The PCAOB's cash is held in accounts with a single domestic high-credit-quality financial institution. Amounts held in these accounts that exceed the Federal Deposit Insurance Corporation insurable limit are uninsured. The PCAOB mitigates this risk overnight through a daily overnight investment sweep agreement that invests excess cash in a money market fund.

Accounts and Other Receivables—Accounts and other receivables are carried at the amount billed or accrued, net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on management's review, specific identification and, to the extent applicable, the PCAOB's historical experience.

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

Property and Equipment—Furniture and equipment, leasehold improvements, and technology are stated at cost less accumulated depreciation and amortization, computed using the straight-line method utilizing a half-year convention. Furniture and equipment and technology are depreciated over their estimated useful lives of three to five years. Leasehold improvements are amortized over the lesser of the term of the lease or the life of the asset. Costs incurred during the application development stage for internal-use software are capitalized and amortized using the straight-line amortization method over the estimated useful life of the applicable software. Repairs and maintenance are charged to expense when incurred.

Revenue Recognition—The Sarbanes-Oxley Act provides for funding of the PCAOB through the assessment of an annual accounting support fee on issuers and brokers and dealers registered with the SEC. The Sarbanes-Oxley Act also provides that the PCAOB shall assess and collect registration and annual fees and may impose civil monetary penalties.

Annual Accounting Support Fees—Annual accounting support fees are assessed on issuers, as defined in the Sarbanes-Oxley Act, and on brokers and dealers registered with the SEC. The accounting support fee is established annually by the Board based on the PCAOB's operating budget for each calendar year and any additional amounts required to fund the PCAOB's operations for the first five months of the subsequent year 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 year in which it is assessed.

Registration Fees—Each public accounting firm must pay a registration fee when it applies for registration with the PCAOB. Registration fees are recognized as operating revenue in the year they are assessed.

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

Civil Monetary Penalties—PCAOB sanctions may include civil monetary penalties pursuant to Section 105 of the Sarbanes-Oxley Act. Civil monetary penalties are recognized as other revenue in the year the sanctions are effective.

Leasehold Incentives—Leasehold incentives represent amounts that the PCAOB's landlords have contractually agreed to pay for leasehold improvements. Portions of the leasehold incentives may also be used by the PCAOB for other purposes, as provided for in the respective lease agreements (e.g., offset of rent, purchase of furniture). These incentives are recognized as an asset when the PCAOB obtains control of the leased space to which the incentives relate. As construction is completed, the construction costs are capitalized as leasehold improvements. The leasehold incentive is reduced as the related construction amounts are paid or reimbursed by the landlord.

Deferred Rent—The PCAOB recognizes rent on a straight-line basis over the lease term. The differences between rent expense recognized and rental payments made, as stipulated in the leases, 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 related to leasehold incentives is amortized on a straight-line basis over the lease term as a reduction of rent expense.

Net Civil Monetary Penalties and Scholarship Payments— The PCAOB reports all funds generated from the collection of civil monetary penalties (including interest income, net of bad debt expenses) 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 as decreases in net assets with specific statutory restrictions for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act. Amounts collected are required to be used to award merit scholarships to students of accredited accounting degree programs, after annual congressional appropriation for the use of the monetary penalties.

Cash Held for Others under Agency Agreement—The PCAOB served as the collection agent for invoicing and collecting the 2017 and 2016 FASB accounting support fee. This fee is included in "Interest income and other" in the accompanying Statements of Activities. Balances not remitted to the FASB by year-end are included in cash and cash equivalents with a corresponding amount included in accounts payable and other liabilities.

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.

Reclassifications—The amount reported in the Statements of Financial Position under unrestricted net assets for statutorily designated for sequestration has been adjusted to exclude the interest component of the amount. The interest component has been reclassified as undesignated. This reclassification has no effect on previously reported operating income or unrestricted net assets in total.

Use of Estimates—The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements and accompanying notes. These estimates and assumptions are based on management's best knowledge of current and future events. Estimates and assumptions are used in accounting for, among other items, the allowance for doubtful accounts, and useful lives of property and equipment. Actual results could differ from these estimates.

New Accounting Standards—In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which impacts virtually all aspects of an entity's revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for the PCAOB's 2019 fiscal year. Management is evaluating the impact of this new standard, including possible transition alternatives, on the PCAOB's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which is intended to improve financial reporting about leasing transactions. The ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with GAAP, the recognition, measurement and presentation of expenses and cash flows will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the Statement of Financial Position—the new ASU will require both types of leases to be recognized on the statement of financial position. The new standard is effective for the PCAOB for the 2019 fiscal year. The PCAOB is evaluating the impact of the pending adoption of the new standard on the financial statements. As shown in Note 5, the future minimum lease payments of the operating leases are more than $177 million, the majority of which are related to leases with terms in excess of 12 months. The present value of those payments, which the PCAOB will recognize upon adoption of the ASU as assets and lease liabilities, will be material.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This ASU is effective for the PCAOB's 2018 fiscal year. The PCAOB expects to modify its net asset classifications and to enhance its disclosures as a result of this new standard.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)—Restricted Cash* to eliminate the diversity in practice of the presentation of restricted cash and cash equivalents in the statement of cash flows. Under the new standard, restricted cash will be included as a separate line on the statements of financial position and restricted cash and cash and cash equivalents will be included in the statement of cash flows. This ASU is effective for the PCAOB's 2019 fiscal year. This new standard is not expected to have a material impact on the PCAOB's financial statements since cash held for others under agency agreement and cash held for statutorily designated for scholarships are included in cash and cash equivalents in the statements of financial position (as disclosed) and in the statement of cash flows.

NOTE 3—ACCOUNTS AND OTHER RECEIVABLES

Accounts receivable consist of the following as of Dec. 31, 2017 and 2016:

	2017	2016
Accounts receivable—Issuer Accounting Support Fee	$ 306,434	$ 262,650
Accounts receivable—Broker-Dealer Accounting Support Fee	231,514	38,147
Accounts receivable—Annual Fees	138,085	132,520
Accounts receivable—Other	512,479	273,438
Other receivable—Civil Monetary Penalties	1,015,573	4,280,564
	2,204,085	4,987,319
Less: allowance for doubtful accounts	(496,696)	(452,566)
Accounts and other receivables, net of allowance	$1,707,389	$4,534,753

NOTE 4—FURNITURE AND EQUIPMENT, LEASEHOLD IMPROVEMENTS, AND TECHNOLOGY

Furniture and equipment, leasehold improvements, and technology consist of the following as of Dec. 31, 2017 and 2016:

	2017	2016
Technology		
Hardware	$ 12,837,619	$ 11,163,647
Purchased and developed software	14,818,810	13,199,483
Leasehold improvements	26,285,199	18,839,180
Furniture and equipment	10,112,982	9,498,890
Technology development in process	383,254	1,758,010
Construction in process	1,775,771	1,736,473
	66,213,635	56,195,683
Accumulated depreciation and amortization	(46,814,711)	(43,514,243)
Furniture and equipment, leasehold improvements, and technology, net	$ 19,398,924	$ 12,681,440

Depreciation and amortization expense was approximately $4.1 million and $4.4 million for the years ended Dec. 31, 2017, and 2016, respectively.

NOTE 5—LEASE COMMITMENTS

As of Dec. 31, 2017, the PCAOB had long-term leases for office space in Washington, D.C.; New York, N.Y.; Ashburn, Va.; Charlotte, N.C.; Foster City, Calif.; Irvine, Calif.; Atlanta, Ga.; Irving, Texas; Chicago, Ill.; and Denver, Colo. All of these offices are under leases that expire at various dates through 2028. Most of these leases contain escalation clauses and an option to renew at prevailing market rental values.

Under the Washington, D.C., lease, which expires in 2028, the PCAOB is entitled to receive leasehold incentives of approximately $10.2 million. The lease also provides that to the extent the PCAOB has not expended the full amount of the leasehold incentives by Aug. 1, 2021, the PCAOB will apply up to $1.4 million of the unused leasehold incentives toward the payment of rent becoming due under the lease. During 2017 and 2016, leasehold improvements of approximately $4.8 million and $0.5 million, respectively, were paid for by the landlord. As of Dec. 31, 2017, the PCAOB is committed to expend up to approximately $5.1 million on build-out projects for its Washington, D.C. office, of which $4.5 million will be funded through leasehold incentives.

During 2017 and 2016, the PCAOB recognized increases in leasehold incentives of approximately $0.8 million and $0.4 million, respectively as the related space came under the PCAOB's control. During 2017, leasehold improvements totaling approximately $1.2 million were paid for by the landlords of the Atlanta, Chicago, and Irving offices and in 2016 leasehold improvements totaling approximately $0.6 million were paid for by the landlords of the Charlotte, Irving, and Denver offices.

As of Dec. 31, 2017, the PCAOB had short-term leases for office space in Boston, Mass.; Houston, Texas; Tampa, Fla.; Fort Lauderdale, Fla.; and Los Angeles, Calif., under leases that expire in 2018. At the end of 2017, the PCAOB reduced the amount of leased space in each of these locations and elected not to renew its short-term lease in Philadelphia, Pa.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense for the years ended Dec. 31, 2017 and 2016 was $17.2 million and $17.0 million, respectively. Minimum rental commitments under all of the PCAOB's office leases as of Dec. 31, 2017, including the rental commitments for temporary office spaces having remaining lease terms of one year or less, are as follows:

Year ending Dec. 31,	
2018	$ 16,728,086
2019	16,361,008
2020	16,886,096
2021	17,230,441
2022	17,583,024
Thereafter	92,605,950
Total minimum lease payments	$177,394,605

NOTE 6—RETIREMENT BENEFIT PLAN

The PCAOB has a defined contribution retirement plan that covers all eligible employees. For the years ended Dec. 31, 2017 and 2016, the PCAOB matched 100% of employee contributions up to 7% of eligible compensation. The PCAOB's contributions vest immediately. The PCAOB's contributions to employees' accounts were $9.1 million and $9.2 million for the years ended Dec. 31, 2017 and 2016, respectively.

NOTE 7—UNRESTRICTED NET ASSETS

The PCAOB's net assets are not subject to any donor-imposed restrictions and are therefore considered unrestricted. Included in this amount is a working capital reserve that the PCAOB maintains to fund its operations during the five-month period prior to the collection of the accounting support fee for the current year. The PCAOB's net assets also include funds designated for specific uses, as described below.

Designated for the PCAOB Scholarship Program—The Statements of Financial Position include unrestricted designated funds for the PCAOB Scholarship Program, established by Section 109(c)(2) of the Sarbanes-Oxley Act. The Sarbanes-Oxley Act authorizes the PCAOB to impose civil monetary penalties and requires the PCAOB to use those penalties to award merit scholarships to students of accredited accounting degree programs, after annual congressional appropriation for that use of the monetary penalties. The PCAOB awarded 167 and 72 merit-based scholarships of $10,000 each to eligible students for the 2017–2018 and 2016–2017 academic years, respectively. Cash and cash equivalents included approximately $14.9 million and $8.4 million as of Dec. 31, 2017 and 2016, respectively, to be used for merit scholarships. In addition to the amounts in cash and cash equivalents, accounts and other receivables (net) included $0.7 million and $4.0 million in uncollected civil monetary penalties as of Dec. 31, 2017 and 2016, respectively.

The activity of the statutorily designated funds for the years ended Dec. 31, 2017 and 2016, is as follows:

Statutorily designated funds, as of Dec. 31, 2015	$ 3,626,276
Civil monetary penalties and interest assessed in 2016, net	9,475,500
Less scholarship payments for the 2016–2017 academic year	(720,000)
Refund of unused scholarship funds received in 2016	23,560
Statutorily designated funds, as of Dec. 31, 2016	$12,405,336
Civil monetary penalties and interest assessed in 2017, net	4,865,636
Less scholarship payments for the 2017–2018 academic year	(1,670,000)
Refund of unused scholarship funds received in 2017	23,772
Statutorily designated funds, as of Dec. 31, 2017	$15,624,744

Designated for Sequestration—The Statements of Financial Position include unrestricted designated funds for sequestration. In March 2013, the Office of Management and Budget (OMB) determined that the PCAOB's budget and scholarship program are potentially subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. In November 2013, OMB determined that the PCAOB's sequestered funds represent temporary reductions, such that funds that are sequestered in one year become available in subsequent years.

On Feb. 9, 2016, OMB issued a report, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2017," specifying that $17 million of the PCAOB's 2017 budget funds were subject to sequestration. These sequestered funds remained unspent as of Dec. 31, 2017, and are included in short-term investments in the accompanying Statements of Financial Position. In a separate report issued on May 23, 2017, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2018," OMB specified that the PCAOB's sequestration amount was 6.6% of the PCAOB's approved 2018 budget, which calculates to $17.2 million. In 2018, the PCAOB will use the $17 million sequestered in 2017 to offset the $17.2 million sequestered in 2018. The deficit will be covered by submitting a revised spending plan for 2018 which reduces the PCAOB's approved budget by $0.2 million. The scholarship funds were not subject to sequestration in 2017.

NOTE 8—SUBSEQUENT EVENTS

The PCAOB has evaluated subsequent events through March 27, 2018, which represents the date the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment or disclosure in the financial statements.

2017 Management's Assessment

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

The PCAOB's financial reporting management, including the Chief Administrative Officer and 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.

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 acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 Dec. 31, 2017. In making this assessment, financial reporting management used the criteria established in *Internal Control—Integrated Framework* (2013 version), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, the PCAOB's financial reporting management concluded that the organization's internal control over financial reporting was effective as of Dec. 31, 2017.

March 27, 2018

William D. Duhnke III
Chairman

Suzanne M. Kinzer
Chief Administrative Officer

Jean M. Boehne
Director of Finance