PCAOB

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

2021 Annual Report

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ABOUT THE PCAOB

The Public Company Accounting Oversight Board (PCAOB or “the Board”) is a nonprofit corporation established by Congress to oversee the audits of public companies. The PCAOB also oversees the audits of brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC).

The five members of the Board are appointed to staggered five-year terms by the SEC, after consultation with the Chair of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. The SEC has oversight authority over the PCAOB, including the approval of the Board's rules, standards, and budget.

Mission

The PCAOB oversees the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

Vision

The PCAOB will be a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight. At all times, we will act with integrity, pursue excellence, operate with effectiveness, embrace collaboration, and demand accountability.

Values

Integrity

We adhere to the highest standards of ethical and professional conduct. We engage internally and externally in a manner that is consistent, honest, and fair.

Excellence

We pursue excellence in all we do. We are committed to further developing the many talents of our people so that we can improve our oversight and operations.

Effectiveness

We manage our resources effectively and efficiently. We respond to a changing environment by implementing relevant, timely, and innovative solutions to achieve our mission.

Collaboration

We are dedicated to a culture of collaboration and inclusiveness, which we foster by encouraging openness, accessibility, trust, and respect. We embrace a diverse set of experiences, skills, perspectives, and backgrounds, which enriches our work and enhances the effectiveness of our efforts.

Accountability

We depend on the diligence and dedication of our people to accomplish our mission and implement our vision. We owe each other our very best effort and expect to be held accountable. We recognize and reward outstanding performance.

MESSAGE FROM THE CHAIR

I am pleased to present this report, which summarizes our operations and financial results for the fiscal year ended December 31, 2021.

In 2021, the PCAOB faced changes and transition, including the continuing challenges of the COVID-19 pandemic, high-profile developments in the capital markets, and ongoing technological evolution in auditing. The leadership of our organization also changed with the appointment of four new Board members in November.

Amid these shifts, our organization stayed focused on performing at a high level. It did so thanks in large part to things that don't change.

The first of these constants is the PCAOB's mission. As we take steps to adapt to a changing environment, we strive to fulfill our purpose: to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

The second of these constants is our extraordinary team. Guided by our mission, PCAOB staffers each day draw on their diverse backgrounds and talents to promote high-quality auditing through oversight that is both rigorous and responsive.

The PCAOB achieved a number of significant accomplishments in 2021. I look forward to working with my fellow Board members and our talented staff to build on these accomplishments as we develop and work to fulfill the organization's strategic priorities for 2022 and beyond.

Respectfully,

Erica Y. Williams

Erica Y. Williams
Chair
Public Company Accounting Oversight Board
Washington, DC, March 28, 2022

PCAOB BY THE NUMBERS 2021

All numbers are as of December 31, 2021, or for the year ended December 31, 2021

Reach

1,709

Total number of PCAOB-registered public accounting firms

$64.89 trillion

Global market capitalization of the

8,626

U.S. public companies that file financial statements with the SEC and that are audited by PCAOB-registered firms

Inspections

191

Number of audit firms reviewed by our inspectors, which includes:

- **12** U.S. firms with more than 100 issuer audit clients
- **81** U.S. firms with 100 or fewer issuer audit clients
- **50** U.S. firms that audit broker-dealers
- **48** Non-U.S. firms in over **26** jurisdictions

782

Unique audit engagements reviewed by the PCAOB as part of our inspections

People

807

Number of employees

10

Regional offices across the United States of America

Enforcement

21
Settled
disciplinary orders issued

15
Individuals
sanctioned

14
Audit firms
sanctioned

14
Orders
involving U.S. auditors

7
Orders
involving non-U.S. auditors

5
Orders
involving the six largest global accounting firm networks

16
Orders
involving smaller accounting firms

HIGHLIGHTS FROM OUR 2021 OVERSIGHT, ENGAGEMENT, AND OPERATIONS

Driving Improvement in the Quality of Audit Services to Protect Investors

Adapting our inspection program in a shifting crisis: We designed our 2021 inspection program to respond to the effects of the COVID-19 pandemic on financial reporting and audit risks. We adapted our program in several key ways, as discussed in two staff publications: an April 2021 Spotlight publication and a companion resource for audit committees. First, we selected more audits for review in industries experiencing significant disruptions or elevated risks during the pandemic, such as transportation, entertainment, hospitality, manufacturing, certain aspects of the retail segment, and commercial real estate (including real estate investment trusts). Second, we focused on certain financial statement items and other reporting matters that were affected by the pandemic, including going concern assessments, allowances for loan losses, impairments, and the increased risk of fraud. Finally, we enhanced the unpredictability of our inspections by (1) significantly increasing the percentage of audits we select randomly, especially for the largest audit firms, and (2) selecting more nontraditional financial statement focus areas (e.g., cash) for inspection.

Board Viewpoint

Working effectively with audit oversight authorities in foreign jurisdictions is crucial for the PCAOB to fulfill its statutory mandate. That's why we have always been strongly committed to diplomatically and collaboratively engaging with the global audit oversight community to facilitate our cross-border cooperation and advance important policy initiatives.

Duane M. DesParte
Board Member

Shedding light on recurring audit deficiencies, quality control, and good practices: As we proceeded with our 2021 inspection plan, we worked to educate auditors, audit committees, investors, and others on what we learned through our 2020 reviews of audits of public companies. Our October 2021 Spotlight publication summarized our observations related to common or recurring deficiencies, the effectiveness of quality control systems at audit firms, good practices that can enhance audit quality, and how auditors are responding to major technological developments.

Enhancing our broker-dealer inspection information: Released in August 2021, the Board's "Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers" came with several enhancements aimed at making this information clearer and more actionable. These enhancements included providing more specific information in the areas of revenue and internal control over compliance, both of which continue to drive high deficiency rates in audit and examination engagements.

Enforcing compliance with our standards and rules: In 2021, our enforcement actions included sanctioning 14 firms and 15 individuals in settled matters. Our Division of Enforcement and Investigations (DEI) continued to prioritize (1) investigations involving significant audit violations, which typically present the greatest risks to investors, (2) non-cooperation with PCAOB inspections and other matters threatening or eroding the integrity of the Board's regulatory oversight process, and (3) audit matters relating to significant auditor independence violations. DEI also focused on matters relating to deficiencies in firm quality control policies and procedures.

Maintaining our strong commitment to international cooperation: In the spring of 2021, we announced a new cooperative agreement with the Belgian Audit Oversight College and the renewal of our cooperative agreement with the Haut Conseil du Commissariat aux Comptes of France. Allowing for cooperation in audit oversight and the exchange of confidential information in accordance with applicable law, these agreements extended the PCAOB's long track record of working cooperatively with oversight bodies outside the United States. With these agreements in place, we have the ability to inspect and investigate all PCAOB-registered accounting firms that are located in a European country and that issue audit reports for public companies that have a reporting obligation with the SEC.

Promoting transparency and consistency in the fulfillment of the Board's HFCAA responsibilities: Following a proposal and request for comment issued in May 2021, we adopted a new rule in September 2021 related to the PCAOB's responsibilities under the Holding Foreign Companies Accountable Act (HFCAA). The rule provides a framework for the PCAOB to use when determining, as contemplated under the HFCAA, whether the Board is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. Following the SEC's approval of the rule in November 2021, the Board made its first HFCAA determinations in December 2021, finding that the PCAOB is unable to inspect or investigate completely registered firms headquartered in mainland China and Hong Kong.

Anticipating and Responding to the Changing Environment

Crafting new PCAOB requirements to reflect the evolving audit landscape: In 2021, we updated PCAOB rules, notably with our HFCAA rulemaking, and made progress on the items on our research and standard-setting agenda. Our staff worked to develop a proposed standard on quality control for the Board's consideration and continued its monitoring of other areas for addition to the standard-setting agenda. Another standard-setting initiative that advanced in 2021 was our project on lead auditors' use of other auditors. The roles of other auditors have become more significant as companies' global operations have grown. Working with other auditors can differ from working with people in the same audit firm, creating coordination and communication challenges that can have significant implications for audit quality and investor protection. The PCAOB has issued a proposal that would strengthen existing requirements and impose a more uniform approach to a lead auditor's supervision of other auditors. In September 2021, we issued a supplemental request for comment seeking further public input on revisions to the proposal, with an eye towards adopting final amendments and completing this standard-setting project in 2022.

Board Viewpoint

Ensuring our standards remain relevant and fit for use is essential to our investor-protection mission. Our goal is to set high-quality standards informed by our oversight activities, our understanding of the audit and financial reporting environment, and public input.

Erica Y. Williams
Chair

Staying abreast of developments in data and technology: Advancements in technology continue to affect the nature, timing, and preparation of financial information, including preparers' controls around financial information, and the planning and performance of audits. Our Office of the Chief Auditor devoted further attention to our research project on data and technology, informed in part by input from a Data and Technology Task Force, to assess whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions. In May 2021, we issued a Spotlight to share insights from our research and outreach.

Providing guidance related to the use of external audit evidence: A major technological development for both public companies and their auditors is the ever-increasing volume and availability of information from external sources such as regulatory agencies and industry data providers. Some external sources, for example, have developed interactive applications that can provide real-time industry data to companies (e.g., hotel occupancy rates). In October 2021, we released staff guidance on considerations regarding the relevance and reliability of information from external sources that the auditor plans to use as audit evidence. The guidance also addresses the relationship between the quality and quantity of audit evidence.

> ### Board Viewpoint
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> With increased digitization, the adoption of cloud and advanced technology (including artificial intelligence and machine learning), and cybersecurity risks, providing assurance on financial disclosures has become more complex. In order to continue to protect investors and enhance public trust in financial information, the PCAOB needs to be proactive, innovative, and data-driven in understanding and shaping the future of auditing.
>
> **Christina Ho**
> Board Member

Enhancing Transparency and Accessibility Through Proactive Engagement With Investors and Other Stakeholders

Briefing investors on international issues: In June 2021, we held an investor webinar focused on international issues, an area of significant investor interest given the global and interconnected nature of the capital markets. (In 2021, PCAOB-registered firms located outside the U.S. issued over 1,000 audit reports for companies whose securities are listed on U.S. exchanges.) During the event, Board members and PCAOB staff briefed webinar attendees on the scale of our international oversight, the operation and coordination of our inspections of non-U.S. firms, and access challenges.

Engaging with audit committee chairs: Each year, we reach out to audit committee chairs at U.S. public companies whose audits we inspect that year, inviting them to connect with staff from our Division of Registration and Inspections for a substantive conversation covering a range of topics related to oversight of external auditors. In 2021, more than 240 audit committee chairs accepted our invitation to talk. Highlights from this engagement are contained in a March 2022 publication, "2021 Conversations With Audit Committee Chairs."

Board Viewpoint

We are committed to engaging with investors and other stakeholders to enhance our effectiveness. We will listen, ask for advice, share information, and be open about our decisions.

Kara M. Stein
Board Member

Innovating in our stakeholder engagement: In the continuing virtual environment of 2021, we looked for ways to counter remote "fatigue" and to keep our dialogue with stakeholders engaged and dynamic. In honor of Women's History Month and International Women's Day in March 2021 — and in a first for the PCAOB — we hosted two roundtables composed entirely of women audit committee members. In addition to topics related to audit quality, the conversation covered how boards and/or companies are striving to improve diversity, as well as issues associated with record numbers of women leaving the workforce as a result of the pandemic.

Sharing our insights: As part of executing our mission and strategy, we seek continually to provide key stakeholder groups with timely resources and updates that can promote improvements in audit quality. To that end, we were pleased in October 2021 to again host our annual Forum for Auditors of Small Businesses and Broker-Dealers. Although still in virtual format given COVID-19 precautions, the forum provided presentations from the PCAOB and the Financial Industry Regulatory Authority. We also provided insights through publications, such as our February 2021 summary of what we learned from the nearly 300 conversations that we had with audit committee chairs during 2020.

Exercising leadership in global engagement: An important multilateral venue for the PCAOB's global engagement is the International Forum of Independent Audit Regulators (IFIAR), an organization where PCAOB Board Members and staff play active roles. In April 2021, Board Member Duane M. DesParte was elected IFIAR Chair for a two-year term expiring in April 2023. "IFIAR brings together audit regulators from across the globe to share experiences, knowledge and perspectives, helping to improve the effectiveness of audit oversight globally and thereby raising the bar on audit quality," said Board Member DesParte in a statement.

Bringing together academics and other key stakeholders: In 2021, we saw an increase in interest for our annual Conference on Auditing and Capital Markets, which aims to foster economic research on topics such as the economic impact of auditing and audit regulation on the capital markets. More than 300 people attended the virtual event – a record for the PCAOB. With an audience of academics, economists, auditors, and investors, the conference focused on audit quality and quality control; the impact of the COVID-19 pandemic; trends in environmental, social, and governance reporting and assurance; and the use of technology in audits.

Supporting the next generation of leaders in accounting and auditing: The Sarbanes-Oxley Act of 2002 ("the Sarbanes-Oxley Act"), requires that funds generated from the collection of PCAOB monetary penalties be used to fund a merit scholarship program for students in accredited accounting degree programs. In 2021, we awarded $2.53 million in scholarships to 253 students from 229 institutions, bringing the total number up to $16.23 million in scholarships offered by the PCAOB since the program's inception in 2011. Among our 2021 PCAOB Scholars who participated in a voluntary survey, 51% self-identified as non-white, 67% identified as female, and 56% come from households with annual incomes under $48,000. To build our rapport with these talented individuals, we invited scholarship recipients to join us for a series of online get-togethers, allowing PCAOB Scholars to connect with us and each other.

Pursuing Operational Excellence

Celebrating and strengthening our diversity: Furthering efforts launched in 2020, we took steps to share, listen, learn, and engage on key diversity, inclusion, and cultural issues and topics. These steps included continuing with PCAOB Voices, an organization-wide initiative to foster dialogue and understanding. In 2021, we conducted more than a dozen PCAOB Voices sessions with staff, including conversations on the scope and impacts of anti-Asian sentiment in the wake of COVID-19. We also launched new staff training opportunities focused on countering unconscious bias, creating an inclusive environment, and building and sustaining trust, while highlighting and celebrating the diversity of the PCAOB's people during national observances such as Asian Pacific American Heritage Month, Black History Month, Hispanic Heritage Month, and LGBTQ Pride Month.

Transforming our use of data and technology: Enhancing the effectiveness of the PCAOB's data, security, and technology has been a top strategic and operational priority for the organization. In 2021, our Office of Data, Security, and Technology (ODST) made transformational progress through the implementation of new collaboration tools, data and analytical capabilities, advances in mobility, and technology platforms — all while maintaining the highest caliber of security operations to keep PCAOB assets safe from cyber threats. Examples include the rollout of a new Inspection Management System used for all 2021 inspections, the launch of a new human resources platform, the creation of our enterprise data catalog, using cloud analytics, and deployment of a modernized Library Management System. In the ongoing mandatory teleworking period, ODST continued to deploy the latest productivity and teleconferencing technologies. ODST also partnered with our Office of Enterprise Risk Management on cybersecurity, including responding to emerging worldwide 2021 cyber events, authoring a ransomware playbook, and continuing our active network and data monitoring.

“

Board Viewpoint

Collaboration and transparency are very important to me, and I see both at work each day at the PCAOB. Our Board and staff strive to work openly and together so we can set the standard for outstanding oversight that benefits investors and the American public.

Anthony C. Thompson
Board Member

FINANCIAL REVIEW

This financial review, together with the 2021 audited financial statements and the accompanying notes, provides financial information related to our programs and activities. Our financial statements are presented in accordance with accounting principles generally accepted in the United States of America and reflect the specific reporting requirements of not-for-profit organizations. The following discusses the highlights of our activities and financial position as presented in the accompanying audited financial statements.

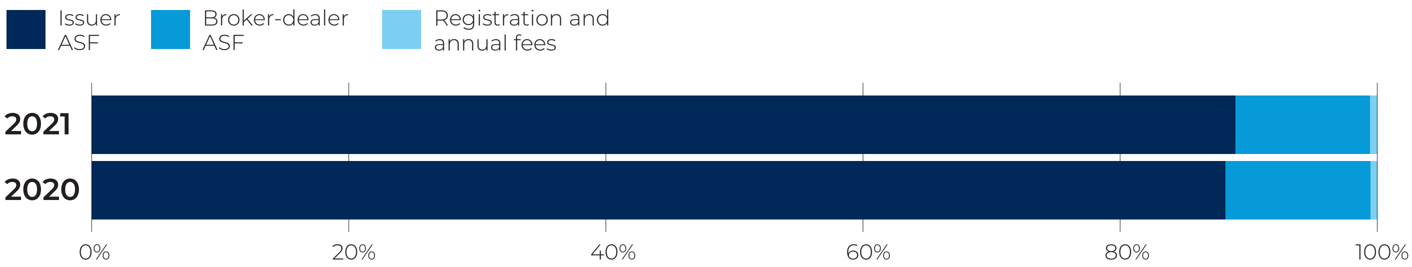
Financial Highlights

Results of Operations

Operating Revenue

Most of our revenue is generated from the accounting support fee (ASF), which is assessed annually on issuers and SEC-registered broker-dealers. The ASF is calculated during the annual budget process 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. The ASF is subject to review and approval by the SEC, concurrent with each annual budget.

Percentage of operating revenues by type 2021 vs. 2020



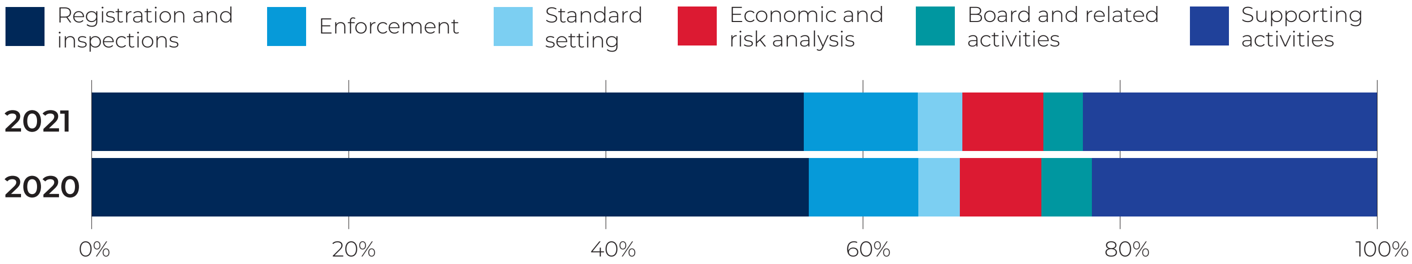
Our net operating revenue decreased by approximately $6.2 million, or 2%, from the prior year due to the decrease in the ASF in 2021. The 2021 ASF decrease was primarily related to unspent funds from our 2020 budget.

The table below presents our net operating revenue by line item for each of the years ended December 31, 2021 and 2020:

($ in millions)	2021	2020
Issuer accounting support fee	$236.2	$239.6
Broker-dealer accounting support fee	27.7	30.5
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4
Total net operating revenue	**$265.3**	**$271.5**

Operating Expenses

Percentage of operating expenses by functional classification 2021 vs. 2020



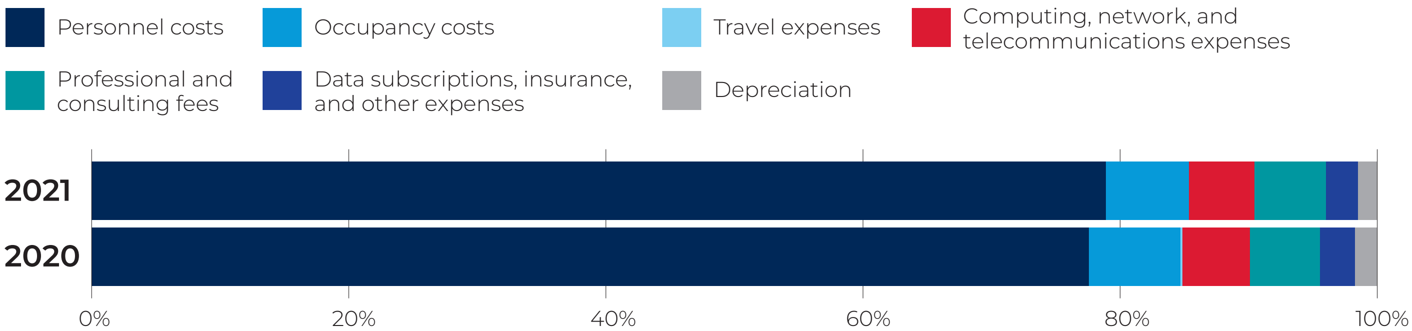
Our people are our most important asset, and our investments in human capital enable us to fulfill our statutory mission. Personnel costs continued to represent approximately three-fourths of our operating expenses, with more than half of these costs related to our registration and inspections program.

Overall, operating expenses remained generally consistent compared to the prior year and decreased by approximately $2.6 million, or 1%. Costs for program services decreased by $3.9 million compared to the prior year primarily due to lower average headcount in 2021 in our registration and inspections program and the Board. This was partially offset by an increase of $1.3 million in costs in supporting activities related to higher average headcount, other personnel costs, and an increase in legal fees.

The table below presents operating expenses (by program services and supporting activities) for each of the years ended December 31, 2021 and 2020:

($ in millions)	2021	2020
Program services:		
Registration and inspections	$145.3	$147.8
Enforcement	23.3	22.6
Standard setting	9.1	8.6
Economic and risk analysis	16.5	16.7
Board and related activities	8.0	10.4
Supporting activities:		
Administration and general	45.2	44.4
Information technology	14.9	14.4
Total operating expenses	**$262.3**	**$264.9**

Percentage of operating expenses by natural classification 2021 vs. 2020



The table below presents operating expenses (by natural classification) for each of the years ended December 31, 2021 and 2020:

($ in millions)	2021	2020
Personnel costs	$207.0	$205.6
Occupancy costs	17.0	18.8
Travel expenses	-	0.4
Computing, network, and telecommunications expenses	13.3	13.9
Professional and consulting fees	14.6	14.5
Data subscriptions, insurance, and other expenses	6.5	7.2
Depreciation	3.9	4.5
Total operating expenses	**$262.3**	**$264.9**

Personnel costs increased by approximately $1.4 million, or 1%, in 2021, due primarily to an increase in merit pay and the payout of paid time off for departing employees compared to the prior year.

Occupancy costs were lower in 2021 as we did not renew our short-term leases for our former satellite office locations upon the expiration of the leases in 2020. No material travel expenses were incurred in 2021 as a result of the suspension of domestic and international travel in response to the COVID-19 pandemic for the entire year, as opposed to approximately nine months in 2020. Depreciation decreased because certain network assets became fully depreciated in the prior year.

Computing, network, and telecommunication expenses; and data subscriptions, insurance, and other expenses remained generally consistent compared to the prior year. Professional and consulting fees remained generally consistent compared to the prior year, with an increase in fees to outside counsel primarily offset by deferral of cloud implementation costs due to our adoption of the related accounting standard as of January 1, 2021. See Note 2 for additional details on the adoption of the related accounting standard.

See Note 8 for additional details of expenses by program services and supporting activities.

Other (Expense) Revenue

The table below presents components of other (expense) revenue for each of the years ended December 31, 2021 and 2020:

($ in millions)	2021	2020
Interest income and other	$0.5	$1.0
Monetary penalties, net	1.2	1.7
Scholarship payments, net	(2.5)	(2.2)
Total other (expense) revenue	**$(0.8)**	**$0.5**

Interest income and other decreased by approximately $0.5 million, or 50%, compared to the prior year primarily due to lower interest rates on cash and cash equivalents.

Monetary penalties, net, decreased by approximately $0.5 million, or 29%. Revenue from monetary penalties depends on the amount of monetary penalties imposed by disciplinary orders in a given year.

Scholarship payments, net of amounts unused or deferred, increased by approximately $0.3 million or 14% compared to the prior year. The PCAOB awarded 253 merit-based scholarships of $10,000 each in 2021, as compared to 234 awarded in 2020. The increase in the number of scholarships awarded in 2021 was primarily attributable to extended nomination deadlines and additional outreach to colleges and universities.

Statements of Financial Position

Assets

The table below presents our total assets by type as of December 31, 2021 and 2020, respectively:

($ in millions)	2021	2020
Cash and cash equivalents	$146.0	$166.3
Restricted cash and cash equivalents	11.8	12.9
Short-term investments	17.6	-
Accounts and other receivables, net	5.9	2.3
Prepaid expenses and other assets	15.8	12.9
Furniture and equipment, leasehold improvements, and technology, net	13.1	15.2
Total assets	**$210.2**	**$209.6**

Cash and cash equivalents decreased by approximately $20.3 million from the prior year primarily due to the timing of both investment purchases of sequestered funds (cash) in a U.S. Treasury Bill (presented as approximately $17.6 million at fair value in short-term investments) and receipt of issuer and broker-dealer ASF payments, along with the overall decrease in the ASF assessed in 2021.

Restricted cash and cash equivalents totaled $11.8 million and $12.9 million as of December 31, 2021 and 2020, respectively, and consisted primarily of funds designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act. The change was related to both the decrease in monetary penalties and the increase in scholarship payments compared to the prior year. See Note 7 for additional discussion.

Accounts and other receivables, net, increased by approximately $3.6 million compared to the prior year primarily due to the timing of issuer and broker-dealer ASF payments.

Prepaid expenses and other assets increased by approximately $2.9 million, or 22%, from the prior year primarily due to the recognition of $2.7 million of net deferred cloud implementation costs in accordance with the recent accounting standard update. See Note 2 for additional discussion.

Furniture and equipment, leasehold improvements, and technology, net, decreased by $2.1 million, or 14%, from the prior year, primarily related to depreciation and amortization expenses of $3.9 million, partially offset by fixed asset additions.

Liabilities

Our total liabilities decreased by approximately $1.6 million, or 3%, from the prior year. This was primarily related to a decrease in deferred rent due to the amortization of lease incentives. Accrued payroll and related benefits increased due to higher accrued variable pay and the timing of certain benefits payments compared to the prior year. The table below presents total liabilities by type as of December 31, 2021, and 2020, respectively:

($ in millions)	2021	2020
Accrued payroll and related benefits	$27.4	$27.1
Accounts payable and accrued expenses	1.4	1.5
Deferred rent	18.8	20.6
Total liabilities	**$47.6**	**$49.2**

Liquidity

We are primarily funded by the ASF assessed on issuers and SEC-registered broker-dealers, with certain assets being subject to statutory restrictions for scholarships and sequestration, or contractual restrictions under an agency agreement. The primary goal of our liquidity management policy is to structure our financial assets to maintain liquidity to meet our general expenditures, liabilities, and other obligations as they become due. Due to the timing required to complete the billings and collections of the ASF, we maintain a working capital reserve to cover our estimated expenditures in the first five months of the fiscal year.

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

To the Board of the
Public Company Accounting Oversight Board

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying statement of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2021 and 2020, and the related statements of activities and cash flows for each of the years in the two-year period ended December 31, 2021, 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, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)*, as 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, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Additionally, in our opinion, the PCAOB maintained—in all material respects—effective internal control over financial reporting as of December 31, 2021, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

Basis for Opinions

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 audits.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that:

1. Pertain to the maintenance of records that—in reasonable detail—accurately and fairly reflect the transactions and dispositions of the assets of the company.

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that both the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company.

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. Additionally, 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the PCAOB Board and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Description of the Matter

As disclosed in Note 2, the PCAOB adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-15, *Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* on a prospective basis, effective January 1, 2021. The main provision of this standard, as it applies to cloud computing implementation costs, are that organizations should determine which cloud computing implementation costs to capitalize as an asset (i.e., defer) and which costs to expense. In deferring such costs, organizations also should expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement.

In implementing this standard, the PCAOB's Office of Finance coordinated with the Office of Data, Security, and Technology (ODST) and project owners to identify and understand each cloud computing project with implementation costs subject to this standard, to develop and implement capitalization guidance to be used by project owners, and to determine the appropriate inputs and assumptions used in estimating the capitalizable cloud computing costs. Management evaluated these inputs to calculate the amount of deferred implementation costs and the amortization of such costs.

Auditing the PCAOB's adoption of ASU 2018-15 required complex auditor judgment due to the nature of the PCAOB's assumptions and estimation used in determining cloud computing costs that were deferred versus expensed.

How We Addressed the Matter in Our Audit

In our audit of the PCAOB's deferred cloud implementation costs in accordance with ASC 2018-15, we performed the following:

- Obtained an understanding of the PCAOB's processes for identifying, estimating, and calculating capitalizable cloud implementation costs.
- Evaluated the relevancy, reliability, and appropriateness of assumptions and inputs used in determining capitalizable contractor, PCAOB employee labor, and other relevant costs.
- Tested certain inputs used in the PCAOB's calculation of deferred cloud implementation costs.
- Developed an independent expectation of the estimated cloud computing cost deferral by recalculating management's analyses and assessed the reasonableness of management's estimation.
- Evaluated the PCAOB's disclosures in Notes 2 and 8 related to this matter and the related balances that are included within prepaid expenses and other assets on the Statement of Financial Position.

We have served as the PCAOB's auditor since 2021.

COTTON & COMPANY ASSURANCE AND ADVISORY LLC

Alan Rosenthal, CPA, CFE
Engagement Partner

Alexandria, Virginia
March 28, 2022

FINANCIAL STATEMENTS

Statements of Financial Position

December 31, 2021 and 2020

($ in millions)	2021	2020
Assets		
Cash and cash equivalents	$146.0	$166.3
Restricted cash and cash equivalents	11.8	12.9
Short-term investments	17.6	-
Accounts and other receivables, net	5.9	2.3
Prepaid expenses and other assets	15.8	12.9
Furniture and equipment, leasehold improvements, and technology, net	13.1	15.2
TOTAL ASSETS	**$210.2**	**$209.6**
Liabilities and net assets without donor restrictions		
Liabilities		
Accrued payroll and related benefits	$27.4	$27.1
Accounts payable and accrued expenses	1.4	1.5
Deferred rent	18.8	20.6
Total liabilities	**47.6**	**49.2**
Net assets without donor restrictions		
Undesignated	134.5	130.6
Statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act	11.7	13.0
Statutorily designated for sequestration	16.4	16.8
Total net assets without donor restrictions	**162.6**	**160.4**
TOTAL LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS	**$210.2**	**$209.6**

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

Statements of Activities

For the years ended December 31, 2021 and 2020

($ in millions)	**2021**	**2020**
Changes in net assets without donor restrictions		
Net operating revenue		
Issuer accounting support fee	$236.2	$239.6
Broker-dealer accounting support fee	27.7	30.5
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4
Total net operating revenue	**265.3**	**271.5**
Operating expenses		
Program services		
Registration and inspections	145.3	147.8
Enforcement	23.3	22.6
Standard setting	9.1	8.6
Economic and risk analysis	16.5	16.7
Board and related activities	8.0	10.4
Supporting activities		
Administration and general	45.2	44.4
Information technology	14.9	14.4
Total operating expenses	**262.3**	**264.9**
Operating income	3.0	6.6
Other (expense) revenue		
Interest income and other	0.5	1.0
Monetary penalties, net	1.2	1.7
Scholarship payments, net	(2.5)	(2.2)
Total other (expense) revenue	**(0.8)**	**0.5**
Increase in net assets without donor restrictions	**2.2**	**7.1**
Net assets without donor restrictions —Beginning of year	**160.4**	**153.3**
Net assets without donor restrictions —End of year	**$162.6**	**$160.4**

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

Statements of Cash Flows

For the years ended December 31, 2021 and 2020

($ in millions)	2021	2020
Cash flows from operating activities		
Cash received from issuers	$235.4	$238.2
Cash received from broker-dealers	26.0	29.5
Cash received from PCAOB-registered public accounting firms	1.3	1.3
Interest income and other	0.2	1.1
Cash received from monetary penalties, net	1.3	1.7
Cash paid to fund scholarships, net	(2.5)	(2.2)
Cash paid for operating expenses	(263.9)	(254.7)
Net cash (used in) provided by operating activities	**(2.2)**	**14.9**
Cash flows from investing activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(1.6)	(2.1)
Purchases of short-term investments	(34.0)	(17.0)
Proceeds from maturity of short-term investments	16.4	153.6
Proceeds from maturity of short-term investments - restricted	-	11.0
Net cash (used in) provided by investing activities	**(19.2)**	**145.5**
(Decrease) increase in cash and cash equivalents, and restricted cash and cash equivalents	**(21.4)**	**160.4**
Cash and cash equivalents, and restricted cash and cash equivalents — Beginning of year	**179.2**	**18.8**
Cash and cash equivalents, and restricted cash and cash equivalents — End of year	**$157.8**	**$179.2**

Supplemental disclosures:		
Fixed asset purchases acquired but not paid for as of year-end	$0.1	$0.1
Cash received during the year for refund of unrelated business income taxes paid	$0.1	$0.2
Fixed asset purchases acquired through the use of leasehold incentives	$0.1	-

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 is a District of Columbia nonprofit corporation established by the Sarbanes-Oxley Act to oversee the audits of public companies and SEC-registered broker-dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

We are overseen by the SEC, which has the authority to appoint Board members and to approve our rules, standards, and budget. The Sarbanes-Oxley Act established funding for our activities primarily through an ASF assessed on issuers based on their relative average monthly market capitalization and on SEC-registered broker-dealers based on their relative average quarterly tentative net capital. The annual ASF is approved by the SEC.

Our operations consist of program services and supporting activities. Our program services for financial reporting purposes are: registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Our supporting activities are administration and general activities and information technology activities. Refer to Note 8 for additional details related to our program services and supporting activities.

Throughout 2021 we assessed and closely monitored the impact of the COVID-19 pandemic on all aspects of our operations and financial results. Similar to 2020, the pandemic had no material impact on our financial statements or internal control over financial reporting other than a reduction in travel expenses.

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 (ASC) Topic 958, *Not-for-Profit Entities* (ASC 958).

In August 2018, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2018-15—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The guidance conforms the requirements for capitalizing implementation costs incurred in cloud computing arrangements that are service contracts to the accounting guidance that provides for the capitalization of costs incurred to develop or obtain internal-use software. Under the guidance, implementation costs that are capitalized should be characterized in financial statements in the same manner as other service costs and assets related to service costs and are amortized over the term of the hosting arrangement, which includes consideration of the non-cancellable contractual term and reasonably certain renewals.

We adopted this guidance on January 1, 2021, using the prospective transition approach, under which we apply the guidance to all eligible costs incurred subsequent to adoption. Under the guidance, we capitalize eligible implementation costs associated with cloud computing arrangements that are service contracts within prepaid expenses and other assets in our statement of financial position. We amortize these costs on a straight-line basis over the term of the hosting arrangement, which includes consideration of the non-cancellable contractual term and reasonably certain renewals. Under the new guidance, we capitalized approximately $2.7 million of costs incurred in 2021 that would have been expensed under our previous policy.

Cash and Cash Equivalents—The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in non-interest-bearing accounts with a domestic high-credit-quality financial institution, money market funds, and investments in securities made pursuant to an overnight automated investment sweep agreement. All non-restricted highly liquid instruments purchased with an original maturity of three months or less are cash equivalents.

Money market funds—Our money market funds are available on-demand and valued using quoted prices in active markets and consist primarily of high-quality investments in U.S. Treasury securities and/or repurchase agreements secured by U.S. government obligations. We consider these money market funds to be Level 1 financial instruments.

Automated Investment Sweep—Pursuant to the sweep agreement, we invest 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. Treasury securities and repurchase agreements). Purchased money market fund shares are held by the financial institution, as an 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, we could experience a delay in disposing of such securities.

Restricted Cash and Cash Equivalents—The term restricted cash and cash equivalents, as used in the accompanying financial statements, consists of cash or money market funds to be used to fund our Scholarship Program, established pursuant to Section 109(c)(2) of the Sarbanes-Oxley Act, as well as funds held for the FASB under an agency agreement.

Investments—The term investments, as used in the accompanying financial statements, consists primarily of short-term investments in U.S. government securities that mature within one year of purchase. See Note 7 for additional discussion of funds statutorily designated for sequestration. Our investments are recorded at fair value. We estimate fair value based on pricing from observable trading activity for similar securities or from a third-party pricing service; accordingly, we have classified these instruments as Level 2 fair value measurements. Purchases and sales of securities are recorded on a trade date basis. Interest income and net gains and losses are recorded on an accrual basis and are included in interest income and other on the accompanying statements of activities.

Concentration of Credit Risk—Our cash and cash equivalents are 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. We mitigate this risk in two ways. We invest directly in multiple money market funds that consist primarily of high-quality investments in U.S. Treasury securities and/or repurchase agreements secured by U.S. government obligations. Remaining cash balances are secured by daily overnight investment sweep agreements that invest in money market funds comprised primarily of U.S. government/agency obligations and repurchase agreements.

Accounts and Other Receivables, Net—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, historical experience.

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

Cloud Computing Arrangements—We incur costs to implement cloud computing arrangements that are hosted by a third-party vendor as we move certain on-premises systems and services to the cloud. Implementation costs incurred during the application development stage are generally capitalized and amortized over the term of the hosting arrangement on a straight-line basis.

For the year ended December 31, 2021, we capitalized approximately $2.9 million of costs incurred to implement cloud computing arrangements. These costs were primarily related to the migration of certain on-premise applications to the cloud, including the implementation of a cloud-based human resources management platform. Amortization expense of capitalized implementation costs for cloud computing arrangements totaled $0.2 million for the year ended December 31, 2021, which is included in computing, network, and telecommunications expenses within the statement of activities as presented in Note 8. The net deferred cloud implementation costs of $2.7 million are included within prepaid expenses and other assets on the statement of financial position and will be expensed over the term of the related cloud computing arrangements.

Furniture and Equipment, Leasehold Improvements, and Technology, Net—Furniture and equipment, leasehold improvements, and technology, net 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.

Deferred Rent—We recognize 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 under facilities leases are recorded as deferred rent when we obtain control of the leased space that is related to the leasehold incentives due from the landlord. Deferred rent related to leasehold incentives is amortized on a straight-line basis over the lease term as a reduction of rent expense.

Revenue Recognition—The Sarbanes-Oxley Act established funding for our activities primarily through the ASF assessed on issuers and broker-dealers. The annual ASF is approved by the SEC. We also assess and collect registration and annual fees and may impose monetary penalties as prescribed by the Sarbanes-Oxley Act.

Annual ASF—The annual ASF is assessed on issuers, as defined in the Sarbanes-Oxley Act, and on broker-dealers registered with the SEC. The purpose of the fees is to fund our mission to oversee the audits of public companies and SEC-registered broker-dealers to protect the interests of investors and further the public interest in informative, accurate, and independent audit reports. The ASF is established annually by the Board based on our approved operating budget for each calendar year and adjusted to reflect amounts estimated to fund our operations for the first five months of the subsequent year, as well as other adjustments. The ASF 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 us. Registration fees are recognized as operating revenue in the year the application is submitted.

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

Monetary Penalties, Net—Our sanctions may include monetary penalties imposed pursuant to Section 105 of the Sarbanes-Oxley Act. Monetary penalties are recognized as other revenue generally in the year (1) disciplinary orders are settled or (2) adjudicated final Board actions imposing sanctions in disciplinary proceedings are effective.

Monetary Penalties, Net and Scholarship Payments, Net—Amounts collected from monetary penalties are required to be used to fund merit scholarships awarded to students of accredited accounting degree programs, after congressional appropriation for such use of the monetary penalties. Amounts not paid out as of year-end are included in restricted cash and cash equivalents in the statements of financial position. In the statements of financial position, the net change in penalties assessed and paid out as merit scholarships is reported as an increase or decrease in net assets without donor restrictions statutorily designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act.

Cash Held for Others under Agency Agreement—We serve as the collection agent for invoicing and collecting the FASB ASF and are paid a collection fee by FASB for serving as its collection agent. As FASB's collection agent, we received a collection fee of approximately $0.2 million in each of 2021 and 2020. Pursuant to the collection agent agreement, we collected $31.4 million on behalf of FASB and remitted $31.2 million to FASB in 2021, and collected $31.4 million and remitted $31.0 million in 2020. Funds received and not remitted to the FASB by year-end are included in restricted cash and cash equivalents with a corresponding amount included in accounts payable and accrued expenses. The collection fees are included in interest income and other in the accompanying statements of activities and statements of cash flows.

Taxes—We are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (IRC). Effective January 1, 2018, IRC Section 512(a)(7) required tax-exempt organizations to include qualified transportation benefits provided to their employees as unrelated business taxable income. As a result of providing such benefits, we paid and recorded a provision for unrelated business income taxes of approximately $0.2 million as part of administration and general expenses in the statements of activities for the year ended December 31, 2018, and made payments related to unrelated business taxable income totaling approximately $0.2 million during 2019. On December 20, 2019, the Taxpayer Certainty and Disaster Tax Relief Act of 2019 retroactively repealed IRC Section 512(a)(7). Pursuant to this legislation, Section 512(a)(7) was repealed retroactive to the date of its enactment. As a result, we recorded a receivable of approximately $0.4 million in our 2019 financial statements and filed a refund claim in 2020. In 2020, we received a refund of approximately $0.2 million from the IRS, and approximately $0.2 million remained in accounts and other receivables, net, in our statement of financial position as of December 31, 2020. In 2021, we received an additional refund of approximately $0.1 million from the IRS. Approximately $0.1 million remained in accounts and other receivables, net, in our statement of financial position as of December 31, 2021.

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, useful lives of property and equipment, allocation of expenses to program services and supporting activities, and deferred cloud implementation costs. Actual results could differ from these estimates.

Statements of Cash Flows—We use the direct method of reporting net cash provided by or used in operating activities in the statements of cash flows.

The total of cash and cash equivalents and restricted cash and cash equivalents in the statements of financial position is shown in the statements of cash flows as follows:

($ in millions)	**2021**	**2020**
Cash and cash equivalents	$146.0	$166.3
Restricted cash and cash equivalents	11.8	12.9
Total cash and cash equivalents, and restricted cash and cash equivalents shown in the statements of cash flows	**$157.8**	**$179.2**

Accounting Pronouncements Issued but Not Yet Adopted—In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting about leasing transactions. ASU 2016-02 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. With the issuance of ASU 2020-05 in June 2020, the new standard will be effective for our 2022 fiscal year. We are currently evaluating the effect that this ASU will have on our financial statements. Upon adoption of the ASU, right-of-use assets and corresponding liabilities are expected to be material.

Note 3—Accounts and Other Receivables, Net

Accounts receivables and other receivables consist of the following as of December 31, 2021 and 2020:

($ in millions)	**2021**	**2020**
Accounts receivable—issuer and broker-dealer accounting support fees and annual fees	$6.0	$3.3
Accounts receivable—other	1.4	0.2
Other receivables—monetary penalties	0.5	0.6
Accounts and other receivables, gross	**7.9**	**4.1**
Less: Allowance for doubtful accounts	(2.0)	(1.8)
Accounts and other receivables, net	**$5.9**	**$2.3**

Note 4—Furniture and Equipment, Leasehold Improvements, and Technology, Net

Furniture and equipment, leasehold improvements, and technology, net consist of the following as of December 31, 2021 and 2020:

($ in millions)	2021	2020
Technology		
Hardware	$10.5	$10.6
Purchased and developed software	11.8	11.4
Leasehold improvements	22.2	21.9
Furniture and equipment	8.3	8.3
Technology development and construction in process	0.5	0.6
Furniture and equipment, leasehold improvements, and technology, gross	**53.3**	**52.8**
Less: Accumulated depreciation and amortization	(40.2)	(37.6)
Furniture and equipment, leasehold improvements, and technology, net	**$13.1**	**$15.2**

Depreciation and amortization expense was approximately $3.9 million and $4.5 million for each of the years ended December 31, 2021 and 2020, respectively.

Note 5—Lease Commitments

As of December 31, 2021, we had long-term leases for office space that expire at various dates through 2028. Most of these leases contain escalation clauses and an option to renew at prevailing market rental values.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense for each of the years ended December 31, 2021 and 2020 was $15.4 million and $16.3 million, respectively.

Minimum rental commitments for our office leases exceeding one year as of December 31, 2021 are presented in the table accompanying this Note.

($ in millions)	
Year ending December 31,	
2022	$17.6
2023	18.0
2024	17.1
2025	15.6
2026	15.7
Thereafter	26.2
Total minimum lease payments	**$110.2**

Note 6—Retirement Benefit Plan

We have a defined contribution retirement plan that covers all eligible employees. For each of the years ended December 31, 2021 and 2020, we matched 100% of employee contributions up to 7% of eligible compensation. Our contributions vest immediately. Our contributions to employees' accounts were $10.3 million and $9.9 million, for each of the years ended December 31, 2021 and 2020, respectively.

Note 7—Net Assets Without Donor Restrictions

Our net assets are not subject to any donor-imposed restrictions. Our net assets include a working capital reserve that we maintain to fund our operations during the five-month period prior to the collection of the ASF for the current year. Our net assets also include funds designated for specific uses, as described below.

Designated for the PCAOB Scholarship Program—The statements of financial position include funds statutorily designated for the PCAOB Scholarship Program, established by Section 109(c)(2) of the Sarbanes-Oxley Act. The Sarbanes-Oxley Act authorizes us to impose monetary penalties and requires us to use those penalties to award merit scholarships to students of accredited accounting degree programs, after congressional appropriation for such use. Accordingly, we awarded 253 and 234 merit-based scholarships of $10,000 each to eligible students for the 2021-2022 and 2020-2021 academic years, respectively.

Statutorily designated funds for scholarships are included in restricted cash and cash equivalents. The activity of the statutorily designated funds for the years ended December 31, 2021 and 2020, was as follows:

($ in millions)	
Statutorily designated funds, as of December 31, 2019	$13.5
Monetary penalties assessed in 2020, net	1.7
Less scholarship payments for the 2020–2021 academic year, net of amounts unused or deferred	(2.2)
Statutorily designated funds, as of December 31, 2020	**$13.0**
Monetary penalties assessed in 2021, net	1.2
Less scholarship payments for the 2021–2022 academic year, net of amounts unused or deferred	(2.5)
Statutorily designated funds, as of December 31, 2021	**$11.7**

Of the $11.7 million in statutorily designated funds for scholarships as of December 31, 2021, approximately $4.5 million has already been appropriated by Congress and may be used for awarding scholarships in 2022 or subsequent years. Prior to 2018, Congress had appropriated each year the full amount of monetary penalties collected in the previous year and made them available for scholarships. In 2018, Congress limited the appropriation it provided for scholarships to $1 million of the total monetary penalties collected in 2017. As of December 31, 2021, Congress has not appropriated approximately $7.2 million of the remaining monetary penalties collected in 2017. As a result, as of each of December 31, 2021, and 2020, approximately $7.2 million of the $11.7 million in 2021 and $13.0 million in 2020 in statutorily designated funds was not available to distribute for scholarships.

Designated for Sequestration—The statements of financial position include funds statutorily designated for sequestration. In March 2013, the Office of Management and Budget (OMB) determined that we are 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 our sequestered funds represent temporary reductions, such that funds that are sequestered in one year become available in subsequent years.

On February 10, 2020, OMB issued a report, “OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2021,” specifying that our sequestration percentage in 2021 was 5.7% of our approved 2021 budget, or approximately $16.4 million. These sequestered funds remained unspent as of December 31, 2021, and were included in short-term investments in the accompanying statements of financial position. In a separate report issued on May 28, 2021, “OMB Report to the Congress on the BBEDCA 251A Sequestration for Fiscal Year 2022,” OMB specified that our sequestration percentage in 2022 was 5.7% of our approved 2022 budget, or approximately $17.7 million. We used the $16.4 million sequestered in 2021 to offset the $17.7 million sequestered for 2022. The net increase of $1.3 million in the required sequestration amount for 2022 has been implemented by the PCAOB adopting a revised spending plan for 2022 that reduces the PCAOB’s approved budget by $1.3 million. The scholarship funds were not subject to sequestration in 2021 or 2020.

Note 8—Expenses by Program Services and Supporting Activities

The statements of activities reflect program services related to registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Program services consist of the following:

- Registration and inspections (DRI) executes the Board’s registration and inspections authority under the Sarbanes-Oxley Act. DRI processes and makes recommendations to the Board on applications from public accounting firms to register with the PCAOB. DRI also inspects registered public accounting firms to assess compliance with the Sarbanes-Oxley Act, the rules of the Board and the SEC, and professional standards, in connection with the performance of audits, issuance of audit reports, and related matters involving issuers and broker-dealers audited by the registered firms.

- Enforcement conducts investigations and recommends instituting disciplinary proceedings concerning registered public accounting firms and their associated persons related to possible violations of the Sarbanes-Oxley Act, the rules of the Board and the SEC, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations of accountants with respect to audit reports or professional standards.

- Standard setting advises the Board on establishing or amending auditing, quality control, ethics, independence, and attestation standards applicable to registered public accounting firms in the preparation and issuance of audit reports as required by the Sarbanes-Oxley Act or the SEC, or as may be necessary for the protection of investors and the public interest.

- Economic and risk analysis conducts economic analysis and research, risk assessment, and data analysis to inform our other program services.

- Board and related activities primarily consists of the programmatic activities of the Board and the Office of International Affairs (OIA). Supported by the other program services, the Board issues inspection reports on registered public accounting firms; approves registration applications of public accounting firms; initiates formal investigations and enforcement actions; and establishes or amends auditing, quality control, ethics, independence, and attestation standards for registered public accounting firms. Under the direction and supervision of the Board, OIA promotes our mission internationally by developing and fostering bilateral relationships and negotiating bilateral cooperative arrangements with non-U.S. regulators to facilitate our international inspections and investigations.

Program expenses include salaries, benefits, occupancy, 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, enterprise risk, and information technology. Indirect costs, including certain occupancy and depreciation costs, are allocated to program services and supporting activities proportionately based on numbers of personnel.

The statements of activities report certain categories of expenses that are attributable to more than one program service or supporting activity. These expenses are allocated on a reasonable basis that is consistently applied. In particular, these expenses have been allocated to program services and supporting activities based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of headcount or other measures such as time and effort. The expenses that are allocated in this manner include: personnel costs, including fringe benefits and payroll taxes; occupancy costs; computing, network, and telecommunications expenses; and depreciation.

For the year ended December 31, 2021
($ in millions)

	Program services						Supporting activities			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs subtotal	Administration and general	Information technology	Supporting subtotal	Total
Personnel costs	$121.0	$18.8	$7.7	$11.6	$6.6	$165.7	$31.3	$10.0	$41.3	$207.0
Occupancy costs	8.6	1.8	0.7	1.1	0.6	12.8	3.2	1.0	4.2	$17.0
Travel expenses	-	-	-	-	-	-	-	-	-	-
Computing, network, and telecommunications expenses	7.5	1.2	0.3	1.0	0.3	10.3	2.5	0.5	3.0	$13.3
Professional and consulting fees	5.4	0.8	0.2	0.5	0.2	7.1	5.0	2.5	7.5	$14.6
Data subscriptions, insurance, and other expenses	0.9	0.4	0.1	2.0	0.2	3.6	2.5	0.4	2.9	$6.5
Depreciation	1.9	0.3	0.1	0.3	0.1	2.7	0.7	0.5	1.2	$3.9
Total operating expenses	**$145.3**	**$23.3**	**$9.1**	**$16.5**	**$8.0**	**$202.2**	**$45.2**	**$14.9**	**$60.1**	**$262.3**

For the year ended December 31, 2020
($ in millions)

	Program services						Supporting activities			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs subtotal	Administration and general	Information technology	Supporting subtotal	Total
Personnel costs	$121.7	$18.2	$7.1	$11.5	$8.5	$167.0	$30.5	$8.1	$38.6	$205.6
Occupancy costs	9.9	1.9	0.7	1.2	1.2	14.9	2.9	1.0	3.9	$18.8
Travel expenses	0.3	-	-	-	-	0.3	0.1	-	0.1	$0.4
Computing, network, and telecommunications expenses	6.8	1.1	0.2	1.0	0.2	9.3	3.4	1.2	4.6	$13.9
Professional and consulting fees	6.0	0.8	0.2	0.4	0.1	7.5	3.7	3.3	7.0	$14.5
Data subscriptions, insurance, and other expenses	1.0	0.3	0.1	2.3	0.2	3.9	3.0	0.3	3.3	$7.2
Depreciation	2.1	0.3	0.3	0.3	0.2	3.2	0.8	0.5	1.3	$4.5
Total operating expenses	**$147.8**	**$22.6**	**$8.6**	**$16.7**	**$10.4**	**$206.1**	**$44.4**	**$14.4**	**$58.8**	**$264.9**

Note 9—Liquidity

We are primarily funded by the ASF, with certain assets being subject to statutory restrictions or contractual restrictions under an agency agreement. The primary goal of our liquidity management policy is to structure our financial assets to be available as our general expenditures, liabilities, and other obligations come due.

As of December 31, 2021, we held cash and cash equivalents of approximately $146.0 million, which were available on demand to pay general expenditures. As of December 31, 2021, we held short-term investments of approximately $17.6 million, which is designated for sequestration in 2022. As of December 31, 2021, $4.5 million of restricted cash and cash equivalents were available to pay for future scholarship awards, with an additional $7.2 million that is required to be appropriated by Congress prior to their use to fund scholarships (as discussed in Note 7).

Note 10—Subsequent Events

We have evaluated subsequent events through March 28, 2022, which represents the date the audited financial statements were available to be issued. We determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

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

The PCAOB's financial reporting management, including the Chief Financial Officer and Acting Chief Administrative Officer, under the direction of the Chair (collectively, "financial reporting management"), is 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 December 31, 2021. 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 December 31, 2021.

March 28, 2022

Erica Y. Williams

Erica Y. Williams
Chair

Holly Greaves

Holly Wheaton Greaves
Chief Financial Officer and Acting
Chief Administrative Officer