

**SECTION 4. INSPECTIONS**

**Rule 4000. General**

(a) Every registered public accounting firm shall be subject to all such regular and special inspections as the Board may from time-to-time conduct in order to assess the degree of compliance of each registered public accounting firm and associated persons of that firm with the Act, the Board's rules, the rules of the Commission, and professional standards, in connection with its performance of audits, issuance of audit reports, and related matters involving issuers.

(b) In furtherance of the Board's inspection process, the Board may at any time request that a registered public accounting firm provide to the Board additional information or documents relating to information provided by the firm in any report filed pursuant to Section 2 of these Rules, or relating to information that has otherwise come to the Board's attention. Any request for information or documents made pursuant to this Rule, and any information or documents provided in response to such a request, shall be considered to be in connection with the next regular or special inspection of the registered public accounting firm.

(c) Inspection steps and procedures shall be performed by the staff of the Division of Registration and Inspections, and by such other persons as the Board may authorize to participate in particular inspections or categories of inspections.

[Effective pursuant to SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004); and SEC Release No. 34-60497, File No. PCAOB-2008-04 (August 13, 2009)]

**Rule 4001. Regular Inspections**

In performing a regular inspection, the staff of the Division of Registration and Inspections and any other person authorized by the Board to participate in the inspection shall take such steps, and perform such procedures, as the Board determines are necessary or appropriate. Such steps and procedures must include, but need not be limited to, those set forth in Section 104(d)(1) and (2) of the Act and such other tests of the audit, supervisory, and quality control procedures of the firm as the Director of the Division of Registration and Inspections or the Board determines.

[Effective pursuant to SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004)]

**Rule 4002. Special Inspections**

In performing a special inspection, the staff of the Division of Registration and Inspections and any other person authorized by the Board to participate in the inspection shall take such steps, and perform such procedures, as are necessary or appropriate concerning the issue or issues specified by the Board in connection with its authorization of the special inspection.

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Note: Under Section 104(b)(2) of the Act, the Board may authorize a special inspection on its own initiative or at the request of the Commission.

[Effective pursuant to SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004)]

### **Rule 4003. Frequency of Inspections**

(a) During each calendar year, beginning no later than the calendar year following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during the prior calendar year, issued audit reports with respect to more than 100 issuers shall be subject to a regular inspection.

(b) At least once in every three calendar years, beginning with the three-year period following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during any of the three prior calendar years, issued an audit report, other than by consenting to an issuer's use of a previously issued audit report, with respect to at least one issuer, but no more than 100 issuers, shall be subject to a regular inspection.

(c) With respect to a registered public accounting firm that has filed a completed Form 1-WD under Rule 2107, the Board shall have the discretion to forego any regular inspection that would otherwise commence during the period beginning on the date of Board receipt of a completed Form 1-WD and continuing until the firm's registration is deemed withdrawn or the firm withdraws the Form 1-WD.

(d) Notwithstanding paragraph (b) of this Rule, with respect to any registered public accounting firm that became registered in 2003 or 2004 –

(1) this Rule does not require the first inspection of the firm sooner than the fourth calendar year following the first calendar year in which the firm, while registered, issued an audit report with respect to an issuer; and

(2) this Rule does not require the second inspection of the firm sooner than the fifth calendar year following the first calendar year in which the firm, while registered, issued an audit report with respect to an issuer.

(e) Notwithstanding any other provision of this Rule, if, in two consecutive calendar years, a registered public accounting firm issues no audit reports with respect to an issuer other than by consenting to an issuer's use of a previously issued audit report, the Board shall have the discretion to forego any inspection of that firm that would otherwise be required because of any audit report that the firm had issued with respect to an issuer prior to such calendar years.

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(f) With respect to any foreign registered public accounting firm concerning which the preceding provisions of this Rule would set a 2008 deadline for the first Board inspection, such deadline is extended to 2009.

(g) With respect to any foreign registered public accounting firm concerning which the preceding provisions of this Rule, other than paragraphs (a) and (f), would set a 2009 deadline for the first Board inspection and that is headquartered in a country in which no foreign registered public accounting firm that the Board inspected before 2009 is headquartered, such deadline is extended to 2012, provided, however, that from among the group of all such firms, the Board shall conduct some first inspections in each of the years from 2009 to 2012, scheduled according to such criteria as the Board shall publicly announce.

(h) In each calendar year, the Board shall conduct regular inspections of some registered public accounting firms that reported on an annual report on Form 2 having played a substantial role in the preparation or furnishing of an audit report with respect to an issuer in any of the four most recent annual reporting periods through March 31 of that calendar year without having reported on an annual report on Form 2 having issued an audit report with respect to an issuer in any of those reporting periods. The number of such registered public accounting firms that the Board shall inspect in any particular calendar year shall be at least five percent of the number of registered public accounting firms that, by June 30 of the preceding calendar year, reported on an annual report on Form 2 for the reporting period ending on March 31 of the preceding calendar year having played a substantial role in the preparation or furnishing of an audit report with respect to an issuer without having issued an audit report with respect to an issuer in that reporting period.

[Effective pursuant to SEC Release No. 34-56738, File No. PCAOB-2006-03 (November 2, 2007), SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004), SEC Release No. 34-59991, File No. PCAOB-2008-06 (May 28, 2009); SEC Release No. 34-60497, File No. PCAOB-2008-04 (August 13, 2009); SEC Release No. 34-61649, File No. PCAOB-2009-01 (March 4, 2010); and SEC Release No. 34-78289, File No. PCAOB-2007-04 (July 11, 2016)]

### **Rule 4004. Procedure Regarding Possible Violations**

If the Board determines that information obtained by the Board's staff during any inspection indicates that the registered public accounting firm subject to such inspection, any associated person thereof, or any other person, may have engaged, or may be engaged, in any act, practice, or omission to act that is or may be in violation of the Act, the rules of the Board, any statute or rule administered by the Commission, the firm's own quality control policies, or any professional standard, the Board shall, if it determines appropriate –

- (a) report information concerning such act, practice, or omission to –
  - (1) the Commission; and

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(2) each appropriate state regulatory authority; and

(b) commence an investigation of such act, practice, or omission in accordance with Section 105(b) of the Act and the Board's rules thereunder or a disciplinary proceeding in accordance with Section 105(c) of the Act and the Board's rules thereunder.

Note: The Board may, as appropriate, make referrals or report information to regulatory and law enforcement agencies other than those specifically described in Rule 4004.

[Effective pursuant to SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004)]

### **Rule 4005. Record Retention and Availability**

[Reserved]

### **Rule 4006. Duty to Cooperate With Inspectors**

Every registered public accounting firm, and every associated person of a registered public accounting firm, shall cooperate with the Board in the performance of any Board inspection. Cooperation shall include, but is not limited to, cooperating and complying with any request, made in furtherance of the Board's authority and responsibilities under the Act, to –

(a) provide access to, and the ability to copy, any record in the possession, custody, or control of such firm or person, and

(b) provide information by oral interviews, written responses, or otherwise.

[Effective pursuant to SEC Release No. 34-56738, File No. PCAOB-2006-03 (November 2, 2007) and SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004)]

### **Rule 4007. Procedures Concerning Draft Inspection Reports**

(a) The Director of the Division of Registration and Inspections shall make a draft inspection report available for review by the firm that is the subject of the report. The firm may, within the 30 days after the draft inspection report is first made available for the firm's review, or such longer period as the Board may order, submit to the Board a written response to the draft report.

(b) (1) In submitting a response pursuant to paragraph (a), the firm may indicate any portions of the response for which the firm requests confidential treatment under Section 104(f) of the Act, and may supply any supporting authority or other justification for according confidential treatment to the information.

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(2) The Board shall attach to, and make part of the inspection report, any response submitted pursuant to paragraph (a), but shall redact from the response attached to the inspection report any information for which the firm requested confidential treatment and which it is reasonable to characterize as confidential.

(c) After receiving and reviewing any response letter pursuant to paragraph (a) of this rule, the Board may take such action with respect to the draft inspection report as it considers appropriate, including adopting the draft report as the final report, revising the draft report, or continuing or supplementing the inspection before issuing a final report. In the event that, prior to issuing a final report, the Board directs the staff to continue or supplement the inspection or revise the draft report, the Board may, in its discretion, afford the firm the opportunity to review any revised draft inspection report.

[Effective pursuant to SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004)]

### **Rule 4008. Procedures Concerning Final Inspection Reports**

Promptly following the Board's issuance of a final inspection report, the Board shall –

(a) make the final report available for review by the firm that is the subject of the report;

(b) transmit to the Commission the final report, any additional letter or comments by the Board or the Board's inspectors that the Board deems appropriate, and any response submitted by the firm to a draft inspection report; and

(c) transmit to each appropriate state regulatory authority, in appropriate detail, the final report, any additional letter or comments by the Board or the Board's inspectors that the Board deems appropriate, and any response submitted by the firm to a draft inspection report.

[Effective pursuant to SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004)]

### **Rule 4009. Firm Response to Quality Control Defects**

(a) With respect to any final inspection report that contains criticisms of, or potential defects in, the quality control systems of the firm under inspection, the firm may submit evidence or otherwise demonstrate to the Director of the Division of Registration and Inspections that it has improved such systems, and remedied such defects no later than 12 months after the issuance of the Board's final inspection report. After reviewing such evidence, the Director shall advise the firm whether he or she will recommend to the Board that the Board determine that the firm has satisfactorily addressed the criticisms or defects in the quality control system of the firm identified in the final inspection report and, if not, why not.

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(b) If the Board determines that the firm has satisfactorily addressed the criticisms or defects in the quality control system, the Board shall provide notice of that determination to the Commission and to any appropriate state regulatory authority to which the Board had supplied any portion of the final inspection report.

(c) The Board shall notify the firm of its final determination concerning whether the firm has addressed the criticisms or defects in the quality control system of the firm identified in the final inspection report to the satisfaction of the Board.

(d) The portions of the Board's inspection report that deal with criticisms of or potential defects in quality control systems that the firm has not addressed to the satisfaction of the Board shall be made public by the Board –

(1) upon the expiration of the 12-month period described in paragraph (a) of this rule if the firm fails to make any submission pursuant to paragraph (a); or

(2) upon the expiration of the period in which the firm may seek Commission review of any board determination made under paragraph (c) of this rule, if the firm does not seek Commission review of the Board determination; or

(3) in the event the firm requests Commission review of the determination, upon completion of the Commission's processes related to that request unless otherwise directed by the Commission.

[Effective pursuant to SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004); SEC Release No. 34-56738, File No. PCAOB-2006-03 (November 2, 2007); and SEC Release No. 34-72087, File No. PCAOB-2013-03 (May 2, 2014)]

### **Rule 4010. Board Public Reports**

Notwithstanding any provision of Rules 4007, 4008, and 4009, the Board may, at any time, publish such summaries, compilations, or other general reports concerning the procedures, findings, and results of its various inspections as the Board deems appropriate. Such reports may include discussion of criticisms of, or potential defects in, quality control systems of any firm or firms that were the subject of a Board inspection, provided that no such published report shall identify the firm or firms to which such criticisms relate, or at which such defects were found, unless that information has previously been made public in accordance with Rule 4009, by the firm or firms involved, or by other lawful means.

[Effective pursuant to SEC Release No. 34-49787, File No. PCAOB-2003-08 (June 1, 2004)]

### **Rule 4011. Statement by Foreign Registered Public Accounting Firms**

A foreign registered public accounting firm that seeks to have the Board rely, to the extent deemed appropriate by the Board, on a non-U.S. inspection when the Board conducts an inspection of such firm pursuant to Rule 4000 shall submit a written

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statement signed by an authorized partner or officer of the firm to the Board certifying that the firm seeks such reliance for all Board inspections.

[Effective pursuant to SEC Release No. 34-50291, File No. PCAOB-2004-04 (August 30, 2004)]

### **Rule 4012. Inspections of Foreign Registered Public Accounting Firms**

(a) If a foreign registered public accounting firm has submitted a statement pursuant to Rule 4011, the Board will, at an appropriate time before each inspection of such firm, determine the degree, if any, to which the Board may rely on the non-U.S. inspection. To the extent consistent with the Board's responsibilities under the Act, the Board will conduct its inspection under Rule 4000 in a manner that relies to that degree on the non-U.S. inspection. In making that determination, the Board will evaluate –

(1) information concerning the level of the non-U.S. system's independence and rigor, including the adequacy and integrity of the system, the independence of the system's operation from the auditing profession, the nature of the system's source of funding, the transparency of the system, and the system's historical performance; and

(2) discussions with the appropriate entity or entities within the system concerning an inspection work program.

(b) The Board's evaluation made pursuant to paragraph (a) may include, but not be limited to, consideration of –

(1) the adequacy and integrity of the system, including –

(i) whether the system has the authority to inspect audit and review engagements, evaluate the sufficiency of the quality control system, and perform such other testing as deemed necessary of foreign public accounting firms; and whether the system can exercise such authority without the approval of, or consultation with, any person affiliated or otherwise connected with a public accounting firm or an association of such persons or firms;

(ii) whether the system has the authority to conduct investigations and disciplinary proceedings of foreign public accounting firms, any persons of such firms, or both, that may have violated the laws and standards relating to the issuance of audit reports, and whether the system can exercise such authority without the approval of, or consultation with, any person affiliated or otherwise connected with a public accounting firm or an association of such persons or firms;

(iii) whether the system has the authority to impose appropriate sanctions for violations of the non-U.S. jurisdiction's laws and standards relating to the issuance of audit reports, and whether the system can exercise such authority without the approval of, or consultation with, any person affiliated or otherwise connected with a public accounting firm or an association of such persons or firms; and

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(iv) whether the persons within the system have adequate qualifications and expertise;

(2) the independence of the system from the auditing profession, including –

(i) whether the system has the authority to establish and enforce ethics rules and standards of conduct for the individual or group of individuals who govern the system and its staff and has prohibited conflicts of interest, and whether the system can exercise such authority without the approval of, or consultation with, any person affiliated or otherwise connected with a public accounting firm or an association of such persons or firms;

(ii) whether the person or persons governing the system –

(A) have been appointed, or otherwise selected, by the government of the non-U.S. jurisdiction, without the approval of, or consultation with, any person affiliated or otherwise connected with a public accounting firm or an association of such persons or firms; and

(B) may be removed only by the government of the non-U.S. jurisdiction and may not be removed by any person affiliated or otherwise connected with a public accounting firm or an association of such persons or firms;

(iii) whether a majority of the individuals with whom the system's decision-making authority resides do not hold licenses or certifications authorizing them to engage in the business of auditing or accounting and did not hold such licenses or certificates for at least the last five years immediately before assuming their position within the system;

(iv) whether a majority of the individuals with whom the system's decision-making authority resides, including the individual who functions as the entity's chief executive or equivalent thereof, are not practicing public accountants; and

(v) whether each entity within the system has the authority to conduct its day-to-day operations without the approval of any person affiliated or otherwise connected with a public accounting firm or an association of such persons or firms;

(3) the source of funding for the system, including whether the system has an appropriate source of funding that is not subject to change, approval or influence by any person affiliated or otherwise connected with a public accounting firm or an association of such persons or firms;

(4) the transparency of the system, including whether the system's rulemaking procedures and periodic reporting to the public are openly visible and

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accessible; and

(5) the system's historical performance, including whether there is a record of disciplinary proceedings and appropriate sanctions, but only for those systems that have existed for a reasonable period of time.

[Effective pursuant to SEC Release No. 34-50291, File No. PCAOB-2004-04 (August 30, 2004)]

### **Rule 4020T. Interim Inspection Program Related to Audits of Brokers and Dealers**

#### (a) Purposes of Interim Inspection Program

This rule provides for an interim program of inspection in connection with audits of brokers and dealers in order, among other things –

(1) to assess the degree of compliance of registered public accounting firms and their associated persons with the Act, the Board's rules, the Commission's rules, and professional standards in connection with the performance of audits, issuance of audit reports, and related matters involving brokers and dealers;

(2) to inform the Board's consideration, in connection with establishing a permanent program of inspection to assess the matters described in paragraph (1), of –

- (i) whether to differentiate among classes of brokers and dealers;
- (ii) whether to exempt any category of public accounting firms; and
- (iii) the establishment of minimum inspection frequency schedules.

#### (b) Definitions

When used in this rule, the term "interim program," means the interim program of inspection described in paragraph (c).

#### (c) Interim Program of Inspection

On an interim basis, the Board shall conduct a program of inspection, for the purposes described in paragraph (a), that may include inspection procedures to assess the policies, practices, and procedures of any registered public accounting firm related to the performance of audits or the issuance of audit reports for any broker or dealer after July 21, 2010 and related matters involving brokers and dealers. The provisions of Rules 4000(b), 4000(c), 4004, 4006, 4007, 4008, 4009 and 4010 shall apply to the interim program.

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### (d) Reporting

No less frequently than every twelve months, beginning twelve months after the date this rule takes effect and continuing until rules for a permanent program of inspection in connection with audits of brokers and dealers take effect, the Board will publish a report that describes the progress of the interim program, including data about the number of registered public accounting firms and the number of broker or dealer audits that have been subjected to inspection procedures and any significant observations from those procedures.

[Effective pursuant to SEC Release No. 34-65163, File No. PCAOB-2011-01 (August 18, 2011); and SEC Release No. 34-72087, File No. PCAOB-2013-03 (May 2, 2014)]