PCAOB

Public Company Accounting Oversight Board

2013 ANNUAL REPORT

Improving Audit Quality

Protecting Investors

The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

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

REGISTRATION

Registration with the PCAOB is a fundamental requirement for accounting firms that perform or play certain roles in the audits of public companies, brokers and dealers. Registration subjects each firm to the oversight activities assigned to the PCAOB. At the end of 2013, there were 2,319 firms registered with the PCAOB, including 1,406 domestic firms and 913 non-U.S. firms located in 89 jurisdictions.

INSPECTIONS

PCAOB inspections assess registered accounting firms' compliance with applicable laws, rules and professional standards in the portions of audits selected for inspection and in the firms' systems of quality control. In 2013, the PCAOB examined portions of more than 865 audits of public companies performed by 228 accounting firms. Under an interim inspection program, the PCAOB examined portions of 90 audits of brokers and dealers performed by 60 firms.

STANDARDS

The PCAOB sets auditing and related professional practice standards to strengthen the reliability of audits for investors and other interested parties. In 2013, the PCAOB continued to explore ways to further incorporate economic considerations throughout the standard-setting process. A key part of this effort was the development of internal guidance on the use of economic analysis in standard setting.

ENFORCEMENT

The Board uses its investigative authority to identify serious audit deficiencies that pose risks to investors and uses its disciplinary authority to impose sanctions and penalties for those deficiencies. In 2013, the Board made public 13 settled disciplinary orders, revealing sanctions on auditors ranging from censures to monetary penalties to revocations of registration and bars on association with registered accounting firms.

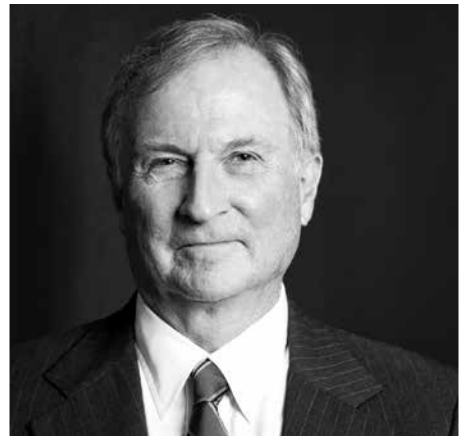
FROM THE CHAIRMAN

The PCAOB's mission statement captures the purpose of our oversight, encompassing both investor protection and the public interest in the preparation of informative, accurate and independent audit reports.

The foundation of our mission stems from the recognition of the audit as a basic, formative premise for efficient capital markets. At the PCAOB, we seek to move the audit in the direction of enhanced quality by identifying and countering practices that undercut audit integrity and by offering standards and guidance to help auditors achieve excellence.

We accomplish much of our work through annual inspections of the largest accounting firms and regular inspections of other firms that audit public companies and mutual funds. We continue our interim program of inspecting the auditors of brokers and dealers registered with the U.S. Securities and Exchange Commission.

As with audit regulators worldwide, we remain concerned about the continued high number of audit deficiencies identified in our inspections. While there are some indications of improving audit performance, PCAOB inspections continue to find high rates of audit deficiencies at global network firms, underscoring the need for the ongoing vigilance of our inspection teams; a sustained focus by



James R. Doty, *Chairman*

auditors on identifying and remediating root causes of deficiencies; monitoring supervision within the firms; and the importance of our standard-setting and enforcement programs.

While we remain focused on our primary responsibilities, a major effort is underway at the PCAOB for the effective integration of the analytical tools of economic analysis, including behavioral economic analysis, into the programs of the PCAOB.

To that end, we have formed the Center for Economic Analysis. In this effort, we are fortunate to have the leadership of Professor Luigi Zingales, Robert C. McCormack Professor of Entrepreneurship and Finance and the David G. Booth Faculty Fellow at the University of Chicago Booth School of Business, as well as the active support of Professor Christian Leuz, also of the Booth School of Business.

Over time, this initiative will include baseline analysis of the role of the audit in financial market phenomena; post-implementation review of new auditing and professional practice standards; and study of related issues germane to audit regulation.

Throughout our work, throughout our experienced and dedicated staff, we are committed to fulfilling our mission on behalf of investors. I trust you will find evidence of that single-mindedness in the pages of this report.

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

REGISTRATION

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

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

In 2013, the Board considered and approved registration applications of 94 accounting firms, including 26 non-U.S. firms. The Board disapproved one registration application and revoked the registration of 10 firms. The Board also considered and granted 126 requests to withdraw from registration in 2013. Two withdrawals became effective without Board action.

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Firms with More than 100 Public Company Audit Clients in 2012

Inspected in 2013 by the PCAOB

- BDO USA, LLP
- Crowe Horwath LLP
- Deloitte & Touche LLP
- Ernst & Young LLP
- Grant Thornton LLP
- KPMG LLP
- MaloneBailey, LLP
- McGladrey & Pullen, LLP
- PricewaterhouseCoopers LLP

Audit Reports per Registered Firm

Reports for public companies and mutual funds as of Dec. 31, 2013 (used for planning 2014 inspections)

	U.S.	NON-U.S.	TOTAL
Firms that issued no issuer audit reports	984	718	1,702
Firms that issued audit reports for 1–5 issuers	259	150	409
Firms that issued audit reports for 6–10 issuers	65	19	84
Firms that issued audit reports for 11–25 issuers	48	20	68
Firms that issued audit reports for 26–50 issuers	27	4	31
Firms that issued audit reports for 51–100 issuers	14	2	16
Firms that issued audit reports for >100 issuers	9	0	9
TOTALS	**1,406**	**913**	**2,319**

INSPECTIONS

The PCAOB regularly inspects registered accounting firms that perform audits of public companies and other issuers. In 2013, the PCAOB inspected 228 such firms and examined portions of more than 865 audits.

The PCAOB also conducts an interim program of inspections of firms that audit brokers and dealers registered with the Securities and Exchange Commission. In 2013, the PCAOB inspected 60 firms, covering portions of 90 audits.

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

For firms that audit public companies and other issuers, the PCAOB prepares a report on each inspection and makes portions of each report publicly available, subject to statutory restrictions on public disclosure. In 2013, the PCAOB issued 257 reports on inspections of individual firms.

The PCAOB also issues general reports that are not firm-specific but provide information and analysis concerning specific audit issues or a summary and analysis of results from inspections of a specified category of firms over a particular period. The Board published three general reports in 2013.

Inspections reports, whether firm-specific or general, are intended to drive improvement in audit quality among registered firms. They may also offer valuable insights for investors, audit committees and other users of audited financial statements.

With that benefit in mind, the Board continues its efforts to improve the timeliness, content and readability of inspection reports. As part of those efforts, the PCAOB has begun dialogue with advisory groups, academics and others to explore ways to improve how inspection observations are communicated to the public. Starting in 2014, deficiencies identified in the public portions of PCAOB inspection reports began to include references to specific PCAOB auditing standards.

Inspection results can also prompt the PCAOB to offer specific guidance on the application of PCAOB auditing standards and relevant laws. In 2013, the PCAOB published Staff Audit Practice Alert No. 11, *Considerations for Audits of Internal Control Over Financial Reporting*. The alert highlights certain requirements of the auditing standards of the PCAOB in aspects of audits of internal control in which significant auditing deficiencies have been cited frequently in PCAOB inspection reports.

The alert suggests that audit committees of companies for which audits of internal control are conducted might wish to discuss with their auditors the level of auditing deficiencies in this area identified in their auditors' internal inspections and PCAOB inspections; request information from their auditors about potential root causes of such findings; and ask how they are addressing the matters discussed in this alert.

Audits of Public Companies and Other Issuers

Registered firms that issue audit reports for more than 100 public companies and other issuers are required to be inspected annually. In 2013, the PCAOB inspected nine such firms. As part of these inspections, PCAOB inspectors examined portions of more than 315 audits performed by these firms.

Registered firms that issue audit reports for 100 or fewer issuers are, in general, inspected at least once every three years. At any time, the PCAOB may also inspect any other registered firm that plays a role in the audit of an issuer. The PCAOB inspected 219 firms in these categories in 2013, including 53 non-U.S. firms located in 22 jurisdictions. In the course of those inspections, PCAOB staff examined portions of more than 550 audits.

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

The review of a firm's work on issuer audit engagements typically focuses on the engagements and areas of those engagements that have been identified by PCAOB staff as presenting the more significant risks of financial

If an inspection report includes criticisms of or identifies potential defects in a firm's system of quality control, the Board is prohibited from publicly disclosing those criticisms if the firm addresses those criticisms to the Board's satisfaction within 12 months of the issuance of the report. Any criticisms that a firm fails to address to the Board's satisfaction in that period are made public. In 2013, the Board published portions of 35 inspection reports relating to quality control criticisms from prior year inspections that were not addressed to the Board's satisfaction.

reporting misstatements, related auditing challenges and audit deficiencies.

On Feb. 25, 2013, the PCAOB released a general report summarizing inspection observations identified in the 2007 through 2010 inspections of U.S. firms that audited 100 or fewer public companies.

The report includes observations from 748 inspections of 578 U.S. firms and reviews of portions of 1,801 audits.

The results show a reduced rate of reported significant audit performance deficiencies when compared to a 2007 report on inspections of similarly sized firms from 2004 through 2006. Significant audit performance deficiencies are those that result in the audit firm lacking sufficient evidence to support its audit opinion.

According to the report, 44 percent of the audit firms inspected during the 2007–2010 period had at least one significant audit performance deficiency, compared to 61 percent in the 2004–2006 period.

Of the individual audits inspected between 2007 and 2010, 28 percent had at least one significant audit performance deficiency, compared to 36 percent of the audits inspected between 2004 and 2006.

The report notes lower rates of significant audit performance deficiencies in the group of firms that were inspected in both periods. Of firms that had a second inspection in the 2007–2010 period, 36 percent had at least one such deficiency, compared to 55 percent in the initial inspections.

Quality Control Policies, Procedures and Practices

Evaluation of a firm's system of quality control during inspections typically includes review of the design and implementation of policies, procedures and practices concerning audit performance, training and compliance with independence requirements, as well as client acceptance and retention.

Other areas reviewed may include the firm's "tone at the top" as it relates to audit quality; partner management, including evaluation, compensation, admission and discipline; use of the work performed by foreign affiliates; and the firm's self-monitoring of its practice through the firm's internal inspections and analyses of the underlying causes of, and responses to, identified weaknesses.

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In 2013, the Board published portions of 35 inspection reports relating to quality control criticisms from prior year inspections that were not addressed to the Board's satisfaction.

On Nov. 18, 2013, the PCAOB released staff guidance for firms whose final inspection reports included criticism of the firms' system of quality control. The guidance discusses the criteria that the PCAOB staff considers in assessing firms' efforts to address quality control issues and formulating recommendations for the Board's determinations concerning those efforts.

Engagement Quality Review

The engagement quality review can serve as an important safeguard against erroneous or insufficiently supported audit opinions and, accordingly, can contribute to audit quality. Auditing Standard No. 7, *Engagement Quality Review*, enhances investor protection by providing for a rigorous review that will serve as a meaningful check on the work performed by the engagement team.

On Dec. 6, 2013, the PCAOB released a report on registered audit firms' implementation and compliance with Auditing Standard No. 7, which requires an engagement quality review for every audit engagement and every engagement to review interim financial information.

The report is based on the PCAOB's 2011 inspections of 213 U.S. and non-U.S. registered public accounting firms and approximately 820 audit engagements. The 2011 inspections included engagement quality reviews of the first audits for which firms were required to implement Auditing Standard No. 7, which became effective for audits and interim reviews for fiscal years beginning on or after Dec. 15, 2009.

According to the report, while firms' methodologies generally were consistent with the requirements of Auditing Standard No. 7, they did not always result in an appropriately executed engagement quality review. In a number of engagements in which the PCAOB inspection staff identified audit deficiencies, the staff concluded that the audit deficiency should have been identified by the engagement quality reviewer.

Audits of Brokers and Dealers

The Dodd-Frank Wall Street Reform and Consumer Protection Act gave the PCAOB inspection, standard-setting and enforcement authority over the firms that perform audits of brokers and dealers registered with the SEC. The PCAOB began an interim inspection program for such firms in 2011.

On Aug. 19, 2013, the PCAOB released its second progress report on its interim inspection program for auditors of SEC-registered brokers and dealers, followed on Aug. 18, 2014, by its third progress report.

The 2014 report covered 2013 inspections of 60 firms and 90 audits of brokers and dealers and also summarized inspection findings from the inception of the interim inspection program through 2013.

In the 2013 inspections, the PCAOB identified audit deficiencies or independence findings in 56 of the 60 audit firms inspected, and in 71 of the 90 audits inspected. In 21 of the 90 audits selected for inspection, it appeared to inspections staff that, contrary to the requirements of SEC independence rules, auditors were involved in the preparation of the financial statements they audited.

The most frequent audit deficiencies were noted in financial statement audit areas, including auditing revenue recognition, the auditor's response to the risk of material misstatement due to fraud and audit procedures to rely on records and reports from service organizations, as well as areas specific to the audits of brokers and dealers, including auditing the net capital computation and the audit work performed for the auditor's report on material inadequacies.

Since its inception through the end of 2013, the interim program identified audit deficiencies or independence findings in portions of 151 of the 173 audits selected for inspection (87 percent). The 22 audits without observations came from 12 firms, of which 11 also audited public companies.

Independence findings were found in 45 of the 173 audits selected for inspection (26 percent). Inspection staff noted a significant portion of these findings, 89 percent, came from the firms that did not audit public companies or other issuers.

The interim program enables the Board to assess the compliance of registered firms and their associated persons conducting audits of brokers and dealers with the Sarbanes-Oxley Act, PCAOB and SEC rules and professional standards. This program also helps inform the Board's eventual determinations about the scope and elements of a permanent inspection program.

On July 30, 2013, the SEC approved amendments to Exchange Act Rule 17a-5 that affect certain annual reporting, audit and notification requirements for brokers and dealers. These amendments include the requirement that the audits of brokers and dealers be conducted in accordance with PCAOB standards for fiscal years ending on or after June 1, 2014.

Prior to the amendments, the audits of brokers or dealers—including those examined by the PCAOB through the end of 2013—were required to be conducted under generally accepted auditing standards issued by the American Institute of Certified Public Accountants.

On Oct. 10, 2013, the Board adopted Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*, and Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*. The standards and related amendments were approved by the SEC Feb. 11, 2014, and became effective for audit and attestation engagements for fiscal years ending on or after June 1, 2014.

To provide information about standards, independence rules and inspections to auditors of brokers and dealers, the PCAOB hosted two public forums in 2013, drawing 431 people. Staff of the SEC and the Financial Industry Regulatory Authority also participated in the forums.

On June 26, 2014, the PCAOB released staff guidance to help auditors of SEC-registered brokers and dealers to plan and perform audits in accordance with PCAOB standards. The staff guidance highlights relevant requirements for SEC-registered broker or dealer audits and attestation engagements, and provides guidance on the application of PCAOB standards to these engagements, particularly for audits of smaller broker-dealers with less complex operations. In addition, the publication highlights some of the significant provisions of Exchange Act Rule 17a-5 and PCAOB standards and rules applicable to audits of brokers and dealers.

INTERNATIONAL OVERSIGHT

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

The PCAOB has conducted inspections in 44 non-U.S. jurisdictions since non-U.S. inspections began in 2005. In many jurisdictions, the PCAOB is able to conduct inspections without having to enter into a cooperative agreement with the local audit regulator; however, in a number of jurisdictions, such as the European Union member states, such cooperative agreements are a prerequisite for carrying out inspections of PCAOB-registered auditors from those jurisdictions.

The European Commission also requires a decision be in place recognizing the PCAOB as adequate to exchange audit working papers with European Union member state audit regulators ("Adequacy Decision") before such regulators may enter into cooperative agreements with the PCAOB. In 2010, the European Commission issued an initial Adequacy Decision with respect to the PCAOB. On June 11, 2013, the European Commission adopted a new Adequacy Decision, effective Aug. 1, 2013, permitting European Union member state audit regulators to renew existing, or to enter into new, cooperative agreements with the PCAOB, subject to certain conditions. The decision is scheduled to expire July 31, 2016, but can be renewed.

The PCAOB announced cooperative agreements with audit oversight authorities in Finland and France in February 2013 and with the audit oversight authorities in Sweden and Denmark in March 2014 and July 2014, respectively, bringing the total number of cooperative agreements reached with non-U.S. auditor oversight authorities to 18. The PCAOB also made significant progress on such agreements with authorities in a considerable number of other jurisdictions in the European Union and elsewhere, setting the stage for completion of additional agreements in 2014.

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

The PCAOB in 2013 remained unable to conduct inspections of registered firms in certain European Union member states and China, due to asserted restrictions under local law or objections based on national sovereignty. Due to the position taken by the authorities in China, the PCAOB also was prevented from conducting inspections of registered firms in Hong Kong to the extent that their audit clients had operations in China.

On May 24, 2013, the PCAOB announced a Memorandum of Understanding (MOU) on Enforcement Cooperation with the China Securities Regulatory Commission (CSRC) and the Chinese Ministry of Finance (MOF).

The MOU establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in both countries' respective jurisdictions. More specifically, it provides a mechanism for the parties to request and receive from each other assistance in obtaining documents and information in furtherance of their investigative and enforcement duties.

The PCAOB continued discussions in 2013 with the CSRC and MOF regarding inspections of PCAOB-registered

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audit firms based in China that audit Chinese companies listed on U.S. exchanges or the Chinese operations of U.S. companies listed on U.S. exchanges. As of Dec. 31, 2013, 95 audit firms in China were registered with the PCAOB, including 46 audit firms in Hong Kong. In addition to a number of bilateral meetings between the staffs of the PCAOB, CSRC and MOF, PCAOB Chairman James R. Doty participated in the U.S.–China Strategic and Economic Dialogue in Washington, D.C., in July 2013 and in Beijing in July 2014.

International Outreach

Dialogue and cooperation with non-U.S. audit regulators have been priorities for the Board since its earliest days and are seen as vital means to achieve protection for investors in the U.S. and around the world.

In November 2013, the PCAOB convened its seventh International Auditor Regulatory Institute, drawing nearly 100 representatives of auditor oversight bodies and government agencies from 34 non-U.S. jurisdictions. The institute provides attendees the opportunity to enhance cross-border cooperation while sharing ideas and strategies for successful audit oversight.

The program included a panel of PCAOB Board members, who discussed the PCAOB's current domestic and international priorities and answered questions from the participants. PCAOB staff provided updates on registration, inspections, enforcement and standards; on a PCAOB project on audit quality indicators; and on the subject of professional skepticism and fraud.

Guest speakers addressed audit developments in the U.K.; developments in the European Union in the area of audit oversight, including the status of EU audit reform legislation; and audit regulation from the perspective of the Association of Southeast Asian Nations. Former PCAOB Board Member Daniel L. Goelzer also provided an historical perspective on the evolution of audit regulation.

For the first time, the program featured a panel discussion with investor representatives focused on how audit regulators can better serve investors.

The program also included two panels discussing the work of the International Forum of Independent Audit Regulators (IFIAR). Composed of 50 independent audit regulators from around the world, IFIAR was formed in September 2006 to provide a forum for regulators to share knowledge of the audit market environment and the practical experience gained from their independent audit regulatory activity.

In April 2013, Board member Lewis H. Ferguson was elected to a two-year term as Chair of IFIAR. Board member Steven B. Harris continued as Chair of IFIAR's Investor and Other Stakeholders Working Group, a position he has held since 2009. Claudius Modesti, Director of the PCAOB's Division of Enforcement and Investigations, was selected as Vice-Chair of IFIAR's newly formed Enforcement Working Group.

In April 2014, the PCAOB hosted the plenary meeting of IFIAR in Washington, D.C., drawing delegates from more than 40 independent audit regulators around the world. Discussion topics included audit quality indicators; risk assessment; and the economic model of audit firm networks.

The PCAOB continued its efforts in 2013 to monitor the activities of various international professional bodies that develop professional standards for auditors. The PCAOB served as an observer to three consultative advisory groups of certain standard-setting boards affiliated with the International Federation of Accountants: the International Auditing and Assurance Standards Board, the International Ethics Standards Board for Accountants and the International Accounting Education Standards Board.

Transparency of Non-U.S. Auditor Oversight and Audit Risks

The Board makes public on its website:

- A list of registered non-U.S. firms that have not yet been inspected by the PCAOB even though four or more years have passed since issuance of an audit report while registered.
- A list of U.S.-traded companies whose financial statements were audited by registered firms not inspected by the PCAOB because they were in jurisdictions where the PCAOB was denied access to conduct inspections.
- An updated list of the jurisdictions in which the Board has conducted inspections of registered non-U.S. firms.

Number of Registered Public Accounting Firms by Jurisdiction

(as of Dec. 31, 2013)

JURISDICTION	NUMBER OF REGISTERED FIRMS
United States	1,406
China*	95
India	65
United Kingdom**	61
Canada	46
Germany	42
Australia	41
France	26
Singapore	22
Chile, Mexico, Turkey	20 each
Peru	19
Brazil, Netherlands, Russian Federation, Spain	18 each
Argentina, Israel, Malaysia	17 each
Japan	16
Italy	15
Belgium	14
Ireland	13
Republic of Korea, South Africa, Taiwan	12 each
New Zealand	11
Colombia	10
United Arab Emirates	9
Cayman Islands, Indonesia, Philippines, Sweden, Ukraine	8 each
Poland, Venezuela	7 each
Austria, Czech Republic, Greece, Hungary, Pakistan, Switzerland	6 each
Costa Rica, Denmark, Finland, Norway, Portugal	5 each
Bermuda, Luxembourg, Paraguay, Romania, Thailand, Uruguay, Vietnam	4 each
Bahamas, Bolivia, Egypt, Kazakhstan, Panama	3 each
Bahrain, Dominican Republic, Iceland, Nigeria, Saudi Arabia	2 each
Armenia, Barbados, Belize, Croatia, Curacao, Cyprus, Ecuador, El Salvador, Estonia, Ghana, Guatemala, Haiti, Jamaica, Kuwait, Malta, Mauritius, Nicaragua, Papua New Guinea, Slovakia, Tanzania, Tunisia	1 each
TOTAL	**2,319**

** The number of registered firms in China includes 46 firms located in Hong Kong.*

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

CENTER FOR ECONOMIC ANALYSIS

In 2014, the PCAOB established the Center for Economic Analysis to study and advise the Board and staff on the role of the audit in capital formation and investor protection as well as the effect of potential PCAOB actions intended to enhance the relevance and reliability of audits to better serve financial markets.

The center is intended to render advice on how economic theory and analysis can be used and further developed to enhance the effectiveness of PCAOB programs; foster economic research on audit-related topics, including the role and relevance of the audit in capital markets; and develop empirical tools for use in the PCAOB's oversight programs.

OFFICE OF RESEARCH AND ANALYSIS

The Office of Research and Analysis supports the Board by providing information critical to regulatory oversight, performing analyses of risks affecting registered public accounting firms and performing economic and accounting analysis to support the Board's standard-setting and rule-making activities.

Specifically, the office analyzes risks within industries, markets and the economy for consideration in the selection of audits for inspection by the PCAOB. The office also analyzes historical and emerging audit risks and trends for consideration in inspections and standard setting.

The office is leading a project on the creation and usage of a set of potential audit quality gauges, referred to as "audit quality indicators." The project reflects a premise that identifying measures for analyzing key aspects behind the quality of public company auditing can provide additional insight for audit committees, investors and others and thus encourage audit firms to compete on the basis of audit quality. Such measures can also inform the Board's policy and inspection decisions, aid work of other regulators and assist audit firms in quality control efforts.

STANDARDS

Developing and maintaining high-quality auditing and related professional practice standards are a key priority of the PCAOB.

The PCAOB's standard-setting agenda is determined based on consideration of the results of the oversight of registered public accounting firms; monitoring of the economic environment; consultation with the Board's Standing Advisory Group; input from the Board's Investor Advisory Group; discussion with the Securities and Exchange Commission; and other factors.

The PCAOB's standard-setting process also takes into consideration the work of other standard setters, including the Financial Accounting Standards Board, International Accounting Standards Board, and International Auditing and Assurance Standards Board.

The development of new or modified auditing standards reflects economic considerations, including the potential costs and benefits of new requirements. As part of the process, the PCAOB assesses whether new standards should apply to audits of "emerging growth companies," as those are defined in the Jumpstart Our Business Startups Act.

In addition, the PCAOB issues staff audit practice alerts to highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws. In 2013, the PCAOB issued Staff Audit Practice Alert No. 11, *Considerations for Audits of Internal Control Over Financial Reporting*. In 2014, the PCAOB issued Staff Audit Practice Alert No. 12, *Matters Related to Auditing Revenue in an Audit of Financial Statements,* and Staff Audit Practice Alert No. 13, *Matters Related to the Auditor's Consideration of a Company's Ability to Continue as a Going Concern.*

Economic Considerations Relating to PCAOB Standards

In 2013, the PCAOB continued to explore ways to further incorporate economic considerations throughout the standard-setting process. A key part of this effort was the development of internal guidance on the use of economic analysis in standard setting.

On May 15, 2014, the PCAOB released its Staff Guidance on Economic Analysis in PCAOB Standard Setting. It sets forth four main elements of guidance related to the purpose, scope, timing and process for staff to conduct economic analysis in PCAOB rulemaking: (1) the need for the rule; (2) the baseline for measuring the rule impacts; (3) the alternatives considered; and (4) the economic impacts of the rule (and alternatives), including the benefits and costs.

The guidance allows for the analysis to be adapted to the specific needs of any particular standard-setting project and, in part, formalizes practices the PCAOB had already begun to implement.

ADOPTED STANDARDS, AMENDMENTS AND RULES

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

Related Parties

On May 7, 2013, the Board reproposed an auditing standard and amendments to certain of its auditing standards addressing related parties and significant unusual transactions.

On June 10, 2014, the Board adopted Auditing Standard No. 18, *Related Parties*, requiring specific audit procedures

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for the auditor's evaluation of a company's identification of, accounting for and disclosure of transactions and relationships between a company and its related parties. The new standard, if approved by the SEC, would supersede the Board's interim auditing standard, AU sec. 334, *Related Parties.*

The Board also adopted amendments regarding significant unusual transactions, including specific audit procedures that are designed to improve the auditor's identification and evaluation of such transactions and to enhance the auditor's understanding of their business purposes.

Additional amendments to PCAOB auditing standards approved on June 10, 2014, include specific audit procedures requiring the auditor to obtain, during the risk assessment process, an understanding of a company's financial relationships and transactions with its executive officers.

The standard and amendments were approved Oct. 21, 2014, by the SEC and are effective for audits of financial statements for fiscal years beginning on or after Dec. 15, 2014, including reviews of interim financial information within those fiscal years.

Audits of Brokers and Dealers

On Oct. 10, 2013, the Board adopted Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*, and Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements.* The standards and related amendments were approved by the SEC on Feb. 11, 2014, and became effective for audit and attestation engagements for fiscal years ending on or after June 1, 2014.

On June 26, 2014, the PCAOB released staff guidance to help auditors of SEC-registered brokers and dealers to plan and perform audits in accordance with PCAOB standards. The staff guidance highlights relevant requirements for SEC-registered broker or dealer audits and attestation engagements, and provides guidance on the application of PCAOB standards to these engagements, particularly for audits of smaller broker-dealers with less complex operations. Additionally, the publication highlights some of the significant provisions of Exchange Act Rule 17a-5 and PCAOB standards and rules applicable to audits of brokers and dealers.

PROPOSED STANDARDS, AMENDMENTS AND RULES

Auditor's Reporting Model

In 2013, the Board proposed two auditing standards and related amendments on the auditor's report and the auditor's responsibilities regarding other information in certain documents containing audited financial statements. The proposed changes affecting the auditor's reporting model were discussed by panelists at a public meeting April 2–3, 2014. Panel discussion topics included international developments on the auditor's report, including specific experiences in the U.K.; critical audit matters related to audits of both large and small companies; auditor tenure and other basic elements of the auditor's report; auditor responsibilities for other information outside the financial statements; and considerations specific to investment companies and brokers and dealers. The PCAOB staff is analyzing the comments received on the proposal and at the public meeting and is drafting a reproposal for the Board's consideration.

The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion The proposed standard, issued by the Board on Aug. 13, 2013, would retain the pass/fail model in the existing auditor's report but provide additional information to investors and other financial statement users about the audit and the auditor.

Specifically, the proposed auditor reporting standard would require: (1) the communication of critical audit matters; (2) the addition of new elements to the auditor's report related to auditor independence, auditor tenure and the auditor's responsibilities for, and the results of, the auditor's evaluation of other information outside the financial statements; and (3) enhancements to existing language in the auditor's report related to the auditor's responsibilities for fraud and notes to the financial statements.

The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report

The Board also proposed a standard on Aug. 13, 2013, regarding other information that would: (1) enhance the auditor's responsibility with respect to other information; (2) require the auditor to evaluate the other information for a material misstatement of fact as well as for a material inconsistency with amounts or information, or the manner of their presentation, in the audited financial statements; and (3) require communication in the auditor's report regarding the auditor's responsibilities for, and the results of, the auditor's evaluation of the other information.

Identification of the Engagement Partner and Certain Other Public Accounting Firms or Persons That Are Not Employed by the Auditor but Participate in the Audit

On Dec. 4, 2013, the Board reproposed amendments to its auditing standards that would increase the transparency of certain participants in audits by requiring (1) disclosure in the auditor's report of the name of the engagement partner and (2) disclosure in the auditor's report of the names, locations and extent of participation of certain other independent public accounting firms that took part in the audit and the locations and extent of participation of certain other persons not employed by the auditor that took part in the audit. The PCAOB staff is drafting for the Board's consideration a supplemental request for comment that takes into account comments received on the reproposal, including comments related to liability and an alternative location for the disclosure.

Framework for Reorganization of PCAOB Auditing Standards

On March 26, 2013, the Board issued for public comment a potential framework for reorganizing the Board's existing interim and PCAOB-issued auditing standards into a topical structure with a single, integrated numbering system, along with certain amendments to its rules and standards. The proposed reorganization is intended to present the standards in a logical order that generally follows the flow of the audit process and is intended to help users navigate the standards more easily.

On May 7, 2014, the Board issued a supplemental request for comment on the reorganization, with minor changes to the original proposal and detailing the proposed line-by-line amendments to PCAOB auditing standards and rules that are needed to implement the reorganization. The Board also released on its website an online demonstration version that presents the existing auditing standards as they would look if reorganized according to the proposed framework.

STAFF AUDIT PRACTICE ALERTS

Significant auditing practice issues observed by PCAOB inspectors prompted the Oct. 24, 2013, issuance of Staff Audit Practice Alert No. 11, *Considerations for Audits of Internal Control Over Financial Reporting.* The alert highlights certain requirements of the auditing standards of the PCAOB in aspects of audits of internal control in which significant auditing deficiencies have been cited frequently in PCAOB inspection reports.

PCAOB inspections staff also continue to observe frequently significant audit deficiencies in which auditors did not perform sufficient auditing procedures with respect to revenue, which, for many companies, is one of the largest accounts in the financial statements and an important driver of a company's operating results.

In light of the inspections observations, the PCAOB issued Staff Audit Practice Alert No. 12, *Matters Related to Auditing Revenue in an Audit of Financial Statements,* on Sept. 9, 2014.

Changes to U.S. generally accepted accounting principles prompted the issuance on Sept. 22, 2014, of Staff Audit Practice Alert No. 13, *Matters Related to the Auditor's Consideration of a Company's Ability to Continue as a Going Concern.*

FUTURE STANDARD SETTING

The PCAOB regularly assesses the need for new standards or amendments to existing standards and updates its plans for addressing those areas. Among the areas under consideration are:

Supervision of Other Auditors and Multi-location Audit Engagements. The roles of other accounting firms and individual accountants in audits (collectively, "other auditors") have taken on greater significance with the increasingly global operations of companies. The lead auditor often involves other auditors at various locations of the company in areas of high risk of material misstatement in the financial statements. Observations from the PCAOB's oversight activities indicate, among other things, a need for improvement in audit procedures performed by the accounting firm issuing the auditor's report with respect to the work performed by other auditors. As a result, the staff is drafting, for the Board's consideration, a proposal that would address this need by improving the auditing standards that govern the planning, supervision and other aspects of audits involving other auditors and multi-location audit engagements.

Auditing Accounting Estimates, Including Fair Value Measurements and Related Disclosures. On Aug. 19, 2014, the PCAOB issued for public comment a staff consultation paper on standard-setting activities related to auditing accounting estimates and fair value measurements.

The staff is seeking comment on current audit practice, the potential need for changes to PCAOB standards and possible alternative actions related to auditing accounting estimates and fair value measurements, as well as derivative instruments and securities.

The issues have been discussed on numerous occasions with the SAG and its Pricing Sources Task Force. The staff consultation paper advances those discussions by describing the staff's preliminary views on a potential approach to changing the PCAOB's existing standards and seeking views and other information on that approach.

Use of Specialists. The role of specialists continues to take on greater significance in audits due to the increased number of accounting estimates, including fair value measurements, in financial statements. Further, companies are increasingly using the work of specialists in high-risk areas of the financial statements. Observations from the Board's oversight activities indicate, among other things, a need for improvement in audit procedures performed by the auditor with respect to specialists. Because of the linkage between accounting estimates and the use of specialists, the staff plans to issue a staff consultation paper to seek additional public comment on certain matters related to the use of specialists, including key potential audit requirements.

Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities. The PCAOB's inspection staff routinely identifies audit deficiencies that should have been detected and remedied before the audit report was issued. Improvements of the firms' systems of quality control could have significant potential to improve audit quality by not only detecting more audit deficiencies prior to the issuance of the audit report, but also by preventing and deterring the occurrence of many such deficiencies. As a result, the PCAOB is developing a staff consultation paper to explore improvements to the existing quality control standards, including the SEC Practice Section requirements. This project also considers potential improvements to the quality control standards regarding firm supervisory responsibilities.

The PCAOB's standard-setting agenda also includes projects in the areas of going concern, confirmation and subsequent events. The PCAOB is monitoring developments related to auditor independence, objectivity and professional skepticism.

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STANDING ADVISORY GROUP

Members of the Standing Advisory Group provide views and advise the PCAOB on the development of auditing and related professional practice standards and on other aspects of the Board's programs. The advisory group includes experts in the fields of accounting, auditing, financial reporting, corporate finance and corporate governance, as well as experts on investment in public companies.

Briefing papers and presentations for SAG meetings are available on the PCAOB's website.

At its May 15–16, 2013, meeting, the SAG received updates on PCAOB developments and the standard-setting agenda and provided input on PCAOB initiatives related to auditors' evaluations of companies' transactions with related parties; audit quality indicators; and outreach to audit committees regarding PCAOB activities.

PCAOB staff also sought SAG members' input on general reports based on PCAOB inspections. General reports provide information and analysis concerning specific audit issues or a summary and analysis of results from inspections of a specified category of firms over a particular period. Such reports are a primary medium for discussing audit quality issues that may broadly affect the profession and would be useful to a broader audience.

At its Nov. 13–14, 2013, meeting, Board staff and a panel of experts presented recent research into the detection, implications and economic consequences of financial statement fraud. SAG members also provided feedback on the PCAOB's proposed *Related Parties* standard and project on audit quality indicators.

At its June 24–25, 2014, meeting, the SAG received updates on PCAOB developments and the standard-setting agenda and provided input on PCAOB initiatives to improve audit quality, such as root cause analysis, audit quality indicators and quality control standards, as well as the PCAOB initiative on going concern.

The SAG meeting also included panel discussions regarding FASB's and IASB's recently adopted standards on the recognition of revenue from contracts with customers and related audit considerations, as well as cybersecurity issues and their potential implications for financial reporting and auditing.

At its Oct. 2, 2014, meeting, the SAG participated in panel discussions of the potential need for changes to PCAOB standards for auditing accounting estimates and fair value measurements. Panelists included investors, auditors, academics, valuation experts and other standard setters.

OUTREACH

Dialogue with outside groups—including investors, auditors, students and audit committees—is a priority for the PCAOB. Such interaction allows the Board and staff of the PCAOB to both provide and receive information that can lead to improvements in auditor oversight and investor protection.

Investor Advisory Group

Members of the Investor Advisory Group provide views and advice to the Board on broad policy issues and other matters that affect investors and are related to the work of the Board.

The IAG met on Oct. 16, 2013, and provided input based on reports from its working groups on audit quality indicators; audit firm governance and incentives; and auditor interaction with audit committees.

PCAOB staff also solicited IAG members' views on PCAOB inspections reports. Observations from inspections of individual firms are communicated in firm-specific reports. The PCAOB also issues general reports on inspections observations that provide information and analysis concerning specific audit issues or results from inspections of a specified category of firms over a particular period.

The IAG met Oct. 20, 2014, and provided input from its working groups on the audit firm business model and incentives; how to improve audit quality and the relevancy of the audit; and the auditor's relationship to and role with the audit committee.

Reports, briefing papers and a transcript of the IAG meetings are available on the PCAOB's website.

Forums on Small Business and Broker-Dealer Auditing

In 2013, the Board continued its Forums on Auditing in the Small Business Environment and Forums on Auditing Smaller Broker-Dealers. The Board hosted eight day-long presentations to provide information on recent Board actions and industry trends to auditors from smaller firms and solicit feedback from attendees.

In 2013, 691 people attended small business forums in Seattle, Philadelphia, New York, Chicago, Newport Beach and Tampa. Staff of the Securities and Exchange Commission also participated in the small business forums.

The PCAOB hosted two broker-dealer forums in 2013, drawing 431 people to Jersey City and Las Vegas. Staff of the SEC and the Financial Industry Regulatory Authority also participated in the broker-dealer forums.

Academic Conference

In April 2013, the PCAOB hosted its ninth Academic Conference, planned jointly by the staff of the PCAOB and the staff of the Auditing Section of the American Accounting Association, whose mission is to foster excellence in the teaching, research and practice of auditing and assurance services.

The conference provides an opportunity for the exchange of ideas among PCAOB representatives and members of the academic community regarding matters of mutual interest, including PCAOB standard-setting projects and other Board initiatives.

The conference was attended by 86 members of the academic community, as well as Board members and staff from the PCAOB and representatives of the SEC and Government Accountability Office.

Encouraging Future Auditors

Under the Sarbanes-Oxley Act of 2002, civil monetary penalties collected from Board disciplinary actions must be used to fund merit scholarships for students in accredited accounting degree programs.

In 2013, the PCAOB awarded $10,000 each to 77 students across the U.S. who demonstrated an interest and aptitude in accounting and auditing and also demonstrated high ethical standards.

The PCAOB also hosted numerous groups of students in its offices and provided opportunities for Board and staff members to speak to students at colleges and universities in various states. In addition, 37 students served internships in PCAOB offices in Washington, D.C., and New York in 2013.

Participation in Other Forums

The PCAOB participated in a variety of forums and conferences in 2013 to provide information and obtain feedback about the PCAOB's standards and other initiatives. Audiences for these events included investors, auditors, issuers, audit committee members and other regulators.

Conference hosts included many universities, the American Institute of Certified Public Accountants, the American Accounting Association, the National Association of State Boards of Accountancy, the National Association of Corporate Directors and the Practising Law Institute.

ENFORCEMENT

The Board uses its investigative authority to address serious audit deficiencies that pose significant risks to investors. The Board uses its disciplinary authority to demonstrate that auditors who run afoul of their professional obligations will face real consequences. The Board also takes disciplinary action against auditors who threaten the Board's regulatory processes, such as by failing to cooperate in a Board inspection or investigation.

To facilitate timely regulatory attention to audit deficiencies that pose risks to investors, the Board in April 2013 published its first-ever formal statement concerning the benefits that may be available to registered public accounting firms and their associated persons who provide extraordinary cooperation in PCAOB investigations.

According to the policy statement, which formalized the Board's prior practices, extraordinary cooperation is voluntary and timely action beyond compliance with legal or regulatory obligations. Cooperation that could result in credit includes self-reporting violations before the conduct comes to the attention of the Board or another regulator. Self-reporting is more valuable the earlier it is provided.

Other types of extraordinary cooperation that could result in credit are taking remedial or corrective action to reduce the risk of similar violations and providing substantial assistance in the PCAOB's investigative processes.

Credit for cooperation may result in reduced charges or sanctions in a disciplinary proceeding. In some cases, extraordinary cooperation may lead to language in settlement documents noting the cooperation and its effect. In exceptional cases, extraordinary cooperation could lead to no disciplinary action at all.

During 2013, the Board's Division of Enforcement and Investigations began to work closely with the SEC's Financial Reporting and Audit Task Force, which was formed to focus on detecting fraudulent or improper financial reporting and enhancing ongoing enforcement efforts related to accounting and disclosure fraud. The Board expects collaboration with the task force to yield benefits for both organizations' investor protection missions.

The PCAOB's enforcement authority extends to all registered accounting firms, including those outside the U.S. In May 2013, the PCAOB reached an agreement, the Memorandum of Understanding on Enforcement Cooperation, with the China Securities Regulatory Commission and the Ministry of Finance to establish a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in both countries' respective jurisdictions.

Confidentiality of PCAOB Disciplinary Actions

In each enforcement case in which litigation is initiated, the PCAOB is prohibited by the Sarbanes-Oxley Act from publicly disclosing the allegations and proceedings unless the Board finds good cause to make them public and all parties consent to open them to the public. The PCAOB's Division of Enforcement and Investigations routinely seeks the consent of the parties to litigated disciplinary proceedings to make the proceedings public. To date, no party has provided such consent.

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

As a result, for substantial periods, investors are unaware that companies in which they may have invested are being audited by accountants who have been charged, or even sanctioned, by the Board. As of June 30, 2014, Board disciplinary proceedings involving formal allegations of misconduct involving 14 firms and individual auditors were pending but could not be publicly disclosed by the Board because of the statutory restriction.

The Board made public 13 settled disciplinary orders in 2013, revealing sanctions on auditors ranging from

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censures to monetary penalties to revocations of registration and bars on association with registered accounting firms. Three of these proceedings involved alleged violations of the antifraud provisions of the Securities Exchange Act of 1934.

Five of the settlements occurred after the PCAOB had initiated nonpublic disciplinary proceedings. In one case, the firm issued 11 audit reports on public companies while the contested proceedings were in progress and before its settlement with the Board became public.

In the first half of 2014, the Board made public six settled disciplinary orders, one of which issued after the PCAOB had initiated nonpublic disciplinary proceedings.

In all of the settled proceedings, the firms and the associated persons neither admitted nor denied the Board's findings.

Final outcomes in four adjudicated disciplinary proceedings were also made public in 2013. Those proceedings involved sanctions against four registered public accounting firms and two individuals.

Summary of 2013 PCAOB Disciplinary Orders

DATE	FIRM OR INDIVIDUAL	NATURE OF PRIMARY VIOLATIONS	SANCTIONS AND NOTES
SETTLED DISCIPLINARY ORDERS			
Feb. 21, 2013	Baumgarten & Company LLP Cleveland	Failure to file annual reports with the PCAOB and pay annual fees to the PCAOB (2010–2012).	$2,000 penalty; censure Firm withdrew from registration.
Apr. 24, 2013	P. Parikh & Associates, Ashok B. Rajagiri, CA, Sandeep P. Parikh, CA, and Sundeep P S G Nair, CA Mumbai	Numerous and repeated violations of PCAOB rules, quality control standards and auditing standards in connection with audits of an India-based issuer. Audits were staffed with partners who had no formal training or experience with PCAOB standards or U.S. GAAP. Firm failed to establish, implement and communicate sufficient quality control policies and procedures and failed to establish monitoring procedures concerning its system of quality control. The firm and one individual falsely represented in an audit report that audits had been conducted in accordance with PCAOB standards.	Firm: Revocation of registration with right to reapply after two years; $10,000 penalty; censure Individuals: Two individuals barred (one permanently and one with the right to petition for consent to associate after three years); one individual subject to certain role restrictions for two years and continuing education requirement; all individuals censured
May 14, 2013	Michael F. Cronin, CPA (as individual and firm) Winter Springs, Fla.	Violations of PCAOB auditing standards and partner rotation standards in connection with two audits of one issuer and a failure to obtain an engagement quality review in connection with an audit of another issuer.	Firm: Revocation of registration with right to reapply after three years; $10,000 penalty; censure Individual: Bar (with the right to petition for consent to associate after three years); censure
May 21, 2013	Rehan Saeed, CPA Walnut, Calif.	Failure to perform concurring partner reviews until after audit reports for two issuers had been issued, and backdating documents to make it appear that concurring reviews were done before release of the reports.	Bar (with the right to petition for consent to associate after 18 months); censure
June 27, 2013	Gruber & Co., LLC, and E. Randall Gruber, CPA Lake Saint Louis, Mo.	Failure to cooperate in a Board inspection and violation of audit documentation standards by providing a misleading document and other information concerning a purported audit of an issuer and by improperly creating, altering and backdating audit documentation in connection with audits of three issuers.	Firm: Revocation of registration with right to reapply after three years; $10,000 penalty; censure Individual: Bar (with the right to petition for consent to associate after three years); censure

Summary of 2013 PCAOB Disciplinary Orders *continued*

DATE	FIRM OR INDIVIDUAL	NATURE OF PRIMARY VIOLATIONS	SANCTIONS AND NOTES
SETTLED DISCIPLINARY ORDERS			
Aug. 13, 2013	Lake & Associates, CPA's LLC, and Jay Charles Lake, CPA Boca Raton, Fla.	Numerous and repeated violations of PCAOB rules and auditing standards in connection with four issuer audits. Failure to establish and implement sufficient quality control policies and procedures. Individual substantially contributed to the firm's violation of PCAOB quality control standards.	Firm: Revocation of registration with right to reapply after three years; censure Individual: Bar (with the right to petition for consent to associate after three years); censure
Sept. 10, 2013	Nathan M. Suddeth, CPA Pittsburgh	Failure by partner in charge of the audit practice of Deloitte & Touche LLP for the firm's Pittsburgh, Pa., office to cooperate in a Board inspection and violation of PCAOB audit documentation standards. Created and improperly backdated three work papers for an audit more than two months after the applicable documentation completion date and after he knew that the Board had selected that audit for inspection.	Bar (with the right to petition for consent to associate after two years); censure Deloitte voluntarily reported the conduct to the PCAOB and removed Suddeth from all direct audit responsibility for any public or private client. Suddeth retired from Deloitte effective June 1, 2013.
Oct. 22, 2013	Deloitte & Touche LLP	Permitting a former partner to become or remain an associated person of the firm, knowing that the partner had been suspended by the Board from association with a registered public accounting firm. The partner was made a salaried director and transferred to an audit group in the firm's national office. After his transfer, Deloitte permitted the suspended auditor to become or remain an associated person by working on firm-wide policies and audit guidance, as well as participating in three national office consultations with public company audit engagement teams.	$2 million penalty; censure
Nov. 21, 2013	Harris F Rattray, CPA, PL and Harris F. Rattray, CPA Miramar, Fla.	Repeated violations of the securities laws and PCAOB rules and auditing standards in connection with the issuance of audit reports for four issuers. Falsely stated in three audit opinions that the audits had been conducted in accordance with PCAOB standards. Also failed to plan and sufficiently perform work on critical aspects of the audits of three of the issuers and, for one of those issuers, failed to include procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts.	Firm: Permanent revocation of registration; censure Individual: Permanent bar; censure
Nov. 21, 2013	Acquavella, Chiarelli, Shuster, Berkower & Co., LLP David T. Svoboda, CPA Iselin, N.J., and New York City	Violations of PCAOB quality control standards and auditing standards, and failure to cooperate. For two issuers based in the People's Republic of China (PRC), a significant portion of the firm's audit procedures were conducted by PRC-based staff. The firm and Svoboda failed to adequately plan the audit, supervise and review the work of assistants and exercise due professional care. The firm and Svoboda also violated the independence provisions of federal securities laws because the firm and Svoboda prepared the consolidation and financial statements that formed the basis of two issuers' financial statements filed with the SEC. Svoboda further failed to cooperate with Board inspectors and violated audit documentation standards by improperly causing the creation or alteration of audit documentation after receiving notice of a PCAOB audit inspection.	Firm: Revocation of registration with right to reapply after three years; $10,000 penalty; censure Individual: Bar (with the right to petition for consent to associate after three years); censure

Summary of 2013 PCAOB Disciplinary Orders *continued*

DATE	FIRM OR INDIVIDUAL	NATURE OF PRIMARY VIOLATIONS	SANCTIONS AND NOTES
SETTLED DISCIPLINARY ORDERS			
Nov. 21, 2013	Hood & Associates CPAs, P.C., and Rick C. Freeman, CPA Tulsa, Okla.	Violations of the antifraud provisions of the Exchange Act, failures to plan, perform and document their audit work, failures to exercise due professional care and professional skepticism; and failures to include audit procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statements. Firm issued audit opinions for three issuers falsely stating that the audits were performed in accordance with PCAOB standards. The firm and Freeman also violated independence standards because Freeman served as lead audit partner on the audits of two issuers for more than five consecutive years. The firm further failed to have a required engagement quality review performed on any of the audits and failed to comply with PCAOB quality control standards, a violation to which Freeman substantially contributed.	Firm: Revocation of registration with right to reapply after three years; $10,000 penalty; censure Individual: Permanent bar; censure
Dec. 17, 2013	Iter Audit S.R.L. Rome	Failure to file annual reports with the PCAOB and pay annual fees to the PCAOB (2010–2013).	$1,000 penalty; censure Firm withdrew from registration.
ADJUDICATED DISCIPLINARY ORDERS			
June 18, 2013	Kenneth J. McBride Cold Spring Harbor, N.Y.	Failure to file annual reports with the PCAOB and pay annual fees to the PCAOB (2010–2012).	Permanent revocation of registration; $5,000 penalty Respondent failed to appear in proceeding.
June 18, 2013	Eric C. Yartz, P.C. Houston	Failure to file annual reports with the PCAOB and pay annual fees to the PCAOB (2010–2012).	Suspension of registration for one year; $2,500 penalty
July 11, 2013	S.W. Hatfield, CPA and Scott W. Hatfield, CPA Dallas	Violations of numerous PCAOB auditing standards in connection with the audits of two issuers.	Firm: Permanent revocation of registration Individual: Permanent bar Sanctions sustained by SEC on appeal.
July 30, 2013	Stan Jeong-Ha Lee Fort Lee, N.J. and Stan J.H. Lee, CPA Tijuana, Mexico	Failure to cooperate in a Board inspection by improperly creating, altering and backdating audit documentation concerning audits of three issuers.	Firm: Permanent revocation of registration Individual: Permanent bar; $50,000 penalty Respondents failed to appear at hearing.

ADMINISTRATION

The PCAOB endeavors to use its resources responsibly throughout its daily operations to protect investors and serve the public interest.

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

The PCAOB is focused on the careful stewardship of its resources. Toward this end, the PCAOB devotes substantial effort to promoting workplace excellence, integrity and accountability; maintaining and assessing the effectiveness of its internal control over financial reporting; and monitoring its operations through the activities and reviews of its Office of Internal Oversight and Performance Assurance.

Each year, the PCAOB develops a strategic plan that guides the PCAOB's operations and programs, as well as the development of its budget. The PCAOB's strategic plan for 2013–2017 focused on, among other areas, integration of economic analysis into the programs of the PCAOB and on initiatives to improve the quality of the audit for the benefit and protection of investors, including engagement with non-U.S. counterparts in audit oversight.

The strategic plan also set forth the Board's near-term priorities, including improving the timeliness, content and readability of inspection reports; the timeliness of Board determinations that inspected firms have addressed quality control issues; a project to identify audit quality indicators; and enhancements of the PCAOB's outreach to and interaction with audit committees.

SEC Oversight

The Sarbanes-Oxley Act gives the SEC oversight authority over the PCAOB. PCAOB rules, including its auditing and related professional practice standards, are not effective unless approved by the SEC. The SEC is also responsible for appointing and removing Board members.

In addition, adverse PCAOB inspection reports and disciplinary actions against registered firms and their associated persons are subject to review by the SEC. The SEC also is responsible for reviewing and approving the PCAOB's annual budget and accounting support fee.

Budget

The PCAOB's budget for 2013, as approved by the Board on Nov. 28, 2012, was $245.6 million. The 2013 budget was 8 percent above the Board's 2012 budget of $227.7 million, largely due to staffing and associated expenses related to a growing broker-dealer auditor inspection program and other inspection-related activities. The SEC approved the PCAOB's 2013 budget and accounting support fee on Feb. 13, 2013.

Funding

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

Under the Sarbanes-Oxley Act, as amended by the Dodd-Frank Act, the PCAOB budget provides the foundation for the assessment of an accounting support fee paid by public companies and other issuers, as well as SEC-registered brokers and dealers. The total accounting support fee for 2013 was approximately $234.0 million, with $207.5 million allocated to issuers and $26.5 million allocated to SEC-registered brokers and dealers.

The Sarbanes-Oxley Act, as amended, requires the PCAOB to assess and collect a registration fee and an annual fee from each registered public accounting firm in amounts that are sufficient to recover the costs of processing and reviewing applications and annual reports. Those fees totaled $1.65 million in 2013.

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

In 2013, public companies with an average, monthly market capitalization greater than $75 million during the preceding calendar year and mutual funds with an average, monthly market capitalization, or net asset value, greater than $500 million during the preceding calendar year were invoiced a proportionate share of the issuer accounting support fee.

In 2013, public companies were assessed approximately 93.1 percent of the total issuer accounting support fee, and mutual funds were assessed the remaining 6.9 percent, similar to the allocations in 2012.

The PCAOB invoiced 7,681 issuers approximately $207.5 million in 2013, compared to 7,627 issuers invoiced approximately $196.8 million in 2012. Approximately 21.6 percent of the issuers billed received invoices for $1,000 or less.

Issuer Accounting Support Fee

	NUMBER OF ISSUERS	
ISSUER FEE RANGES	**2013**	**2012**
$100–500	154	191
$501–1,000	1,505	1,481
$1,001–5,000	3,056	3,037
$5,001–10,000	927	922
$10,001–50,000	1,361	1,331
$50,001–100,000	282	279
$100,001–500,000	333	329
$500,001–1,000,000	37	31
$1,000,001+	26	26
TOTAL	**7,681**	**7,627**

Broker-Dealer Accounting Support Fee The broker-dealer accounting support fee is allocated annually to SEC-registered brokers and dealers based on their relative average, quarterly tentative net capital during the preceding calendar year. In 2013, SEC-registered brokers and dealers with an average, quarterly tentative net capital greater than $5 million during the preceding calendar year were invoiced a proportionate share of the broker-dealer accounting support fee.

The PCAOB invoiced 658 brokers and dealers approximately $26.5 million in 2013, compared to 687 brokers and dealers that received invoices totaling $18.2 million in 2012. In 2013, approximately 20.8 percent of the brokers and dealers billed received invoices for $1,000 or less, and the largest 100 invoice amounts comprised approximately 92.2 percent of the total fee.

Broker-Dealer Accounting Support Fee

	NUMBER OF BROKERS AND DEALERS	
BROKER-DEALER FEE RANGES	**2013**	**2012**
$100–500	0	74
$501–1,000	137	154
$1,001–5,000	292	263
$5,001–10,000	75	69
$10,001–50,000	98	81
$50,001–100,000	17	12
$100,001–500,000	28	24
$500,001–1,000,000	3	5
$1,000,001+	8	5
TOTAL	**658**	**687**

Registration and Annual Fees from Accounting Firms In 2013, the PCAOB assessed annual fees totaling approximately $1.6 million to 2,342 registered public accounting firms, compared to $1.65 million to 2,366 registered firms in 2012. Annual fees are determined based on the firms' headcount and the number of issuer audit clients.

Annual Fees from Accounting Firms

	NUMBER OF ACCOUNTING FIRMS	
FEE AMOUNT	**2013**	**2012**
$100,000	4	4
$25,000	2	3
$500	2,336	2,359
TOTAL	**2,342**	**2,366**

In 2013, the PCAOB collected approximately $50,000 in registration application fees from 100 firms, compared to $54,000 in registration fees collected from 108 firms in 2012.

Staffing

In 2013, the PCAOB's staff grew by a net increase of 39, including 34 registration and inspections staff, and totaled 805 at year end. More than 64 percent of PCAOB staff work in registration and inspections in 16 offices, including the headquarters in Washington, D.C.

Information Technology

In 2013, the PCAOB moved its information technology operations to a new data center, resulting in improved reliability and efficiency. The PCAOB also continued its adoption of methods to support collaborative development of software. Projects designed to enhance workforce collaboration and mobility in 2013 included improving the PCAOB's video-teleconferencing capability. Progress on program-related projects also continued, including enhancing the PCAOB's inspections information system; developing an improved data management and analysis system; and deploying a new human resources management solution.

Internal Oversight and Performance Assurance

The Office of Internal Oversight and Performance Assurance (IOPA) performs a role similar to that of an inspector general in a government agency. IOPA conducts performance reviews of PCAOB programs and operations, provides timely quality assurance assessments to the Board and reviews allegations of wrongdoing by PCAOB employees that it may receive. IOPA conducts its performance reviews in accordance with the GAO's Government Auditing Standards (Yellow Book), which provide a framework for conducting high quality audits with competence, integrity, objectivity and independence.

In 2013, IOPA completed reviews of the PCAOB's procurement operations; safety and security procedures for international travelers; and procedures to evaluate registered firms' responses to criticisms of quality control after PCAOB inspections. Summaries of the reviews were sent to the Chairman of the SEC and are posted on the PCAOB's website.

PCAOB OFFICES

HEADQUARTERS
Washington, D.C.
Ashburn, Va.
Philadelphia, Pa.

REGIONAL AND SATELLITE OFFICES
Atlanta, Ga.
Fort Lauderdale, Fla.
Tampa, Fla.
Charlotte, N.C.
Chicago, Ill.
Denver, Colo.
Irvine, Calif.
Los Angeles, Calif.
Irving, Texas
Houston, Texas
New York, N.Y.
Boston, Mass.
San Mateo, Calif.

FINANCIAL REVIEW

This financial review, together with the 2013 audited financial statements and the accompanying notes, provides financial information related to the PCAOB's programs and activities described in other sections of this annual report.

The PCAOB is a nonprofit corporation established in 2002 under the Sarbanes-Oxley Act to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB also oversees the audits of SEC-registered brokers and dealers, including compliance reports filed pursuant to federal securities laws, to further promote investor protection.

The Sarbanes-Oxley Act, as amended, gives the PCAOB four primary responsibilities: registration of accounting firms that audit public companies or brokers or dealers; inspection of registered public accounting firms that audit public companies or brokers or dealers; establishment of auditing, quality control, ethics, independence, and other standards for registered public accounting firms; and investigation and discipline of registered public accounting firms and their associated persons for violations of specified laws or professional standards. These statutorily granted responsibilities are designated as program activities in the PCAOB's Statements of Activities. The financial statements include two additional program activities: (1) activities of the Office of Research and Analysis and (2) Board and related activities, which include the Office of International Affairs and the newly formed Center for Economic Analysis. In addition to program activities, the PCAOB's Statements of Activities include supporting activities. Supporting activities include administration and general expenditures, communications, and information technology and telecommunications.

The PCAOB obtains its funding from three sources:

- Accounting support fees assessed on issuers and SEC-registered broker-dealers;
- Annual fees paid by registered public accounting firms; and
- Registration fees paid by firms seeking registration with the PCAOB.

Presentation of Financial Statements

The PCAOB's financial statements are presented in accordance with accounting principles generally accepted in the United States of America and reflect the specific reporting requirements applicable to not-for-profit entities. Following is a discussion of the financial position and activities of the PCAOB as presented in the accompanying audited financial statements.

STATEMENTS OF FINANCIAL POSITION

Cash and Cash Equivalents

The PCAOB's cash inflows are cyclical because the majority of cash is collected in the second quarter of the year from assessments of the issuer accounting support fee and annual fees paid by registered firms. As in prior years, the timing of cash inflows requires the PCAOB to maintain a cash balance sufficient to fund its operations for the first several months of the subsequent year.

Cash and cash equivalents decreased from $49.8 million at Dec. 31, 2012, to $34.6 million at Dec. 31, 2013, primarily as a result of a change in the PCAOB's cash management strategy resulting from expiration of the Dodd-Frank Wall Street Reform and Consumer Protection Act provision for unlimited deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). When the unlimited FDIC coverage expired, the PCAOB increased its investments in U.S. government securities, which resulted in a decrease in cash and cash equivalents. Included in cash and cash equivalents is $5.1 million and $3.9 million at Dec. 31, 2013 and 2012, respectively, which relates to statutorily designated funds for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act.

Short-term Investments

As noted above, in 2013 the PCAOB increased its investments in U.S. government securities as a result of the expiration of unlimited FDIC coverage, resulting in $95.0 million being invested in U.S. government securities as of Dec. 31, 2013, as compared to $75.0 million as of Dec. 31, 2012. Short-term investments as of Dec. 31, 2013, include the funds that were sequestered in accordance with the March 1, 2013, Office of Management and Budget (OMB) report, "OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013."

Accounts Receivable

Accounts receivable consist of uncollected accounting support fees from issuers and brokers and dealers, and annual fees from registered accounting firms, less an allowance for doubtful accounts. Accounts receivable increased from approximately $0.4 million as of Dec. 31, 2012, to $8.4 million as of Dec. 31, 2013. The increase was primarily due to timing differences between the 2013 and 2012 broker-dealer accounting support fee invoicing. The 2013 fee was invoiced on Nov. 22, 2013, while the 2012 fee was invoiced on Oct. 19, 2012.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets were approximately $6.2 million and $6.5 million as of Dec. 31, 2013 and 2012, respectively. The net decrease was due to variances in the amounts and timing of payments to various vendors between the two years.

Furniture and Equipment, Leasehold Improvements, and Technology

Fixed assets were approximately $8.9 million and $8.3 million as of Dec. 31, 2013 and 2012, respectively. Purchases of fixed assets increased to approximately $4.7 million in 2013 from $2.6 million in 2012. In 2013, investments in fixed assets included the development of internal-use software, the replacement of certain information technology hardware components at the end of their useful lives, leasehold improvements, and furniture for various offices.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist primarily of vendor payables and payroll-related liabilities, such as accrued employee leave and annual performance awards. The account balance decreased by approximately $1.7 million to $20.1 million as of Dec. 31, 2013, from $21.8 million as of Dec. 31, 2012, primarily due to timing differences in payments to vendors between the two years.

Deferred Rent

Deferred rent was approximately $16.8 million at Dec. 31, 2013, and $16.0 million at Dec. 31, 2012. The increase of approximately $0.8 million relates primarily to the PCAOB's lease for its Washington, D.C. headquarters. Under that lease, which was renewed in 2011 and expires in 2028, rent escalations occur later in the lease such that there is a significant amount of deferred rent recorded in the earlier years of the lease.

Unrestricted Net Assets

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

Designated for Scholarship Funds. In accordance with Section 109(c)(2) of the Sarbanes-Oxley Act, all funds generated from the collection of civil monetary penalties are to be used exclusively to fund a merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs. As of Dec. 31, 2013, the PCAOB had $5.1 million designated for scholarship funds. This represents an increase of approximately $1.3 million from the $3.9 million designated for scholarship funds as of Dec. 31, 2012. The approximately $1.3 million net increase results primarily from the PCAOB's imposition and collection of civil monetary penalties of approximately $2.1 million offset by $0.8 million in scholarships awarded during 2013.

Designated for Sequestration. The statements of financial position include unrestricted designated funds for sequestration, including interest earned. OMB determined that the PCAOB's budget and scholarship program are subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. On March 1, 2013, OMB issued a report, "OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013," specifying that $12.0 million of the PCAOB's 2013 budget and $0.1 million of its scholarship funds were subject to sequestration. These sequestered funds remained unspent as of Dec. 31, 2013, and are included in short-term investments in the accompanying statements of financial position.

STATEMENTS OF ACTIVITIES

Net Operating Revenue

NET OPERATING REVENUE	2013	2012
Issuer Accounting Support Fee	$207,463,742	$196,701,737
Broker-Dealer Accounting Support Fee	26,460,881	18,208,000
Registration and Annual Fees from PCAOB-Registered Public Accounting Firms	1,615,000	1,639,000
NET OPERATING REVENUE	**$235,539,623**	**$216,548,737**

The PCAOB assesses accounting support fees on equity issuers, investment company issuers, and SEC-registered broker-dealers. These fees fund the expenses and other cash requirements necessary to support the Board's activities as reflected in the PCAOB's annual budget that is approved by the SEC. The PCAOB's issuer accounting support fee for 2013 and 2012 was $207.5 million and $196.7 million, respectively. The PCAOB's broker-dealer accounting support fee for 2013 and 2012 was $26.5 million and $18.2 million, respectively. These fees increased in 2013 to fund the PCAOB's need for a larger staff, primarily to support the PCAOB's inspections function.

All public accounting firms registered with the PCAOB are required to file annual reports and pay an annual fee. The annual fee covers costs related to the review and processing of annual reports. The PCAOB also assesses registration application fees. The $1.6 million in registration and annual fees assessed in 2013 were generally consistent with the fees assessed in 2012.

Operating Expenses

The PCAOB's operating expenses increased by approximately $5.8 million or 2.7% from 2012 to 2013. This variance is discussed below, from both a programmatic and functional perspective.

OPERATING EXPENSES	2013	2012
Registration and Inspections	$131,694,644	$126,417,664
Enforcement	19,995,478	19,115,365
Standard Setting	8,510,597	8,410,958
Research and Analysis	9,685,092	9,974,617
Board and Related Activities	10,253,713	10,227,082
Supporting Activities	43,316,600	43,539,289
TOTAL OPERATING EXPENSES	**$223,456,124**	**$217,684,975**

There were significant changes in the expenses of some of the Board's programs and supporting activities. These changes are discussed below.

Registration and Inspections expenses increased by approximately $5.3 million or 4%, to $131.7 million in 2013 from $126.4 million in 2012. This $5.3 million increase was primarily due to increased staffing to support the Board's responsibilities for a growing broker-dealer inspection program and other inspection-related priorities. The increase was partially offset by decreases in professional fees associated with the use of translators to support non-U.S. inspections, technical expert consultations, information systems support, and travel costs.

Enforcement expenses increased by approximately $0.9 million or 5%, from $19.1 million in 2012 to $20.0 million in 2013. This increase was primarily related to increased payroll and other expenses resulting from additional hiring. Enforcement has expanded its staff as its inquiries and investigations have become more complex and resource-intensive, in part as a result of the increasingly international nature of Enforcement's investigative portfolio. These increases were partially offset by a decrease in legal and professional services necessary to support Enforcement activities during the year. Professional services fees include expert witnesses and translation services, and are directly related to the caseload and timing of related activities.

Research and Analysis expenses decreased by approximately $0.3 million or 3%, to $9.7 million in 2013 from $10.0 million in 2012. This decrease was primarily due to lower spending on professional services fees associated with the development of software for internal use and lower spending on software maintenance costs and data feeds. These decreases were partially offset by an increase in personnel expenses related to a larger staff, which is needed to support the Board's priority to continue to provide critical information to support regulatory oversight.

OPERATING EXPENSES BY FUNCTION	2013	2012
Personnel Costs	$171,061,148	$161,453,003
Occupancy/Rent	16,949,484	15,520,358
Travel Expenses	13,344,608	14,884,701
Information Technology-Related Expenses	7,640,244	9,192,674
Other Operating Expenses:		
Professional Services and Non-IT Consulting	4,683,867	6,045,102
Administrative Expenses	5,403,033	5,527,642
Depreciation	4,186,276	4,988,504
Miscellaneous	187,464	72,991
TOTAL OPERATING EXPENSES BY FUNCTION	**$223,456,124**	**$217,684,975**

From a functional perspective, the Board experienced significant cost changes between 2013 and 2012. These variances are discussed below.

Personnel costs increased by $9.6 million or 6%, to $171.1 million in 2013 from $161.5 million in 2012. The PCAOB's total staff increased to 805 as of Dec. 31, 2013, from 766 as of Dec. 31, 2012. Of the net 39 new staff, 34 joined the Division of Registration and Inspections. This increase in staffing levels was driven by the Board's responsibilities for supporting a growing broker-dealer inspections program as well as supporting the Board's other inspection-related priorities.

Occupancy costs increased by $1.4 million or 9%, to approximately $16.9 million in 2013 from $15.5 million in 2012. The increase in occupancy costs was primarily due to a full year of cost related to additional space obtained at the PCAOB's Washington, D.C. headquarters in 2012, part-year costs of additional space obtained for the Washington, D.C. headquarters in 2013, and part-year costs associated with the opening of the PCAOB's satellite location in Philadelphia in 2013.

Travel expenses decreased by approximately $1.5 million or 10%, to approximately $13.3 million in 2013 from $14.9 million in 2012. This decrease primarily relates to lower international airfare costs resulting from a change in the mix of non-U.S. trips taken during 2013, as well as fewer domestic trips. Also, certain trips were canceled throughout the organization in 2013 as a result of sequestration.

Information technology related expenses, which include telecommunications, hardware and maintenance, data storage, software development, and data security maintenance costs, decreased approximately $1.6 million or 17%, to approximately $7.6 million in 2013 from $9.2 million in 2012. This decrease was primarily due to a decrease in personnel expenses since a larger portion of information technology staff worked on internally developed software projects in 2013 as compared to 2012 (staff time associated with these projects was capitalized rather than expensed), and lower usage of external consultants to augment information technology projects.

Other operating expenses, which include professional and non-IT consulting fees, administrative expenses (such as subscriptions, office supplies, printing and copying, and business insurance), and depreciation, decreased approximately $2.2 million or 13%, to $14.5 million in 2013 from $16.6 million in 2012. The decrease in other operating expenses was primarily attributable to decreased legal and litigation support services necessary to support Enforcement activities during the year, as well as an overall decrease in the use of translators and technical experts on inspections.

Other Revenue and Expenses

Other revenue includes interest income generated from investments, the annual fee assessed to the Financial Accounting Standards Board (FASB) for serving as its collection agent, and other miscellaneous income, such as civil monetary penalties, and reimbursements for the PCAOB's role in supporting the Chair role of the International Forum of Independent Audit Regulators (IFIAR). Other expenses include payments to fund the merit scholarships awarded to undergraduate and graduate students enrolled in accredited accounting degree programs.

Other revenue and expenses decreased by $0.6 million or 21%, to approximately $1.9 million in 2013 from $2.5 million in 2012, primarily due to an increase in scholarship payments, a decrease in civil monetary penalties imposed due to the timing of enforcement actions, and a decrease in interest income due to lower yields and a decrease in finance charges assessed on delinquent accounting support fees. These decreases in other revenue and expenses were partially offset by an increase in reimbursements from IFIAR as compared to 2012.

FINANCIAL REPORTING MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The PCAOB's financial reporting management—including the Chairman, Chief Administrative Officer, Senior Deputy Chief Administrative Officer, and Chief Financial Officer—performed an assessment of the PCAOB's internal control over financial reporting and concluded that the PCAOB's internal control over financial reporting was effective as of year-end 2013. The Board also engaged its independent auditor to perform an audit of the PCAOB's internal control over financial reporting, consistent with PCAOB Auditing Standard No. 5, *An Audit of Internal Control over Financial Reporting that Is Integrated with an Audit of Financial Statements.*

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2013, and 2012, and the related statements of activities and cash flows for the years then ended. We have also audited the PCAOB's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework* (1992 version) issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO). The PCAOB's financial reporting management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Financial Reporting Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PCAOB as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the PCAOB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework* (1992 version) issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO).

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
October 21, 2014

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 34,611,591	$ 49,801,436
Short-term investments	94,991,729	75,045,830
Accounts receivable, net of allowance	8,417,155	371,712
Prepaid expenses and other assets, net of allowance	6,234,563	6,532,609
Leasehold incentives	9,679,483	9,749,950
Furniture and equipment, leasehold improvements, and technology, net	8,928,426	8,285,774
TOTAL ASSETS	$162,862,947	$149,787,311
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other liabilities	$ 20,111,538	$ 21,814,177
Obligations under capital leases	—	3,557
Deferred rent	16,778,316	16,015,037
Total Liabilities	36,889,854	37,832,771
Unrestricted Net Assets		
Undesignated	108,733,248	108,093,701
Statutorily designated for specific uses in Section 109(c)(2) of the Sarbanes-Oxley Act	5,133,307	3,860,839
Statutorily designated for sequestration	12,106,538	—
Total Net Assets	125,973,093	111,954,540
TOTAL LIABILITIES AND NET ASSETS	$162,862,947	$149,787,311

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

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2013 and 2012

	2013	2012
Changes in Unrestricted Net Assets		
Net operating revenue		
Issuer accounting support fee	$207,463,742	$196,701,737
Broker-dealer accounting support fee	26,460,881	18,208,000
Registration and annual fees from PCAOB-registered public accounting firms	1,615,000	1,639,000
Total net operating revenue	235,539,623	216,548,737
Operating expenses		
Program activities		
Registration and inspections	131,694,644	126,417,664
Enforcement	19,995,478	19,115,365
Standard setting	8,510,597	8,410,958
Research and analysis	9,685,092	9,974,617
Board and related activities	10,253,713	10,227,082
Supporting activities		
Administration and general	23,148,429	21,732,732
Communications	2,437,178	2,475,361
Information technology and telecommunications	17,730,993	19,331,196
Total operating expenses	223,456,124	217,684,975
Operating Income (Loss)	12,083,499	(1,136,238)
Other Revenue (Expenses)		
Interest income and other	662,586	747,989
Net civil monetary penalties and interest	2,043,000	2,130,750
Scholarship payments	(770,532)	(423,973)
Total other revenue, net of expenses	1,935,054	2,454,766
Increase in Unrestricted Net Assets	14,018,553	1,318,528
Unrestricted Net Assets—Beginning of Year	111,954,540	110,636,012
Unrestricted Net Assets—End of Year	$125,973,093	$111,954,540

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Cash received from issuers	$ 207,315,804	$ 196,709,642
Cash received from brokers-dea1ers	18,663,119	31,736,613
Cash received from registered public accounting firms	1,612,958	1,637,863
Interest income and other	564,886	718,305
Cash received from civil monetary penalties and interest	2,160,708	2,135,750
Cash paid to fund scholarships	(770,532)	(423,973)
Cash paid to suppliers and employees	(220,460,358)	(209,232,374)
Net cash provided by operating activities	9,086,585	23,281,826
Cash Flows from Investing Activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(4,326,974)	(2,338,122)
Purchases of short-term investments	(159,962,015)	(165,048,880)
Proceeds from the maturity of short-term investments	140,016,116	170,000,000
Net cash (used in) provided by investing activities	(24,272,873)	2,612,998
Cash Flows from Financing Activities		
Payment of capital lease obligations	(3,557)	(38,211)
Net cash used in financing activities	(3,557)	(38,211)
Net (Decrease) Increase in Cash and Cash Equivalents	(15,189,845)	25,856,613
Cash and Cash Equivalents—Beginning of Year	49,801,436	23,944,823
Cash and Cash Equivalents—End of Year	$ 34,611,591	$ 49,801,436
Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities		
Increase in unrestricted net assets	$ 14,018,553	$ 1,318,528
Reconciliation adjustments		
Provision for (recoveries of) doubtful accounts receivable	218,520	(98,538)
Depreciation and amortization	4,186,276	4,988,504
(Increase) decrease in accounts receivable	(8,146,253)	13,609,235
Decrease (increase) in prepaid expenses and other assets, net of allowance	180,337	(393,102)
Increase in leasehold incentives	(315,618)	(2,144,310)
(Decrease) increase in accounts payable and other liabilities	(1,818,509)	2,661,963
Increase in deferred rent	763,279	3,339,546
Net Cash Provided by Operating Activities	$ 9,086,585	$ 23,281,826
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Fixed asset purchases acquired but not paid as of year-end	$ 374,690	$ 212,098

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

The Public Company Accounting Oversight Board (PCAOB) is a nonprofit corporation established by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB also oversees the audits of brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC).

The SEC has oversight authority over the PCAOB, including the appointment of Board members and the approval of the Board's rules, standards, and budget. The Sarbanes-Oxley Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, established funding for PCAOB activities, primarily through an annual accounting support fee assessed on issuers based on their relative average, monthly market capitalization and on brokers and dealers based on their relative average, quarterly tentative net capital. The annual accounting support fee is also approved by the SEC.

The PCAOB's operations consist of program activities and supporting activities. The program activities of the PCAOB are: registration and inspections, enforcement, standard setting, research and analysis, and Board and related activities. The supporting activities are administration and general, communications, and information technology and telecommunications.

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 and are presented pursuant to the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958, *Not-for-Profit Entities* (ASC 958). Under ASC 958, the PCAOB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications are based on the existence or absence of donor-imposed restrictions. The net assets of the PCAOB are not subject to any donor-imposed restrictions, and, therefore, have been classified as unrestricted in the accompanying financial statements.

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

Cash and Cash Equivalents. The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in noninterest-bearing accounts with a domestic high-credit-quality financial institution as well as investments in securities made pursuant to a daily overnight sweep repurchase agreement. The securities acquired at the end of each business day pursuant to the repurchase agreement generally consist of Government Sponsored Enterprise or U.S. Government/Agency obligations. Purchased securities are held by the financial institution, as custodian, on an overnight basis and are repurchased 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 prior to such a repurchase of any securities, the PCAOB could experience a delay in disposing of those securities.

Short-term Investments. The PCAOB's investments are recorded at fair value, all of which are measured using Level 1 inputs, which are defined as quoted market prices in active markets for identical investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income and net gains and losses are recorded on the accrual basis and are included in "Interest income and other" on the accompanying statements of activities.

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

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

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

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

Revenue Recognition. The Sarbanes-Oxley Act, as amended, provides for funding of the PCAOB through the assessment of an annual accounting support fee on issuers and brokers and dealers. The Sarbanes-Oxley Act also provides that the PCAOB shall assess and collect registration and annual fees.

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

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

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

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

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

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

Net Civil Monetary Penalties and Scholarship Payments. PCAOB sanction orders may impose civil monetary penalties pursuant to the Board's authority under Section 105 of the Sarbanes-Oxley Act. The PCAOB imposed civil monetary penalties totaling approximately $2.0 million and $2.1 million for the years ended Dec. 31, 2013 and 2012, respectively. Where considered applicable, the PCAOB records an allowance against civil monetary penalties ordered, but not yet collected. The allowance for civil monetary penalties was approximately $0.3 and $0.2 million as of Dec. 31, 2013 and 2012, respectively, and is included in "prepaid expenses and other assets" on the accompanying statements of financial position.

The PCAOB reports all funds generated from the collection of civil monetary penalties (including interest income, net of bank fees, and bad debt expenses) as increases in unrestricted net assets statutorily designated for specified uses in Section 109(c)(2) of the Sarbanes-Oxley Act, and all funding for the merit scholarships as decreases in unrestricted net assets statutorily designated for specified uses in Section 109(c)(2) of the Sarbanes-Oxley Act.

Cash Held for Others under Agency Agreement. The PCAOB served as the collection agent for invoicing and collecting the 2013 and 2012 accounting support fee for the FASB. The PCAOB's fee for acting as the FASB's collection agent was approximately $0.2 million in both 2013 and 2012. This amount is included in "interest income and other" in the accompanying statements of activities. As of Dec. 31, 2013 and 2012, the PCAOB had $18,271 and $28,960, respectively, included in cash and cash equivalents related to the FASB accounting support fee. Corresponding amounts are included in "accounts payable and other liabilities" for amounts due to the FASB as of Dec. 31, 2013 and 2012.

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

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

Use of Estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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, accounts receivable, the allowance for doubtful accounts, and useful lives of property and equipment. Actual results could differ from these estimates.

Subsequent Events. The PCAOB has evaluated subsequent events through October 21, 2014, which represents the date the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment or disclosure in the financial statements other than the lease activity that is presented in Note 6.

NOTE 3. SHORT-TERM INVESTMENTS

Short-term investments consist of investments in U.S. Treasury bills and notes. Total short-term investments, measured at fair value using quoted market prices in active markets for identical assets (Level 1), were approximately $95.0 million and $75.0 million as of Dec. 31, 2013 and 2012, respectively.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of Dec. 31, 2013 and 2012:

	2013	2012
Accounts receivable—Issuer Accounting Support Fee	$ 501,071	$ 145,806
Accounts receivable—Broker-Dealer Accounting Support Fee	8,145,306	382,859
Accounts receivable—Annual Fees	106,179	77,637
	8,752,556	606,302
Less allowance for doubtful accounts	(335,401)	(234,590)
Accounts receivable, net	$8,417,155	$ 371,712

NOTE 5. FURNITURE AND EQUIPMENT, LEASEHOLD IMPROVEMENTS, AND TECHNOLOGY

Furniture and equipment, leasehold improvements, and technology consist of the following as of Dec. 31, 2013 and 2012:

	2013	2012
Technology		
Hardware	$ 10,256,454	$ 10,473,068
Purchased and developed software	30,673,098	30,184,913
Leasehold improvements	14,283,876	14,187,994
Furniture and equipment	8,345,711	8,911,457
Technology development	4,110,098	2,023,053
Construction in process	672,303	132,674
Total	68,341,540	65,913,159
Accumulated depreciation and amortization	(59,413,114)	(57,627,385)
	$ 8,928,426	$ 8,285,774

Depreciation and amortization expense was approximately $4.2 million and $5.0 million for the years ended Dec. 31, 2013 and 2012, respectively.

NOTE 6. LEASE COMMITMENTS

As of Dec. 31, 2013, the PCAOB leased office space in Washington, D.C.; New York, N.Y.; Ashburn, Va.; San Mateo, Calif.; Irvine, Calif.; Atlanta, Ga.; Irving, Texas;

Chicago, Ill.; and Denver, Colo. All of these offices, other than Washington, D.C., are under leases that expire through 2017.

In 2011, 2012, and 2013, the Washington, D.C. lease was modified and additional office space was acquired. Under this lease, which expires in 2028, the PCAOB is entitled to receive a tenant improvement allowance of approximately $10.2 million. The lease also provides that to the extent the PCAOB has not expended the full amount of the tenant improvement allowance by Aug. 1, 2021, the PCAOB may apply up to $1.4 million of the unused tenant improvement allowance toward the payment of rent becoming due under the lease. During 2013 and 2012, leasehold improvements of approximately $0.4 million and $0.1 million, respectively, were paid for by the landlord. The PCAOB recognized increases in leasehold incentives of $0.3 million and $2.2 million in 2013 and 2012, respectively, as the related space came under the PCAOB's control.

As of Dec. 31, 2013, the PCAOB also occupied temporary office space in Charlotte, N.C.; Boston, Mass.; Houston, Texas; Tampa, Fla.; Fort Lauderdale, Fla.; Philadelphia, Pa.; and Los Angeles, Calif.; under leases that expire in 2014.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense was $14.9 million and $13.5 million for the years ended Dec. 31, 2013 and 2012, respectively. Deferred rent arises from the difference each month between the cash rent payment and the amount that is recorded as straight-lined rent expense and from leasehold incentives paid for by the landlord. Deferred rent totaled $16.8 million and $16.0 million as of Dec. 31, 2013 and 2012, respectively, and is recognized over the remaining terms of the office leases.

Minimum rental commitments under all of the PCAOB's office leases as of Dec. 31, 2013, including the rental commitments for temporary office spaces having remaining lease terms of one year or less, are as follows:

2014	$ 14,968,916
2015	13,271,477
2016	13,244,054
2017	13,147,107
2018	13,178,094
Thereafter	140,763,931
	$208,573,579

Subsequent to Dec. 31, 2013, the PCAOB amended or renewed leases for its San Mateo, New York, Irving, and Atlanta offices. The San Mateo lease commences in July 2014 and expires in June 2024, and requires lease payments totaling $8.9 million over its term. Under this lease, the PCAOB is entitled to receive a tenant improvement allowance of approximately $0.8 million.

The New York lease commences in August 2014 and expires in October 2028, and requires lease payments totaling $48.2 million over its term. Under this lease, the PCAOB is entitled to receive a tenant improvement allowance of approximately $1.3 million.

The Irving lease commences in December 2014 and expires in November 2024, and requires lease payments totaling $4.5 million over its term. Under this lease, the PCAOB is entitled to receive a tenant improvement allowance of approximately $0.2 million.

The Atlanta lease commences in November 2014 and expires in October 2024, and requires lease payments totaling $5.7 million over its term. Under this lease, the PCAOB is entitled to receive a tenant improvement allowance of approximately $0.5 million.

NOTE 7. RETIREMENT BENEFIT PLAN

The PCAOB has a defined contribution retirement plan that covers all eligible employees. For the years ended Dec. 31, 2013 and 2012, the PCAOB matched 100% of employee contributions up to 7% of eligible compensation. The PCAOB's contributions vest immediately. The PCAOB's contributions to employees' accounts were $8.2 million and $7.5 million for the years ended Dec. 31, 2013 and 2012, respectively.

NOTE 8. UNRESTRICTED NET ASSETS

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

Designated for the PCAOB Scholarship Program. The statements of financial position include unrestricted designated funds for the PCAOB Scholarship Program, established by Section 109(c)(2) of the Sarbanes-Oxley Act. The Act authorizes the PCAOB to impose civil monetary penalties and requires the PCAOB to use those penalties to award merit scholarships to students of accredited accounting degree programs, after annual congressional appropriation for that use of the monetary penalties. The PCAOB awarded 77 and 43 merit-based scholarships of $10,000 each to eligible students for the 2013–2014 and 2012–2013 academic years, respectively. Cash and cash equivalents included approximately $5.1 million and $3.9 million as of Dec. 31, 2013 and 2012, respectively, to be used for merit scholarships. The activity of the statutorily designated funds for the years ended Dec. 31, 2013 and 2012, is as follows:

Statutorily designated funds, as of Dec. 31, 2011	$2,154,062
Civil monetary penalties and interest collected in 2012	2,130,750
Less scholarship payments for the 2012–2013 academic year	(430,000)
Scholarship refunds and deferrals	6,027
Statutorily designated funds, as of Dec. 31, 2012	$3,860,839
Civil monetary penalties and interest collected in 2013	2,043,000
Less scholarship payments for the 2013–2014 academic year	(770,000)
Use of deferred scholarships	(532)
Statutorily designated funds, as of Dec. 31, 2013	$5,133,307

Designated for Sequestration. The statements of financial position include unrestricted designated funds for sequestration, including interest earned. The Office of Management and Budget (OMB) determined that the PCAOB's budget and scholarship program are subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. On March 1, 2013, OMB issued a report, "OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013," specifying that $12.0 million of the PCAOB's 2013 budget and $0.1 million of its scholarship funds were subject to sequestration. These sequestered funds remained unspent as of Dec. 31, 2013, and are included in short-term investments in the accompanying statements of financial position.

2013 MANAGEMENT'S ASSESSMENT

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

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with 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, 2013. In making this assessment, financial reporting management used the criteria established in *Internal Control—Integrated Framework* (1992 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 is effective as of December 31, 2013.

October 21, 2014

James R. Doty
Chairman

Suzanne M. Kinzer
Chief Administrative Officer

William F. Wiggins
Senior Deputy Chief Administrative Officer

Amy C. Hargrett
Chief Financial Officer

BOARD RELEASES AND STAFF GUIDANCE ISSUED IN 2013

FIRST QUARTER

DOCUMENT	DOCUMENT NUMBER	DATE
Order Making Findings and Imposing Sanctions in the Matter of Baumgarten & Company LLP	PCAOB Release No. 105-2013-001	Feb. 21, 2013
Order Making Findings and Disapproving Registration Application in re Registration Application of Vail & Knauth LLP	PCAOB Release No. 102-2013-001	Feb. 21, 2013
Report on 2007–2010 Inspections of Domestic Firms that Audit 100 or Fewer Public Companies	PCAOB Release No. 2013-001	Feb. 25, 2013
Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules	PCAOB Release No. 2013-002	March 26, 2013

SECOND QUARTER

DOCUMENT	DOCUMENT NUMBER	DATE
Policy Statement Regarding Credit for Extraordinary Cooperation in Connection with Board Investigations	PCAOB Release No. 2013-003	April 24, 2013
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of P. Parikh & Associates, Ashok B. Rajagiri, CA, Sandeep P. Parikh, CA, and Sundeep P S G Nair, CA	PCAOB Release No. 105-2013-002	April 24, 2013
Proposed Auditing Standard—Related Parties; Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions and Other Proposed Amendments to PCAOB Auditing Standards	PCAOB Release No. 2013-004	May 7, 2013
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Michael F. Cronin, CPA and Michael F. Cronin, CPA	PCAOB Release No. 105-2013-003	May 14, 2013
Order Making Findings and Imposing Sanctions in the Matter of Rehan Saeed, CPA	PCAOB Release No. 105-2013-004	May 21, 2013
Notice of Finality of Initial Decision in the Matter of Eric C. Yartz, P.C.	PCAOB File No. 105-2012-006	June 18, 2013
Notice of Finality of Initial Decision in the Matter of Kenneth J. McBride	PCAOB File No. 105-2012-007	June 18, 2013
Order Making Findings and Imposing Sanctions in the Matter of Gruber & Co., LLC, and E. Randall Gruber, CPA	PCAOB Release No. 105-2013-005	June 27, 2013

THIRD QUARTER

DOCUMENT	DOCUMENT NUMBER	DATE
Frequently Asked Questions Regarding Issues Relating to Non-U.S. Accounting Firms	N/A	July 8, 2013
Final Decision and Order Imposing Sanctions in the Matter of S.W. Hatfield, CPA and Scott W. Hatfield, CPA	PCAOB File No. 105-2009-003	July 11, 2013
Notice of Finality of Initial Decision in the Matter of Stan Jeong-Ha Lee and Stan J.H. Lee, CPA	PCAOB File No. 105-2012-001	July 30, 2013
Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; the Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards	PCAOB Release No. 2013-005	Aug. 13, 2013
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Lake & Associates, CPA's LLC, and Jay Charles Lake, CPA	PCAOB Release No. 105-2013-006	Aug. 13, 2013
Second Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers	PCAOB Release No. 2013-006	Aug. 19, 2013
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Nathan M. Suddeth, CPA	PCAOB Release No. 105-2013-007	Sept. 10, 2013

FOURTH QUARTER

DOCUMENT	DOCUMENT NUMBER	DATE
Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards	PCAOB Release No. 2013-007	Oct. 10, 2013
Auditing Standard No. 17—Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards	PCAOB Release No. 2013-008	Oct. 10, 2013
Order Making Findings and Imposing Sanctions in the Matter of Deloitte & Touche LLP	PCAOB Release No. 105-2013-008	Oct. 22, 2013
Staff Audit Practice Alert No. 11: Considerations for Audits of Internal Control over Financial Reporting	N/A	Oct. 24, 2013
Information Concerning the Quality Control Remediation Process under PCAOB Rule 4009	N/A	Nov. 18, 2013
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Harris F Rattray CPA, PL, and Harris F. Rattray, CPA	PCAOB Release No. 105-2013-009	Nov. 21, 2013
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Acquavella, Chiarelli, Shuster, Berkower & Co., LLP	PCAOB Release No. 105-2013-010	Nov. 21, 2013
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of David T. Svoboda, CPA	PCAOB Release No. 105-2013-011	Nov. 21, 2013
Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions in the Matter of Hood & Associates CPAs, P.C., and Rick C. Freeman, CPA	PCAOB Release No. 105-2013-012	Nov. 21, 2013
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit	PCAOB Release No. 2013-009	Dec. 4, 2013
Amendments to Conform the Board's Rules and Forms to the Dodd-Frank Act and Make Certain Updates and Clarifications	PCAOB Release No. 2013-010	Dec. 4, 2013
Observations Related to the Implementation of the Auditing Standard on Engagement Quality Review	PCAOB Release No. 2013-011	Dec. 6, 2013
Order Making Findings and Imposing Sanctions in the Matter of Iter Audit S.R.L.	PCAOB Release No. 105-2013-013	Dec. 17, 2013

STANDING ADVISORY GROUP

As of June 30, 2014

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John W. White	*Partner, Corporate Department*	Cravath, Swaine & Moore LLP

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

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As of June 30, 2014

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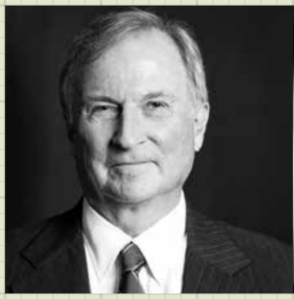
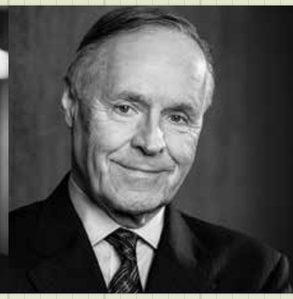
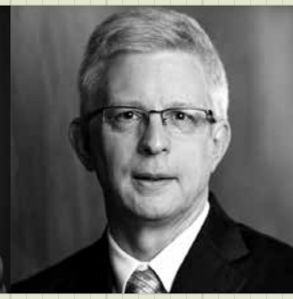

James R. Doty


Steven B. Harris


Lewis H. Ferguson


Jay D. Hanson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PCAOB

Public Company Accounting Oversight Board

1666 K Street, NW, Washington, DC 20006-2803 (202) 207-9100
www.pcaobus.org