Caveat

The views we express are our individual views and do not necessarily reflect the views of the Board as a whole or other staff of the PCAOB.
Selected Standard-Setting Projects

- Auditor's Reporting Model
- Audit Transparency
- Audits of Broker/Dealers
- Going Concern
Practice Issues

- Fair Value/Third-Party Pricing Sources
- Reverse Merger Audits
- Fraud in Emerging Market Companies
- Risk Assessment Standards
FASB/IASB projects

- Pace, Volume and Nature of Change
- SAG Discussion
- Auditability Issues
- FASB Commitment
Standing Advisory Group

- Importance to PCAOB
- Composition and Terms
- SAG Nomination Process Open
Rulemaking and Regulatory Update

J. Gordon Seymour
General Counsel and Secretary
Public Company Accounting Oversight Board
Legislative Initiative on Enforcement Proceedings

- Background
  - Legislative History
  - Sarbanes-Oxley Act, Section 105(c)(2) –
    “PUBLIC HEARINGS.—Hearings under this section shall not be public, unless otherwise ordered by the Board for good cause shown, with the consent of the parties to such hearing.”

- Effect on Public and the Board
  - Lack of Transparency
  - Incentive to Litigate

- Practice of Comparable Regulators

- Scope
Dodd-Frank Implementation

- PCAOB Oversight of Broker-Dealer Audits
- Background
  - Sarbanes-Oxley Act
  - Broker-Dealer Auditor Registration
  - Section 982 of the Dodd-Frank Act
  - Legislative History
- Dodd-Frank Implementation Rulemaking
  - Interim Inspection Program for Broker-Dealer Audits
  - Broker-Dealer Funding Rules
Interim Inspection Program

- Board Proposed Rules for an Interim Inspection Program on December 14, 2010

- Purposes
  - To inform development of a permanent program, including whether to grant any exemptions
  - To assess compliance with relevant laws and standards in broker-dealer audits
    - Referral to SEC and Finra
    - Enforcement

- Reporting

- Duration

- Comment Period Ended February 15, 2010
Broker-Dealer Funding Rules

- Board Proposed Rules for Broker-Dealer Funding on December 14, 2010

- Broker-Dealer Funding
  - Tentative Net Capital
  - Threshold for Billing -- $5 million

- Amendments to Issuer Funding Rules
  - Increase of Market Cap/Net Asset Value Thresholds
    - Operating Companies -- $25 million to $75 million
    - Investment Companies -- $250 million to $500 million
  - Other technical changes

- Timing
- Comment Period Ended February 15, 2010
Registration

Who is required to register?
- Firms that prepare, issue or participate in audit reports of issuers, brokers and dealers
- Non-U.S. firms that furnish, prepare or play a substantial role in preparing an audit report for any issuer, broker and dealer

What are firms required to file with the PCAOB?
- Annual reporting
  - Report information such as audit reports issued and disciplinary histories of new personnel
- Special reporting
  - Reportable events range from administrative matters such as changes in a firm’s contact information to more substantive matters, including the institution of certain types of legal proceedings against a firm or its personnel
Inspection Program Overview

- Global Network Firms
  - Includes U.S. firms subject to annual inspections and their affiliates

- Non-Affiliate Firms
  - Includes U.S. and non-U.S. triennial firms

- Broker-Dealer Firms
Global Network Firms

- Focus on Quality Control mechanisms of large firms that participate in global networks
- Inspect audit work performed by non-U.S. firms on subsidiaries or other segments of multi-national audit clients ("referred work")
- Focus on supervision of work performed by affiliated firms
  - Controls over consultations on accounting and auditing standards
  - Instructions to affiliates
  - Evaluation of affiliates’ work
- Encourage firms to identify root causes and address them throughout their global networks
Non-Affiliate Triennial Firms

- Inspect approximately 200 firms each year
  - Perform PCAOB-based inspections for approximately 50% of U.S. domestic triennial firms
- Large number of firms audit less than 5 issuers
- Accelerated filers
  - 2010 inspections results
- Issuers with substantially all operations outside the U.S.
  - Staff Audit Practice Alert No. 6, *Auditor Considerations Regarding Using the Work of Other Auditors and Engagement Assistants from Outside the Firm* issued July 10, 2010.
Broker-Dealer Firms

- Provided the PCAOB with standard setting, inspection and disciplinary authority over the firms performing audits of brokers and dealers
- Working to develop an inspection program for the audits of brokers and dealers
- The SEC has instructed the auditors of brokers and dealers to continue to follow AICPA Standards in performing their audits
- The SEC anticipates a change in the rules related to these audits and we are working with the SEC in this regard
Rule 4010 Reports

- Describe deficiencies that the Board views as warranting emphasis in a general public report

- Reports on -
  - First-Year Implementation of Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements - September 24, 2009
  - Observations of PCAOB Inspectors Related to Audit Risk Areas Affected by the Economic Crisis – September 29, 2010
Common Inspection Observations

- **GAAP Deficiencies**
  - Broad range of accounting areas
  - Common departures in income taxes, derivatives, revenues, and cash flow presentations

- **Auditing Deficiencies**
  - Revenues
  - Accounting estimates
  - Auditing Fair Value Measurements
  - Income Taxes
  - Equity Transactions
  - Internal Control

- **Specific Quality Control Areas**
Internal Control Over Financial Reporting

- **Entity-Level Controls**
  - Failure to obtain sufficient audit evidence of operating effectiveness
  - Changes in testing of process-level controls

- **Nature, Timing, and Extent of Control Testing**
  - System-generated data
  - Segregation of duties
  - Service auditors reports

- **Evaluation of Deficiencies**
  - Evaluation based solely on materiality of identified errors
  - Consideration of control deficiencies identified through using the work of others
  - Compensating controls not operating at a sufficient level of precision
  - Failure to consider the effect of financial statement errors on the issuer’s internal control over financial reporting

- **Using the Work of Others**
  - Assessment of competence and objectivity of others, especially if worked performed outside of internal audit
Audit Risk Areas Affected by the Economic Crisis

- Fair Value Measurements
  - Financial Instruments
  - Non-Financial Assets
  - Impairment of Goodwill, Indefinite-lived Intangible Assets and Other Long-Lived Assets
- Allowance for Loan Losses
- Off-Balance-Sheet Structures
- Other-Than-Temporary Impairment of Certain Instruments
- Revenue Recognition
- Valuation of Inventory
- Income Taxes
Questions?