



PCAOB Inspections Update

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Caveat

The views I express are my individual views and do not necessarily reflect the views of the Board, Board Members or other staff of the PCAOB.



Inspection Program Overview

- Global Network Firms
 - Includes large U.S. firms and their international affiliates
- Non-Affiliate Firms
 - Includes U.S. and non-U.S. 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
- Scalable inspection approach
- 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 Engaging Assistants from Outside the Firm* issued July 12, 2010.



Broker-Dealer Firms

- Dodd-Frank Wall Street Financial Reform and Consumer Protection Act – July 21, 2010
- 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 has a proposed a change in the rules related to these audits and we are coordinating 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 -
 - PCAOB's 2004, 2005, and 2006 Inspections of Domestic Triennially Inspected Firms – October 22, 2007
 - PCAOB's 2004, 2005, 2006, and 2007 Inspections of Domestically Annually Inspected Firms – December 5, 2008
 - 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



Internal Control Over Financial Reporting

- Most commonly identified deficiencies
 - Failure to obtain a sufficient understanding of the flow of transactions and selecting controls to test
 - Evaluate whether controls selected for testing operated at the level of precision necessary to prevent or detect the risk of material misstatement
 - Evaluate the effects of known control deficiencies



Remediation

- PCAOB Rule 4009
 - Supervisory approach to remediation
 - Findings remain non-public if they are addressed by the firm to the satisfaction of the Board, no later than 12 months from the date of the inspection report
- Root Causes
 - Inspection teams' root cause analysis
 - Firms' root cause analysis
- Remediation Determination
 - Has the firm made substantial progress toward achieving the relevant control objectives
 - Results from subsequent inspections



Questions?