AN ANALYSIS OF THE TIMELINESS OF SECTION 104 INSPECTION REPORTS: 2004–2010

Helen M. Roybark
Radford University

Key Words: PCAOB 104 Inspections, Sarbanes-Oxley (2002)

JEL Classification(s): M48

Abstract

Section 104 of the Sarbanes-Oxley Act (USHR 2002) requires the Public Company Accounting Oversight Board (PCAOB *or* Board) to conduct inspections of each registered public accounting firm. Audit deficiencies that exceed certain thresholds are summarized in the public portion of the Board's inspection reports. Critics have called for more timely disclosure of PCAOB inspection reports (Reilly 2006; Roybark 2006, 2009; Turner 2006). Roybark (2009) analyzed the 558 inspections reports issued by the PCAOB during 2004-2007 (December 31) to determine the time lags based on days from field-to-report. During its first year of triennial inspections (2004), the mean number of days from field-to-report was 416 for firms where audit deficiencies were reported. For 2004 annual inspections, the mean number of days ranged from 295 to 475 for national firms and 291 to 334 for Big-4 firms. And while some improvements on the timeliness of triennial inspection reports were originally reported, improvements reported for 2007 inspections dissipated once additional inspection reports for 2007 were subsequently issued during 2008–2010. So has the PCAOB actually improved its Section 104 reporting by issuing its inspection reports in a more timely manner? To answer this question, 1,323 triennial and annual inspection reports issued during 2004-2011 (June 9) are analyzed based on the time lag from the last date in the field to the issuance date of the inspection reports (field-to-report) to determine if the time lapse has improved since the Board issued its first inspection reports in 2004.

INTRODUCTION

The significance of the public audit was identified in *United States v. Arthur Young & Company*, 465 U.S. 805 (1984), when the U.S. Supreme Court described the independent audit as a "'public watchdog' function" (818). In short, the independent audit is the cornerstone of public confidence for the U.S. capital market (Sutton 2002).

Following the Enron and WorldCom debacles, the utility of the public audit was called into question by society (Carmichael 2004). Congress responded by passing the Sarbanes-Oxley Act of 2002 [USHR 2002 (hereafter Act)]. Section 101 of the Act provides the legal basis for the creation of the Public Company Oversight Board (PCAOB *or* Board) and its inspection mandate (USHR 2002).[1] The Board was established "to fulfill its Congressional mandate to protect investors through the oversight of registered accounting firms, utilizing a supervisory model that integrates its registration, inspection, standards-setting, enforcement and support functions" (PCAOB 2007a, 3).

---

[1] Prior to the Act, oversight of the independent audit was facilitated by the American Institute of Certified Public Accountants via its "peer review program." Auditors with public issuers were monitored through mandatory peer reviews every three years.

As of January 2011, 2,388 public accounting firms, including U.S. and non-U.S. firms,[2] have registered with the Board (PCAOB 2011b). This represents a 225 percent increase[3] in registrants since the PCAOB began operations in 2003 (PCAOB 2004b). The PCAOB inspection process "is the Board's core function. It is the fundamental tool Congress gave the Board to restore public confidence in audited financial reporting" (PCAOB 2005h, 1).

The Board's inspection process takes a different approach from that of the pre-Sarbanes compliance-based peer reviews, as the peer review process did not address the overall audit environment (PCAOB 2006k). The PCAOB uses a risk-assessment process to conduct its inspections. Allen, Hermanson, Kozloski, and Ramsay (2006) conducted a review of the auditing literature and concluded that "the results of academic research are consistent" (157) with the Board's risk-assessment process for conducting its inspections.

Should the inspection team identify deficiencies in the audit under inspection, it alerts the firm to the deficiencies during the inspection process. According to Mark Olson, former Chairman of the PCAOB, "When inspectors find an audit that is not satisfactory, they discuss with the firm precisely what the deficiency is. Often this dialogue leads to immediate corrective action" (PCAOB 2006k, 2). The Board inspections include, among other things, a review of selected audits. Following an inspection, a report is issued by the PCAOB for each accounting firm.[4] Audit

---

[2] As of July 29, 2011, 908 non-U.S. accounting firms have registered with the Board (PCAOB 2011e).

[3] At the end of 2003, 735 accounting firms were registered with the PCAOB [(2,388 – 735) ÷ 735 = 225 percent increase] (PCAOB 2008a and 2011b). As of June 27, 2008, 1,849 accounting firms were registered with the PCAOB [(1,849 – 735) ÷ 735 = 152 percent increase since 2003] (PCAOB 2008a).

[4] Section 104 of the Act requires that some information about inspections be redacted due to confidentiality requirements. For example, the Act prohibits the

deficiencies that exceed a certain significance threshold are summarized in the public portion of the Board's inspection report.

"Audit deficiencies undermine the value of the public audit and erode public confidence" (Roybark 2009, 1). Transparent and timely information are essential to ensure public confidence (Sutton 2002). According to the Financial Accounting Standards Board's *Statement of Financial Accounting Concepts No. 2* (Qualitative Characteristics of Accounting Information), accounting information must be timely in order for the information to be relevant. "If information is not available when it is needed or becomes available so long after the reported events that it has no value for future action, it lacks relevance and is of little or no use" (FASB 1980, 2-2). While timeliness alone does not guarantee relevance, a lack of timeliness can reduce or even eliminate the relevance of information it might otherwise have had.

Critics have called for more timely disclosure of the PCAOB's inspection reports (Reilly 2006; Roybark 2006, 2009; Turner 2006). "Accounting-firm executives, corporate board members and investors all have criticized the length of time it is taking the PCAOB to come out with its annual inspection reports" (Reilly 2006, C.3). Roybark (2006) has argued that the Board must address the "significant time lapse between its inspection and the date the inspection report is issued" (147). Lynn Turner (2006), former Chief Accountant of the SEC has called for more timely disclosure on the part of the PCAOB, arguing that inspection reports issued on Big-4 firms almost a year after the inspections were completed is unacceptable.

Roybark (2009) analyzed the 558 inspections reports issued by the PCAOB during 2004-2007 (December 31) to determine the time lags based on days from field-to-report. During its first year of triennial inspections (2004), the mean number of days from field-to-report was 416 for firms where audit deficiencies were reported. For 2004 annual inspections, the mean number of days

---

PCAOB from disclosing criticisms of a firm's quality controls, unless the firm fails to correct those deficiencies within 12 months.

ranged from 295 to 475 for national firms and 291 to 334 for Big-4 firms. And while some improvements on the timeliness of triennial inspections reports were originally reported, improvements reported for 2007 inspections dissipated once additional inspection reports for 2007 were subsequently issued during 2008–2010.

So has the PCAOB actually improved its Section 104 reporting by issuing its inspection reports in a more timely manner? To answer this question, 1,323 triennial and annual inspection reports issued during 2004-2011 (June 9) are analyzed based on the time lag from the last date in the field to the issuance date of the inspection reports (field-to-report) to determine if the time lapse has improved since the Board issued its first inspection reports in 2004.

PCAOB INSPECTION CRITERIA

Triennial Inspections

To satisfy the Sarbanes mandate,[5] the Board adopted PCAOB Rule 4003, *Frequency of Inspections*, in 2003. It states (4003(b)) (PCAOB 2007b, 58):

> At least once in every three calendar years, beginning with the three-year period following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm, that during any of the three prior calendar years, issued an audit report with respect to at least one, but no more than 100 issuers, or that played a substantial role in the preparation or furnishing of an audit report with respect to at least one issuer, shall be subject to a regular inspection.

---

[5] Section 104(a) states that the Board must "conduct a continuing program of inspections of registered public accounting firms … Section 104(b)(2) of the Act authorizes the Board to adjust that inspection frequency by rule if it finds that a different inspection schedule is consistent with the purposes of the Act, the public interest, and the protection of investors" (PCAOB 2006a, A-2).

The end of 2006 marked the completion of the first three-year cycle for a significant number of triennial firms. Based on its Rule 4003, the PCAOB would be required to repeat inspection of triennial firms beginning in 2007. Given its budgetary constraints, in 2006 the Board elected to temporarily adjust aspects of the inspection cycle requirements for triennial firms (PCAOB 2006a). The new language maximizes the Board's ability to allocate its inspection resources more effectively and allows it to approach triennial inspections on a year-to-year basis, given the mix of firms in terms of the size and nature of audit practice (PCAOB 2006a). Specifically, Rule 4003(d) states (PCAOB 2007b, 58):

> Notwithstanding paragraph (b) of this Rule, with respect to any registered public accounting firm that became registered in 2003 or 2004 –
>
> (1) this Rule does not require the first inspection of the firm sooner than the fourth calendar year following the first calendar year in which the firm, while registered, issued an audit report or played a substantial role in the preparation or furnishing of an audit report; and
>
> (2) this Rule does not require the second inspection of the firm sooner than the fifth calendar year following the first calendar year in which the firm, while registered, issued an audit report or played a substantial role in the preparation or furnishing of an audit report.

The amendment was to expire on June 30, 2007, unless the Board extended the new language. On May 24, 2007, the Board voted to retain Rule 4003(d) and eliminate the tentative sunset provision that the Board put in place when it adopted the new language (PCAOB 2007q).

Annual Inspections

Section 104 further requires the PCAOB to conduct an *annual* inspection of each registered public accounting firm that regularly provides audit reports for more than 100 public issuers.

Securities and Exchange Commission–Rule 140

Congress did not prescribe a standard of review for PCAOB inspection reports in the Sarbanes-Oxley Act (USSEC 2010). On July 26, 2010, the Securities and Exchange Commission (SEC) adopted its new Rule 140 to provide procedures for a firm to follow in requesting interim Commission review with respect to a PCAOB inspection report (USSEC 2010). The rule specifies that a firm must request such a review within 30 days following the date the firm is provided a copy of the final inspection report. In short, the SEC provided an initial stay relating to the publication for the PCAOB's final inspection reports. The PCAOB operates under the oversight and enforcement authority of the SEC (USHR 2002). Accordingly, the PCAOB adjusted its reporting and publication procedures to account for the 30-day period for a firm to request review before initial publication of the final inspection report.

Beginning with inspection reports dated in mid-November and December 2010, the PCAOB changed the numbering sequence of its inspection reports to provide for the initial stay of the publication. The numbering sequence for year-end inspection reports with issuance dates within the 30-day stay period was changed from 104-2010-XXX (*where* XXX represents the numerical sequence of inspection reports) to 104-2011-XXX (*where* 2011 represents the year of public release for inspection reports bearing a 2010 issuance date).[6] Rule 140 does not change the results reported in this analysis, given that the field-to-report statistics are based on the last day of field work and the issuance

[6] The PCAOB's new numbering sequence which was implemented to satisfy Rule 140 was confirmed by Mr. Peter Schleck, Director of the PCAOB's Office of Internal Oversight and Performance Assurance, via email correspondence dated August 3, 2011.

date of the report, but in practical terms, Rule 140 extends the period for public disclosure by 30 days.

Dodd-Frank Wall Street Reform and Consumer Protection Act (2010)

Following the Madoff[7] Ponzi scheme, Congress passed the *Dodd-Frank Wall Street Reform and Consumer Protection Act*,[8] which was signed into law by President Obama on July 21, 2010 (USHR 2010). Section 982 of the Dodd-Frank Act amended the Sarbanes-Oxley Act (USHR 2002) to provide the PCAOB with explicit authority to, among other things, establish, subject to Commission approval, auditing and related attestation, quality control, ethics, and independence standards to be used by registered public accounting firms with respect to the preparation and issuance of audit reports to be included in broker-dealer filings with the Commission (USHR 2010). "Congress made a deliberate decision not to exempt any class of broker-dealer auditor from Board oversight" (PCAOB 2011a). Providing transparent and timely information to the public is even more essential, given the PCAOB's new oversight responsibilities for audits of broker-dealer and issuer engagements, including non-public broker-dealers (PCAOB 2011d).

On July 12, 2011, the PCAOB issued proposed audit and attest standards for audits of broker-dealer and issuer engagements (PCAOB 2011d). "The broker-dealer community is very diverse, and the business models and risk profiles of the roughly 5,000 registered broker-dealer firms vary" (PCAOB 2011d, 2). The Board's proposed standards dovetail with the SEC's proposed amendments to *Securities Exchange Act* Rule 17a-5 issued by the

---

[7] Bernard L. Madoff Investment Securities LLC was a non-public broker-dealer firm.

[8] The title of this Act may be cited as the "Investor Protection and Securities Reform Act of 2010"*or* "Dodd-Frank Act" (USHR 2010).

Commission on June 15, 2011 to satisfy the requirements of the Dodd-Frank Act (PCAOB 2011d and USSEC 2011).

PCAOB INSPECTIONS AND REPORTS ISSUED: 2004–2010

U.S. Triennial Accounting Firms

From 2004 through June 9, 2011, inspection reports were issued to 1,141 U.S. triennial accounting firms (PCAOB 2005a, 2006b, 2007c, 2008m, 2009k, 2010k, 2011g, and 2011h). These firms vary in size from multi-locations with a centralized quality control to firms with only one CPA. Some of these firms audit only one public issuer, while other firms audit a significant number of issuers (PCAOB 2007o).

Table 1 summarizes the number (percent) of inspection reports issued to U.S. triennial firms, the mean number of days of field work, and the mean number of days from the last date in the field to the report date (field-to-report).[9] Statistics are presented for triennial firms with and without reported audit deficiencies. These statistics are discussed below based on the year of inspections.

2004 Triennial Inspections. A total of 90 U.S. triennial firms were inspected during 2004. Of these, 79 (88 percent) firms inspected included deficiencies. For these firms, the mean number of days in field work was eight days, while the mean number of days from field-to-report was 416. No audit deficiencies were identified in audits conducted by 11 (12 percent) of the 90 firms. For these firms, the mean number of days in field work was five days, while the mean number of days from field-to-report was 272.

2005 Triennial Inspections. A total of 271 U.S. triennial firms were inspected during 2005. Of these, 147 (54 percent) firms conducted audits that included deficiencies. For these firms, the

[9] Actual field dates are disclosed in triennial inspection reports, so computations of the mean number of field days and the mean number of days from field-to-report are computed using actual days.

mean number of days in field work was six days, while the mean number of days from field-to-report was 312. No audit deficiencies were identified in audits conducted by 124 (46 percent) of the 271 firms. For these firms, the mean number of days in field work was four days, while the mean number of days from field-to-report was 150.

2006 Triennial Inspections. A total of 148 U.S. triennial firms were inspected during 2006. Of these, 83 (56 percent) firms conducted audits that included deficiencies. The mean number of days in field work was nine days, while the mean number of days from field-to-report was 515. No audit deficiencies were identified in audits conducted by 65 (44 percent) of the 148 firms. For these firms, the mean number of days in field work was six days, while the mean number of days from field-to-report was 199.

2007 Triennial Inspections. A total of 180 U.S. triennial firms were inspected during 2007. Of these, 64 (36 percent) firms conducted audits that included deficiencies. The mean number of days in field work was seven days, while the mean number of days from field-to-report was 534. No audit deficiencies were identified in audits conducted by 116 (64 percent) of the 180 firms. For these firms, the mean number of days in field work was five days, while the mean (median) number of days from field-to-report was 205.

2008 Triennial Inspections. A total of 193 U.S. triennial firms were inspected during 2008. Of these, 54 (28 percent) firms conducted audits that included deficiencies. The mean number of days in field work was seven days, while the mean number of days from field-to-report was 528. No audit deficiencies were identified in audits conducted by 139 (72 percent) of the 193 firms. For these firms, the mean number of days in field work was five days, while the mean number of days from field-to-report was 152.

2009 Triennial Inspections. A total of 177 U.S. triennial firms were inspected during 2009. Of these, 63 (36 percent) firms conducted audits that included deficiencies. The mean number of days in field work was eight days, while the mean number of days from field-to-report was 398. No audit deficiencies were identified in audits conducted by 114 (64 percent) of the 177 firms. For these firms, the mean number of days in field work was five days, while the mean number of days from field-to-report was 164.

2010 Triennial Inspections.[10] A total of 82 triennial firms were inspected during 2010. Of these, eight (10 percent) firms conducted audits that included deficiencies. The mean number of days in field work was eight days, while the mean number of days from field-to-report was 294. No audit deficiencies were identified in audits conducted by 74 (90 percent) of the 82 firms. For these firms, the mean number of days in field work was five days, while the mean number of days from field-to-report was 166.

2004–2010 Triennial Inspections. During each of the seven years, the inspection team spent more days on average in field work at firms where audit deficiencies were reported. For each inspection year, the mean days from field-to-report were significantly higher for firms where audit deficiencies were reported. This makes sense, given that more accounting and auditing issues would need to be resolved with firms where deficiencies were identified. Based on all U.S. triennial firms inspected, the number of mean days from field-to-report was 398 for inspections conducted during 2004; this statistic declined in subsequent years (2005-2009).

Since 2004, the number of mean days from field-to-report has declined in three of the subsequent years for firms with audit deficiencies, while this same statistic has declined in all subsequent years for firms with no audit deficiencies. However, it still took more than 17 months to issue reports on U.S. triennial firms with audit deficiencies that were inspected during 2006–2008, the third, fourth, and fifth years of U.S. triennial inspections and more than 13 months on firms inspected in 2009 (sixth inspection year). Given the extended time lapse that still exists, any observations about the results for 2010 inspections should be reserved until

[10] This analysis includes only those triennial inspection reports issued by the PCAOB through June 9, 2011, so not all reports for 2010 U.S. triennial inspections are included in the statistics as reported. For this reason, any observations about 2010 results (number of firms with audit deficiencies, reductions in time lags, etc.) should be made with caution.

additional time has passed and a subsequent analysis of inspection reports has been made. The mean number of days from field-to-report over the seven-year period for the 1,141 U.S. triennial firms is depicted in **Figure 1**. In summary, the PCAOB has made some progress toward reducing the time lapse in issuing its inspections reports on triennial accounting firms.

Annual—U.S. National Accounting Firms

During 2004-2010, seven national accounting firms were subject to annual inspections. They include: BDO Seidman LLP (BDO), Crowe, Chizek and Company LLC (Crowe Chizek *or* CCC), Grant Thornton LLP (Grant Thornton *or* GT), MaloneBailey LLP[11] (MaloneBailey *or* MB), McGladrey & Pullen LLP (McGladrey & Pullen *or* M&P), Moore & Associates Chartered (Moore & Associates *or* M&A), and Tait Weller & Baker LLP (Tait Weller & Baker *or* TW&B). **Table 2** summarizes the date of the inspection report, the number of audits identified as having audit deficiencies, the number of total days in field work, and the number of days from field-to-report (PCAOB 2005b, 2005f, 2006c, 2006d, 2006e, 2006g, 2006h, 2006i, 2007d, 2007e, 2007i, 2007n, 2008b, 2008c, 2008f, 2008i, 2008k, 2008l, 2009a, 2009b, 2009e, 2009h, 2009i, 2010a, 2010b, 2010e, 2010g, 2010h, 2010j, and 2011f).[12] These statistics are discussed below based on the year of inspections.

---

[11] Formerly Malone & Bailey, PC [included in triennial statistics for *2004* inspection (PCAOB Inspection Report No. 104-2005-055 dated August 29, 2005) and *2007* inspection (PCAOB Inspection Report No. 104-2009-034 dated February 26, 2009)].

[12] For inspection reports on U.S. annual national accounting firms, the actual days of field work for beginning and ending months are not disclosed. For example, the first national inspection report issued by the PCAOB was on BDO's 2004 inspection (Inspection Report No. 104-2005-118 dated November 17, 2005). Field work was performed from May 2004 to July 2004. The number of days of field work was computed based on the first day of the month that field work was begun and the last day of the month that field work was concluded. Field work for BDO was computed using May 1, 2004 to July 31, 2004 to yield

2004 Annual Inspections (four U.S. national firms). Based on 2004 inspections, 11 audits conducted by BDO, Crowe Chizek, and McGladrey & Pullen and 15 audits conducted by Grant Thornton were identified as having audit deficiencies. The number of days spent in field work ranged from 61 days (CCC) to 215 days (GT). The number of days from field-to-report ranged from 295 days (GT) to 475 days (BDO).

2005 Annual Inspections (four U.S. national firms). Based on 2005 inspections, seven audits conducted by BDO, eight audits conducted by Crowe Chizek, 12 audits conducted by Grant Thornton, and five audits conducted by McGladrey & Pullen were identified as having audit deficiencies. The number of days spent in field work ranged from 91 days (CCC) to 276 days (GT). The number of days from field-to-report ranged from 304 days (GT) to 396 days (BDO).

2006 Annual Inspections (four U.S. national firms). Based on 2006 inspections, 11 audits conducted by BDO, three audits conducted by Crowe Chizek, eight audits conducted by Grant Thornton, and one audit conducted by McGladrey & Pullen were identified as having audit deficiencies. The number of days spent in field work ranged from 122 days (CCC and M&P) to 276 days (GT). The number of days from field-to-report ranged from 137 days (BDO) to 299 days (CCC).

2007 Annual Inspections (five U.S. national firms). Based on 2007 inspections, five audits conducted by BDO, Grant Thornton, and McGladrey & Pullen and two audits conducted by Crowe Chizek were identified as having audit deficiencies. No audit deficiencies were identified in audits conducted by Tait

---

92 days of field work. Using this method yields the maximum number of field work days.

The number of days from the last date in the field to the report date was based on the last day of the month that field work was concluded and the actual date that the inspection report was issued. The number of days to the report date for BDO was computed using July 31, 2004 to November 17, 2005 to yield 475 days from field-to-report. Using this method yields the most conservative or minimum number of report days.

Weller & Baker. The number of days spent in field work ranged from four days (TW&B) to 275 days (GT). The number of days from field-to-report ranged from 96 days (GT) to 241 days (CCC).

2008 Annual Inspections (seven U.S. national firms). Based on 2008 inspections, six audits conducted by BDO, one audit conducted by Crowe Chizek, nine audits conducted by Grant Thornton, three audits conducted by MaloneBailey, seven audits conducts by McGladrey & Pullen, and eight audits conducted by Moore & Associates were identified as having audit deficiencies. No audit deficiencies were identified in audits conducted by Tait Weller & Baker. The number of days spent in field work ranged from five days (TW&B) to 184 days (BDO and GT). The number of days from field-to-report ranged from 76 days (TW&B) to 580 days (M&A).

2009 Annual Inspections (six U.S. national firms). Based on 2009 inspections, eight audits conducted by BDO, two audits conducted by Crowe Chizek, five audits conducted by Grant Thornton, six audits conducted by MaloneBailey, and four audits conducted by McGladrey & Pullen were identified as having audit deficiencies. No audit deficiencies were identified in audits conducted by Tait Weller & Baker. The number of days spent in field work ranged from five days (TW&B) to 153 days (BDO and GT). The number of days from field-to-report ranged from 176 days (M&P) to 518 days (MB).

2004–2009 Annual—U.S. National Inspections. In most cases, more time was spent in field work over the six-year period, while the number of days from field-to-report declined across the national firms and over the four-year period in all but four instances (GT 2005, MB 2009, M&P 2005, and M&A 2008). Two exceptions worth noting include the field-to-report statistic on Moore and Associates for its 2008 inspection (580 days, > 19 months) and MaloneBailey for its 2009 inspection (518 days, > 17 months). The number of days from field-to-report over the six-year period for the national firms is depicted in **Figure 2**. In summary, the PCAOB has made significant progress in issuing its inspections reports on national accounting firms.

Annual—U.S. Big-4 Accounting Firms

Like national firms, Big-4 firms are subject to annual inspections. Inspections were conducted at these firms during 2003–2009. They include: Deloitte & Touche LLP (Deloitte *or* D&T), Ernst & Young LLP (E&Y), KPMG LLP (KPMG), and PricewaterhouseCoopers LLP (PwC). **Table 3** summarizes the date of the inspection report, the number of audits identified as having audit deficiencies, the number of total days in field work, and the number of days from field-to-report (PCAOB 2004c, 2004d, 2004e, 2004f, 2005c, 2005d, 2005e, 2005g, 2006f, 2006j, 2007f, 2007g, 2007h, 2007j, 2007k, 2007p, 2008d, 2008e, 2008g, 2008j, 2009c, 2009d, 2009f, 2009j, 2010c, 2010d, 2010f, and 2010i).[13] These statistics are discussed below based on the year of inspections.

2003 *Limited* Annual Inspections (four U.S. Big-4 firms).[14] Based on 2003 inspections, 20 audits conducted by Deloitte, 26 audits conducted by Ernst & Young, 22 audits conducted by KPMG, and 21 audits conducted by PwC were identified as having audit deficiencies. Field work was conducted from June 2003 (all firms) through January 2004 (PwC). The number of days spent in field work ranged from 214 days (D&T, E&Y, and KPMG) to 245 days (PwC). The number of days from field-to-report ranged from 209 days (PwC) to 240 days (D&T, E&Y, and KPMG).

2004 Annual Inspections (four U.S. Big-4 firms). Based on 2004 inspections, eight audits conducted by Deloitte, eight audits conducted by Ernst & Young, 19 audits conducted by

---

[13] For inspection reports on U.S. annual Big-4 accounting firms, the actual days of field work for the beginning and ending months are not disclosed. The same methodology as discussed in Footnote No.12 was used to compute days for Big-4 firms.

[14] "The focus of those first-year limited inspections was to conduct a baseline assessment of the firms' internal systems of quality control over auditing" (PCAOB 2004a, 8).

KPMG, and 30 audits conducted by PwC were identified as having audit deficiencies. The number of days spent in field work ranged from 153 days (KPMG) to 276 days (PwC). The number of days from field-to-report ranged from 291 days (PwC) to 334 days (KPMG).

2005 Annual Inspections (four U.S. Big-4 firms). Based on 2005 inspections, 17 audits conducted by Deloitte, 10 audits conducted by Ernst & Young, 11 audits conducted by KPMG, and nine audits conducted by PwC were identified as having audit deficiencies. The number of days spent in field work ranged from 153 days (E&Y) to 274 days (PwC). The number of days from field-to-report ranged from 259 days (PwC) to 396 days (D&T).

2006 Annual Inspections (four U.S. Big-4 firms). Based on 2006 inspections, eight audits conducted by Deloitte, eight audits conducted by Ernst & Young, seven audits conducted by KPMG, and six audits conducted by PwC were identified as having audit deficiencies. The number of days spent in field work ranged from 214 days (D&T and E&Y) to 304 days (PwC). The number of days from field-to-report ranged from 154 days (E&Y) to 233 days (PwC).

2007 Annual Inspections (four U.S. Big-4 firms). Based on 2007 inspections, nine audits conducted by Deloitte, two audits conducted by Ernst & Young, 10 audits conducted by KPMG, and six audits conducted by PwC were identified as having audit deficiencies. The number of days spent in field work ranged from 275 days (D&T and E&Y) to 306 days (KPMG and PwC). The number of days from field-to-report ranged from 121 days (E&Y) to 195 days (KPMG).

2008 Annual Inspections (four U.S. Big-4 firms). Based on 2008 inspections, seven audits conducted by Deloitte, eight audits conducted by Ernst & Young, nine audits conducted by KPMG, and six audits conducted by PwC were identified as having audit deficiencies. The number of days spent in field work ranged from 214 days (KPMG and PwC) to 275 days (D&T and E&Y). The number of days from field-to-report ranged from 138 days (D&T) to 229 days (KPMG).

2009 Annual Inspections (four U.S. Big-4 firms). Based on 2009 inspections, 15 audits conducted by Deloitte, five audits conducted by Ernst & Young, eight audits conducted by KPMG, and nine audits conducted by PwC were identified as having audit deficiencies. The number of days spent in field work ranged from 286 days (PwC) to 396 days (D&T and E&Y). The number of days from field-to-report ranged from 186 days (D&T) to 371 days (KPMG).

2003–2009 Annual—U.S. Big-4 Inspections. The Big-4 statistics mirror those reported for U.S. national firms. Generally, more time was spent in field work across the four firms, while the number of days from field-to-report declined across the firms and over the seven-year period. In most cases, the field-to-report statistic declined for U.S. Big-4 firms. However, this statistic increased significantly for all 2009 Big-4 inspections, ranging from 186 days (> 6 months) to 371 days (> 8 months). The number of days from field-to-report over the seven-year period for the Big-4 firms is depicted in **Figure 3**. In summary, the PCAOB has made significant progress in issuing its inspections reports on Big-4 accounting firms.

Non-U.S. (International) Triennial and Annual Accounting Firms

Non-U.S. triennial and annual accounting firms are subject to PCAOB inspections in the same manner as U.S. firms (PCAOB 2011c). Inspections were conducted at these firms during 2005–2010. Inspection reports were issued for 120 non-U.S. triennial firms[15] and one non-U.S. annual firm, KPMG LLP Canada (KPMG–Canada).[16] **Table 4** summarizes the year of the inspection

---

[15] Actual field dates are disclosed in non-U.S. triennial inspection reports, so computations of the mean number of field days and the mean number of days from field-to-report are computed using actual days.

[16] For inspection reports on the non-U.S. annual Big-4 accounting firm, the actual days of field work for the beginning and ending months are not disclosed. The same methodology as discussed in Footnote No. 12 was used to compute

report, the number (percent) of audit firms identified as having audit deficiencies, no audit deficiencies, and total non-U.S. firms, the mean number of days in field work, and the number of days from field-to-report (PCAOB 2005a, 2006b, 2007c, 2007l, 2007m, 2008h, 2008m, 2009g, 2009k, 2010k, 2011g, and 2011h).[17] These statistics are discussed below based on the year of inspections.

Non-U.S. Triennial Accounting Firms

2005 Non-U.S. (International) Triennial Inspections. Two non-U.S. triennial firms were inspected during 2005. Of these, one (50 percent) firm conducted audits that included deficiencies. The mean number of days in field work was 15 days, while the mean number of days from field-to-report was 1,038. No audit deficiencies were identified in audits conducted by one (50 percent) of the two firms. For this firm, the mean number of days in field work was 17 days, while the mean number of days from field-to-report was 370.

2006 Non-U.S. (International) Triennial Inspections. Ten non-U.S. triennial firms were inspected during 2006. Of these, 10 (100 percent) firms conducted audits that included deficiencies. The mean number of days in field work was 33 days, while the mean number of days from field-to-report was 1,145.

2007 Non-U.S. (International) Triennial Inspections. A total of 42 non-U.S. triennial firms were inspected during 2007. Of these, 19 (45 percent) firms conducted audits that included deficiencies. The mean number of days in field work was 14 days,

---

days for the non-U.S. annual Big-4 firm. (Note that other non-U.S. Big-4 accounting firms were inspected in 2006, 2007, and 2009, but these firms were non-U.S. *triennial* Big-4 firms.)

[17] This analysis includes only those non-U.S. triennial inspection reports issued by the PCAOB through June 9, 2011, so not all reports for 2010 non-U.S. triennial inspections are included in the statistics as reported. For this reason, any observations about 2010 results (number of firms with audit deficiencies, reductions in time lags, etc.) should be made with caution.

while the mean number of days from field-to-report was 877. No audit deficiencies were identified in audits conducted by 23 (55 percent) of the 42 firms. For these firms, the mean number of days in field work was 11 days, while the mean number of days from field-to-report was 548.

2008 Non-U.S. (International) Triennial Inspections. A total of 27 non-U.S. triennial firms were inspected during 2008. Of these, 14 (52 percent) firms conducted audits that included deficiencies. The mean number of days in field work was nine days, while the mean number of days from field-to-report was 691. No audit deficiencies were identified in audits conducted by 13 (48 percent) of the 27 firms. For these firms, the mean number of days in field work was 10 days, while the mean number of days from field-to-report was 711.

2009 Non-U.S. (International) Triennial Inspections. A total of 33 non-U.S. triennial firms were inspected during 2009. Of these, 26 (79 percent) firms conducted audits that included deficiencies. The mean number of days in field work was eight days, while the mean number of days from field-to-report was 417. No audit deficiencies were identified in audits conducted by seven (21 percent) of the 33 firms. For these firms, the mean number of days in field work was nine days, while the mean number of days from field-to-report was 402.

2010 Non-U.S. (International) Triennial Inspections. Six non-U.S. triennial firms were inspected during 2010. Of these, five (83 percent) firms conducted audits that included deficiencies. The mean number of days in field work was five days, while the mean number of days from field-to-report was 374. No audit deficiencies were identified in audits conducted by one (17 percent) of the six firms. For this firm, the mean number of days in field work was one day, while the mean number of days from field-to-report was 218.

Non-U.S. Annual Accounting Firm

2005 Non-U.S. (International) Annual Inspection. One (100 percent) non-U.S. annual firm, KPMG–Canada, was inspected during 2005, where audit deficiencies were identified. The mean number of days in field work was 183 days, while the mean number of days from field-to-report was 511.

2006 Non-U.S. (International) Annual Inspection. One (100 percent) non-U.S. annual firm, KPMG–Canada, was inspected during 2006, where audit deficiencies were identified. The mean number of days in field work was 183 days, while the mean number of days from field-to-report was 384.

2007 Non-U.S. (International) Annual Inspection. One (100 percent) non-U.S. annual firm, KPMG–Canada, was inspected during 2007, where audit deficiencies were identified. The mean number of days in field work was 183 days, while the mean number of days from field-to-report was 367.

2008 Non-U.S. (International) Annual Inspection. One (100 percent) non-U.S. annual firm, KPMG–Canada, was inspected during 2008, where audit deficiencies were identified. The mean number of days in field work was 183 days, while the mean number of days from field-to-report was 199.

2005–2010 Non-U.S. (International) Triennial and Annual Inspections. In some respects, the non-U.S. triennial statistics differ from those reported for U.S. triennial, national, and Big-4 firms. Unlike the U.S. triennial firms, about the same number of field work days were reported for firms with audit deficiencies as were reported for firms with no audit deficiencies. In most cases, the number of days from field-to-report declined across the firms and over the six-year period. The number of days from field-to-report over the six-year period for the non-U.S. firms is depicted in **Figure 4**. In summary, the PCAOB has made significant progress in issuing its inspections reports on non-U.S. triennial and annual firms.

CONCLUSIONS

Section 104 of the Sarbanes-Oxley Act (USHR 2002) requires the PCAOB to conduct inspections of each registered public accounting firm. Critics have called for more timely disclosure of PCAOB inspection reports (Reilly 2006; Roybark 2006, 2009; Turner 2006).

Roybark (2009) analyzed the 558 inspections reports issued by the PCAOB during 2004-2007 (December 31) to determine the time lags based on days from field-to-report. During its first year of triennial inspections (2004), the mean number of days from field-to-report was 416 for firms where audit deficiencies were reported. For 2004 annual inspections, the mean number of days ranged from 295 to 475 for national firms and 291 to 334 for Big-4 firms. And while some improvement on the timeliness of inspections reports was originally reported, improvements reported for 2007 inspections dissipated once additional inspection reports for 2007 were subsequently issued during 2008–2010.

So has the PCAOB actually improved its Section 104 reporting by issuing its inspection reports in a more timely manner? To answer this question, 1,323 triennial and annual inspection reports issued during 2004-2011 (June 9) were analyzed based on the time lag from the last date in the field to the issuance date of the inspection reports (field-to-report) to determine if the time lapse has improved since the Board issued its first inspection reports in 2004.

The mean number of days for field-to-report for triennial inspections with no audit deficiencies have improved, but the mean number of days for field-to-report for triennial inspections with audit deficiencies remains high at 312 days (> 10 months), 515 days (> 17 months), and 534 days (> 17 months) during 2005-2007. While the same trends were found for 2008 inspections of triennial firms with audit deficiencies [mean field-to-report―528 days (> 17 months)], the results for 2009 inspections show significant improvements [firms with audit deficiencies―398 days (> 13 months) and firms with no audit deficiencies―164 days (> five months)]; although, some reports for 2009 inspections still may not have been issued as of June 9, 2011. In most cases, the number of field-to-report days has declined for U.S. annual national firms, U.S. annual Big-4 firms, and non-U.S. triennial and annual firms. One exception worth noting is the significant increase in the field-to-report statistic for the 2009 inspections of the U.S. Big-4 firms, ranging from 186 days (> six months) to 371 days (> eight months). One caveat should be added—this analysis includes only those triennial inspection reports issued by the PCAOB through June 9, 2011, so it is reasonable to assume that not all reports for 2010 U.S. triennial inspections are included in the statistics reported. For this reason, any observations about 2010 results (number of firms with audit deficiencies, reductions in time lags, etc.) should be made with caution.

Another exception worth noting is that inspection reports issued on triennial firms have higher field-to-report time lags than national or Big-4 firms. It seems counter-intuitive that inspection reports for triennial firms would have higher lapses, given that these firms are smaller and represent fewer public audit clients with less complex accounting and auditing issues, and where significantly less field time was spent by the PCAOB inspection team. Perhaps public criticism motivated the Board to prioritize the issuance of annual inspections reports over triennial reports.

The PCAOB is charged with an extremely important mission, but one thorny issue that the Board has not fully resolved is the time lapses between its Section 104 inspections and the issuance of the inspection reports. While most pundits would agree that the PCAOB got off to a slow start in its inspection reporting process and that the Board should continue to reduce the time lags for issuing its inspection reports, the results clearly indicate that the Board has made progress concerning its public disclosure responsibilities. However, the PCAOB's added oversight of broker-dealer and issuer engagements will pose new challenges and pressures on the Board to manage its resources while providing transparent and timely information in fulfilling its Section 104 reporting responsibilities. Nevertheless, the PCAOB has improved its Section 104 reporting by issuing its inspection reports in a more timely manner.

REFERENCES

Allen, Robert D., Dana R. Hermanson, Thomas M. Kozloski, and Robert J. Ramsay (2006). Auditor Risk Assessment: Insights from the Academic Literature. *Accounting Horizons* 20(2) (June): 157-177.

Carmichael, Douglas R. (2004). The PCAOB and the Social Responsibility of the Independent Auditor. *Accounting Horizons* 18(2) (June): 127-133.

Financial Accounting Standards Board (FASB), 1980. Qualitative Characteristics of Accounting Information. Statement of Financial Accounting Concepts No. 2. Financial Accounting Standards Board, Stanford, CT.

Public Company Accounting Oversight Board (PCAOB) (2004a). Testimony of William J. McDonough, Chairman, PCAOB Before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Committee on Financial Services, United States House of Representatives. 24 June, *PCAOB*: Washington, D.C.

_____. (2004b). Public Company Accounting Oversight Board 2003 Annual Report – Restoring Confidence. June, *PCAOB*: Washington, D.C.

_____. (2004c). Report on 2003 Limited Inspection of Deloitte & Touche LLP (104-2004-002). 26 August, *PCAOB*: Washington, D.C.

_____. (2004d). Report on 2003 Limited Inspection of Ernst & Young LLP (104-2004-03). 26 August, *PCAOB*: Washington, D.C.

_____. (2004e). Report on 2003 Limited Inspection of KPMG LLP (104-2004-004). 26 August, *PCAOB*: Washington, D.C.

_____. (2004f). Report on 2003 Limited Inspection of PricewaterhouseCoopers LLP (104-2004-005). 26 August, *PCAOB*: Washington, D.C.

_____. (2005a). Reports on Inspections (104-2005-001—104-2005-173). 2005, *PCAOB*: Washington, D.C.

_____. (2005b). Report on 2004 Inspection of BDO Seidman, LLP (104-2005-118). 17 November, *PCAOB*: Washington, D.C.

_____. (2005c). Report on 2004 Inspection of Deloitte & Touche LLP (104-2005-089). 6 October, *PCAOB*: Washington, D.C.

_____. (2005d). Report on 2004 Inspection of Ernst & Young LLP (104-2005-119). 17 November, *PCAOB*: Washington, D.C.

_____. (2005e). Report on 2004 Inspection of KPMG LLP (104-2005-088). 29 September, *PCAOB*: Washington, D.C.

_____. (2005f). Report on 2004 Inspection of McGladrey & Pullen, LLP (104-2005-138). 30 November, *PCAOB*: Washington, D.C.

_____. (2005g). Report on 2004 Inspection of PricewaterhouseCoopers LLP (104-2005-120). 17 November, *PCAOB*: Washington, D.C.

_____. (2005h). Speech by Board Member Daniel L. Goeltzer at The Colorado Society of CPAs 2005 SEC Conference. 12 December, *PCAOB*: Washington, D.C.

_____. (2006a). Amendments To Board Rules Relating To Inspections. (PCAOB Release No. 2006-008). 19 December, *PCAOB*: Washington, D.C.

_____. (2006b). Reports on Inspections (104-2006-001—104-2006-208). 2006, *PCAOB*: Washington, D.C.

_____. (2006c). Report on 2005 Inspection of BDO Seidman, LLP (104-2006-200). 30 November, *PCAOB*: Washington, D.C.

_____. (2006d). Report on 2004 Inspection of Crowe Chizek and Company LLC (104-2006-001). 19 January, *PCAOB*: Washington, D.C.

_____. (2006e). Report on 2005 Inspection of Crowe Chizek and Company LLC (104-2006-201). 30 November, *PCAOB*: Washington, D.C.

_____. (2006f). Report on 2005 Inspection of Deloitte & Touche LLP (104-2006-202). 30 November, *PCAOB*: Washington, D.C.

_____. (2006g). Report on 2004 Inspection of Grant Thornton LLP (104-2006-002). 19 January, *PCAOB*: Washington, D.C.

_____. (2006h). Report on 2005 Inspection of Grant Thornton LLP (104-2006-203). 30 November, *PCAOB*: Washington, D.C.

_____. (2006i). Report on 2005 Inspection of McGladrey & Pullen, LLP (104-2006-204). 30 November, *PCAOB*: Washington, D.C.

_____. (2006j). Report on 2005 Inspection of PricewaterhouseCoopers LLP (104-2006-205). 14 December, *PCAOB*: Washington, D.C.

_____. (2006k). Testimony of Chairman Mark W. Olson Before the Committee on Financial Services, United States House of Representatives. 19 September, *PCAOB*: Washington, D.C.

_____. (2007a). Public Company Accounting Oversight Board 2006 Annual Report – Strengthening Investor Confidence. March, *PCAOB*: Washington, D.C.

_____. (2007b). Public Company Accounting Oversight Board Bylaws and Rules–Inspections. 9 November, *PCAOB*: Washington, D.C.

_____. (2007c). Reports on Inspections (104-2007-001—104-2007-170). 2007, *PCAOB*: Washington, D.C.

_____. (2007d). Report on 2006 Inspection of BDO Seidman, LLP (104-2007-065). 16 May, *PCAOB*: Washington, D.C.

_____. (2007e). Report on 2006 Inspection of Crowe Chizek and Company LLC (104-2007-116). 24 September, *PCAOB*: Washington, D.C.

_____. (2007f). Report on 2006 Inspection of Deloitte & Touche LLP (104-2007-086). 14 June, *PCAOB*: Washington, D.C.

_____. (2007g). Report on 2005 Inspection of Ernst & Young LLP (104-2007-001). 11 January, *PCAOB*: Washington, D.C.

_____. (2007h). Report on 2006 Inspection of Ernst & Young LLP (104-2007-064). 2 May, *PCAOB*: Washington, D.C.

_____. (2007i). Report on 2006 Inspection of Grant Thornton LLP (104-2007-088). 28 June, *PCAOB*: Washington, D.C.

_____. (2007j). Report on 2005 Inspection of KPMG LLP (104-2007-002). 11 January, *PCAOB*: Washington, D.C.

_____. (2007k). Report on 2006 Inspection of KPMG LLP (104-2007-106). 26 July, *PCAOB*: Washington, D.C.

_____. (2007l). Report on 2005 Inspection of KPMG LLP Canada (104-2007-025). 22 February, *PCAOB*: Washington, D.C.

_____. (2007m). Report on 2006 Inspection of KPMG LLP Canada (104-2007-128). 18 October, *PCAOB*: Washington, D.C.

_____. (2007n). Report on 2006 Inspection of McGladrey & Pullen, LLP (104-2007-087). 14 June, *PCAOB*: Washington, D.C.

_____. (2007o). Report on the PCAOB's 2004, 2005, AND 2006 Inspections of Domestic Triennially Inspected Firms. (PCAOB Release No. 2007-010). 22 October, *PCAOB*: Washington, D.C.

_____. (2007p). Report on 2006 Inspection of PricewaterhouseCoopers LLP (104-2007-129). 18 October, *PCAOB*: Washington, D.C.

_____. (2007q). Retaining Rule 4003(d) Relating To Inspection Frequency (PCAOB Release No. 2007-006). 24 May, *PCAOB*: Washington, D.C.

_____. (2008a). Registered Public Accounting Firms With the Public Company Accounting Oversight Board—as of Friday, June 27, 2008. 27 June, *PCAOB*: Washington, D.C.

_____. (2008b). Report on 2007 Inspection of BDO Seidman, LLP (104-2008-069). 6 May, *PCAOB*: Washington, D.C.

_____. (2008c). Report on 2007 Inspection of Crowe Chizek and Company LLC (104-2008-124). 27 June, *PCAOB*: Washington, D.C.

_____. (2008d). Report on 2007 Inspection of Deloitte & Touche LLP (104-2008-070). 19 May, *PCAOB*: Washington, D.C.

_____. (2008e). Report on 2007 Inspection of Ernst & Young LLP (104-2008-067). 29 April, *PCAOB*: Washington, D.C.

_____. (2008f). Report on 2007 Inspection of Grant Thornton LLP (104-2008-046). 4 April, *PCAOB*: Washington, D.C.

_____. (2008g). Report on 2007 Inspection of KPMG LLP (104-2008-146). 12 August, *PCAOB*: Washington, D.C.

_____. (2008h). Report on 2007 Inspection of KPMG LLP Canada (104-2008-174). 30 September, *PCAOB*: Washington, D.C.

_____. (2008i). Report on 2007 Inspection of McGladrey & Pullen, LLP (104-2008-068). 29 April, *PCAOB*: Washington, D.C.

_____. (2008j). Report on 2007 Inspection of PricewaterhouseCoopers LLP (104-2008-125). 27 June, *PCAOB*: Washington, D.C.

_____. (2008k). Report on 2007 Inspection of Tait, Weller & Baker, LLP (104-2008-095). 10 June, *PCAOB*: Washington, D.C.

_____. (2008l). Report on 2008 Inspection of Tait, Weller & Baker, LLP (104-2008-246). 26 November, *PCAOB*: Washington, D.C.

_____. (2008m). Reports on Inspections (104-2008-001—104-2008-259). 2008, *PCAOB*: Washington, D.C.

_____. (2009a). Report on 2008 Inspection of BDO Seidman, LLP (104-2009-116). 9 July, *PCAOB*: Washington, D.C.

_____. (2009b). Report on 2008 Inspection of Crowe Chizek and Company LLC (104-2009-063). 6 May, *PCAOB*: Washington, D.C.

_____. (2009c). Report on 2008 Inspection of Deloitte & Touche LLP (104-2009-051). 16 April, *PCAOB*: Washington, D.C.

_____. (2009d). Report on 2008 Inspection of Ernst & Young LLP (104-2009-051). 16 April, *PCAOB*: Washington, D.C.

_____. (2009e). Report on 2008 Inspection of Grant Thornton LLP (104-2009-117). 9 July, *PCAOB*: Washington, D.C.

_____. (2009f). Report on 2008 Inspection of KPMG LLP (104-2009-096). 16 June, *PCAOB*: Washington, D.C.

_____. (2009g). Report on 2008 Inspection of KPMG LLP Canada (104-2009-052). 16 April, *PCAOB*: Washington, D.C.

_____. (2009h). Report on 2008 Inspection of Malone & Bailey, PC (104-2009-053). 16 April, *PCAOB*: Washington, D.C.

_____. (2009i). Report on 2008 Inspection of McGladrey & Pullen, LLP (104-2009-064). 6 May, *PCAOB*: Washington, D.C.

_____. (2009j). Report on 2008 Inspection of PricewaterhouseCoopers LLP (104-2009-038). 25 March, *PCAOB*: Washington, D.C.

_____. (2009k). Reports on Inspections (104-2009-001—104-2009-214). 2008, *PCAOB*: Washington, D.C.

_____. (2010a). Report on 2009 Inspection of BDO Seidman, LLP (104-2010-129). 12 August, *PCAOB*: Washington, D.C.

_____. (2010b). Report on 2009 Inspection of Crowe Chizek and Company LLC (104-2010-074). 10 June, *PCAOB*: Washington, D.C.

_____. (2010c). Report on 2009 Inspection of Deloitte & Touche LLP (104-2010-050). 4 May, *PCAOB*: Washington, D.C.

_____. (2010d). Report on 2009 Inspection of Ernst & Young LLP (104-2010-091). 2 July, *PCAOB*: Washington, D.C.

_____. (2010e). Report on 2009 Inspection of Grant Thornton LLP (104-2010-130). 12 August, *PCAOB*: Washington, D.C.

_____. (2010f). Report on 2009 Inspection of KPMG LLP (104-2010-132). 5 October, *PCAOB*: Washington, D.C.

_____. (2010g). Report on 2009 Inspection of McGladrey & Pullen, LLP (104-2010-081). 24 June, *PCAOB*: Washington, D.C.

_____. (2010h). Report on 2008 Inspection of Moore & Associates, Chartered (104-2010-097). 2 July, *PCAOB*: Washington, D.C.

_____. (2010i). Report on 2009 Inspection of PricewaterhouseCoopers LLP (104-2010-131). 12 August, *PCAOB*: Washington, D.C.

_____. (2010j). Report on 2009 Inspection of Tait, Weller & Baker, LLP (104-2010-047). 31 March, *PCAOB*: Washington, D.C.

_____. (2010k). Reports on Inspections (104-2010-001—104-2010-175). 2010, *PCAOB*: Washington, D.C.

_____. (2011a). Public Company Accounting Oversight Board–Adoption of Final Rule on Interim Inspection Program for Auditors of Brokers and Dealers. 14 June, *PCAOB*: Washington, D.C.

_____. (2011b). Public Company Accounting Oversight Board–Inspected Firms—as of January 18, 2011. 12 June, *PCAOB*: Washington, D.C.

_____. (2011c). Public Company Accounting Oversight Board–International. 2 August, *PCAOB*: Washington, D.C.

_____. (2011d). Public Company Accounting Oversight Board–Proposed Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports. 12 July, *PCAOB*: Washington, D.C.

_____. (2011e). Public Company Accounting Oversight Board–Registered Public Accounting Firms—as of July 29, 2011 (non-U.S. registered firms). 2 August, *PCAOB*: Washington, D.C.

_____. (2011f). Report on 2009 Inspection of MaloneBailey, LLP (104-2011-037). 24 February, *PCAOB*: Washington, D.C.

_____. (2011g). Reports on Inspections (104-2011-001—104-2011-045). 2011 (bearing a 2010 report date), *PCAOB*: Washington, D.C.

_____. (2011h). Reports on Inspections (104-2011-001—104-2011-079). 2011 (bearing a 2011 report date), *PCAOB*: Washington, D.C.

Reilly, David (2006). Moving the Market – Tracking the Numbers / Outside Audit: Oversight Board Criticizes Deloitte Over Audits. *The Wall Street Journal* 5 December: C.3.

Roybark, Helen M. (2006). An Analysis of Audit Deficiencies Based On PCAOB Inspection Reports Issued During 2005. *Journal of Accounting, Ethics & Public Policy* 6(2): 125-154.

_____. (2009). PCAOB Inspection Report Card—An Improved Grade on Timeliness. *The CPA Journal* 79(2) (February): 2-6.

Sutton, Michael H. (2002). Financial Reporting at a Crossroads. *Accounting Horizons* 16(4) (December): 319-328.

Turner, Lynn E. (2006). Learning from Accounting History: Will We Get It Right This Time? *Issues in Accounting Education* 21(4) (November) 383-407.

United States Securities and Exchange Commission (USSEC) (2010). *Amendments to the Informal and Other Procedures,* *Rules of Organization and Program Management, and Rules of Practice,; Interim Commission Review of Public Company Accounting Oversight Board Inspection Reports and Regulation P*. [Issue Date: July 26, 2010, Release No. 34-62575 (www.sec.gov/rules/final/2010/34-62575.pdf) and Retrieval Date: August 3, 2011)]. Washington, D.C.: Government Printing Office.

United States Securities and Exchange Commission (USSEC) (2011). *Broker-Dealer Reports—Proposed Rule.* [Issue Date: June 15, 2011, Release No. 34-64676 (www.sec.gov/rules/proposed/2011/34-64676.pdf) and Retrieval Date: August 8, 2011)]. Washington, D.C.: Government Printing Office.

United States House of Representatives, Committee on Financial Services (USHR) (2002). Sarbanes-Oxley Act of 2002. *Public Law No. 107-204*. Washington, D. C.: Government Printing Office.

United States House of Representatives, Committee on Financial Services (USHR) (2010). Dodd-Frank Wall Street Reform and Consumer Protection Act. *Public Law No. 111-203*. Washington, D. C.: Government Printing Office.

United States *v.* Arthur Young & Company, 465 U.S. 805 (1984).

TABLE 1
PCAOB Inspections: U.S. Local and Regional Triennial Accounting Firms
Field Work Performed and Inspection Reports Issued: 2004–2010

Year of U.S. Triennial Inspections	Triennial firms with *audit deficiencies* reported	Triennial firms with *no audit deficiencies* reported	Total triennial firms inspected	Inspection Reports Issued (Years) [a]
2004 Inspections of triennial accounting firms (%)	**79 (88%)**	**11 (12%)**	**90 (100%)**	**2005 – 2007**
Mean number of days in field	8	5	7	
Mean number of days from last date in field to report date	416	272	398	
2005 Inspections of triennial accounting firms (%)	**147 (54%)**	**124 (46%)**	**271 (100%)**	**2005 – 2007**
Mean number of days in field	6	4	5	
Mean number of days from last date in field to report date	312	150	238	
2006 Inspections of triennial accounting firms (%)	**83 (56%)**	**65 (44%)**	**148 (100%)**	**2006 – 2009**
Mean number of days in field	9	6	7	
Mean number of days from last date in field to report date	515	199	376	
2007 Inspections of triennial accounting firms (%)	**64 (36%)**	**116 (64%)**	**180 (100%)**	**2007 – 2010**
Mean number of days in field	7	5	6	
Mean number of days from last date in field to report date	534	205	322	
2008 Inspections of triennial accounting firms (%)	**54 (28%)**	**139 (72%)**	**193 (100%)**	**2008 – 2011**
Mean number of days in field	7	5	6	
Mean number of days from last date in field to report date	528	152	257	
2009 Inspections of triennial accounting firms (%)	**63 (36%)**	**114 (64%)**	**177 (100%)**	**2009 – 2011**
Mean number of days in field	8	5	6	
Mean number of days from last date in field to report date	398	164	247	
2010 Inspections of triennial accounting firms (%)	**8 (10%)**	**74 (90%)**	**82 (100%)**	**2010 – 2011**
Mean number of days in field	8	5	6	
Mean number of days from last date in field to report date	294	166	179	
2004 – 2010 Inspections of triennial accounting firms (%)	**498 (44%)**	**643 (56%)**	**1,141 (100%)**	**2005 – 2011**
Mean number of days in field	13	6	9	
Mean number of days from last date in field to report date	430	172	285	

Note[a]: Analysis includes 1,141 inspection reports issued to U.S. triennial firms from January 21, 2005 through June 9, 2011.

Source: PCAOB Inspection Reports U.S. Triennial (N = 1,141) (N = 1,327 – 4 = 1,323): (1) 2004 (n = 4) Nos. 104-2004-002—104-2004-005; (2) 2005 (n = 173) Nos. 104-2005-001—104-2005-173; (3) 2006 (n = 208) Nos. 104-2006-001—104-2006-208 (Nos. 77, 78, and 105 were not issued); (4) 2007 (n = 170) Nos. 104-2007-001—104-2007-170 (No. 130 was not issued); (5) 2008 (n = 259) 104-2008-001—104-2008-259; (6) 2009 (n = 214) 104-2009-001—104-2009-214; (7) 2010 (n = 220) 104-2010-001—104-2010-175 & 104-2011-001—104-2011-045; (8) 2011 (as of June 9 n = 79) 104-2011-001—104-2011-079.

TABLE 2

PCAOB Inspections: U.S. National Annual Accounting Firms

Field Work Performed and Inspection Reports Issued: 2004–2009

Name of National Accounting Firm ➜	BDO Seidman LLP	Crowe Chizek and Company LLC	Grant Thornton LLP	Malone-Bailey LLP	McGladrey & Pullen LLP	Moore & Associates Chartered	Tait Weller & Baker LLP
Year of Annual Inspections	Report [a b]	Report [a b]	Report [a b]	Report [a b]	Report [a b]	Report [a b]	Report [a b]
2004 Inspections of annual firms	**11/17/05**	**01/19/06**	**01/19/06**		**11/30/05**		
Number of audits inspected with deficiencies	11	11	15		11		
Number of total days in field	92	61	215		92		
Number of days from last date in field to report date	475	385	295		335		
2005 Inspections of annual firms	**11/30/06**	**11/30/06**	**11/30/06**		**11/30/06**		
Number of audits inspected with deficiencies	7	8	12		5		
Number of total days in field	184	91	276		153		
Number of days from last date in field to report date	396	366	304		366		
2006 Inspections of annual firms	**05/16/07**	**09/24/07**	**06/28/07**		**06/14/07**		
Number of audits inspected with deficiencies	11	3	8		1		
Number of total days in field	245	122	276		122		
Number of days from last date in field to report date	137	299	149		197		
2007 Inspections annual firms	**05/06/08**	**06/27/08**	**04/04/08**		**04/29/08**		**06/10/08**
Number of audits inspected with deficiencies	5	2	5		5		0
Number of total days in field	122	123	275		123		4
Number of days from last date in field to report date	97	241	96		182		195
2008 Inspections annual firms	**07/09/09**	**05/06/09**	**07/09/09**	**04/16/09**	**05/06/09**	**07/02/10**	**11/26/08**
Number of audits inspected with deficiencies	6	1	9	3	7	8	0
Number of total days in field	184	92	184	8	153	60	5
Number of days from last date in field to report date	160	188	191	169	127	580	76
2009 Inspections annual firms	**08/12/10**	**06/10/10**	**08/12/10**	**02/24/11**	**06/24/10**		**03/31/10**
Number of audits inspected with deficiencies	8	2	5	6	4		0
Number of total days in field	153	122	153	12	122		5
Number of days from last date in field to report date	194	193	194	518	176		188

Note: Analysis includes 30 inspection reports issued to seven U.S. National firms from November 17, 2005 through June 9, 2011.

Note[a]: For some inspection reports on national accounting firms, the actual days of field work for the beginning and ending months are not disclosed. For example, the first national inspection report issued by the PCAOB was on BDO Seidman's 2004 inspection (Inspection Report No. 104-2005-118 dated November 17, 2005). In this inspection, field work was performed from May 2004 to July 2004. The number of days of field work was computed based on the first day of the month that field work was begun and the last day of the month that the field work was concluded. Field work for BDO Seidman was computed using May 1, 2004 to July 31, 2004 to yield 92 days of field work. Using this method yields the maximum number of field work days.

Note[b]: The number of days from the last date in the field to the report date was based on the last day of the month that field work was concluded and the actual date that the inspection report was issued. The number of days to the report date for BDO Seidman was computed using July 31, 2004 to November 17, 2005 to yield 475 days from the last date in the field to the actual report date. Using this method yields the most conservative or minimum number of report days.

Source: PCAOB Inspection Reports U.S. Annual National (N = 30) (1) BDO Nos. 104-2005-118, 104-2006-200, 104-2007-065, 104-2008-069, 104-2009-116, and 104-2010-129; (2) CCC Nos. 104-2006-001, 104-2006-201, 104-2007-116, 104-2008-124, 104-2009-063, and 104-2010-074; (3) GT Nos. 104-2006-002, 104-2006-203, 104-2007-088, 104-2008-046, 104-2009-117, and 104-2010-130; (4) MB Nos. 104-2009-053 and 104-2011-037; (5) M&P Nos. 104-2005-138, 104-2006-204, 104-2007-087, 104-2008-068, 104-2009-064, and 104-2010-081; (6) M&A No. 104-2010-097; and (7) TW&B Nos. 104-2008-095, 104-2008-246 and 104-2010-047.

TABLE 3
PCAOB Inspections: U.S. Big-4 Annual Accounting Firms
Field Work Performed and Inspection Reports Issued: 2003–2009

Name of U.S. Big-4 Accounting Firm ➜	Deloitte & Touche	Ernst & Young	KPMG	Pricewaterhouse-Coopers
Year of Annual Inspections	Report[a]	Report[a]	Report[a]	Report[a]
2003 Inspections of annual firms	**08/26/04**	**08/26/04**	**08/26/04**	**08/26/04**
Number of audits inspected with deficiencies	20	26	22	21
Number of total days in field	214	214	214	245
Number of days from last date in field to report date	240	240	240	209
2004 Inspections of annual firms	**10/06/05**	**11/17/05**	**09/29/05**	**11/17/05**
Number of audits inspected with deficiencies	8	8	19	30
Number of total days in field	214	184	153	276
Number of days from last date in field to report date	311	322	334	291
2005 Inspections of annual firms	**11/30/06**	**01/11/07**	**01/01/07**	**12/14/06**
Number of audits inspected with deficiencies	17	10	11	9
Number of total days in field	184	153	273	274
Number of days from last date in field to report date	396	377	308	259
2006 Inspections of annual firms	**06/14/07**	**05/02/07**	**07/16/07**	**10/18/07**
Number of audits inspected with deficiencies	8	8	7	6
Number of total days in field	214	214	245	304
Number of days from last date in field to report date	197	154	198	233
2007 Inspections of annual firms	**05/19/08**	**04/29/08**	**08/12/08**	**06/27/08**
Number of audits inspected with deficiencies	9	2	10	6
Number of total days in field	275	275	306	306
Number of days from last date in field to report date	172	121	195	149
2008 Inspections of annual firms	**04/16/09**	**05/21/09**	**06/16/09**	**03/25/09**
Number of audits inspected with deficiencies	7	8	9	6
Number of total days in field	275	275	214	214
Number of days from last date in field to report date	138	142	229	146
2009 Inspections of annual firms	**05/04/10**	**07/02/10**	**10/05/10**	**08/12/10**
Number of audits inspected with deficiencies	15	5	8	9
Number of total days in field	396	396	365	286
Number of days from last date in field to report date	186	245	371	286

Note: Analysis includes 28 inspection reports issued to four U.S. Big-4 firms from August 26, 2004 through June 9, 2011.

Note[a]: For inspection reports on Big-4 accounting firms, the actual days of field work for the beginning and ending months are not disclosed. For example, the first Big-4 inspection report issued by the PCAOB was on Deloitte & Touche's 2003 inspection (Inspection Report No. 104-2004-002 dated August 26, 2004). In this inspection, field work was performed from June 2003 to December 2003. The number of days of field work was computed based on the first day of the month that field work was begun and the last day of the month that the field work was concluded. Field work for Deloitte & Touche was computed using June 1, 2003 to December 31, 2003 to yield 214 days of field work. Using this method yields the maximum number of field work days.

Note[a]: The number of days from the last date in the field to report date was based on the last day of the month that field work was concluded and the actual date that the inspection report was issued. The number of days to report date for Deloitte & Touche was computed using December 31, 2003 to August 26, 2004 to yield 240 days from last date in field to actual report date. Using this method yields the most conservative or minimum number of report days.

Source: PCAOB Inspection Report U.S. Annual Big-4 (N = 28) (1) D&T Nos. 104-2004-002, 104-2005-089, 104-2006-202, 104-2007-086, 104-2008-070, 104-2009-051, and 104-2010-050; (2) E&Y Nos. 104-2004-003, 104-21005-119, 104-2007-001, 104-2007-064, 104-2008-067, 104-2009-069, and 104-2010-091; (3) KPMG Nos. 104-2004-004, 104-2005-088, 104-2007-002, 104-2007-106, 104-2008-146, 104-2009-096, and 104-2010-132; and (4) PwC Nos. 104-2004-005, 104-2005-120, 104-2006-205, 104-2007-129, 104-2008-125, 104-2009-038, and 104-2010-131.

TABLE 4
PCAOB Inspections: Non-U.S. Triennial and Annual Accounting Firms
Field Work Performed and Inspection Reports Issued: 2005–2010

Year of Non-U.S. Triennial and Annual Inspections	Non-U.S. Triennial Firms with *audit deficiencies* reported	Non-U.S. Triennial Firms with *no audit deficiencies* reported	Total Non-U.S. Triennial Firms inspected	Non-U.S. Triennial Inspection Reports Issued (Years) [a]	Non-U.S. Annual Firm with *audit deficiencies* reported	Non-U.S. Annual Inspection Reports Issued (Years) [a]
2005 Inspections of triennial accounting firms (%)	**1 (50%)**	**1 (50%)**	**2 (100%)**	**2006 & 2008**	**1 (100%)**	**2007**
Mean number of days in field	15	17	16		183	
Mean number of days from last date in field to report date	1,038	370	704		511	
2006 Inspections of triennial accounting firms (%)	**10 (100%)**	**0 (0%)**	**10 (100%)**	**2008 – 2010**	**1 (100%)**	**2007**
Mean number of days in field	33	0	33		183	
Mean number of days from last date in field to report date	1,145	0	1,145		384	
2007 Inspections of triennial accounting firms (%)	**19 (45%)**	**23 (55%)**	**42 (100%)**	**2008 – 2011**	**1 (100%)**	**2008**
Mean number of days in field	14	11	13		183	
Mean number of days from last date in field to report date	877	548	697		367	
2008 Inspections of triennial accounting firms (%)	**14 (52%)**	**13 (48%)**	**27 (100%)**	**2008 – 2011**	**1 (100%)**	**2009**
Mean number of days in field	9	10	9		183	
Mean number of days from last date in field to report date	691	711	701		199	
2009 Inspections of triennial accounting firms (%)	**26 (79%)**	**7 (21%)**	**33 (100%)**	**2009 – 2011**		
Mean number of days in field	8	9	8			
Mean number of days from last date in field to report date	417	402	414			
2010 Inspections of triennial accounting firms (%)	**5 (83%)**	**1 (17%)**	**6 (100%)**	**2010 – 2011**		
Mean number of days in field	5	1	6			
Mean number of days from last date in field to report date	374	218	348			
2005 – 2010 Inspections of triennial accounting firms (%)	**75 (63%)**	**45 (37%)**	**120 (100%)**	**2006 – 2011**	**4 (100%)**	**2007 – 2009**
Mean number of days in field	13	11	12		183	
Mean number of days from last date in field to report date	687	561	640		365	

Note[a]: Analysis includes inspection reports issued to 120 non-U.S. triennial firms and one non-U.S. annual firm (KPMG LLP – Canada) from December 20, 2006 through June 9, 2011.

Source: PCAOB Inspection Reports Non-U.S. (N = 124) Triennial (n = 120) (1) 2005 (n = 2) Nos. 104-2006-206 and 104-2008-223; (2) 2006 (n = 10) Nos. 104-2008-234, 249, 104-2009-149, 157, and 173, 104-2010-008, 021, 063, 079, and 112; (3) 2007 (n = 42) Nos. 104-2008-103, 105, 106, 111, 112, 119, 162, 163, 173, 176, 180, 181, 182, 184, 196, 201, 220, 231, 238, and 240, 104-2009-118, 122, 148, and 166, 104-2010-012, 018, 036, 061, 070, 072, 075, 076, 077, 078, 080, 082, 136, 149, and 162, 104-2011-066, 068, and 075; (4) 2008 (n = 27) Nos. 104-2008-164, 104-2009-172, 195, and 207, 104-2010-002, 003, 011, 019, 025, 055, 084, 154, 155, 157, 167, 168, and 177, 104-2011-018, 047, 056, 057, 058, 059, 061, 062, 071, and 072; (5) 2009 (n = 33) Nos. 104-2010-027, 058, 083, 110, 135, 141, 156, 161, 163, 170, 174, and 175, 104-2011-001, 003, 010, 013, 016, 022, 034, 036, 037, 039, 040, 041, 042, 043, 046, 049, 054, 055, 067, 069, and 074; and (6) 2010 (n = 6) Nos. 104-2011-001, 008, 026, 032, 041, 052. Annual (n = 4) (1) 2005 (n = 1) No. 104-2007-025; (2) 2006 (n = 1) No. 104-2007-128; (3) 2007 (n = 1) No. 104-2008-174; and (4) 2008 (n = 1) No. 104-2009-052.

Figure 1
U.S. Triennial Accounting Firms Inspections: 2004-2010
Mean Number of Days from Last Date in Field to Report Date

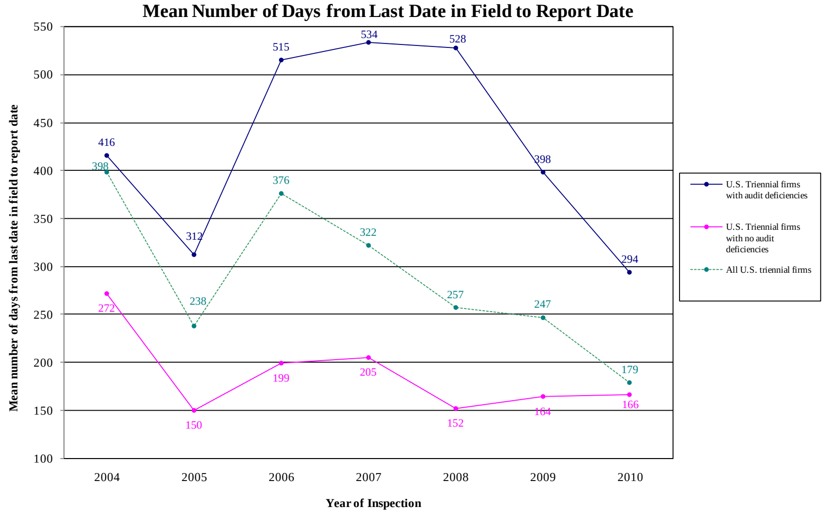

Figure 2
U.S. National Accounting Firms Inspections: 2004-2009
Number of Days from Last Date in Field to Report Date

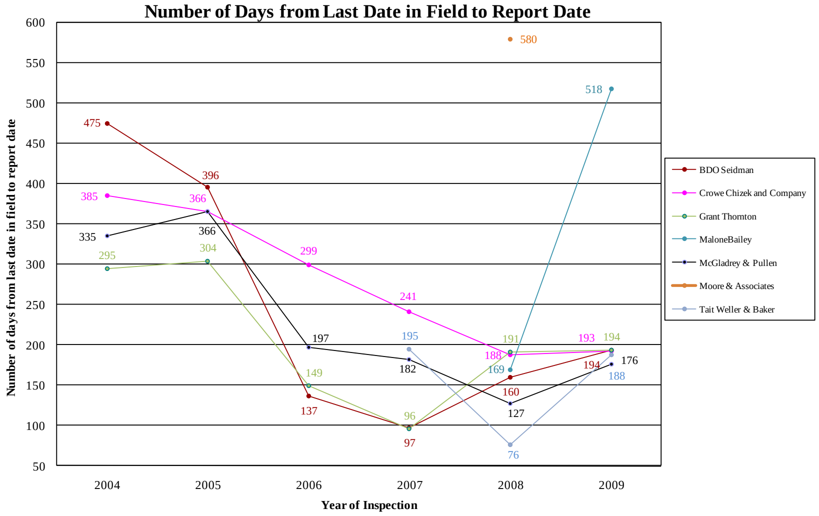

Figure 3
U.S. Big-4 Accounting Firms Inspections: 2003-2009
Number of Days from Last Date in Field to Report Date

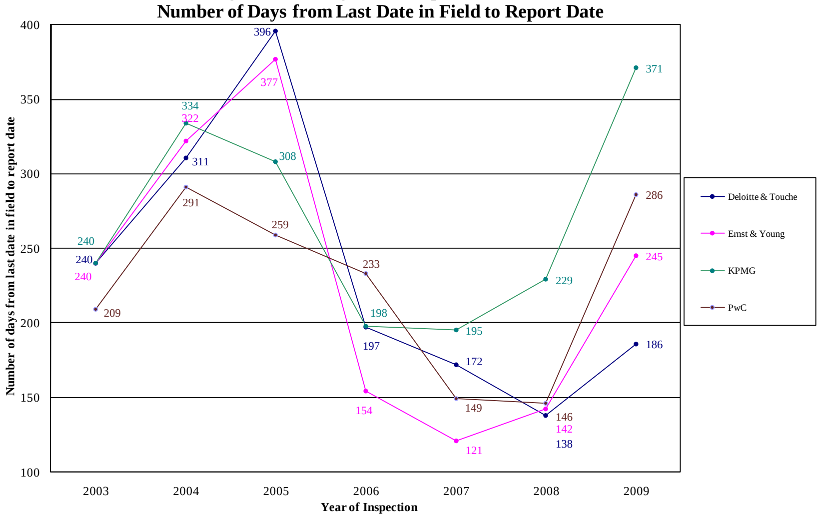

Figure 4
Non-U.S. Triennial and Annual Accounting Firms Inspections: 2005-2010
Mean Number of Days from Last Date in Field to Report Date