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## Board Statement Regarding Publication of Inspection Report Quality Control Criticisms

Washington, D.C., Oct. 17, 2011

The Public Company Accounting Oversight Board, in anticipation of questions about the publication of previously nonpublic portions of its May 19, 2008 inspection report on Deloitte & Touche LLP, issued the following statement today:

"The quality control remediation process is central to the Board's efforts to cause firms to improve the quality of their audits and thereby better protect investors. The Board therefore takes very seriously the importance of firms making sufficient progress on quality control issues identified in an inspection report in the 12 months following the report. Particularly with the largest firms, which are inspected annually, the Board devotes considerable time and resources to critically evaluating whether the firm did in fact make sufficient progress in that period. The Board can and does make the relevant criticisms public when a firm has failed to do so."

### **Background on PCAOB Quality Control Remediation Determinations**

The Public Company Accounting Oversight Board conducts regular inspections of registered public accounting firms, issues a report on each inspection, and makes portions of each report publicly available, subject to statutory restrictions on public disclosure. Among other things, if an inspection report includes criticisms of a firm's system of quality control, the Board may not publicly disclose any such criticisms that the firm addresses to the Board's satisfaction in the 12 months following the inspection report date.

The Board's processes include a careful evaluation, after the close of that 12-month period, of a firm's efforts to address the criticisms during the 12-month period. Often, particularly with larger firms that are inspected annually, that process involves substantial dialogue with the firm throughout the 12-month period, followed by a thorough evaluation, after the 12 months, of the firm's purported improvements made during the 12 months. If, through that evaluation, the Board finds a firm's efforts within that 12-month period to be unsatisfactory concerning any particular criticism, the Board notifies the firm of that determination. A firm then has the option of seeking Securities and Exchange Commission review of that determination through a process that, under SEC rules, is nonpublic. If a firm does not request SEC review, or if a firm requests SEC review and the SEC does not object to the Board's determination on any particular criticism, the Board publicly discloses the portions of the original inspection report that discuss the relevant criticisms. Any publicly available inspection report that discloses some or all of those original criticisms is marked as such in the list of reports appearing on the PCAOB web site.

It is not unusual for an inspection report to include nonpublic criticisms of several aspects of a firm's system of quality control. Any Board judgment that results in later public disclosure is a judgment about whether the firm made sufficient effort and

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progress to address the particular criticisms articulated in the report on that firm in the 12 months immediately following the report date. It is not a broad judgment about the effectiveness of a firm's system of quality control compared to those of other firms, and it does not signify anything about the merits of any additional efforts a firm may have made to address the criticisms after the 12-month period. The Board, however, takes very seriously the importance of firms taking meaningful remedial steps promptly, and the Board will make the relevant criticisms public when a firm has failed to take sufficiently meaningful steps within the 12 months following the report date.

Beyond what appears in the portions of an inspection report published on the PCAOB web site, the Board does not comment on inspection results or the process resulting in publication of a quality control criticism as they relate to any particular firm. The following materials provide additional information concerning relevant processes:

- [Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 \(August 26, 2004\)](#)
- [The Process for Board Determinations Regarding Firms' Efforts to Address Quality Control Criticisms in Inspection Reports, PCAOB Release No. 104-2006-077 \(March 21, 2006\)](#)
- [SEC, 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, Exchange Act Release No. 34-62575 \(July 26, 2010\)](#)