

Written Comments from Participants on Survey Regarding Initial PCAOB Inspections

- We felt the selection of all SEC reports issued was excessive. Also, it seemed they spent an excessive amount of time on these small audits.
- The inspectors had no concept of materiality or that there is a limit to the amount of documentation that can be done. IE: There is no limit to the amount of time (& related cost) that can be taken to do the audit. No concept of reasonableness.
- Small audit firms should be exempted from SOX 2002 Act and returned to AICPA oversight & peer review program. SOX 2002 Act has created a "barrier to entry" for small companies seeking access to public funds.
- Disgruntled former [firm name redacted] auditors. Should allow for auditor judgment in small audits. There is no fixed audit program for everyone. Our auditor judgment is more accurate for the client as the auditor of record for many years versus someone who looks at it for a week.
- The inspection process was rigorous and will increase audit quality over a periods of time, similar to the introduction of mandatory peer review by the AICPA in 1988. The process will not eliminate management fraud, so what happens after the next round of "audit failures" occur? The PCAOB budget is huge! The process is extremely expensive compared to the AICPA peer review program and the old Public Oversight Board.
- The PCAOB inspection teams tone was "gonna getcha".
- Attitude of the PCAOB auditors tends to be adversarial. The leader of the inspection teams tends to be experienced, however the staff tends to be young, inexperienced, and lacking expertise in various industries. PCAOB - another bureaucracy, likely to continue expanding with a need to justify its existence and to continue to find fault through increasingly more detail and minute findings and increasingly more punitive actions.
- We received very little "helpful" constructive criticism from inspectors. They were not willing to discuss: Are we doing too much anyplace? Is there anyplace we are very different from what other firms are doing? Are there any areas we should be focusing on even if they did not warrant a formal comment? The feel was very "governmental" rather than collegial/supportive.
- The PCAOB is out of touch with the needs of small business - the PCAOB is putting businesses out of business!
- Our inspection experience was positive, however, from discussions with other firms, the quality and consistency of the inspection appears to depend on the inspection team assigned.
- We had 2 issuers. Both were selected. No problem. One [industry name redacted] and one [industry name redacted].
- Neither team member knew [industry name redacted] accounting & raised rookie issues. Their findings did not result in any re-statements of the client's financial statements. But the wording in the public report talks about "deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements." Who are we kidding here? We were missing 2 or 3 [details redacted] as documentation, and our other audit evidence was not sufficient? Finally, these criticisms come from 2 former Big 4 employees - a partner with [firm name redacted] and a manager from [firm name redacted] whose firms are TORTURING GAAP and being sued all the time for GAAP & GAAS malfeasance. BUT they have the FINAL WORD, so they made mountains out of moleholes! And they make it worded like it's a total audit meltdown, which it is NOT!

- Our firm had ceased accepting public clients prior to formation of PCAOB & when our only public client was acquired by another, we decided to no longer do public company audits.
- The inspection team spent almost as much time reviewing one engagement as we had in audit time. The inspection process is much slower than the peer review process.
- Inspection process was much more efficient this year as opposed to three years ago. Desk review worked very well for our firm. We learned a great deal from our initial inspection and appreciate the PCAOB inspection process.
- Overall frustration with process was the Staff's standard comment about the Firm's quality program based on-the-fact that we had one engagement level comment. The quality comment was never discussed during the inspection process and appears to be a boiler plate comment from the Staff.
- The [number redacted] findings were "documentation" issues but were reported as internal quality control weaknesses and reported that "sufficient, competent, evidential matter" was not obtained, when in fact it was. Report language appears to be a standard boiler plate language.
- The inspection team originally had [number redacted] findings, [number redacted] of which in my opinion were addressed in the work done, [number redacted] of which were dropped since they were not based on proper GAAP and [gender redacted] missed workpapers in the files. Additionally, if one looks at the preponderance of findings in their published reports, it would appear that 50% of firms that are registered have a material deficiency. According to this, either the practicing auditors are 50% deficient or the PCAOB is making issues of non-items.
- The inspection process was too concerned with checklists and practice aids. The various aids were used properly, but when a situation existed that fell outside the normal area you would see in the typical practice aid or checklist, the inspectors were unable to use any type of imagination or for that matter, common sense. The inspectors were bureaucrats, not auditors. [Number redacted] were former [firm type redacted] employees who between the [number redacted] of them had, by their own admission, never performed an entire audit themselves. These [number redacted] had always been cogs in a machine. The [number redacted] [gender redacted], who was in charge, was a [firm type redacted] firm [gender redacted]. [Gender redacted] was much better, had more common sense than the other [number redacted]. However, our overall impression was that this process was designed to simply run the small firm out of this area of public accounting. Which is sad, when you consider that the interest on the money that the [firm type redacted] pays to attorneys is hundreds of times what we actually gross. The PCAOB process is a joke that is killing the profession.
- We remain troubled that in matters of judgment (not the application of accounting and/or auditing standards), the presumption on the part of the PCAOB (as evidenced by the inspection reports) is that the inspector's judgment is superior to that of the audit professionals performing the audit.
- A review, whether a peer-review or another type of inspection process (i.e. the PCAOB inspection process), is designed to evaluate compliance with relevant professional standards. Judgments made by auditors during engagements is a component of the application of professional standards and is not, and should not be, an evaluative criteria for determining compliance or lack thereof with professional standards. The PCAOB inspection process incorporates the inspector's judgments (whether by design or not is unknown) and their evaluation of a Firm's compliance with professional standards is directly affected by whether or not the inspector's judgments about one or more matters differs from the engagement team's judgments. The incorporation and the use of the PCAOB's judgments in this manner is

inappropriate and should not effect the determination of compliance with professional standards.

- We agreed with inspectors that the problem is not small firms doing PCAOB work but rather that it is the small, undercapitalized clients that should not be public companies. Perhaps a minimum capitalization requirement should be considered.
- Not a pleasant experience! PCAOB inspectors are not very practical in auditor's judgment regarding client industry & practices we are very informed & knowledgeable about.
- The PCAOB team spent more time on [administrative duty redacted] than on inspecting the workpapers. Even in the process of [administrative duty redacted], they were totally unprofessional. Their knowledge of the market served by my firm was non-existent. They had to leave after [time and reason redacted]. They never returned to finish the report, but still wrote up a negative report.
- "Gotcha" attitude is not appropriate. Auditing is an art, not a science. Non-acceptance of validly supported auditor judgments is inappropriate on the part of the PCAOB inspection team.
- We service many [industry type redacted]. There has been an ongoing issue between the SEC and [industry type redacted] Regulators as to what level the allowance for loan losses should be at. Before the PCAOB even started their inspection process, we were told they would have a comment on the audit work for the allowance. When the inspection team was complete, they had a comment on each of the [industry type redacted] reviewed regarding the allowance and "the lack of adequate testing of the allowance". We feel that we are in the middle between [industry type redacted] Regulators (who can close a [industry type redacted] with inadequate allowances) and the SEC that is arguing for lower allowances. The PCAOB is being used as the tool to help win the SEC side of the disagreement.
- When the lead inspector enters our firm and states "we are here to put you out of business" and another asks "Why are these companies public?" clearly demonstrates that the unwritten and unspoken focus is not audit quality; but on the federalization of the public company audit process to offer a false sense of security & surety to a gambling venue called the "stock market".
- PCAOB will override professional judgment - which is an exercise outside of professional standards.
- While one inspector's behavior was very unprofessional, overall the inspectors were very easy to work with. The unprofessional behavior dealt with forming an opinion and failing to listen to reason and then making the process personal. A continued problem of "cannot see the forest for the trees" focused on details scenario, vs. the real potential problems. For example, in our review they completely ignored related party transactions. No question at all. Based on Enron, etc. I would have thought that to be a focus area. Focus is on compliance with details of GAAP vs. fairness and completeness.
- PCAOB's inspection had the most negative impact on our firm in over [number redacted] years of service. The attitudes of the Inspection Team were extremely negative and condescending.
- Our Firm's PCAOB practice consists of one (1) [industry type redacted] audit with an [specific filing redacted] filing requirement. Our PCAOB inspection was [time period redacted].
- Although the inspection was clearly explained as a compliance inspection, the team members went out of their way to make helpful suggestions. They were clearly focused on improving audit quality and not just finding problems to report.

- I felt the engagement team for the PCAOB was very knowledgeable, very professional & courteous, and really focused on the significant areas. They communicated well during the inspection and offered very good suggestions on ways we could improve the quality of our audits, which we considered and appreciated their comments. They seemed to spend very little time on questions 6 thru 10 and spent most of their time reviewing workpapers. It also seemed to me that they looked at a high % of our jobs (almost [percentage redacted] %), as compared to the percentages that they look at with the larger firms. Overall, I felt it was a good process. We received a clean opinion.
- The final inspection report was entirely inconsistent with the findings of the inspection team. To use a professional term - there is no linkage between the results of the inspection team's conclusions about the high quality of our practice and the inspection report. The PCAOB clearly wants to force smaller firms out of SEC practice and will use the slightest difference in professional judgment to reach a conclusion of total incompetence. The inspection team was very professional and reached appropriate conclusions. The PCAOB, unfortunately, did not understand or chose to ignore, the results of its own inspection team.
- We believe that as a result (unintended consequence) of PCAOB inspection, only large accounting firms (50 + CPAs) will be auditing public companies. This process will be complete in the next few years.
- The problem with the PCAOB inspections is that there are no conclusions. All they report is "stuff". What they found. There are no conclusions as to the frequencies and the causes of their findings. Is the matter isolated? Was the firm's system appropriately designed to address the matter and the engagement team simply did not fully comply with the firm's system? Was the firm's system not adequately designed to catch the issue? Did the matter result in a substandard engagement? We see many firms' responses disagreeing with the PCAOB's conclusions that the matters cited resulted in substandard engagements.
- Our response must be tempered by the fact that: We have only [number of public audit clients redacted]. The review was conducted remotely from [location redacted]. Therefore there was little or no interaction with the reviewers. In our limited conversations over the telephone, it seemed apparent that the reviewers were following a predetermined checklist with little flexibility to address our unique situations and concerns. As a small firm ([dollar amount redacted] in annual revenue), we were looking for more guidance versus the criticism received. Admittedly, I was not able to attend the roundtable discussion held in [location redacted], so maybe I am little biased concerning help from the PCAOB.
- The PCAOB inspection process, while adding another level of review to an audit engagement, is a much higher level of examination than internal or peer reviews. It should not generate additional work if the audit was performed in accordance with PCAOB and GAAS guidelines and pronouncements. However, the inspection process does raise the bar on the quality of the reviews that audit documentation must withstand.
- The primary issue we have with respect to PCAOB inspection is the reporting process. First, our draft report was not issued until [number redacted] months after the fieldwork was completed for our inspection. The time lag was this not because there were many issues to resolve or findings to be crafted. I can't tell you what the time lag was caused by, but I can tell you that the time lag had substantial negative impact on the value of the process. Second, the way the reports are written substantially distorts the readers' potential for assessment of the quality of a firm's audit process. The PCAOB's report of only negative findings is as misleading as a traditional peer review report with only an unqualified opinion. Neither gets at

the heart of evaluating the quality of a firm's quality controls or overall audit process. The inspectors also had a very difficult time accepting the notion that the nature and extent of testing is primarily a function of auditor judgment. As any experienced auditor knows, there's no such thing as a perfect audit. Any experienced auditor can look at another auditor's workpaper files and find things that could have been done better or could have been done differently. The inspectors tended to evaluate our judgment against their own judgment as opposed to measuring our judgment against the underlying facts and circumstances that created a basis for that judgment.

- Our practice relates to [type of filing redacted] filers only.
- Although our overall experience was satisfactory, the process is terrible. If you have not performed one audit procedure to their satisfaction, then the letter is issued that states that you did not gather sufficient evidence to issue the opinion. Basically, perfection, as measured by the PCAOB, is the only acceptable standard. Also, I believe we benefited greatly because the examination was on site. The PCAOB is trying to move as many exams off-site as possible in order to reduce travel. Although this is understandable, if the inspectors do not have the opportunity to interact with the firm, I think the inspections would become even harsher.
- The major benefits of the PCAOB inspection process are in the larger CPA firms and large public companies. Many of the positive attributes of the PCAOB on "public confidence" for larger audits do not migrate to smaller public companies.
- Sarbanes-Oxley has increased management awareness of the necessity of internal controls but has done nothing to prevent thieves from being thieves. We are still experiencing fraudulent financial statements because certain people are crooks and no amount of legislation is going to make a crook honest.
- We are a medium size ([number of professionals redacted]) with a limited SEC practice. The review team spent more time reviewing one small SEC engagement than it took us to perform the audit. Team was too narrowly focused on compliance with exact wording in certain SEC regs, rather than on application of obvious facts and circumstances to the regs as written. PCAOB takes much too long in issuing draft and final inspection reports and only provides firm with one opportunity to respond to report, even if the draft contains material "fact" errors. There was no opportunity to discuss the findings with senior PCAOB staff after the draft report was issued. Firm's response, which included concurring consultations with [name redacted], nationally recognized audit authorities and highly placed audit practitioners was, in our opinion, not given appropriate consideration by PCAOB inspectors and staff.
- I would have to say that the inspection process was much more positive than anticipated, of course we had heard reports that other inspections had not gone well but that could be a reflection of the audit work of those firms. I was surprised by the fact that the inspection process did not include a review of the SOX 404 internal control work, but I realized that a consistent review process may not yet have been developed. We truly do believe the process will be an enhancement to audit quality and support the efforts of the PCAOB.
- [Number redacted] of the [number redacted] inspectors was rude and condescending. The inspectors failed to consider auditor judgment and knowledge of the client. They believe you can take a "one size fits all" approach to auditing, reducing an audit to a mere commodity. In my opinion, the PCAOB inspection process may have helped restore investor confidence (which I admit was the objective), but I don't believe it has helped improve audit quality at all. In fact, quite the opposite is occurring: we are moving more and more towards a "form over

substance" audit, just to satisfy inspection requirements and in the process, we are losing sight of the real audit objective.

- PCAOB is reviewing all of our engagements. The Big 4 had the problems and the PCAOB is focusing on small audit firms.
- Overall the process was reasonable and fair. Our firm has [number of practitioners redacted] and [number of issuers redacted] and [industry type redacted]. The process was risk focused and not intrusive or overboard - this experience is different than my friends/business acquaintances at large firms report to me. My only critiques was that the process to review and approve the final reports was longer than I desired - I expected 2 weeks, but it was closer to [number redacted] weeks - I understand the volume of activity made a quicker finalization not possible.
- We have terminated our membership in the PCAOB and no longer perform public company audits.
- Our inspection team was very courteous and appeared to work very efficiently. They provided good observations through our dialogue in a sense of sharing best practice. We were surprised how little time they focused on AS2 issues during our [year redacted] inspection. Our sense here was that they did not hit hard given AS5s near term approval and implementation requirement.
- Some of the inspectors were not familiar with audits of small public companies and tended to apply audit concepts appropriate to large public companies (such as internal control testing) when the concept was clearly inappropriate for the situation. In addition, they tended to not recognize the audit evidence that is gained by a properly designed substantive analytical procedure. And finally, the suggestion that concurring review was inadequate because the concurring reviewer agreed with the scope of the work performed when the inspector did not is clearly inappropriate.
- The PCAOB inspection process completely misses one element: There is no "value added" by the inspectors. That is to say, no constructive dialogue, no meaningful interchange of ideas, thoughts or approaches, no informal, conversational dialogue to convey to us any sense whatsoever, for example, how do we as a firm "rate" as compared to similarly situated firms, in their experience, despite our repeated requests for some type, any type, of constructive feedback on our performance. This is a HUGE difference from the AICPA Peer Review Process and one that the firms sorely miss!
- The second inspection of our firm was focused in auditor and company judgment relative to recording transactions rather than compliance with Professional and PCAOB Standards.
- Item 14: The inspection team's review of QCD was an afterthought. Item 17: The inspectors selected a former client (3 years prior) that had been previously reviewed in our peer review and had also been reviewed directly by the SEC. The inspector's comments were finally dropped [number redacted] months after the inspection team had completed their fieldwork. It took over [number redacted] years before the PCAOB finalized our review. Item 1: Although the inspectors possessed adequate technical knowledge, they were poorly trained in small business audits.
- Questions 26 & 28. Although the inspection report has not been issued, we disagree with the inspectors' findings; but, we agreed to increase our audit work in future engagements which should (hopefully) lead to increased fees. The inspector's findings were minor but required inclusion by them. We question the cost benefit of the additional work contemplated as it relates to the registrants and the public.

- Questions 2: Some of our partners had undergone inspections when they were affiliated with other firms. The demeanor and professionalism of the inspectors has, in their opinion, improved greatly. The mentality of the inspectors is punishment rather than educational. It appears they are on a fishing expedition to find something at all costs, no matter how immaterial it may be to the audit as a whole. They should try to come up with meaningful comments to help those firms practicing, rather than the attitude that they have to find something no matter how long it takes.
- Part II #28 - The findings as reported in the inspection report do not accurately reflect the findings of the inspectors.