

# SPOTLIGHT

## Audit Committee Resource

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August 2022

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This Spotlight serves as a timely reference point for auditors, audit committee members, investors, and others. It offers questions that audit committees of public companies might want to consider as part of their ongoing engagement and discussion with their auditors, including how the auditors are responding to the financial reporting and audit risks posed by the current economic environment. Stakeholders may also consider other [Spotlights](#) as reference points for relevant discussions, including our June 2022 Spotlight: [“Staff Overview for Planned 2022 Inspections.”](#)

## FRAUD AND OTHER RISKS

- How have economic factors (e.g., supply chain disruption, inflation) influenced the auditor’s risk assessment for the current year’s audit?
- Have emerging issues influenced the nature, timing, or extent of procedures the auditor plans to perform to address the risk of material misstatement due to fraud?
- If management made changes to certain accounting policies, practices, or estimates as a result of current events (e.g., higher inflation and costs of capital, the invasion of Ukraine), has the auditor considered how those changes may impact the planned audit strategy?
- If other auditors were used in Russia, Ukraine, or Belarus, were there difficulties in communicating with or assessing the other auditor’s procedures? If so, did the lead auditor determine that it was required to develop an alternative plan for supervising or using the work and reports of other auditors?

## Interactions with Management

As a reminder, management is responsible for the preparation of the company’s financial statements and related disclosures, as well as maintaining effective internal control over financial reporting (ICFR) and disclosure controls and procedures. Management should provide the audit committee with a summary of key areas it needs to evaluate, including new matters. The audit committee should consider asking similar questions to management teams.

- How does the lead auditor anticipate handling work going forward that was previously done by other auditors in Russia, Ukraine, or Belarus?

## INITIAL PUBLIC OFFERINGS AND MERGERS & ACQUISITIONS (M&A)

- How has the auditor considered the accounting implications of the key provisions in the debt and equity instruments that are issued to founders, sponsors, and private and public investors?
- How has the auditor considered the accounting implications associated with investment transactions related to the heightened M&A activity, particularly those related to special purpose acquisition companies (SPACs)?

## AUDIT EXECUTION

- In the auditor's view, how has staff turnover at the company impacted (1) the quality of the company's accounting and financial reporting processes and internal controls and (2) the company's preparation for the audit?
- Have any audit procedures been, or will any audit procedures be, performed centrally by the audit firm's shared service center or designated center of excellence? How does the audit partner ensure that procedures performed centrally are adequately performed and reviewed?
- What is the audit firm doing to attract and retain talent to ensure that all engagement team members have appropriate levels of competency, degree of proficiency, training, and supervision?

## HOW FIRMS COMPLY WITH AUDITOR INDEPENDENCE REQUIREMENTS

- What are the audit firm's policies or procedures for identifying, evaluating, and addressing any threats to independence that may impact the services provided to the company? What process is in place to ensure any regulatory independence violations are properly communicated to the audit committee?
- How does the audit firm monitor compliance with independence rules regarding personal relationships between the auditors and the company's accounting/finance personnel?

## FIRMS' QUALITY CONTROL SYSTEMS

- What is the audit firm doing to promote continuous education to keep audit staff abreast of changes, notably in standards and methodologies, but also in emerging topics or specialized industries?
- What has the audit firm done to address any recurring audit deficiencies (e.g., deficiencies related to revenue recognition, allowance for loan losses and other accounting estimates, review controls) identified by regulators or the audit firm's internal quality monitoring?
- What are the open quality control criticisms in the nonpublic portion<sup>1</sup> of the audit firm's recent reports, and what are the audit firm's plans to remediate those criticisms?

## TECHNOLOGY

### Auditing Digital Assets

- What is the auditor's understanding of the financial reporting implications of the company's activities related to digital assets?
- What policies and procedures does the audit firm have regarding conducting and monitoring audit engagements involving digital assets (e.g., crypto mining), including considering the risks associated with performing such audits? Does the audit firm require some type of monitoring of these types of audits by other professionals in the firm?

<sup>1</sup> "The [Sarbanes-Oxley] Act does not prohibit inspected firms from disclosing nonpublic inspection information..." Please refer to "Information for Audit Committees About the PCAOB Inspection Process (Aug. 1, 2012)" for more information.

## Responding to Cyber Threats

- What is the auditor's view on management's cybersecurity risk assessment approach, overall cyber assessment, and conclusions?
- Did the auditor identify and assess cybersecurity risks and evaluate potential cyber breaches within the company's operations, which may have an effect on financial reporting? If so, what were the results of the auditor's procedures?
- Has the auditor changed its overall approach to addressing cybersecurity risks as a result of increased cyber threats to corporations and government agencies from external sources?

## Audit Committee Outreach

We remain committed to seeking views from audit committees on how to drive improvements in audit quality. An integral part of this commitment is our interaction with audit committees during the inspection process. We will continue to invite the audit committee chairs of most of the U.S. public companies whose audits we inspect to speak with us.

To learn more about what we have heard from audit committee chairs, please visit our **Information for Audit Committees** web page.

## We Want to Hear from You

The PCAOB strives to improve our external communications and provide information that is timely, relevant, and accessible. **We invite you to share your views on this document by filling out our anonymous survey**, which should take no more than two minutes to complete.

## Use of Data and Technology in the Audit

- How is the use of technology in the audit helping the auditors perform a more effective audit?
- Are there any complexities (e.g., multiple systems) or concerns (e.g., data security) at the company preventing the use of technology by the auditor?

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