

Guide to Reading the PCAOB's New Inspection Report

Overview

The Public Company Accounting Oversight Board (PCAOB or Board) inspects registered audit firms to assess each firm's compliance with PCAOB standards and rules as well as other applicable regulatory and professional requirements. Our inspections are designed to review portions of a firm's issuer audits and evaluate elements of a firm's system of quality control. The PCAOB provides each firm inspected with a report, which summarizes any deficiencies identified during the inspection.

Until now, the format of PCAOB inspection reports has remained largely unchanged since the Board's first reports were issued more than fifteen years ago. Through our external engagement activities, we have received feedback that our report could more effectively meet the needs of our stakeholders. To address what we heard, and to advance our strategic objective to provide clearer and more useful information to the public, the Board and staff developed a new inspection report that:

- Streamlines the content to enhance readability for investors, audit committee members, preparers, audit firms, and the general public;
- Utilizes new charts and graphs to make the information more digestible and accessible;
- Reduces the amount of technical and boilerplate language; and
- Provides access to a new, refined document that describes general, non-firm specific information about what and how we inspect, rather than repeating such information in each report.

In addition to these changes, our reports include some new information, such as a classification system for audits with deficiencies presented in Part I.A. For annually inspected firms, we now also provide PCAOB inspections data for the three most recent inspection years. Furthermore, while we continue to highlight deficiencies we identify in the audit work to support the firm's opinion(s) on an issuer's financial statements and/or ICFR, our new reports include a new section discussing certain other instances of non-compliance with our standards or rules.

This document provides an overview of each section of the report, highlighting the key information we communicate and changes from our previous report format.

The PCAOB staff has prepared this publication to provide information on PCAOB initiatives. This publication does not establish rules of the Board, nor has it been approved by the Board.

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The 2018 inspection reports for the largest six U.S. firms are the first reports to be issued under the new format. 2018 reports for other annually inspected firms will also follow the new format. All triennially inspected firms' 2019 inspection reports will utilize a similar new format, but may not include all of the same data as the annually inspected firms due to the frequency of inspections and the size and nature of the firms. The new report format does not apply to PCAOB inspections of auditors of broker-dealers.

Sections Included in the New PCAOB Inspection Report

Our new report includes five main parts, which may differ between annually and triennially inspected firms:

- **Introductory Sections:** An executive summary, table of contents, and an overview of the report’s contents and our inspections approach.
- **Overview of the Inspection and Historical Data by Inspection Year:** Information on the scope of our inspections and on the nature and extent of deficiencies identified.
- **Part I – Inspection Observations:**
 - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer’s financial statements and/or ICFR.
 - **Part I.B:** Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm’s system of quality control. Part II deficiencies are not publicly disclosed when the report is first issued.
- **Appendix A – Firm’s Response to the Draft Inspection Report:** The firm’s response to a draft of the report, excluding any portion granted confidential treatment.



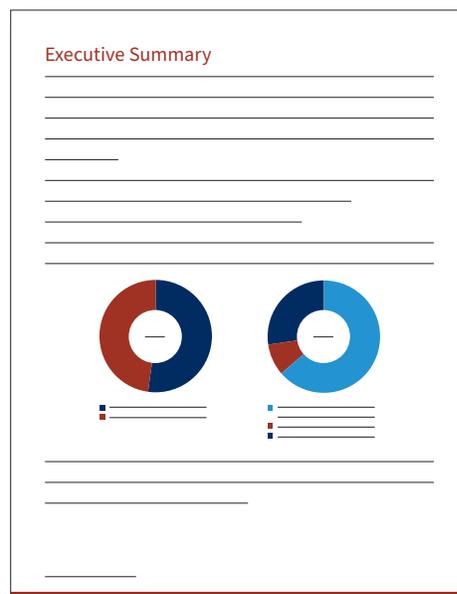
Introductory Sections

Executive Summary

The Executive Summary offers a high-level overview of deficiencies identified in our inspection, which provides investors, audit committee members, and other readers with an easy-to-read summary of the firm’s compliance with PCAOB standards and rules as well as other applicable regulatory and professional requirements.

What’s Included in the Report & Inspections Approach

After the Executive Summary, the report presents introductory information on the scope of our inspection for a particular year, such as how many of the firm’s issuer audits we selected to review and the



fiscal year end date of the majority of those audits. It then outlines the sections that are included in the report.

In order to reduce the amount of boilerplate language in the inspections approach section of the report, we link to a new online document that generally details the [scope of our inspections and our inspection procedures](#) across all inspected firms.

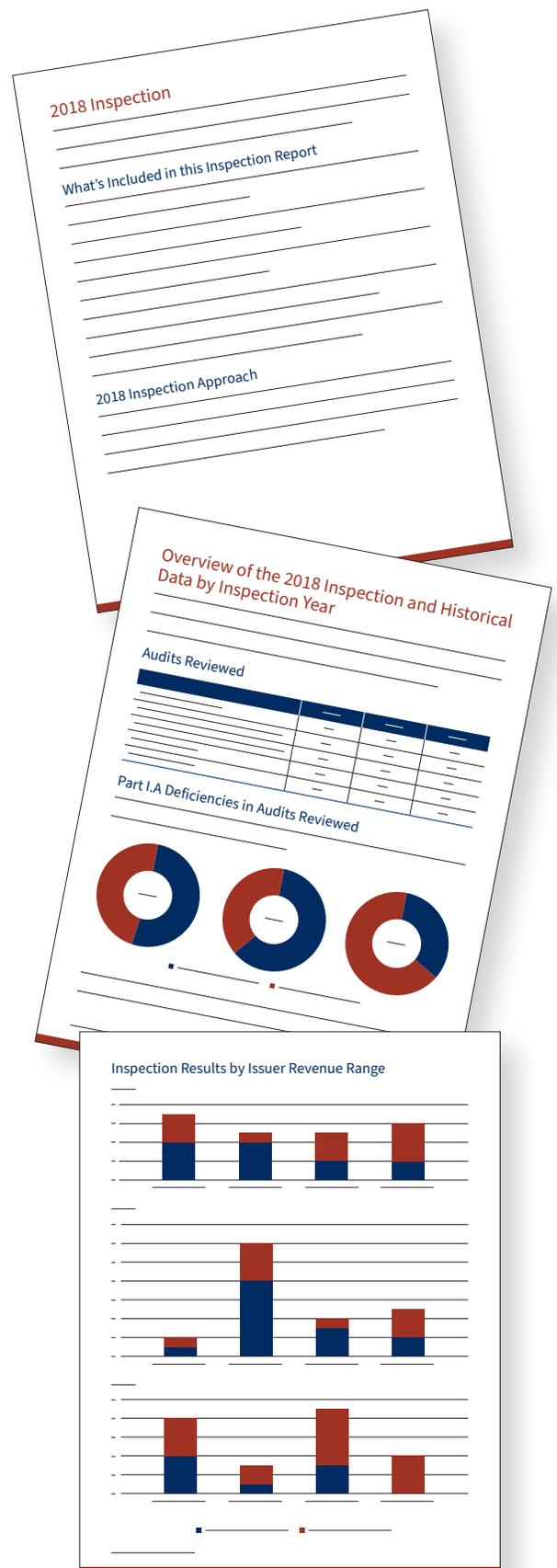
Overview of the Inspection and Historical Data by Inspection Year

The next section of the report provides an overview of our inspections of a selection of the firm's issuer audits. For each firm, this section also includes data from that firm's previous two inspection years. While some of this information, such as industry sector data, has been shared in previous inspection reports, the historical data was not previously presented. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and focus areas from year to year and firm to firm. As a result of this variation, our inspection results are not necessarily comparable over time or among firms.

In this section, we provide the following information, as applicable, with accompanying tables, charts, and graphs, covering three consecutive inspection years for annually inspected firms:

- **Audits Reviewed**
- **Part I.A Deficiencies in Audits Reviewed**
- **Audits Affected by the Deficiencies Identified in Part I.A**
- **Most Frequently Identified Part I.A Deficiencies**
- **Audit Areas Most Frequently Reviewed**
- **Audit Areas with Frequent Part I.A Deficiencies**
- **Auditing Standards Associated with Identified Part I.A Deficiencies**
- **Inspection Results by Issuer Industry Sector**
- **Inspection Results by Issuer Revenue Range**

We also include information on our new classification system of audits with Part I.A deficiencies. A key consideration when revisiting our report was how to make it more useful to our stakeholders. One way in which we aim to do this is by grouping and presenting issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR. This section of the report explains the classification system we are now utilizing and includes a chart showing the number of issuer audits that are included in each category over three consecutive inspection years.



The classifications we use in Part I.A are:

- **Audits with an Incorrect Opinion on the Financial Statements and/or ICFR**
- **Audits with Multiple Deficiencies**
- **Audits with a Single Deficiency**

Part I: Inspection Observations

Historically, our inspection reports included “Part I,” which detailed our inspection observations as they related to selected issuer audits. The new report now has two sections in Part I—Part I.A and Part I.B.

Part I.A: Audits with Unsupported Opinions

Certain deficiencies identified in an inspection may be of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer’s financial statements and/or ICFR. Deficiencies of this magnitude are discussed in Part I.A of our report. This section of the report discusses these deficiencies, by specific issuer audit reviewed, in the audit work supporting the firm’s opinion(s).

In Part I.A, each issuer is identified by a letter (e.g., Issuer A). For each issuer we state the type of audit, related areas affected, and a description of the deficiencies identified. After each description, we reference the PCAOB standard(s) that most directly relate(s) to the requirement with which the firm did not comply.

Issuer audits included in Part I.A are presented within their respective deficiency classifications. Within the classifications, we also generally present the audits based on our assessment as to the relative significance of the identified deficiencies by taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

To enhance transparency, the Board created a new Part I.B of our reports to discuss deficiencies not previously presented in Part I of prior inspection reports. This new Part I.B of the report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.



Some examples of areas with deficiencies we might describe in Part I.B regarding the auditor’s execution of certain auditing standards and Board rules include:

- Communications with the audit committee pursuant to AS 1301 and other PCAOB rules and standards, including regarding audit firm independence and the required pre-approval by the audit committee of certain non-audit services;
- Timely and accurate reporting of other participants in the audit on Form AP pursuant to Rule 3211; and
- Assembling for retention a complete and final set of audit documentation.

The deficiencies included in Part I.B are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply.

Part II: Observations Related To Quality Control

Part II includes criticisms of, and potential defects in, the firm’s system of quality control, to the extent any are identified. When PCAOB inspection reports are first issued, the public will not see Part II of the report. If a firm does not address to the Board’s satisfaction the criticisms of, and potential defects in, the firm’s system of quality control within 12 months after the issuance of our report, Part II of the report will be reissued publicly to include such deficiencies.

Appendix A: Firm’s Response to the Draft Inspection Report

Firms are given the opportunity to provide a written response to a draft of our inspection report. If the firm chooses to provide a written response and does so in a timely manner, we will include that response, excluding any portion granted confidential treatment, in this appendix.



We Want to Hear from You

Refining our inspection report is an iterative process and we welcome your feedback as we consider potential future changes. **Please take our [short survey](#) to share your feedback on the new inspection report.**

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