

Inspections Overview

Glenn Temprow
Division of Registration and Inspections
October 19, 2020

DISCLAIMER

Any views expressed are my own and do not necessarily reflect the views of the Board as a whole, any individual Board Members, or other staff.

AGENDA

- Recent activities
- New inspection report format
- Common deficiencies
- Good practices influencing audit quality
- Inspections during COVID-19
- Audit committee outreach

RECENT ACTIVITIES

- In late 2018, the PCAOB announced a plan to evaluate how we plan, conduct, and report on our inspections
- In 2019, the Division of Registration and Inspections began to transform certain aspects of our inspection process
- This transformation will continue throughout 2020. Highlights include:
 - Choosing focus areas in a manner designed to incorporate unpredictability
 - In certain cases, obtaining a more detailed understanding of firms' systems of quality control
 - Evaluating how we focus more on the firm's system of quality control

NEW INSPECTION REPORT FORMAT

- As part of DRI's transformation activities, on June 1, 2020, we released inspection reports using a new format
- The new report format:
 - Is applicable to all firms, but tailored to a firm's size
 - Streamlines the content to enhance readability for investors, audit committee members, preparers, and audit firms
 - Reduces the amount of technical and boilerplate language

NEW INSPECTION REPORT FORMAT

- For triennially inspected firms, the new format includes:
 - Introductory sections
 - Overview of the inspection
 - Inspection observations (Part I) divided into significant deficiencies (Part I.A) and instances of non-compliance with PCAOB standards (Part I.B)
 - Observations related to quality control
 - An appendix – the firm’s response to the draft report



COMMON DEFICIENCIES

- We continue to identify a number of deficiencies that commonly recur in our inspections. Among them:
 - Revenue
 - Accounting estimates
 - Internal controls over financial reporting (ICFR)
 - Independence

GOOD PRACTICES INFLUENCING AUDIT QUALITY

- We have identified a number of good practices that influence audit quality
 - In smaller environments where management might also be on the audit committee, it is important to remember that required communications must still be in writing to the entire committee
 - Some firms have used simple diagrams or flow charts to document understanding of processes, which has been helpful
 - An EQR partner must possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the engagement partner on the engagement under review

INSPECTIONS DURING COVID-19

- Remote inspections are not new
- The pandemic has required flexibility and patience from everyone, including us at the PCAOB
- How has the PCAOB handled remote inspections?
 - Firms have sent laptops and USB drives, used cloud-based services, and sent hardcopies
 - We have used video chats as part of our inspections
 - We have sent written questions in advance of meetings

AUDIT COMMITTEE OUTREACH

- In 2019, we expanded our outreach to the audit committee chairs of almost all of the U.S. issuers whose audits we selected for review
- Overall, our conversations focused broadly on audit quality, with specific discussions around such topics as audit committee perspectives of the auditor, new auditing and accounting standards, and technology and innovation



AUDIT COMMITTEE OUTREACH

- Specific details on our audit committee communications can be found in our Spotlight piece “Conversations with Audit Committees” along with a Spotlight on what audit committees have been doing to respond to COVID-19
- Both documents are posted to the PCAOB’s website
- These conversations continue in 2020



Conversations with Audit Committee Chairs: COVID-19 and the Audit

Overview

As part of the Public Company Accounting Oversight Board’s (PCAOB) strategic goal of enhancing transparency and accessibility through proactive stakeholder engagement, the Board has committed to engaging more directly and more often with audit committees. In 2019, we reached out to nearly 400 audit committee chairs of U.S. issuers whose audits we inspected and offered them the opportunity to speak with us. We reported out on those discussions in *Conversations with Audit Committee Chairs: What We Heard & FAQs*.

We have continued this outreach to audit committee chairs during our 2020 inspections. Given the unprecedented challenges for auditors, audit committees, and issuers created by the COVID-19 pandemic, we asked audit committee chairs how they are thinking about the effect of COVID-19 on financial reporting and the audit as they perform their oversight duties.

What we’ve heard has depended largely on how the pandemic has affected different industries and issuers. While some audit committee chairs said the effect of COVID-19 on the audit had not been significant to date, others shared that the magnitude of the impact of COVID-19 quickly surpassed their expectations. Most audit committee chairs indicated that they are contending with new or increased risks associated with the effects of COVID-19. Audit committee chairs from across industries have identified a wide range of topics that present increased risk—both related to financial reporting and the audit as well as other issues—that they are focusing on at this time. For many, these include cybersecurity, employee safety and mental health, going concern, accounting estimates, impairments, international operations, and accounting implications of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

This document summarizes certain of the common themes we heard from audit committee chairs related to the effects of COVID-19 and the audit through the first half of the year. We plan to share general takeaways from our audit committee conversations at the end of the year. Please note that the PCAOB does not require or necessarily endorse what we heard from audit committee chairs. We share their perspectives to offer increased transparency into our activities and to further our ongoing efforts to provide audit committees with timely and useful information.

This document represents the views of PCAOB staff and not necessarily those of the Board. It is not a rule, policy, or statement of the Board. The PCAOB does not set standards for, or provide authoritative guidance on, audit committee conduct.

Additional Resources

To learn more about PCAOB views on issues related to COVID-19—as well as other topics of interest—watch the replay of our July 8, 2020 webinar for audit committees. We have also published a staff Spotlight, *COVID-19: Reminders for Audits Nearing Completion*, that focuses on certain auditor responsibilities that may be impacted by circumstances related to COVID-19.

QUESTIONS

Please submit any questions or feedback you might have on this presentation to forum@pcaobus.org.

