

2019 Staff Inspections Outlook for Audit Committees

What's Included

- The PCAOB's plans to communicate with audit committees about our core activities.
- Information for audit committees on the PCAOB's key areas of focus during its 2019 inspections cycle.
- Relevant topics for audit committees to consider discussing with their auditors throughout the audit.

Overview

The Board's new strategic plan anticipated enhanced external engagement and more proactive communication with our stakeholders, including audit committees, to inform them about our core activities—including our inspections—and to maintain an ongoing dialogue with them.

The Division of Registration and Inspections staff ("we") outline in this document what audit committees should expect from the PCAOB's 2019 inspections as a supplement to our **2019 Inspections Outlook** issued in December 2018. We hope audit committees will find it useful as they engage with their auditors.

During 2019, we will provide an opportunity for audit committee chairs of certain companies whose audits are subject to inspection to engage in a dialogue with the inspections staff. The purpose of the audit committee dialogue is to provide further insight into our process and obtain their views. We expect to publish additional updates to audit committees regarding our inspections to provide observations from these interviews and our inspection findings.

Key Areas of Focus

Our 2019 inspections will focus on:

- **Technological developments** affecting today's audits, including the use of software audit tools, and the audit response to risks associated with cybersecurity incidents, digital assets, and distributed ledgers.
- **Audit firms' actions addressing past inspection findings** in areas of repeat deficiencies, including auditing internal control over financial reporting, revenue recognition, allowance for loan losses, other accounting estimates, and assessing and responding to the risks of material misstatement such as consideration of any changes in external factors affecting the company.
- **Audit procedures on new accounting standards**, including internal control effects regarding revenue recognition (ASC 606 and IFRS 15), lease accounting (ASC 842 and IFRS 16), current expected credit losses (ASC 326), and financial instrument accounting (ASC 815 and IFRS 9).
- **Audit firms' use of Audit Quality Indicators (AQIs)** to monitor their audit work, including any discussions of AQIs with audit committees.
- **Implementation of the new auditor's reporting model requirements**, including understanding implementation experiences related to the auditor's reporting of critical audit matters (CAMs).
- **Audit firms' systems of quality control**, including the firms' cultures and their policies and procedures, and how firms promote consistency in audit quality.
- **Auditor independence**, with particular attention to recurring deficiencies in firms' monitoring procedures to identify independence violations

Audit Committee Considerations

In addition to required communications from their auditors, audit committees may—at their discretion—choose to further engage with their auditors on current issues of inspection focus as they work to positively affect audit quality in those areas. The following sample questions are designed to provide audit committees ideas of the types of questions they may consider asking their auditors, if relevant, throughout the year.

Auditor Response to Identified Risks

- ⦿ How have the current economic factors influenced the auditor’s risk assessment for the current year’s audit?
- ⦿ How has the auditor considered the relevant economic factors that could affect the company’s ability to continue as a going concern?
- ⦿ How has the auditor assessed potential risks of material misstatement related to the company’s technology systems, including cyber security, and how has it addressed those potential risks?

Changes in Auditor’s Report

- ⦿ What are the most substantive issues or learnings identified pursuant to the firm’s pilot testing and dry runs related to communicating CAMs in the auditor’s report?
- ⦿ What items, if any, were considered “close calls” but ultimately not identified as a CAM by the auditor? Why were these items not determined to be CAMs?

Implementation of New Accounting Standards

- ⦿ What are the auditor’s observations regarding the company’s implementation of the new revenue recognition standard?
- ⦿ What is the auditor’s view of the company’s readiness to adopt new accounting standards pertaining to lease accounting and valuation of financial instruments, including credit losses (if relevant)?

Quality Controls

- ⦿ How does the firm’s quality control system promote audit quality?
- ⦿ What are recent actions taken by the firm to strengthen its quality control system?
- ⦿ Did the audit include the use of software audit tools? If so, how were these tools used and how did the use of these tools affect the risk assessment and the quality of audit evidence?

Auditor Independence

- ⦿ How does the firm monitor compliance with the independence requirements of the PCAOB and SEC, including compliance with obtaining pre-approvals for non-audit services?
- ⦿ How can the audit committee and management assist the auditor in complying with independence requirements?

PCAOB Inspection Results and Corrective Actions

- ⦿ If the firm has been inspected by the PCAOB, were there inspection findings? If so, what were those findings and what corrective actions has the firm taken?
- ⦿ How has the firm’s inspection findings changed over time?

Possible Indicators to Audit Quality

- ⦿ Has the firm developed a definition of audit quality? If so, how is audit quality defined?
- ⦿ Based on the firm’s definition, what are the key drivers of audit quality for the firm overall and for this audit engagement specifically?
- ⦿ How does the firm identify, set targets for, and monitor those key drivers generally, and specifically with respect to this audit engagement?