

Overview of Staff Guidance of Audit Committee Communications Related to Independence

Overview

On May 31, 2019, the [PCAOB staff issued guidance](#) to auditors on how to comply with certain provisions of PCAOB Rule 3526. The guidance provides background on Rule 3526 and direction for auditors on the independence-related communications required by the rule when an auditor has identified one or more violations of applicable auditor independence rules.

Background

The Board adopted Rule 3526 in 2008. Rule 3526 serves to protect the interests of investors by requiring auditors to provide audit committees with sufficient information to understand how a relationship between the auditor and the audit client might affect the auditor's independence. Among other things, the rule requires that, at least annually, auditors:

- disclose to the audit committee all relationships with the audit client that may reasonably be thought to bear on the auditor's independence;
- discuss the potential effects of such relationships on the auditor's independence;
- affirm in writing to the audit committee that, as of the date of the communication, the auditor is in compliance with SEC and PCAOB independence requirements; and
- document the substance of their discussions with the audit committee.

Purpose

The PCAOB's staff guidance answers questions that auditors have raised about the required communications when an auditor identifies one or more violations of applicable auditor independence rules. The guidance explains that, in such situations, where the circumstances that gave rise to the violation typically are no longer ongoing, the auditor considers the impact on the auditor's objectivity and impartiality. The auditor then communicates its analysis to the audit committee, which makes its own determination whether to continue the audit engagement.

The guidance is consistent with the underlying principles embodied in Rule 3526 and provides auditors with the technical assistance needed to foster timely and robust communications between the auditor and the audit committee regarding independence matters.

The guidance clarifies that, in circumstances where the auditor and the audit committee determine that the audit engagement can continue, notwithstanding one or more violations, the auditor should not state in its required annual affirmation that the auditor is independent, but instead indicate that the auditor would be independent except for the violation or violations that it has identified and discussed with the audit committee. In addition, the guidance describes situations where the auditor updates a previously required communication to an audit committee in the current year's communication. The guidance also explains that, in the circumstances addressed by the guidance, the title of the auditor's report remains "Report of Independent Registered Public Accounting Firm."

The guidance only addresses the affirmation requirement under Rule 3526 and does not express a view on the applicability of independence requirements. An auditor or audit client, including an audit committee, may decide to consult with the SEC staff concerning the auditor's or audit client's analysis of applicable independence requirements and their respective conclusions.

The staff guidance is not a statement of the Board, nor does it necessarily reflect the views of the Board or any individual Board member.

Questions? Contact Us

As part of its commitment to making PCAOB communications more relevant and accessible, the Board encourages audit committee members, investors, and any other interested parties to review the guidance and to please contact the [PCAOB Office of External Affairs](#) with any questions or requests for additional follow up or clarification.