

# Audit Focus

## Audit Committee Communications



PCAOB staff continues to identify a large number of deficiencies related to auditor communications with audit committees, also known as audit committee communications. This edition of Audit Focus highlights key reminders for auditors from the PCAOB standards and staff guidance related to audit committee communications, provides the staff's perspectives on common deficiencies in auditors' work, and shares good practices that the staff has observed.

### About the Audit Focus Series

Audit Focus is a series of PCAOB publications that aims to provide easy-to-digest information to auditors, especially those who audit smaller public companies. Each edition of Audit Focus reiterates the applicable auditing standards and/or staff guidance, as well as offers reminders and good practices tailored to PCAOB-registered auditors of smaller public companies – all with an eye toward protecting investors and improving audit quality.

### APPLICABLE PCAOB STANDARDS

AS 1301, *Communications with Audit Committees*, requires the auditor to communicate with the audit committee regarding certain matters related to the conduct of the audit and to obtain certain information from the audit committee relevant to the audit. The standard outlines specific objectives for the auditor to (1) communicate to the audit committee the responsibilities of the auditor in relation to the audit and establish an understanding of the terms of the audit engagement with the audit committee, (2) obtain information from the audit committee relevant to the audit, (3) communicate to the audit committee an overview of the overall audit strategy and timing of the audit, and (4) provide the audit committee with timely observations arising from the audit that are significant to the financial reporting process.

Appendix B of AS 1301 identifies numerous other PCAOB rules and standards related to the audit that require communication of specific matters to the audit committee, which includes among others, AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*, AS 2410, *Related Parties*, and AS 2805, *Management Representations*.

*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.*

# Common Deficiencies

The most common audit deficiencies that the PCAOB has observed in its inspections of the audits of smaller public companies are the auditor not providing the following required communications to the audit committee:



## Copies of the management representation

letter(s) or evidence that the public company's management separately provided copies of the management representation letter(s) to the public company's audit committee. (AS 2805.05)

## The overall audit strategy, including the names, locations, and planned responsibilities

of other independent public accounting firms or other persons, who are not employed by the firm, that performed audit procedures in the current period audit. (AS 1301.09 - AS 1301.10)



## All significant deficiencies and material weaknesses

identified during the audit. (AS 1305.04)



## The schedule of corrected misstatements

identified during the audit. (AS 1301.19)

## All critical accounting policies and practices used by the public company,

including the reasons certain policies and practices are considered critical and how current and anticipated future events might affect the determination of whether certain policies and practices are considered critical. (AS 1301.12b)



## The auditor's evaluation of the public company's identification of, accounting for, and disclosure

of its relationships and transactions with related parties. (AS 2410.19)

# REMINDERS

## Communication of the Use of Other Participants During the Audit

AS 1301 requires the engagement team to disclose to the audit committee the names, locations, and planned responsibilities of other independent public accounting firms or other persons, that are not employed by the auditor, and that perform audit procedures in the current period audit. The other participants who may perform these planned responsibilities may include:

- Other auditors to which work has been referred.
- Staff on secondment to the lead auditor team or other auditors.
- A non-affiliated firm with specialized skill or knowledge utilized by the lead auditor team or other auditors. (An affiliate of the accounting firm includes the accounting firm's parents; subsidiaries; pension, retirement, investment or similar plans; and any associated entities of the accounting firm.)

It is important for lead auditors to discuss expectations upfront with other auditors regarding when and how to communicate the other auditors' use of staff on secondment or other auditors to the lead auditor for the lead auditor to fulfill their responsibilities.

## Communication of Overall Audit Strategy and Select Audit Results

The auditor should communicate an overview of the overall audit strategy, including the timing of the audit, and discuss with the audit committee the significant risks identified during the auditor's risk assessment procedures. The auditor should also communicate significant changes to the planned audit strategy (e.g., changes due to a revised assessment of the risks of material

misstatement or the discovery of a previously unidentified risk of material misstatement).

Additionally, the auditor should communicate significant accounting policies and practices, critical accounting policies and practices, critical accounting estimates, and significant unusual transactions.

## Communication Required Under Other PCAOB Standards and Rules

Appendix B of AS 1301 identifies numerous other PCAOB rules and standards related to the audit that require communication of specific matters to the audit committee.

Of particular note, [PCAOB Rule 3526, \*Communication with Audit Committees Concerning Independence\*](#), requires the auditor at least annually to describe, in writing, to the audit committee of the audit client, all relationships between the registered public accounting firm or any affiliates of the firm and the audit client or persons in financial reporting oversight roles at the audit client that, as of the date of the communication, may reasonably be thought to bear on independence.

## Good Practices

We have observed the following good practices that audit firms that audit smaller public companies have implemented in the area of audit committee communications:



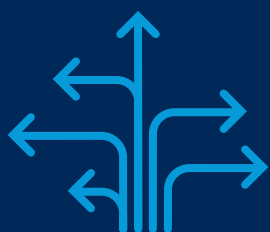
### Structured Templates

Some firms require the use of commercially available templates or in-house developed templates to facilitate effective communications with the audit committee in accordance with AS 1301. These include separate templates for different stages of the audit process – e.g., one template for planning communications, one template when nearing completion of the audit, one template for inquiries with the audit committee. These templates are most effective when (1) they are included in the firm’s audit methodology or standard work papers, (2) their completion is mandatory, (3) they are completed appropriately, and (4) they are reviewed by the engagement partner and engagement quality reviewer.

---

### Disclosure of Other Participants in the Audit

Certain audit firms also include a separate required template, or include in the planning template, information related to the communication of other participants in the audit. This information includes the names, locations, and planned responsibilities of other independent public accounting firms or other persons, who are not employed by the auditor, that perform, or are expected to perform, audit procedures in the current period audit.



### Guidance and Training

To enhance the effective use of these templates, firms develop guidance on how to complete the templates. This includes examples of properly completed templates, training sessions on the use of the templates and the requirements of AS 1301, review of related PCAOB deficiencies, and best practice reminders. Additionally, tips are provided to avoid common pitfalls when using the templates.

## ADDITIONAL RESOURCES

For more guidance on audit committee communications, please visit the [Staff Guidance](#) page.

### STAY CONNECTED

We invite you to [join our mailing list](#) and to visit the PCAOB’s [Staff Publications](#) page for more resources and updates on the PCAOB’s activities and observations.