
PCAOB Board Members Comment on Concerns of Issuers and Audit Committees

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In a pair of recent speeches, members of the Public Company Accounting Oversight Board have commented publicly on concerns expressed by some issuers and audit committees about the impact of recent PCAOB's initiatives. These include the PCAOB's audit committee "outreach" and the impact of the PCAOB's negative comments on deficiencies in audits of internal control over financial reporting.

In a March 18 [speech](#), Board Member Jay Hanson discussed the PCAOB's audit committee outreach program. He stated that "we have heard some concern about the PCAOB's involvement in the work of audit committees, including whether we are trying to regulate audit committees or otherwise impose requirements on audit committee members." He denied the PCAOB was trying to do either. Rather, he said, the PCAOB's actions are a direct response to hearing for several years "that audit committees want more information from the PCAOB and ideas for what to do with the information we provide."

In a [speech](#) on March 26, Board Member Jeannette Franzel addressed concerns that recent PCAOB statements regarding ICFR audits were resulting in auditors' performing additional ICFR audit procedures with resulting increases in costs. (See [this previous post](#) and [this post](#) for discussions of the PCAOB's pronouncements.) While stressing that the applicable auditing standards had not changed, she acknowledged that "many issuers are experiencing changes in firms' audit approaches as a result of PCAOB inspections and [a recent PCAOB practice alert on ICFR audits]. In some cases, auditors are performing additional procedures related to previously issued audit opinions on ICFR." She noted that issuers had expressed concerns about the value of the additional work and whether it will result in increased audit costs. Ms. Franzel also stated that the PCAOB had received feedback that there were indications "that there has not been effective communication and dialogue between audit firms and issuers about ICFR issues." She sought to disabuse notions that the PCAOB was prescribing detailed procedures for ICFR audits.

Notably, Ms. Franzel suggested that management also had a role in addressing ICFR issues that might lead to audit deficiencies. She observed:

"Experienced auditors and financial statement preparers know that the ICFR audit is

made more difficult if management's process is not as effective or well-documented as it should be. Effective and efficient solutions to some of the audit deficiencies found by the PCAOB may also require some improvements to both the issuer's and the auditor's process. I am concerned that, in some cases, the auditor's reaction is to "bolt on" a series of new audit steps when a more efficient and effective solution may require some tightening up of the controls on the part of management, in addition to changes to the audit procedures."

Board Member Hanson's speech also addressed another issue that is of interest to audit committee members and others, namely the utility of the Board's inspection reports. He emphasized that the PCAOB has been working to issue reports more quickly. It has also been seeking to improve the content of the reports by, among other things, including a plain-English executive summary, providing more context for the results of the reports and otherwise refining the standard language in the reports. Most notably, however, Mr. Hanson called for the PCAOB to eliminate use of the term "audit failure" to describe a finding that auditor did not obtain sufficient evidence to support its audit opinion. He said that the term "audit failure" could imply that there was a misstatement of the audited financial statements, and that is not usually the case. Mr. Hanson said he was troubled by providing a "rate" of audit failures in the PCAOB's public inspection reports; presenting such rates, which are then used to compare one firm to another "may be misleading at best and harmful at worst." At the same time, he recommended that the reports contain more context about the severity of each finding as well as other information to provide more context to readers of the reports.