
PCAOB Criticizes Internal Control Audits

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In December 2012, the [Public Company Accounting Oversight Board issued a Report](#) containing observations from its 2010 inspections of major U.S. accounting firms about deficiencies in audits of internal control over financial reporting. Among other findings, the PCAOB staff found that in 15% of audit engagements that were inspected, the audit firm had failed to obtain sufficient audit evidence to support its opinion on the effectiveness of the audit client's internal control over financial reporting, and that in most of these cases the staff identified deficiencies in the financial statement audits as well. The PCAOB indicated that this percentage had increased in its 2011 inspections.

The PCAOB suggested that audit committees “may find this report useful in fulfilling their responsibilities with respect to independent auditors.” It identified certain matters that committees could discuss with auditors. These include how the controls to be tested address risks of material misstatement for relevant assertions of significant accounts and disclosures, and the auditor's assessment of risks, evaluation of control deficiencies and whether the auditor has adjusted control testing and substantives audit procedures in response to identified control deficiencies.