
PCAOB Evaluates Audit Firm Communications with Audit Committees

APRIL 27, 2016

On April 5, the Public Company Accounting Oversight Board issued a [report](#) regarding compliance with Auditing Standard No. 16, *Communications with Audit Committees* (AS No. 16), based on its inspections of issuer audits during its 2014 inspection cycle. AS No. 16 became effective for audits of fiscal years beginning on or after December 15, 2012, and requires auditors to communicate with the company's audit committee regarding certain matters related to the conduct of an audit and to obtain certain information from the audit committee relevant to the audit. The purpose of AS No. 16, as noted in the report, is "to improve the audit by establishing requirements that enhance the relevance, timeliness, and quality of the communications between the auditor and the audit committee."

The PCAOB inspections staff identified deficiencies in 36, or approximately 7%, of the 551 audits inspected, with respect to compliance with AS No. 16 requirements. These deficiencies were mostly technical in nature, such as instances where audit firms failed to sufficiently document oral communications made to audit committees regarding audit-related matters. Though these deficiencies did not result in any insufficiently supported audit opinions, the deficiencies constituted departures from AS No. 16 and indicated possible defects in audit firms' quality control efforts. The PCAOB noted that failures to comply with AS No. 16 were more often identified in audits conducted by audit firms other than member firms of the six largest global accounting firm networks. Preliminary results from the 2015 inspection cycle revealed similar deficiencies at a similar incidence rate.

With respect to other PCAOB standards requiring audit committee communications, as set forth in Appendix B to AS No. 16, the PCAOB inspections staff observed audit firm deficiencies during the 2014 and 2015 inspection cycles with respect to communications about independence; the standard for disclosure of matters bearing on independence; inquiries about risks of material misstatement and fraud risks; and disclosures regarding tax services. The PCAOB inspections staff noted that such deficiencies "were not pervasive across firms" and had been observed in prior years.

The PCAOB inspections staff interviewed audit committee chairs as part of its inspection process.

As a general matter, audit committee chairs indicated that “effective two-way communication with their auditors had occurred.” Most audit committee chairs stated that the “significant risks, including fraud risks, communicated by the auditor and the planned scope of the audit were appropriate.” Other audit committee chairs indicated that their auditors had previously been providing the disclosures required under AS No. 16 and did not observe a change after AS No. 16 became effective.

Overall, the PCAOB reported that it was “encouraged” by the low percentage of deficiencies identified regarding the implementation of AS No. 16.

Authors



Alan J. Wilson

PARTNER

✉ alan.wilson@wilmerhale.com

☎ +1 202 663 6474