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PCAOB Staff Inspection Brief Highlights Areas of Focus During 2017 Inspections

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The staff of the Public Company Accounting Oversight Board recently published a Staff Inspection Brief regarding its 2017 inspections of registered audit firms. As described in the corresponding news release, the goal of the Brief is to "help investors, auditors, and others understand the areas of significant audit risks targeted by PCAOB inspectors, and encourage auditors to work to improve audit quality." Although the PCAOB inspection agenda does not directly affect the work of an audit committee, it is noteworthy because PCAOB inspection priorities can affect how auditors approach their audits.

The Brief indicates that for 2017 the staff plans to inspect approximately 195 firms, including 11 US firms that issued audit reports for more than 100 issuers, and 55 non-US firms in 26 jurisdictions. The key areas of focus during the 2017 inspection cycle, as summarized below, include a number of familiar risk areas, including some where the inspections staff has identified continuing year-over-year deficiencies.

- *Recurring Audit Deficiencies*. Based on previous inspections, the most frequent and recurring audit deficiencies were identified in the areas of internal control over financial reporting, assessing and responding to risks of material misstatement, and auditing accounting estimates, including fair value measurements. While some firms demonstrated improvements in this area, the inspections staff "continued to find high numbers of deficiencies at many firms."
- *Economic Factors*. Prominent economic developments considered when selecting audits to inspect during 2017 include Brexit and the effect in the European financial sector, continued high rate of merger and acquisition activity, search for higher yielding investment returns in a low interest rate environment, and continued fluctuations in oil and natural gas prices.
- *Financial Reporting Areas*. During 2016, the most frequently inspected financial reporting areas included revenue and receivables, nonfinancial assets, inventory, financial instruments, allowance for loan losses, income taxes, benefit-related liabilities, and equity transactions. Other areas of focus included the auditor's consideration of an entity's ability to continue as a going concern and income tax accounting and disclosures. These audit

areas continue to be frequently selected in 2017.

- *New Form AP Reporting Requirements.* The 2017 inspection program will include procedures to assess the effectiveness of firms' implementation of the PCAOB's new requirement that registered accounting firms report on Form AP the names of audit engagement partners and other audit participants.
- *New Accounting Standards*. The inspections staff will seek to understand changes in audit firms' systems and/or procedures that firms plan to undertake in light of the new accounting standards, including new lease accounting and revenue recognition standards.
- *Multinational Audits*. The inspections staff has routinely inspected portions of multinational audits, including the audit work performed by US and non-US auditors. The Brief notes that the inspections staff has observed a decrease in audit deficiencies in "referred work" at some firms, while noting that other firms "have not made significant improvements," meaning that they may have greater risk of lower quality audits when they use other auditors.
- *Information Technology*. The inspections staff continues to evaluate various software tools used by in the audit, particularly audit procedures performed by auditors to assess and address risks of material misstatement of financial statements relating to cybersecurity.
- *Firm's System of Quality Control*. The inspections staff also assesses each firm's quality control system that could lead to deficiencies in audit performance. Among the various elements of quality control on which the inspections staff is focusing are "root cause" analysis of audit deficiencies and positive quality events; engagement quality review; and professional skepticism. In the area of auditor independence, the inspections staff will continue to assess how audit firms' quality control systems stay abreast of consulting services and non-audit services, including acquisitions of consulting businesses by audit firms.

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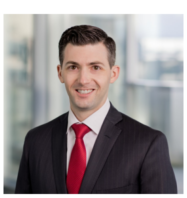

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