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AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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Summary

PCAOB 2024 Inspection Priorities: More Inspections and a Focus on Firm Culture. The PCAOB inspection staff outlined its 2024 inspections priorities and its plans for interactions with audit committees in [Spotlight: Staff Priorities for 2024 Inspections and Interactions With Audit Committees](#). In the 2024 inspection cycle, the PCAOB plans to increase the number of engagements selected for review at audit firms that have more than 100 public company audit clients. The Board will also deploy a team to evaluate the culture or “tone at the top” at the six global network firms. As it has in the past, the PCAOB staff will invite the audit committee chairs of public companies whose audits are selected for review to engage in a dialogue with the inspections staff.

The 2024 inspections will prioritize the selection of audits in three sectors – Financials, Information Technology, and sectors that apply industry-specific accounting. In engagements that are selected for review, inspectors will focus on, among other things, audit areas in which they have frequently found deficiencies in past inspections, such as revenue and related accounts; accounts affected by business combinations; inventory; long-lived assets, including goodwill and intangible assets; equity and equity-related transactions; and testing controls with a review element. Engagements where audit firms in addition to the principal auditor had significant involvement or in which the going concern determination was challenging will also attract inspection attention, as will compliance with the critical audit matters reporting requirement.

The report also suggests eleven questions audit committees should ask “to hold firms accountable to high standards when hiring and overseeing the audit process.” auditor. These questions could provide a useful basis for dialogue between the audit committee and the auditor. ([more](#))

Four Large Firms Report on How They See Their 2023 Audit Quality. Four global network accounting firms (Deloitte, EY, KPMG, and PwC) have issued their 2023 audit quality reports. These reports describe the firm’s commitment to audit quality, its performance on various self-selected audit quality-related metrics, and its plans to maintain and enhance the caliber of its audit performance. Because of their responsibility for the selection, evaluation, and retention of audit firms, audit committees are a key target audience for these reports. This [Update](#) includes a description of eight metrics common to most of the 2023 audit quality reports and how the four large firms described their 2023 performance on each. Audit committees should review their audit firm’s audit quality report as part of their evaluation of the firm and consideration of whether to continue its engagement. The reports may also serve as a basis for discussion among committee members and with the engagement partner regarding how the firm views quality and how its efforts to enhance quality may affect the company’s audit. ([more](#))

PCAOB Target Team Zeroed in on First-time Audits, Shared Service Centers, and Climate.

The PCAOB's annual inspections program includes a "target team" which examines how auditors handled specific issues on a cross-firm basis. In [Spotlight: Observations From the Target Team's 2022 Inspections](#), the PCAOB staff summarizes the target team's work in 2022, including deficiencies observed, good practices identified, and key insights. The 2022 target team looked at three areas: post-initial public offering audits, audit firm use of shared service centers (SSCs), and climate-related matters that impacted financial reporting. The report's descriptions of deficiencies and good practices observed by the target team may provide audit committees with insights that can facilitate discussion of audit planning with its engagement team. The 2022 target team report underscores the PCAOB's focus on auditor use of shared service centers and on the impact of climate-related risks on financial reporting and auditing. Audit committees should consider asking their engagement partner to describe the role that SSCs play in the company's audit and how climate-related risks affect audit planning and execution. ([more](#))

What Should be on the Audit Committee's 2024 Agenda?

At the start of each year, accounting and consulting firms present their views on the issues on which audit committees should focus during the coming 12 months. This [Update](#) includes a list (with hyperlinks to the documents) of five of these 2024 agenda papers. Some of the most frequently identified agenda topics are: ESG reporting, including mandatory climate change disclosure requirements; risk and disclosure implications of artificial intelligence; cybersecurity and compliance with SEC cybersecurity disclosure requirements; impact of the PCAOB's proposal to enhance auditor responsibility to detect company noncompliance with laws and regulations (NOCLAR); adequacy of company financial reporting and internal audit talent; and SEC emphasis on disclosure controls and procedures. A high-level review of these papers could be helpful to audit committees as a check that they are not overlooking topics that should be considered during 2024. Also, the papers often include suggested questions that the audit committee could pursue with management to better understand its approach to the various topics. ([more](#))

AI: Yet Another Audit Committee Responsibility.

In [Artificial intelligence: An emerging oversight responsibility for audit committees?](#), Deloitte discusses some of the emerging risks and opportunities that audit committees need to consider as AI becomes integrated into core business processes. The paper also suggests questions for audit committees to consider in overseeing AI strategy and governance. Audit committees that are seeking a basic grounding in the impact of AI risks and opportunities on their work may also be interested [Artificial Intelligence \(AI\) 101 For Audit Committees](#), a one-hour video presented by the Center for Audit Quality and the National Association of Corporate Directors on AI. The video includes discussion of what AI is, examples of how businesses are using AI in financial reporting, and questions boards should ask of corporate management. ([more](#))

What Do Clients Want from Auditors? Is it the Same as What Investors Want?

In [What Do Audit Clients Want from Their Auditor?](#), Brant Christensen (Brigham Young University), Matthew Ege and Nathan Sharp (both of Texas A&M University) and T. Jeffrey Wilks (Brigham Young University) report the results of a survey and interviews with public company executives and directors about what they want from their external auditor. Their findings suggest that executives (and audit committee members) may value different auditor attributes than those that investors presumably favor. For example, the study reports that executives particularly value an audit partner's willingness to "be flexible" in areas involving subjective judgment, "such as determining whether a misstatement is material or whether a control deficiency is a material weakness." Executives also value a partner's willingness to make decisions without involving the audit firm's national office. The authors observe that these findings "raise questions about whether executives' and directors' focus on service quality and flexibility aligns with investors' needs." In evaluating auditor performance, audit committees may want to keep the implications of these differences in perspective in mind. ([more](#))

[How to Improve Your Audit: Ask Your Auditor to Hire a PCAOB Alum.](#) In [Does audit firm hiring of former PCAOB personnel improve audit quality?](#), a paper published in the [Review of Accounting Studies](#), Jagan Krishnan (Temple University), Jayanthi Krishnan (Temple University), and Steven A. Maex (George Mason University) examine whether the hiring of PCAOB employees by large audit firms is associated with higher audit quality at these firms. They find that adding staff with PCAOB experience reduces the likelihood that the firm will fail to detect material misstatements or will issue an incorrect opinion on internal control over financial reporting. While the audit committee should take an interest in the professional background of senior members of the engagement team, in practice, the presence of PCAOB alumni on an audit firm's staff is not a basis for differentiating between the major firms. The study reports that, in 2016, the six largest firms each had at least seven former PCAOB employees, while one firm had 19 alums. ([more](#))

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The Update's website is www.auditupdate.com.

Updates Nos. 76-87 (August 2022 to present) are available [here](#). Updates Nos. 60-75 (June 2020 to July 2022) are available [here](#). Updates Nos. 49-59 (January 2019 to May 2020) are available [here](#). Updates prior to No. 49 are available on request.

An index to titles and topics in the Update beginning with No. 39 (July 2017) is available [here](#).