

MEMO# 26372

August 7, 2012

PCAOB Release Informs Audit Committees About Inspection Process

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TO: INTERNAL AUDIT ADVISORY COMMITTEE No. 2-12 RE: PCAOB RELEASE INFORMS AUDIT COMMITTEES ABOUT INSPECTION PROCESS

The Public Company Accounting Oversight Board recently issued a release intended to inform audit committees about its inspection of audit firms and the meaning of reported inspection results. [\[1\]](#) According to the PCAOB, the objective of the Release is to better equip audit committees to engage in meaningful discussion with their auditors about the Board's inspection findings.

PCAOB inspections are designed to identify and address weaknesses related to how a firm conducts audits. Board inspections include an evaluation of the firm's performance in selected audit engagements, and evaluation of the firm's quality control system. Professional standards require audit firms to have quality control systems intended to ensure firm audits are conducted consistent with generally accepted auditing standards.

The Board issues a report on every inspection and makes a portion of the report publicly available on its website. The publicly available portion (Part 1) describes audit deficiencies where inspection staff found that the auditor failed to gather sufficient evidence to support an audit opinion. Part 1 does not, however, identify specific audit engagements by audit client name. The non-public portion of the report (Part 2) typically describes deficiencies in the firm's overall system of quality control such that the Board has doubts that the system provides reasonable assurance that professional standards are met. The PCAOB is prohibited by law from publicly releasing Part 2, unless the audit firm fails to remediate the deficiencies to the Board's satisfaction within a twelve month period. Audit firms have copies of the Board's inspection reports and are not prohibited from releasing them.

The Release highlights certain areas of inquiry that audit committees may wish to address with their auditors. These include, for example:

1. Whether the audit overseen by the audit committee was selected by the PCAOB for inspection and whether any findings were made;
2. Relevant inspection findings on other audits performed by the firm that involved audit or accounting issues similar to those found in the audit overseen by the audit

committee;

3. The firm's response to the PCAOB findings. In this regard, the Release identifies certain audit firm responses that audit committees should view with skepticism; and
4. The firm's remedial efforts in light of any quality control deficiencies that may have been identified by the PCAOB.

The Release notes that audit firms may be reluctant to share the details of Part 2 findings in an inspection report for a number of reasons. In that case, audit committees may wish to ask for certain general information about the findings, such as what changes the firm is making to address quality control deficiencies, and whether the PCAOB has made a final determination about the firm's remediation efforts.

Gregory M. Smith
Senior Director of Fund Accounting and Compliance

endnotes

[\[1\]](#) PCAOB Release No. 2012-003, Information For Audit Committees About the PCAOB Inspection Process [August 1, 2012] (the "Release") is available on the PCAOB's website at www.pcaobus.org.

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