

PCAOB: Conversations with audit committees

KPMG Board Leadership Centre

Audit committees in the United States have a legally mandated role in the oversight of the auditor and the audit process. Engaging directly and regularly with audit committees is a priority for the Public Company Accounting Oversight Board (PCAOB). Audit committees and the PCAOB share the goal of driving audit quality by exercising appropriate oversight of external auditors.

One aspect of the PCAOB's outreach to audit committees is open one-on-one conversations. Each year, the PCAOB invites certain audit committee chairs at U.S. public companies whose audits they inspect engage in candid conversations in an informal setting. The conversations provide an opportunity for the PCAOB to hear the perspectives and observations of audit committee chairs and for the PCAOB to share information and resources with audit committees to help them improve audit quality.

The high-level observations and takeaways from those conversations are set out in the PCAOB publication '[Spotlight: 2023 Conversations with audit committee chairs](#)' and summarised below.

Current economic and audit workforce environments

In the PCAOB's conversations, many audit committee chairs noted they had held discussions with their auditors regarding both economic and geopolitical considerations. Among the most oft-mentioned economic topics were:

- interest rate fluctuations;
- inflation;
- supply-chain challenges, such as delays in or an inability to obtain necessary materials; and
- the economic impacts of the Russia-Ukraine war.

The substance of the discussions with their auditors largely concerned the risks that these issues presented in the audit and how the audit team was addressing them.

Audit Workforce Environment

The audit committee chairs reported that they were pleased with their auditors' ability to retain a skilled workforce and with their use of technology to conduct audits effectively and efficiently. In contrast, last year many audit committee chairs told the PCAOB that they had concerns about audit staff turnover.

Several chairs did note that they continue to have concerns about the impact working in remote and hybrid environments will have on the long-term development of professionals. This coupled with the pipeline concerns of attracting new people into the auditing profession, could lead to an insufficient number of qualified auditors.

While the most significant impacts of the COVID-19 pandemic on audit execution appear to have abated, there are some lingering effects that remain on audit committee radar screens. In 2022, audit committee chairs expressed confidence that their auditors could conduct high-quality audits in the remote and hybrid environment, and this remained the case in 2023. Also, while some audit committee chairs expressed a preference for the conduct of fully in-person audits, notwithstanding the concern noted above, most expressed continued confidence in the quality of audits that are conducted remotely or in a hybrid manner.

Key takeaway

Most audit committee chairs are sensitive to the impact macroeconomic and geopolitical factors can have on the risk factors that should be considered in conducting audits of their companies. They are engaging in discussions with their auditors to understand these risk factors, including how they are being addressed in the audit.

Significant discussions with auditors

Generally, audit committee chairs told the PCAOB that they remain satisfied with the level of communication they have with their auditors.

When asked what topics they spent significant time discussing with their auditors, responses included topics such as required communications, goodwill impairment, interest rates, internal control deficiencies, fraud, liquidity, cybersecurity, and auditor independence.

Many of these issues were included as critical audit matters (CAMs) in the auditors' reports. PCAOB standards require auditors to communicate as a CAM any matter arising from the audit of the financial statements that meets the following criteria:

- Was communicated or is required to be communicated to the audit committee;
- Relates to accounts or disclosures that are material to the financial statements; and
- Involved especially challenging, subjective, or complex auditor judgment.

Audit committee chairs expressed satisfaction with the communication they had with their auditors around CAMs.

Key takeaway

Audit committees believe they are spending sufficient time discussing CAMs and other significant issues with their auditors to ensure these matters receive appropriate attention and consideration during the audit process.

When asked how audit committees are monitoring the quality control systems and independence of their auditors, most audit committee chairs said they closely monitor both through regular conversations with their auditors. These conversations focus on, for example, auditor presentations and the firm's most recent PCAOB inspection report and include a discussion regarding what the firm is doing to remediate identified deficiencies. However, the PCAOB paper notes that some audit committees did not appear to spend the same amount of time on this review.

Key takeaway

Audit committee chairs report that they believe they are taking time to satisfy themselves that their auditor has the necessary policies and procedures in place to ensure they comply with PCAOB requirements for quality control and independence.

Monitoring quality control systems and independence

The PCAOB and audit committees share the goal of improving audit quality. Last year, PCAOB staff issued reports on priorities for 2024 inspections¹ and the increase in audit deficiencies observed in 2022². In both documents, staff offer a series of questions for audit committees to consider in discussions with their auditors.

¹ [SPOTLIGHT: Staff Priorities for 2024 Inspections and Interactions With Audit Committees](#), PCAOB, December 2023

² [SPOTLIGHT: Staff Update and Preview of 2022 Inspection Observations](#), PCAOB, July, 2023

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

Learn more at www.kpmg.com/uk/blc.

Contact us

Timothy Copnell
Board Leadership Centre
T: +44 (0)7801 520802
E: tim.copnell@kpmg.co.uk

www.kpmg.com/uk/blc



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.