

## [Securities Regulation Daily Wrap Up, TOP STORY—PCAOB to take up quality controls concept release, \(Dec. 12, 2019\)](#)

Securities Regulation Daily Wrap Up

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The concept release to be considered at a PCAOB open meeting next week will seek comments on potential changes to the Board's quality control standards.

The PCAOB will hold an open meeting on December 17 to consider a concept release on PCAOB quality control standards, new Board member Rebekah Jurata [announced](#) at the AICPA's Conference on Current SEC and PCAOB Developments. The full Board was in attendance at the conference and discussed the PCAOB's outreach efforts and recent Board initiatives.

**Concept release.** According to Jurata, there is a nexus between audit quality and the information that is provided to investors. While audit quality has improved since the creation of the PCAOB, there is still a lack of consistency, Jurata said. Board Member Duane DesParte noted that quality control standards have not been substantively updated since 2003. Since then, the market has changed, as have the way audits are performed, such as an increased reliance on technology.

The concept release the Board will consider at the December 17 open meeting will seek input in the areas of governance, risk assessment, monitoring, and firm reporting on quality, DesParte said. The release will also ask for input on what processes the Board should undertake as it reviews its quality control standards. DesParte emphasized that the purpose of the concept release is to seek comments from stakeholders rather than jumping right in to a formal proposal on the actual standard.

The concept release will feature two overarching themes, DesParte said. First, as the PCAOB assesses potential changes to the standard, it will appreciate the implications of the changes to firms of all types, whether they be large or small, domestic or international. Scalability will be a key consideration, DesParte assured.

Second, DesParte noted that the Board does not operate in a vacuum and continues to monitor and assess developments of other standard setters and regulators. In particular, he pointed out the work of the International Auditing and Assurance Standards Board (IAASB) and its [ISQM 1](#) project. He added that many firms that conduct audits in accordance with PCAOB standards also conduct audits in accordance with international standards, so it would not be practicable to have fundamentally different frameworks for the firms to follow and that the ISQM 1 can serve as a good starting point.

**Engagement.** Several Board members drew attention to the PCAOB's increased outreach efforts, which was one of the main [components](#) of its [strategic plan](#) approved in November 2018. Chairman William Duhnke remarked that the PCAOB has reached out to over 800 investors and over 600 audit committee members as part of its outreach project. Duhnke said that he hopes the word is getting out that PCAOB is reachable and welcome communication with stakeholders.

DesParte said that audit committee members have been appreciative of the PCAOB's outreach efforts and open to sharing their perspectives. In particular, audit committee members are curious to know more about the PCAOB inspections program and what the staff is looking for during inspections. They also want to learn about what the PCAOB sees as the biggest challenges in auditing, DesParte added. Audit committees want to know where the staff sees potential issues so they can direct their oversight in that direction, according to DesParte.

**Revised inspection report.** Board Member James Kaiser said that the Board has taken stakeholder feedback into account in the PCAOB's project to revise the inspection report itself. According to this feedback, inspection reports are difficult to read, hard to understand, and the information provided should be timelier. The revised

inspection report will be more streamlined and user friendly, with better text and an increase in the use of graphics, Kaiser explained. Kaiser also said that the reports will feature comparative data of inspections over time and will classify audit deficiencies for the first time. In addition, there will be a new Section 1B of the inspection report, which will provide that while an audit may have complied with the requirement to obtain sufficient information to support the audit report, the audit did not adhere to all the Board's standards.

**Enforcement.** Discussing the PCAOB's enforcement program, Board Member Jay Brown said that the enforcement staff has been emphasizing high-impact cases that go beyond the particular facts of an individual case. For example, for the first time, the Board brought a [case](#) against an auditing firm that advocated its audit clients as investment opportunities in connection with the firm's annual investor conference. The Board also brought charges in international cases that involved extraordinary cooperation by the firm and reduced sanctions in exchange for cooperation, Brown noted.

In addition, Brown advised that the PCAOB brought enforcement actions for violations of Form AP requirements for the first time. The requirements of Form AP require the disclosure of the names of engagement partners and other firms participating in public company audits. Pursuing violations of Form AP contributes to the integrity of the [Form AP database](#), Brown explained. The Enforcement Division, by bringing these Form AP cases, signaled the importance of the database, he added.

**CAMs.** When asked how the PCAOB is monitoring the implementation of its standard on critical audit matters (CAMs), Kaiser noted that the PCAOB has published guidance for firms, investors, and audit committees, as well as conducting webinars on CAMs. The staff also looked at the methodologies used by the 10 largest firms to evaluate CAMs to give feedback to those firms. So far, the staff has encountered about two CAMs per audit in four principal areas: revenue, business combinations, goodwill and intangibles, and taxes.

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