

[Securities Regulation Daily Wrap Up, PCAOB NEWS AND SPEECHES— PCAOB inspections chief updates AICPA conference on 2020 efforts and challenges, \(Dec. 17, 2020\)](#)

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In the midst of the pandemic, the inspections staff has continued to observe the same deficiencies as in past years, including revenue, auditing accounting estimates, and ICFR.

While the COVID-19 pandemic has added some elements of uncertainty to the PCAOB's inspections program, George Botic, director of the PCAOB's Division of Registration and Inspections, maintained that "the more things change, the more they remain the same" when it comes to the professional responsibilities of auditors. Discussing the Division's activities in 2020 at the AICPA's annual conference on SEC and PCAOB developments, Botic stressed the importance of the fundamentals of auditing, urging auditors to continue to be vigilant and resilient in challenging times.

COVID-19. Botic echoed a common theme of 2020 at the conference: confronting challenges related to COVID-19. According to Botic, working in a remote environment has accelerated the acceptance of new technology and tools related to audits, such as conducting virtual inventory observations. But despite the use of these tools, the pandemic disrupted time-honored approaches to audits, such as interactions with company management, accounting personnel, and the ability to "walk the halls," as well as in-person inventory observations.

However, Botic assured that the PCAOB is committed to the fundamentals of conducting inspections, even in a virtual environment. This year, the PCAOB inspections staff will have reviewed portions of over 550 audits of domestically-inspected firms. Inspections of non-U.S. firms present more challenges, Botic said. In 2020, the staff will have conducted inspections of 39 non-U.S. firms in 18 jurisdictions, 42 percent fewer than the PCAOB's original plan envisioned, Botic commented.

Also related to COVID, Botic pointed to the PCAOB's April "Spotlight" document and its [recently issued follow-up](#) document outlining how the staff approached inspections in 2020. He highlighted three items in particular. First, certain firms altered their internal monitoring programs to target engagements in industries that were more likely to be affected by COVID, he explained. Second, the staff found that firms emphasized the importance of consultation, especially regarding issues such as the receipt of government assistance, changes to materiality assessments, and going concern considerations, Botic observed.

Finally, Botic noted that engagement teams have been conducting virtual inventory observations using mobile devices and other apps to conduct real-time video streaming to verify inventory. Using these tools, company personnel were able to "walk the floor" to complete procedures that otherwise have been performed in person.

Inspection reports. Botic also provided an update on the status of the PCAOB's inspection reports. He noted that all 11 reports issued this year on the staff's 2018 inspections were presented in a revised format which was designed to show the PCAOB's findings in a clear matter with reduced boilerplate language.

Regarding the PCAOB's triennial inspection reports, Botic said that the staff anticipates reducing the significant backlog over the next year. Botic also noted that the Board's 2019 inspections reports will indicate that while deficiencies will be similar to those observed in prior years, he added that certain firms have reduced the number or severity of deficiencies found. The PCAOB also highlighted a number of good practices that the inspection staff has encountered, Botic said.

While inspections have revealed some improvements, there are still common deficiencies uncovered by the staff, according to Botic. These included the design and performance of audit procedures to address risk assessments related to revenue. Other recurring deficiencies mentioned were those related to accounting auditing estimates (such as allowances for loan loss and accounting for business combinations) and internal controls over financial reporting, Botic remarked.

Botic also highlighted issues related to independence. He drew attention to four areas in particular: (1) firm-identified violations of independence violations for possible quality control concerns; (2) compliance with independence rules about significant non-audit services; (3) firms' communications with audit committees concerning independence matters; and (4) firms' responses to quality control concerns from past inspections, such as high rates of exceptions noted by the firms' own independence compliance tests. Botic emphasized that independence will continue to be a specific focus of firm leadership by the inspections staff.

Best practices. Leaning to a more positive side to inspections, Botic outlined some best practices observed by PCAOB during the course of its inspections. One practice the staff had observed was firms creating narratives of their own quality control systems and preparing process flow maps linked to quality, objectives, and controls. Other firms implemented interactive engagement team meetings tied to particular audit milestones and conducted coaching workshops for engagement team members, Botic said. In addition, the staff observed increased partner involvement in testing controls. Botic remarked that these good practices can be adjusted according to the size of the firm as well as the size and nature of the engagement.

CAMs. Audit firm compliance with the PCAOB's new standard on critical audit matters (CAMs) has also been an area of focus in the Division, Botic said. As the staff begins to look to its 2021 inspections, when examining CAMs the staff will want to understand what methodology and tools are in place at the firm level and how engagement teams dealt with CAMs when conducting audits. The staff will look at what tools the firm uses, what kind of training has been provided to its staff, and what level of assistance the firm has in reviewing and supporting engagement teams in their CAM determinations and communications, Botic advised.

Botic also urged auditors to review the Board's [interim analysis](#) on the impact of CAMs. The interim report summarizes the PCAOB's stakeholder outreach and key components of the staff's research and statistical analysis.

Key takeaways from 2020. Botic concluded his remarks by identifying five takeaways from the Inspections Division in 2020, which he called the most challenging audit season since the financial crisis. First, Botic emphasized the continuing importance of exercising due professional care and professional skepticism in all aspects of audit work. The disruption resulting from the pandemic serves as a reminder of the importance of these responsibilities, Botic said.

Botic also stressed the importance of performing robust risk assessment procedures and understanding a client's business, including the impact of both known and potential changes due to COVID and other economic challenges. Botic encouraged a renewed focus on fraud procedures, especially how auditors incorporate the unpredictability of how an audit is performed year after year.

Materiality assessments are also important, Botic said. Auditors should establish a materiality level for the financial statements taken as a whole, and economic challenges may cause auditors to reevaluate the previously established materiality levels, he explained.

Finally, Botic addressed the importance of supervision. Given the need of auditors to evaluate significant judgments and assumptions, audit engagement teams should look to increased involvement of senior engagement members, including partners, in the areas he described in his remarks.

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