

[Securities Regulation Daily Wrap Up, ACCOUNTING AND AUDITING—PCAOB officials highlight Board's revised agenda, COVID-era audits at AICPA conference, \(Sept. 22, 2020\)](#)

Securities Regulation Daily

[Click to open document in a browser](#)

By [Amanda Maine, J.D.](#)

The new approach to the Board's agenda is not an exclusive overview of its work in progress, but is intended to reflect milestones the Board expects to achieve within 18 months.

PCAOB officials, speaking at the AICPA's National Conference on Banks & Savings Institutions, addressed recent changes to the Board's standard setting and research agendas, which include removing going concern from its standard setting projects and adding a project on auditor independence. The also addressed issues related to the COVID-19 pandemic, including audit challenges and what to expect during PCAOB inspections.

Revised agendas. PCAOB Chief Auditor Megan Zietsman discussed [changes](#) to the Board's standard-setting agenda, which she said reflects a modernization to the Board's approach to standard setting. This approach means that the PCAOB will include in its standard setting and research agendas only those specific projects where a public milestone such as a proposal, a staff publication, or a concept release is anticipated within the next 12 to 18 months. Consistent with this new approach, the Board has added auditor independence to its standard-setting agenda and removed its going concern project. The revised standard-setting agenda has three projects: auditor independence, quality control, and the supervision of audits involving other auditors.

Regarding the auditor independence project, the agenda includes a narrowly targeted scope that anticipates the finalization of rules [proposed](#) by the SEC in December 2019, Zietsman said. The Commission's proposal is intended to more effectively structure the independence rules and analysis so that relationships and services that would not pose threats to an auditor's objectivity and impartiality do not trigger non-substantive rule breaches or potentially time consuming audit committee review of non-substantive matters, according to the SEC.

The Board's project on quality control addresses changes that have emerged since the PCAOB adopted the AICPA's standards on quality control in 2003. Zietsman pointed out that the audit environment has changed significantly since then, especially in area of technology. She directed interested parties to read the PCAOB's December 2019 [concept release](#) on quality control standards, which has received about 36 comment letters. Many of the commenters were supportive of the Board going forward with the project as well as using international developments such as the IAASB's [ISQM1](#) standard as a basis for the Board's quality control framework.

Zietsman said that the staff is currently working on a recommendation for its project on the supervision of audits involving other auditors for 2021. In addition to being informed by the work of the staff on the quality control project, Zietsman advised that the Board is continuing to monitor the work of the IAASB in this area.

While going concern has been removed from the standard-setting agenda, Zietsman assured that it remains an important topic and that developments related to going concern will be monitored. Based on the staff's research and analysis, the Board determined that there was not a need for a going concern project in the near-term because it did not expect a public milestone on going concern within the next 12 to 18 months, she explained. She added that the agenda does not reflect everything the staff is working on.

In addition to the revisions to the Board's standard-setting agenda, Deputy Chief Auditor Barbara Vanich noted that there have also been changes to the PCAOB's research agenda. Research projects on other information and noncompliance with laws and regulations have been removed from the research agenda, while a project on audit evidence has been added. According to Vanich, principles-based standards have a longer shelf life, which

should also apply to the audit evidence standard. While the current audit evidence standard remains appropriate whether or not technology-based tools are used, the "further audit procedures" provision of the standard, which includes tests of controls and substantive procedures, does not include a requirement to classify procedures as one of those types, Vanich remarked. The Board's project on data and technology remains on the research agenda, Vanich advised.

COVID-19 audit considerations. Zietsman also outlined challenges faced by auditors in the COVID-19 pandemic. She grouped the issues into two "buckets"—access/workforce effects and economic effects. Access/workforce effects involve adapting the workforce new approaches for assigning work and working with members of the engagement team. Zietsman said that the use of other auditors has been impacted by the pandemic. Where it previously may have involved travel and personal interactions, companies and firms that have invested in technology have seen that investment pay off, Zietsman said.

Firms have also had to cope with changes to auditing internal controls over financial reporting. Some of these workarounds are temporary, while others may be in effect for the foreseeable future, Zietsman said. She also noted that since walkthroughs and the observation of controls cannot be done in person, new risks are introduced into the audit. Zietsman stressed the importance of applying due care and professional skepticism when evaluating electronic evidence.

In the economic bucket, Zietsman said that auditors need to be aware of new risks that have emerged during the pandemic. In particular, the current environment presents challenges for auditing accounting estimates, Zietsman advised. Auditors need to keep in mind that estimates based on past performance or management expectations may not reflect the current environment, she warned. She also singled out going concern as a significant challenge for both preparers and audit firms. For example, the ability to secure financing might not be the same as it was pre-COVID. In addition, she implored firms to be aware of threats or challenges to auditor independence, such as unpaid fees or increased calls for non-audit services.

Zietsman highlighted the PCAOB's outreach to audit committees on COVID-19 issues, including a "Spotlight" [issued](#) in July which detailed a wide range of topics identified as risks across various industries. One good development that has emerged is more frequent communication between auditors and audit committees, according to Zietsman.

Inspections. Jason Bullington, regional associate director in the PCAOB's Division of Registration and Inspections (DRI) and leader of the PCAOB's Banking Inspections Group, discussed how his group is approaching 2020 inspections in light of COVID-19. The inspections staff will review how auditors are responding to COVID-related risks and the judgments they are making along the way. Some challenges identified during recent PCAOB inspections include changes made to internal controls, unusual accounting related to going concern, and accounting for COVID-19 government relief, he said. Emphasizing the Board's focus on audit committees, Bullington said that the staff has asked audit committee chairs about how the pandemic has impacted their duties.

While remote inspections have taken place in the past, the pandemic has made it mostly mandatory in both U.S. and non-U.S. jurisdictions, Bullington said. He encouraged patience and flexibility in engaging in virtual inspections, adding that with each inspection, the staff has learned lessons leading to improvements in virtual inspections despite these challenges.

Bullington also highlighted the PCAOB's [new format](#) for its inspections reports, which has been in use since the beginning of this year and is the first revision of the format since the Board's formation over 15 years ago. The new format streamlines content to enhance readability, uses more charts and graphs, and reduces technical and boilerplate language, Bullington explained. The new inspections report format also includes new information such as a classification system for audits and PCAOB data for the three most recent inspection years.

IndustryNews: AccountingAuditing Covid19 FormsFilings GCNNews PCAOBNews
PublicCompanyReportingDisclosure