PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

SPOTLIGHT

Audit Committee Resource

June 2023

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The staff of the Public Company Accounting Oversight Board (PCAOB) from time to time provides Spotlights to highlight timely information for auditors, audit committee members, investors, and others. Our oversight activities continue to indicate that investors and other stakeholders look to audit committees of public companies to oversee the quality and sufficiency of the accounting and financial reporting processes of public companies, as well as the audits of public companies. As part of audit committees' audit oversight responsibilities, it is important that audit committees engage in effective two-way communication with auditors and ask relevant questions throughout the audit.

This "Spotlight: Audit Committee Resource" suggests questions that may be of interest to audit committee members to consider amongst themselves or in discussions with their independent auditors, particularly given today's economic and geopolitical landscape. Stakeholders may also consider other Spotlights as reference points for relevant discussions, including our April 2023 Spotlight, "Staff Priorities for 2023 Inspections."

RISK OF FRAUD

- Did the auditor identify any new risks of fraud in the current year audit? If not, what procedures did the auditor perform to identify risks of fraud, and were any procedures different from the prior year?
- Did the auditor identify any significant unusual transactions? If yes, how did the auditor evaluate whether the transaction was for a legitimate business purpose?
- What procedures did the auditor perform to identify potential related party transactions? Did the auditor perform the same procedures for related party transactions that are also significant unusual transactions (e.g., significant related party transactions outside the normal course of business)?
- Did the auditor's inquiries of management include whether possible illegal acts, such as potential noncompliance with sanctions and other laws or regulations, have occurred? If any acts were identified, what was the impact on the audit?
- What procedures were performed by the auditor to address whether management perpetrated or concealed fraud by presenting incomplete or inaccurate financial statement disclosures or by omitting necessary disclosures?

RISK ASSESSMENT AND INTERNAL CONTROLS

- How did the auditor gain a sufficient understanding of the business and management's strategy?
- What has the auditor done to understand and/or select and test relevant controls? Has appropriate testing of data been performed for the data used in the operation of those selected and tested controls? Have management review controls been properly tested?
- How did the auditor modify their audit approach in response to identified control deficiencies, if any?
- How has the auditor contemplated relevant economic factors, such as inflation, rising interest rates, supply chain risks, and ability to access capital as part of its risk assessment procedures?
- How has the auditor considered relevant economic factors that could affect the public company's ability to continue as a going concern? If applicable, how has the

auditor evaluated management's ability and intent to carry out its plans to mitigate the effect of such economic factors, such as access to external funding or the ability to hold investment securities to maturity?

- How has the auditor considered the specific risks to the public company's internal control over financial reporting (ICFR) resulting from the public company's current information technology (IT) environment?
- Does management use third-party service organizations? If so, what was the result of the auditor's risk assessment and related audit response?

AUDITING AND ACCOUNTING RISKS

- How has the auditor considered the economic environment, including recent significant economic, accounting, or other developments, in its determination of whether an identified risk is a significant risk? What unique risks did the auditor find applicable to the public company?
- For areas where a significant risk was identified, has the auditor considered whether the public company's selection and application of accounting principles, including related financial statement disclosure requirements, were consistent with the applicable financial reporting framework?
- Did the auditor propose any significant modifications to the disclosure on critical accounting policies and practices that management did not make?
- When a restatement exists in the public company's disclosures, what were the auditor's procedures to assess the sufficiency of management's materiality conclusion? What observations does the auditor have regarding management's analysis?
- How did the auditor consider potential management bias in developing significant estimates and assumptions? What observations, if any, did the auditor make about potential management bias during the audit?
- What data and technology tools were used by the auditor in the performance of the audit? What incremental audit risks or benefits were introduced by this?

DIGITAL ASSETS

- What steps has the audit firm taken to ensure that its engagement partner and other senior engagement team members have the knowledge, skills, and abilities regarding digital assets to adequately perform audit services, including those related specifically to ICFR, for the public company?
- Have recent digital asset market developments – including recent bankruptcies – influenced the nature, timing, and extent of procedures the auditor plans to perform or performed to address the risk of material misstatement including fraud risk related to digital assets?
- Does the auditor utilize any specialized technology-based tools with respect to digital assets in its audit? How has the use of these tools affected the nature, timing, and extent of audit procedures performed to address risks of material misstatement related to digital assets?

MERGER AND ACQUISITION ACTIVITIES

- How did the auditor evaluate risks, if any, concerning mergers and acquisition activities? If the public company has been involved in a de-SPAC (special purpose acquisition company) transaction, what were the auditor's key considerations in evaluating management's determination of the accounting acquirer?
- How did the auditor evaluate management's assessment of the effect of a de-SPAC transaction on any pre-existing compensation agreements?
- How was the technical competence and financial reporting experience of the target's management considered in the auditor's risk assessment?
- How has lower than expected post-acquisition performance been properly evaluated for impairments?

USE OF THE WORK OF OTHER AUDITORS

- Are there other participating accounting firms that play a substantial role in the audit? If so, are they registered with the PCAOB and subject to PCAOB inspections?
- How were the professional reputation and independence of the other auditors evaluated?
- How did the auditor evaluate the significant risks, the other auditor's responses, and the results of the other auditor's related procedures?
- How does the lead auditor ensure that the work is being performed by other auditors that understand the requirements of the applicable financial reporting framework and the PCAOB's auditing and related professional standards?

TALENT AND ITS IMPACT ON AUDIT QUALITY

- Did the "great resignation" cause the audit firm to experience difficulties recruiting and retaining staff? If so, what is the audit firm doing to attract and retain talent to ensure that all engagement team members have appropriate levels of competency, degree of proficiency, training, and supervision?
- Do the audit firm's policies reflect procedures to adequately supervise and review engagement team members, as well as work performed by the audit firm's shared service centers or designated centers of excellence?
- Did the audit firm conduct the audit in a remote/hybrid environment? If so, how did the engagement partner ensure that the engagement team was properly supervised?

INDEPENDENCE

- What are the audit firm's policies or procedures for identifying, evaluating, and addressing any threats to independence, in fact or appearance? What processes are in place to ensure all relationships that may reasonably be thought to bear on independence are properly communicated to the audit committee?
- How does the audit firm employ automated systems or processes, if any, to identify relationships with restricted entities that may reasonably be thought to have an impact on independence?

CRITICAL AUDIT MATTERS

- How has the auditor considered whether there is any audit matter that involved challenging, subjective, or complex auditor judgment? What preliminary determinations were made that ultimately did not result in the reporting of a critical audit matter?

CYBERSECURITY

- How did the auditor consider the risk of cyberthreats or cyber incidents? Did the auditor identify a risk of material misstatement related to cybersecurity?
- Was the auditor made aware of cyber breaches within the public company's operations that may affect financial reporting?
- How did the auditor's identification and assessment of possible risks of material misstatement consider changes to the cyberthreat landscape?

We Want to Hear From You

The PCAOB strives to improve our external communications and provide information that is timely, relevant, and accessible. We invite you to share your views on this document by filling out our anonymous **survey**, which should take no more than two minutes to complete. We also urge audit committee members and others to contact Todd L. Cranford (**cranfordt@pcaobus.org**), the PCAOB's Stakeholder Liaison, to share thoughts.