

# SPOTLIGHT

## 2023 Conversations With Audit Committee Chairs

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June 2024

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## INTRODUCTION

Audit committees in the United States have a critical and legally mandated role in the oversight of the auditor and the audit process. Effective, informed audit committees can be a force for elevating audit quality that benefits investors and our capital markets.

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 we inspect to speak with staff from our Division of Registration and Inspections for 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.

In 2023, the PCAOB staff spoke with more than 200 audit committee chairs. Following these conversations, PCAOB staff prepared this publication to present high-level observations and takeaways from those conversations. As noted in the disclaimer on the cover of this publication, this document should not be viewed as formal guidance or an endorsement by the PCAOB of the views summarized.

### 2023 By the Numbers



**230**

Number of audit committee chairs the PCAOB spoke with

**69%**

Percentage of such audit committee chairs who had not spoken with the PCAOB previously as part of this outreach process

#### Years of Experience on an Audit Committee

Audit committee chairs the PCAOB spoke with had varying years of experience:

0-2 years:

**8%**

3-5 years:

**17%**

6-10 years:

**25%**

Over 10 years:

**50%**



Below, PCAOB staff provides an overview of selected areas discussed during the PCAOB staff's 2023 conversations with audit committee chairs.

## CURRENT ECONOMIC AND AUDIT WORKFORCE ENVIRONMENTS

We asked audit committee chairs to share with us what topics, if any, they discussed with their auditors regarding both the current economic and audit workforce environments. As a general matter, responses varied depending upon the company's industry sector, its size, and whether the company was a multinational company. There were several topics raised that impacted numerous companies.

### Economic Environment Affecting the Audit

In our 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 (1) interest rate fluctuations, (2) inflation, (3) supply-chain challenges, such as delays in or an inability to obtain necessary materials, and (4) the economic impacts of the Russia-Ukraine war. According to the audit committee chairs, 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 mentioned they are 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 us they had concerns about personnel turnover. Several chairs did note, however, that they continue to have concerns about the impact working in remote and hybrid environments will have on the long-term development of professionals. Audit committee chairs stated that 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, 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 said they remain satisfied with the level of communication they have with their auditors. PCAOB staff asked audit committee chairs 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.

## 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 inspections](#) and the [increase in audit deficiencies observed in 2022](#). In both documents, staff offer a series of questions for audit committees to consider in discussions with their auditors.

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. PCAOB staff observed, however, 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.

## PCAOB RESOURCES FOR AUDIT COMMITTEES

As the PCAOB continues to maintain its dialogue with the audit committee community in 2024, it urges audit committee members and others to visit the [audit committee page on the PCAOB's website](#). There, visitors can find resources such as staff publications, links to useful information on the PCAOB's inspections process, and a sign-up form to receive PCAOB information beneficial to audit committees.

The PCAOB is committed to engaging with stakeholders and urges audit committee members and others to contact Todd L. Cranford ([cranfordt@pcaobus.org](mailto:cranfordt@pcaobus.org)), the PCAOB's Associate Director for Stakeholder Relations, to share your thoughts.

Finally, the PCAOB welcomes your comments on this publication by completing our short [reader survey](#) or by emailing [info@pcaobus.org](mailto:info@pcaobus.org).

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