

SPOTLIGHT

2024 Conversations With Audit Committee Chairs

May 2025

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INTRODUCTION

It is difficult to overstate the importance of the critical role that audit committees of public companies play in financial reporting. Section 10A(m) of the Securities Exchange Act, as amended by the Sarbanes-Oxley Act of 2002, makes the independent audit committee directly responsible for the oversight of the company's independent auditor, including selection of the auditor, setting the auditor's compensation, and overseeing the auditor's work, as part of its broader role overseeing the financial reporting process. The assignment of these responsibilities to the audit committee was one of the major reforms made by the Sarbanes-Oxley Act. Audit committees help foster the trust and confidence on which our capital markets rely.

2024 By the Numbers



272

Number of audit committee chairs the PCAOB interviewed

78%

had not spoken with the PCAOB previously, as part of our outreach process

Years of Experience on an Audit Committee

0-2 years:

7%

3-5 years:

16%

6-10 years:

31%

Over 10 years:

46%



Percentage of Audit Committee Chairs Interviewed, by PCAOB Inspection Program

U.S. Global Network Firm (GNF)¹:

78%

Non-Affiliated Firm (NAF) Annual²:

19%

U.S. NAF Triennial³:

2%

Broker-Dealer Firm (BDF)⁴:

1%

¹ U.S. GNF – These firms are headquartered in the U.S. and are members of global networks through which they affiliate with firms in other countries for various business and client service purposes. Registered public accounting firms provide information about those affiliations in their annual reports on their annual Form 2. These U.S. firms all issue audit reports for more than 100 issuers each year and are therefore inspected annually.

² NAF Annual – These firms are non-affiliated firms (i.e., firms that either do not affiliate with other firms as indicated by not checking box 5.2 on their annual Form 2 or are part of a network that is not one of the GNF Firms) that are inspected annually because they issue audit reports for more than 100 issuers per year. Currently, all NAF Annual firms are headquartered in the U.S.

³ U.S. NAF Triennial – These firms are non-affiliated firms that are headquartered in the U.S. and are generally inspected on a triennial basis because they issue audit reports for 100 or fewer issuers per year.

⁴ BDF – These firms, which can also be part of an issuer inspection program as described above, perform audits of broker-dealers and are included in this Spotlight where inspection results and the scope of the inspection are comparable.

The PCAOB oversees audit firms that audit public companies and U.S. Securities and Exchange Commission (SEC)-registered brokers and dealers (“broker-dealers”) to protect investors by driving improved audit quality. We accomplish this, in part, by inspecting portions of selected audits of public companies and broker-dealers and evaluating elements of audit firms’ systems of quality control. Our inspection activities, and the reports they generate, can provide valuable insights to audit committees, on both a firm level and an engagement level, because the inspections assess an audit firm’s compliance with applicable PCAOB and SEC rules and standards.

Every year, the PCAOB staff interviews a number of audit committee chairs of the U.S. public companies and broker-dealers whose audits we review during our inspections. The interactions we have with the audit committee chairs provides critical viewpoints for us to consider in planning our inspection activities.

The PCAOB prepared this publication to present high-level observations and takeaways from interviews with audit committee chairs in 2024.

TOPICS OF SIGNIFICANT DISCUSSIONS BETWEEN AUDIT COMMITTEES AND THEIR AUDIT FIRMS

We asked the audit committee chairs what topics they spent most of their time discussing with their auditors. Common topics identified included the following:

1. Factors affecting relationships with the audit firm, such as communication, coordination and technical expertise,
2. Firm inspection reports,
3. The economic environment affecting the audit,
4. Auditing and accounting, including critical audit matters (CAMs), and
5. The impact of emerging technology.

These topics are covered in greater detail below.

Generally, the audit committee chairs of public companies audited by NAFs spent more time discussing significant transactions, fraud risks and the related procedures to address the risk of fraud, and matters related to internal controls, while the audit committee chairs of public companies audited by GNFs spent more time on independence and accounting issues.

Factors Affecting Relationships with the Audit Firm

Audit committee chairs described key factors they discussed with their audit firms that are vital to maintaining good working relationships with the firms. These factors included the following:

- **Communication:** Most of the audit committee chairs interviewed identified transparent two-way communication as a key factor in ensuring the audit committee was well informed of audit risks and areas of focus. The audit committee chairs interviewed noted that having an open dialogue, frequent meetings, easy channels of communication, or just being able to pick up the phone to call the audit partner were things that made communication between them and the auditor successful. In a few cases where the auditor was replaced, insufficient communication was identified as a key factor that led to the audit firm’s dismissal.

- **Coordination:** Coordination between the auditor, management, and the audit committee was emphasized as vital for an efficient and effective audit.
- **Technical expertise:** Another key element of interest was the level of technical expertise and experience of the audit team in the public company's industry and the ability of the audit firm to retain personnel on the team with experience in the industry.

Firm Inspection Reports

Most of the audit committee chairs interviewed review the PCAOB's latest firm inspection report⁵ of their auditor and other information publicly available on the PCAOB website when determining whether to reappoint the auditor.

Audit committee discussions with their auditors centered around key findings in the inspection reports and measures taken by the audit firms to address those findings. Certain audit committee chairs indicated that the inspection findings are typically summarized by the auditors for discussion with the audit committee. When the audit committee was considering changing audit firms, the audit committee chairs indicated that the findings in the reports were particularly important.

Economic Environment Affecting the Audit

In our conversations, many audit committee chairs noted that they had discussions with their auditors regarding both economic and

Visualizing PCAOB Inspection Data

In July 2023, we launched an array of website transparency enhancements that allow investors, audit committee members, and other stakeholders to better access and understand data from firm inspection reports. Deficiency rates and other information are accessible on the PCAOB's **U.S. Global Network Firms Inspection Data page** and the **Non-Affiliated Firms Inspection Data page** to help users analyze inspection reports.

geopolitical considerations. Among the most often mentioned topics were (1) elevated interest rates, (2) increased risks including fraud and technology, (3) supply chain disruptions, (4) inflation, and (5) geopolitical considerations. The audit committee chairs noted the substance of the discussions with their auditors largely concerned the risks that these topics presented in the audit and how the audit team was planning to address them.

Auditing and Accounting

Approximately 63% of audit committees interviewed had additional discussions, beyond the required communications, with their auditors related to the application to the audit and their financial statements of existing auditing or accounting standards. The

⁵ The inspection report includes deficiencies in reviewed issuer audits that were of such significance that the Board believes that the firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or internal control over financial reporting (ICFR). The report may also include certain deficiencies that relate to instances of non-compliance with PCAOB or SEC rules or standards other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s).

A firm inspection report is not intended to serve as a balanced report card or overall rating tool, and an inspection report should not be interpreted to imply the PCAOB has reached a conclusion about an audit firm's quality control policies, procedures, or practices. Additionally, the fact that we include a deficiency in a report — other than those deficiencies for audits with incorrect opinions on the financial statements ICFR, or incomplete reporting of material weaknesses in ICFR — does not necessarily mean that the public company's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist.

most frequently discussed topics included revenue recognition, lease accounting, current expected credit losses, cybersecurity required disclosures, and the SEC's climate-related disclosure requirements.

Audit committee chairs shared that CAMs were actively discussed during audit committee meetings. Over 60% of audit committee chairs interviewed indicated that CAMs inform stakeholders about topics that were a focus for the public company's auditors, including the principal considerations that led the auditor to determine that the matter is a CAM and the procedures performed to audit the critical area.

However, several audit committee chairs criticized the length of CAMs (wanting them to be briefer), the readability of CAMs, and 'boilerplate language' that was not specifically tailored to their public company.

The Use of Emerging Technologies in the Audit

Based on our conversations, the expanded use of technology, including artificial intelligence (AI), was a frequent point of discussion between audit committees and their auditors. Audit committee chairs noted that while the use of technology has the potential to enhance the performance of audit procedures, it cannot replace the need for human oversight.

Audit committee chairs interviewed were also concerned that overreliance on technology and automation in the audit process may result in auditors becoming complacent and not exercising adequate professional judgment and skepticism. They emphasized the importance of auditors remaining curious and showing professional skepticism as auditors will play a key role in evaluating AI outcomes. A key concern expressed was how new auditors will develop the right skillset to challenge the validity of AI responses.

CAMs: Considerations for Audit Committees

The following suggested questions may assist audit committee members in discussions with their independent auditors:

- Is the CAM presented and summarized in a way that investors will find informative?
- Is there an indication as to why a matter requires challenging, subjective, or complex auditor judgment?
- Does the information reflect the specific circumstances?
- Does the description avoid the use of boilerplate language and overly technical accounting and auditing terms?
- Is the description specific enough that it cannot be applied to an audit of any company within that industry?
- Were there any items that were "close calls," but the audit firm decided not to include them as a CAM? If so, what was the audit firm's rationale for not including?

Additional helpful information related to CAMs can be found in the PCAOB's **Audit Focus on CAMs**.

In addition, many audit committee chairs indicated that they wanted to see an increased use of automation and analytics in the audit process to enhance the efficiency and effectiveness of the audit. They were also interested in how this increase would translate to reductions in the audit fees over time given the efficiencies attained.

The Use of Emerging Technology in the Audit: Considerations for Audit Committees

Audit committee members are encouraged to engage in conversations with their auditors to understand how emerging technology may be shaping the audit process and ensuring quality and efficiency. Here are some suggested questions to consider:

- What is the audit firm's use of technology? What was applied during the audit?
- How is the use of technology in the audit helping the auditors perform a more effective audit?
- Are there any risks associated with the technology used in the audit, and how are those risks mitigated?
- Can you demonstrate how technology improves efficiency without compromising professional judgement and skepticism?
- Are there any complexities (e.g., multiple systems) or concerns (e.g., data security) at the company preventing the use of technology by the auditor?
- Are there any areas of the audit where the company can facilitate (or further facilitate) the audit team's use of technology to not just streamline testing, but also, more importantly, to improve the efficacy of the testing?

For additional information related to the integration of generative artificial intelligence in audits and financial reporting, refer to the PCAOB's [Spotlight on generative AI](#).

FREQUENTLY ASKED QUESTIONS FROM AUDIT COMMITTEES

In our conversations with audit committee chairs, we frequently received questions related to the PCAOB inspection process. Below are questions we received – and staff responses.

How Are Audits Selected for Review?

We select audits for inspection using both risk-based and random methods. Focus is placed on risk factors including economic trends, industry developments, market-capitalization size and/or changes, audit firm and partner, and inspection history. The remaining audits are selected randomly to provide an element of unpredictability. The inspected audit firm has no opportunity to limit or influence the PCAOB's selections. For additional details on our inspection process, refer to our [Basics of Inspections page](#).

In 2025, the PCAOB plans to select audits of public companies in industries and sectors (1) with specialized accounting and/or that may be negatively impacted by uncertainties and volatility in economic and geopolitical environments, (2) where we have previously found a higher number of deficiencies, or (3) where conditions or events indicate there could be a substantial doubt about the public companies' ability to continue as a going concern. For additional details on the 2025 audit selection priorities, refer to our [Spotlight on 2025 inspection priorities](#).

What Does an Inspection Entail?

A PCAOB inspection is designed to assess compliance with the Sarbanes-Oxley Act, the rules of the PCAOB, the rules of the SEC, and professional standards, in connection with the audit firm's performance of audits, issuance of audit reports, and related matters involving U.S. public companies, non-U.S. public companies listed on an U.S. exchange, and broker-dealers. Inspections do not involve the review of all of the firm's public company or broker-dealer audits, nor are they designed to identify every deficiency or cover all areas of the reviewed audits.

While inspections vary by audit firm, within an audit selected for review, we may focus on the auditor's risk assessment processes, financial reporting and audit areas affected by economic trends or pressures, audit areas that present challenges and significant risk, new accounting standards, and areas of recurring audit deficiencies.

Additionally, we review quality control areas, such as the audit firm's management structure and processes, including tone at the top, performance management and compensation, policies and procedures for client acceptance and retention, internal inspections programs, how the audit firm responds to deficiencies in audit quality, and independence policies and procedures.

Can the PCAOB Share Inspection Results During the Calls With Audit Committee Chairs?

The PCAOB is prohibited from sharing information regarding our inspections during audit committee calls because information related to an inspection is confidential and privileged under Section 105(b)(5)(A) of the

Sarbanes-Oxley Act. The audit committee can, however, review our inspection reports and ask their auditor for specific information regarding a PCAOB inspection, including the inspection of their company's audit and the firm's quality control criticisms. We encourage audit committee chairs to engage in a direct dialogue with their auditors about matters that may arise during the inspection. Once an audit firm's PCAOB inspection report is made public, audit committees can find the report on our [website](#).

How Do Comment Forms Increase Audit Quality?

When a PCAOB inspection team identifies a potential deficiency during an inspection, the team discusses that potential deficiency with the audit firm. If the inspection team still believes that a potential deficiency exists after its discussion with the firm and review of any additional audit documentation provided by the firm, it will provide the firm with a written comment form on the matter. The firm is allowed the opportunity to provide a written response to the comment form.

Comment forms provide a structured method for us to communicate potential audit deficiencies identified during inspections to audit firms. They also can prompt the audit firms to review and improve their audit practices, including the design and operation of their systems of quality control, where necessary, before a final inspection report is issued; this feedback loop encourages continuous quality improvement within the audit firm.

Does the PCAOB Have Educational Training or Events for Audit Committee Members?

The PCAOB is committed to enhancing our engagement with audit committees. We hold periodic webinars and roundtable discussions

and invite audit committee members to join. Many of the audit committee chairs interviewed indicated that they found the webinars or roundtable discussions highly informative. For details on PCAOB-hosted events, refer to our [Events page](#).

RESOURCES FOR AUDIT COMMITTEES

As the PCAOB continues to maintain its dialogue with the audit committee community in 2025, we urge audit committee members and others to visit the [Information for Audit Committees page](#) on the PCAOB's website. There, visitors can find resources such as staff publications, links to useful information on the PCAOB's inspection process, including remediation of quality control criticisms, and a sign-up form to receive PCAOB information beneficial to audit committees.

The PCAOB's Office of Communications and Engagement is committed to engaging with stakeholders and urges audit committee members and others to contact Evann Berry, Deputy Director for Engagement, at outreach@pcaobus.org 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.

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