

SPOTLIGHT

2025 Conversations With Audit Committee Chairs

April 2026

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OVERVIEW

The Public Company Accounting Oversight Board (PCAOB) oversees registered public accounting firms that audit public companies and SEC-registered broker-dealers. Our statutory mission is to protect investors and further the public interest by driving improvement in the preparation of informative, accurate, and independent audit reports. The PCAOB carries out this mission, in part, by inspecting portions of selected audits and evaluating firms' systems of quality control. These inspections and subsequent reports can offer valuable insights to audit committees, both at the firm level and the engagement level.

Section 10A(m) of the Securities Exchange Act of 1934, 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 selecting the auditor, setting the auditor's compensation, and overseeing the auditor's work.

Audit committees and the PCAOB share the goal of driving audit quality by exercising appropriate oversight of external auditors. Engaging directly and regularly with audit committees is a priority for the PCAOB.

Each year, the PCAOB's Division of Registration and Inspections invites audit committee chairs at U.S. public companies to share their perspectives and observations with respect to their oversight of auditors' work. Additionally, PCAOB staff shares information and resources that may be beneficial to audit committee chairs in their oversight role.

In 2025, the PCAOB staff gathered insights from more than 250 audit committee chairs. The audit committee chairs who participated represent public companies audited by firms of different sizes, as follows:

- U.S. Global Network Firms (GNF)¹: **82%**
- Non-Affiliate Firms (NAF) Annual²: **17%**
- U.S. NAF Triennial³: **<1%**
- Broker-Dealer Firms (BDF)⁴: **<1%**

This publication presents high-level observations and takeaways from the staff's engagement with audit committee chairs.

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 PCAOB Form 2 – Annual Report Form. These U.S. firms all issue audit reports for more than 100 issuers each year and are therefore inspected annually. U.S. GNF firms currently consist of the following firms: BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Limited, KPMG International Cooperative, and PricewaterhouseCoopers International Limited.

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 PCAOB Form 2 – Annual Report Form 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 (i.e., firms that either do not affiliate with other firms as indicated by not checking box 5.2 on their annual PCAOB Form 2 – Annual Report Form or are part of a network that is not one of the GNF 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, perform audits of broker-dealers as indicated by item 3.1.d of their annual PCAOB Form 2 – Annual Report Form.

DRIVERS OF EFFECTIVE RELATIONSHIPS BETWEEN AUDIT COMMITTEES AND AUDIT FIRMS

We asked audit committee chairs about the state of the relationships between audit committees and audit firms, as well as key drivers that make those relationships more effective.

Takeaways

- **Strong, open, and transparent communication with audit firms:** Audit committee chairs regularly emphasized the value of frequent touchpoints – including pre-meeting calls, executive sessions, and ad hoc discussions – to foster trust and avoid surprises during more formal meetings.
- **Proactive engagement and responsiveness from audit partners:** Several chairs appreciated it when audit partners proactively reached out to them between meetings to flag emerging issues or provide inspection updates.
- **Continuity and industry expertise within the audit engagement team:** Audit committee chairs often praised firms for maintaining low turnover on the engagement team, which allows the team to build professional relationships with the audit committee and management team and to develop a strong knowledge base of the company and their respective industry, resulting in efficiency and higher quality audit.
- **Continual improvement:** While audit committee chairs interviewed generally described the relationships with their

firms positively, participants also voiced an expectation of continual improvement, including the use of technology when conducting audits, clearer communication of emerging issues, and more proactive billing updates when services overrun established budgets and increases in fees occur.

METHODS FOR ASSESSING THE EXTERNAL AUDITOR

While not required by PCAOB rules and standards, a formal, annual assessment of the external auditor by the audit committee can be a beneficial process. When asked about methods used for such assessments, 81% of audit committee chairs said they perform an assessment of their auditor at least annually.

Takeaways

- **Discussions with management and audit committee:** Regular discussions with management and audit committee members were the most commonly cited method of assessing auditor performance when it comes to audit quality, independence, engagement team expertise, and other areas. Many audit committee chairs interviewed noted these assessments are informal and continuous, with feedback gathered and communicated to firms throughout the year via meetings or calls.
- **Surveys:** Participants revealed that surveys are frequently used to gather structured feedback from management, audit committee members, and other stakeholders who interact with the engagement team.
- **Self-assessments by the audit firm:** A firm's self-assessment, evaluating the firm's competency, and audit quality, were

mentioned as being useful inputs for audit committees.

- **Review of external data:** Several audit committee chairs said that audit committees often incorporate external indicators, such as PCAOB inspection reports and peer review results, to benchmark auditor performance.

THE ROLE THAT PCAOB INSPECTION REPORTS CAN PLAY

PCAOB inspections are designed to review portions of selected audits of public companies and to evaluate elements of a firm's quality control system. Each PCAOB inspection of an audit firm results in a report, which summarizes any deficiencies found in the reviews of selected audit engagements, as well as other violations of PCAOB rules and any identified quality control criticisms. We asked audit committee chairs whether they reviewed PCAOB inspection reports and for their thoughts on the utility of this information. Sixty-five percent indicated that they reviewed the latest PCAOB inspection report of the audit firm whose audits they oversee or information publicly available on the PCAOB website.

Takeaways

- **Deficiency rates and trends:** In considering Part I.A. deficiency rates, many audit committee chairs noted that they consider trends over time and comparisons across firms.⁵

- **The central role of firms in communicating inspection results:** According to several audit committee chairs, audit firms frequently present inspection findings to audit committees through slide decks, summaries, or direct discussions. The depth and transparency of these communications vary, but for many audit committee chairs, they are the primary source of PCAOB-related information.
- **Inspection reports as an input for auditor assessment:** Audit committee chairs told us that PCAOB inspection results are regularly considered during auditor assessments, even if those results are not necessarily a decisive or overriding factor. Participants mentioned using inspection reports as a learning tool or a red flag indicator about the audit firm's performance.
- **Desire for more timely and accessible PCAOB information:** Some audit committee chairs voiced frustration with the timing of the release of PCAOB inspection reports, especially Part II findings.⁶

APPROVING SERVICES PROVIDED BY THE AUDIT FIRM

Under federal law, as well as PCAOB and Securities and Exchange Commission (SEC) rules, the auditor is prohibited from providing certain non-audit services (e.g., bookkeeping). Any permitted audit and non-audit services provided by the auditor must be pre-approved

⁵ Part I.A. of PCAOB inspection reports discusses deficiencies, if any, that were of such significance that PCAOB staff believes the audit firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the public company's financial statements and/or internal control over financial reporting.

⁶ Part II of PCAOB inspection reports includes criticisms of the firm's system of quality control (QC), to the extent any are identified. Under federal law and PCAOB rules, the Board cannot disclose any QC criticism that the audit firm addresses to the satisfaction of the Board within 12 months after the Board issues the inspection report. If the audit firm fails to address any identified QC criticisms to the Board's satisfaction, the Board will then disclose those criticisms to the public.

by the audit committee pursuant to SEC Rule 2-01(c)(7). We asked audit committee chairs to share thoughts on the process for pre-approval of audit and non-audit services.

Takeaways

- **Detailed information from management regarding proposed services before pre-approval:** Audit committee chairs said that information provided by management about proposed services – including scope, cost, timing, and independence considerations – can help the audit committee assess whether the services are permissible or would impair auditor independence.
- **Limits on use of audit firms for non-audit services to reduce the risk of independence conflicts:** Participants mentioned that companies imposing limits and taking a conservative approach to provision of non-audit services can help maintain clear boundaries between audit and non-audit services.
- **Interim pre-approval authority for the audit committee chair:** Audit committee chairs reported that granting interim pre-approval authority to the audit committee chair via pre-approval policies and procedures⁷ can enable timely audit committee pre-approvals between meetings while maintaining oversight through ratification at the next full committee session.

FRAUD CONCERNS

Under PCAOB standards, the auditor is required to plan and perform the audit of the financial statements to obtain reasonable assurance

about whether the financial statements are free from material misstatement due to error or fraud. Our conversations with audit committee chairs included discussion regarding the audit committee's communication with the auditor on any specific risks or concerns related to the company's risk of fraud or risk of material misstatement.

Takeaways

- **Whistleblower reports and hotline activity:** Many audit committee chairs cited the importance of strong whistleblower programs and hotlines to detect potential fraud, with regular reviews of whistleblower reports and investigations forming part of their oversight.
- **Management override of controls:** Several chairs noted that management override is routinely discussed as part of standard fraud inquiries, with one describing it as a "standard audit risk." When chairs discussed manual override as a potential fraud risk, they often cited journal entry testing as an effective mitigation tool.
- **Revenue recognition:** Those chairs who were interviewed consistently flagged revenue recognition as an area of fraud risk due to its complexity and susceptibility to manipulation.
- **Cybersecurity and IT risks:** Cyber threats, including phishing and hacking incidents, were frequently mentioned in the context of fraud concerns. Audit committee chairs also expressed concerns about potential risks involved, specifically around integrity of information and staff preparedness to detect fraud that might be facilitated with the use of artificial intelligence (AI).

⁷ SEC Rule 2-01(c)(7)(i)(B) addresses requirements for pre-approval policies and procedures that may be established by the audit committee.

QUALITY CONTROL CONSIDERATIONS

Effective quality control systems at audit firms are crucial for supporting the consistent performance of high-quality audits and other engagements under PCAOB standards. We asked audit committee chairs about audit firms' quality control (QC), including the extent of their discussions with their auditors on the topic.

Takeaways

- **The value of centralized resources and industry experts:** Audit committee chairs viewed firm resources, including qualified personnel, internal specialists, and national office consultations as essential elements of QC. They emphasized staffing responsiveness, technical expertise, and consistent communication as key drivers of quality. Many cited structured systems and centralized support as evidence of a firm's commitment to continuous improvement.
- **PCAOB QC inspection findings as a catalyst for deeper discussion:** Participants noted how firms shared PCAOB inspection results, including QC-level deficiencies, noting that such transparency prompted deeper dialogue about the firm's QC infrastructure and firm-wide remediation efforts such as root cause analysis, training enhancements, and system improvements.
- **Communication regarding partner rotation, independence monitoring, and other related issues:** A recurring theme in the QC conversations was the importance of clear communication from firms regarding their QC systems to monitor auditor independence and related processes.

CAMS DISCUSSION: FREQUENCY AND DEPTH

Under PCAOB standards, auditors are required to communicate critical audit matters (CAMs) in the audit report.⁸ A CAM is defined as any matter arising from the audit of the company's financial statements that was communicated or is required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment. When asked about the nature and extent of CAM-related discussions with their auditors, 90% of audit committee chairs indicated that their auditor discussed CAMs with them.

Takeaways

- **Regular discussion of CAMs throughout the audit cycle:** Participants often reported having quarterly or ongoing discussions about CAMs.
- **Varied depth of CAM discussions:** While the depth of CAM discussions can vary, audit committee chairs reported having robust dialogues with audit firms on certain challenging topics, such as valuations.

TOP TECHNOLOGY RISKS DISCUSSED WITH AUDITORS

Technological advances are affecting the financial reporting processes of public companies. Auditors are also expanding their

⁸ CAMs reporting is not required for audits of brokers and dealers (Rule 17a-5), registered investment companies (except business development companies), employee stock purchase/savings plans, and emerging growth companies (EGCs). These exemptions apply to audits of financial statements for fiscal years ending on or after December 15, 2020.

use of technology-based tools, including data analytics, to plan and perform audits. We asked audit committee chairs about the technology risks or matters audit committees discussed with their auditor.

Takeaways

- **Cybersecurity:** Consistent with past years, participants continued to cite the many cybersecurity challenges faced by companies, such as data breaches, ransomware attacks, and phishing incidents. For many audit committees, cybersecurity concerns are the subject of quarterly updates or are the focus of dedicated cybersecurity committees.
- **AI:** While audit committee chairs acknowledged the potential of AI to improve efficiency and audit quality, they are increasingly seeking insights from their auditors on the potential impacts of AI on the company's financial reporting and controls in place to gauge risk. Several audit committee chairs also raised questions about how AI implementation by audit firms would impact fees.

- **Audit firms' use of technology tools to enhance audit quality and efficiency:** Participants noted that discussions with audit firms included the auditor's use of data analytics, proprietary audit platforms, and AI tools, specifically how firms are using the technologies to support audit work (e.g., testing and reviewing journal entries, research, etc.) and how they ensure the appropriate design and consistent operation of the associated controls.

LEARN MORE AND CONTACT US

Our dialogue with audit committee chairs is ongoing in 2026. Audit committee members and others are encouraged to visit our [Information for Audit Committees page](#) for resources and to sign up for updates. Also, we welcome input. You can fill out our short [reader survey on this publication](#) or email us at info@pcaobus.org.

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