
INVESTOR ADVISORY GROUP MEETING

PCAOB COMMUNICATIONS: GENERAL AND INSPECTION REPORTS

October 16, 2013

Introduction

At the October 2013 meeting, members of the Investor Advisory Group (“IAG”) will be asked for views on how the Public Company Accounting Oversight Board (“PCAOB” or the “Board”) may improve the usefulness of its publicly issued reports.

The Board issues individual inspection reports to inspected firms on each inspection and general reports that are not firm-specific but that provide information and analysis concerning specific audit issues or a summary and analysis of results from inspections of a specified category of firms over a particular period (“general or summary reports”).

This briefing paper is intended to facilitate a focused IAG discussion regarding matters for the Board to consider to improve the usefulness of its general reports and the content and readability of its inspection reports. After a brief introduction of the topic, the Division of Registration and Inspections will invite the IAG members to discuss specific questions regarding the topic.

Background

In the 2012-2016 strategic plan, the Board identified as a priority project for 2013, “improving the timeliness, content and readability of inspection reports, including through outreach designed to improve the usefulness of reports.” As part of that project, the Division of Registration and Inspections is performing outreach to explore ways to improve how the Board’s inspection observations are communicated to the public. The Board’s inspection observations are communicated through individual inspection reports on each inspection of a firm and general reports that are not firm-specific but that provide information and analysis concerning specific audit issues or a summary and analysis of results from inspections of a specified category of firms over a particular period. In

This paper was developed by the staff of the Division of Registration and Inspections as of September 16, 2013, to foster discussion among the members of the Investor Advisory Group. It is not a statement of the Board; nor does it necessarily reflect the views of the Board or staff.

addition, the Board publishes Staff Audit Practice Alerts to highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws.^{1/}

General Reports

General reports often discuss observations from the inspection program in a way that is intended to be informative and helpful to auditors. These reports also give investors, audit committees, and others the benefit of information and analysis concerning highlighted audit issues, or a summary and analysis of results from inspections of a specified category of firms over a particular period. Since inception, the Board has issued the following general reports, which are available at <http://pcaobus.org/Inspections/Pages/PublicReports.aspx>:

- Second Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers (Aug. 19, 2013)
- Report on 2007-2010 Inspections of Domestic Firms That Audit 100 or Fewer Public Companies (Feb. 25, 2013)
- Observations from 2010 Inspections of Domestic Annually Inspected Firms Regarding Deficiencies in Audits of Internal Control Over Financial Reporting (Dec. 10, 2012)
- Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers (Aug. 20, 2012)
- Information for Audit Committees About the PCAOB Inspection Process (Aug. 1, 2012)
- Report on Observations of PCAOB Inspectors Related To Audit Risk Areas Affected by the Economic Crisis (Sept. 29, 2010)
- Report on the First-Year Implementation of Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements (Sept. 24, 2009)
- Report on the PCAOB's 2004, 2005, 2006, and 2007 Inspections of Domestic Annually Inspected Firms (Dec. 5, 2008)

^{1/} PCAOB Staff Audit Practice Alerts are available <http://pcaobus.org/Standards/Pages/Guidance.aspx>.

- Report on the PCAOB's 2004, 2005, and 2006 Inspections of Domestic Triennially Inspected Firms (Oct. 22, 2007)
- Report on The Second-Year Implementation of Auditing Standard No. 2 (April 18, 2007)
- Observations on Auditors' Implementation of PCAOB Standards Relating to Auditors' Responsibilities with Respect to Fraud (Jan. 22, 2007)
- Observations on the Initial Implementation of the Process for Addressing Quality Control Criticisms within 12 Months after an Inspection Report (March 21, 2006)
- Observations on the Initial Implementation of Auditing Standard No. 2 (Nov. 30, 2005)

Non-U.S. Regulators' Publicly Issued Reports

Similar to the PCAOB, non-U.S. regulators issue public reports that may comprise individual firm inspection reports and general summary reports.

The Financial Reporting Council in the United Kingdom ("FRC") has previously issued an annual report on the FRC's audit quality inspections in addition to individual firm inspection reports. The most recent annual report was issued in June 2012 and covered the period ending March 31, 2012. The report described the more important findings from its inspections and included key messages that they believed would be helpful to all audit firms and audit committees. This report is available at: <http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2012/June/FRC-publishes-the-annual-report-on-Audit-Quality-1.aspx>.

The Canadian Public Accountability Board ("CPAB") has previously issued annual and special reports. The most recent annual public report discussing the procedures, findings, and general results of its 2012 inspections was issued in April 2013 and is available at: http://www.cpab-ccrc.ca/EN/content/CPAB_Public_Report_2012_Eng.pdf. In February 2012, CPAB also issued a special report: *Auditing in Foreign Jurisdictions*. This special report summarized CPAB's significant findings, recommendations to improve audit quality, and CPAB's future activities relating to auditing in foreign jurisdictions. This report is available at: http://www.cpab-ccrc.ca/EN/content/Auditing_in_Foreign_Jurisdictions_FINAL.pdf.

The Australian Securities and Investments Commission (“ASIC”) also publishes a public report every 18 months that describes its findings and areas of focus. Its most recent report was issued in December 2012 and summarized observations and findings for the 18 months ended June 30, 2012. This report is available at: [http://www.asic.gov.au/asic/pdf/lib.nsf/LookupByFileName/rep317-published-4-December-2012.pdf/\\$file/rep317-published-4-December-2012.pdf](http://www.asic.gov.au/asic/pdf/lib.nsf/LookupByFileName/rep317-published-4-December-2012.pdf/$file/rep317-published-4-December-2012.pdf).

Outreach

The Board’s inspection program is evolving and the Board is interested in identifying means of communicating information obtained through its inspections to the public in a more meaningful way. The Board is interested in feedback on its general reports as these reports allow the Board to discuss issues affecting audit quality more broadly, including concerns, identified in inspections, about the sufficiency of firms’ systems of quality control.^{2/}

The Board also seeks input on the format and usefulness of inspection reports that are firm-specific.

The Board has received valuable feedback in its outreach so far in 2013 including, for example, requests to provide in its general reports:

- Overarching trends and themes with more plain-English language
- Actionable information and environmental context
- Information about audits inspected where no audit deficiencies were identified
- Commentary on improvements in audits

In preparation for the October 16th IAG meeting, the Board would like IAG members to consider the following questions on how the Board can increase the usefulness of its general reports and inspection reports:

1. What type of information about inspection findings and observations would be useful for the Board to publish through its general reports and firm-specific inspection reports?

^{2/} To the extent that a Board inspection report on a particular firm includes criticisms of that firm’s system of quality control, the Board is prohibited by law from publicly releasing any such criticisms that the firm addresses to the Board’s satisfaction within 12 months after the date of the inspection report. The Board may, however, include information about such criticisms in a general report issued under Rule 4010 so long as the general report does not identify the firm or firms to which such criticisms relate.

2. Should the level of detail regarding specific audit deficiencies in the firm specific reports be more detailed or less detailed? What types of detail should be removed or added?
3. What type of information about inspection findings and observations would be most helpful to the following constituencies?
 - a. Audit committees
 - b. Investors
 - c. Audit profession
 - d. Academicians
4. What is the most effective format for presenting information to the above constituencies? Do you have any suggestions for the general reports and the firm-specific reports? What should be the objective of each type of report?
5. The Board issued three general reports recently: *Second Report on the Progress of the Interim Inspection Program Related to Audits of Brokers and Dealers* issued on Aug. 19, 2013, *Report on 2007-2010 Inspections of Domestic Firms That Audit 100 or Fewer Public Companies*, issued on February 25, 2013, and *Observations From 2010 Inspections of Domestic Annually Inspected Firms Regarding Deficiencies in Audits of Internal Control Over Financial Reporting*, issued on December 10, 2012. Did you find these reports useful? Do you have any suggestions based on these reports?
6. Do you find the Board's general reports and firm-specific reports to be useful? If not, what can be done to make them more useful? What does "useful" mean to you?
7. Other regulators around the world issue different types of general reports. For example, the U.K.'s Financial Reporting Council issues an annual report on its inspection observations: *Audit Quality Inspections*; the Australian Securities & Investments Commission also issues an annual report: *Audit Inspection Program Report*; and the Canadian Public Accountability Board issued a special report: *Auditing in Foreign Jurisdictions*, in February of 2012. Should the Board consider adopting similar formats for its general reports?
8. What topics would you like to see the PCAOB address in future general reports? Should the reports continue to be broad in scope or should they be more narrowly focused on certain issues, such as fair value or certain industries?

9. Do you find that the Board's general and firm-specific reports are readily accessible on the PCAOB's website? What suggestions do you have for highlighting these reports?

10. Do you think that the audience for the firm-specific reports and the general reports are different? If so, how?