

# SPOTLIGHT

## 2022 Conversations With Audit Committee Chairs

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September 2023

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## INTRODUCTION

The Public Company Accounting Oversight Board (PCAOB) has made it a strategic priority to engage directly and regularly with audit committees, which play a vital role in furthering the collective goal that public companies have appropriate policies and controls for the preparation of accurate financial statements and share a goal of promoting high-quality auditing through the oversight of external auditors. As part of that outreach, each year, the PCAOB invites audit committee chairs at U.S. public companies whose audits we inspect to connect with staff from our Division of Registration and Inspections for unstructured, substantive conversations in an informal setting, covering a range of topics related to oversight of external auditors.

In 2022, more than 200 audit committee chairs accepted our invitation to discuss topics related

to the 2021 audit of their company's financial statements. PCAOB staff took notes during those conversations and analyzed them for recurring themes, which are presented as high-level observations and takeaways in this publication. 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 Board of the views summarized.

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. The PCAOB's efforts to maintain robust and ongoing dialogue with audit committee chairs provides opportunities for collaboration that can aid audit committees in their oversight responsibilities while doing the same for the PCAOB in the exercise of its oversight activities.

### 2022 By the Numbers



**211** Number of audit committee chairs the PCAOB spoke with

**85%** Percentage of such audit committee chairs who had not spoken with the PCAOB previously

#### Years of Experience on an Audit Committee

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

0-2 years:

**7%**

3-5 years:

**21%**

6-10 years:

**27%**

Over 10 years:

**45%**



## STAFFING

One of the most frequently mentioned concerns from audit committee chairs was the impact of the “great resignation.” These audit committee chairs observed that turnover on the audit engagement teams and within the financial reporting roles at their respective public companies were areas of significant discussion as they both impacted efficiencies in conducting the audit. For example, they were concerned about the number of CPAs at the issuer responsible for financial reporting, as well as the level of staffing and the experience of the engagement team.

### Key Takeaway

Most audit committee chairs remain alert to the impact that staffing turnover can have on a public company’s financial reporting process and on the conduct of audits.

## COVID-19

Although the COVID-19 pandemic waned in 2022, the PCAOB remained interested in the pandemic’s potential impacts on the conduct of audits. PCAOB staff again asked audit committee chairs for their thoughts on whether the pandemic had affected audits and audit quality in 2022.

Most audit committee chairs stated that they do not believe the pandemic had significantly impacted the audits of their respective companies. While many preferred that a larger portion of their audits would have been conducted in person, they were confident that in most instances auditors were able to perform high-quality audits in remote and hybrid environments. One positive noted from remote and hybrid audits was more frequent

communications between auditors and audit committees.

Despite this general confidence in how firms conducted audits in remote and hybrid environments, many chairs noted that they did have some concerns. Audit committee chairs remain cognizant of the elevated risks that an audit performed in a remote or hybrid environment presents, particularly, for example, regarding controls and cybersecurity associated with the audit process. From the audit committee chairs’ perspectives, auditing remotely seemed more effective for lower-risk areas, such as vouching cash, as opposed to procedures such as inventory observation. They also highlighted the need for heightened supervision and review when working remotely.

### Key Takeaway

Audit committee chairs remain mindful that working in a remote or hybrid environment continues to require heightened supervision and review.

## COMMUNICATIONS

PCAOB staff asked audit committee chairs several questions related to the nature and frequency of their communications with auditors.

Audit committee chairs emphasized the importance of strong, consistent communication with their auditors – whether written or oral – to help them understand the status of the audit and any issues that may have arisen.

Many commended their auditors for (1) proactively communicating with them on important issues that come up between regularly scheduled calls and meetings, (2) presenting issues and information in easy-

to-digest ways, (3) keeping them abreast of auditing and industry updates and emerging trends in their industries, and (4) periodically providing them with useful educational materials and resources.

Several audit committee chairs noted that inconsistent or last-minute communication with auditors was problematic and that they would like to see improvement in this area. Audit committee chairs felt that early and ongoing communication with their auditors would help minimize the possibility of surprises throughout the audit.

## Key Takeaway

Audit committee chairs highly value early, ongoing, and proactive communication with their auditors.

## CRITICAL AUDIT MATTERS

Under [PCAOB standards](#), auditors are required to communicate critical audit matters (CAMs) in the audit report. A CAM is any matter arising from the audit of the financial statements that meets all the following criteria:

- A matter that was communicated or is required to be communicated to the audit committee;
- A matter that relates to accounts or disclosures that are material to the financial statements; and
- A matter that involved especially challenging, subjective, or complex auditor judgment.

Audit committee chairs were generally pleased with their auditor's level of preparation for CAMs-related discussions, and none cited significant disagreements over their auditor's determinations as to what should be included as a CAM in the opinion. While CAMs varied from company to company, common examples included revenue recognition, intangible assets, goodwill, and allowances.

However, a small percentage of audit committee chairs questioned whether CAMs reporting is becoming a generic compliance exercise, sometimes resulting in "boilerplate" language provided by the auditor.

## Key Takeaway

Audit committee chairs want to guard against CAMs simply becoming a perfunctory practice or compliance exercise.

## INFORMATION OUTSIDE OF THE FINANCIAL STATEMENTS

PCAOB staff asked audit committee chairs whether they were having discussions with their auditors about information outside of the financial statements, such as non-GAAP financial measures. While the key metrics continue to be those included in financial statements, there is increasing discussion about the inclusion of non-GAAP measures, such as earnings before interest and taxes. Predictably, the use of non-GAAP measures varied across industries and even among public companies in similar industries. Of almost universal importance to audit committee chairs was the

goal of ensuring that, as with all disclosures, the information provided is accurate.

In discussing information outside the financial statements, audit committee chairs also mentioned that they had general forward-looking discussions with their auditors and that the discussions were typically about keeping abreast of the latest regulatory developments and the activities of their peers in areas that may impact the financial statements and related disclosures. For example, in industries where there may be a stronger focus on climate disclosures from some investors, audit committee chairs are discussing with auditors observations on the possible financial statement, internal controls, and assurance implications of potential disclosure mandates from domestic and international regulators.

## Key Takeaway

While information contained in financial statements remains the focal point of corporate disclosures, many audit committee chairs are increasingly asking questions of their auditors about the inclusion of non-GAAP measures.

## AUDIT COMMITTEE RESOURCES AT THE PCAOB

As the PCAOB continues to maintain its dialogue with the audit committee community in 2023, it urges 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 inspections process, and a sign-up form to receive PCAOB updates related 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 Stakeholder Liaison, 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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