

AN OFFERING FROM THE BDO CENTER FOR CORPORATE GOVERNANCE  
AND FINANCIAL REPORTING

# BDO FLASH REPORT

## CORPORATE GOVERNANCE



### SUBJECT

## PCAOB INSPECTION BRIEFS DETAILING SCOPE AND OBJECTIVES OF 2016 AUDITOR INSPECTIONS

### SUMMARY

In July, 2016, the PCAOB issued two staff inspection briefs detailing the scope, focus, and objectives of its 2016 inspections of auditors of public companies and other issuers, as well as auditors of brokers and dealers.

### DETAILS

#### 2016 Inspections of Auditors of Public Companies

According to the staff inspection brief regarding the 2016 inspections of auditors of public companies (available [here](#)), the PCAOB continues to focus on areas where inspectors have found recurring deficiencies in past inspections, including:

- ▶ Auditing internal control over financial reporting. Among other things, Inspections staff will consider the sufficiency of auditor's procedures to identify, test and evaluate controls.
- ▶ Assessing and responding to risks of material misstatement. Specifically, Inspections staff plan to focus on (1) the sufficiency of testing the design and operating effectiveness of controls to support the planned level of reliance, including testing controls over system-generated data; (2) whether the substantive procedures were specifically responsive to fraud risks and other identified significant risks; (3) the evaluation of the presentation of the financial statements, including the accuracy and completeness of disclosures; and (4) the evaluation of audit evidence that appeared to contradict certain assertions in the financial statements.
- ▶ Auditing accounting estimates, including fair value measurements. Inspections staff will consider the auditor's procedures regarding understanding how estimates were developed, as well as the auditor's testing of data and evaluation of assumptions used by management.

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Additional financial reporting focus areas for 2016 include:

- ▶ The implementation of Auditing Standard 2410 (currently AS 18), *Related Parties*, which became effective for audits of financial statements for fiscal years beginning on or after December 15, 2014.
- ▶ Areas that involve significant judgment from management and/or auditors, including the auditor's evaluation of segment identification and disclosures, going concern, and income tax accounting and disclosures.
- ▶ Audit procedures involving information technology, especially auditors' use of software tools, and procedures to assess and address risks of material misstatement posed by cybersecurity.
- ▶ The firm's quality control system, including (1) its policies and procedures for identifying the "root" causes of audit deficiencies; (2) complying with required audit committee communications under AS 1301 (currently AS 16), *Communications with Audit Committees*; (3) monitoring and maintaining independence; (4) performing engagement quality reviews with due professional care; and (5) applying professional skepticism, especially in areas that involve significant management judgments or transactions outside the normal course of business.

The PCAOB also considers the current economic environment when determining the scope and focus of inspections. In 2016, one particular economic factor under consideration is the recent significant appreciation in the U.S. dollar index, and its effect on multinational companies. Other economic factors include:

- ▶ Increased merger and acquisition activity
- ▶ Continued search for higher yielding investment returns in a low interest rate environment
- ▶ Continued fluctuations in oil and natural gas prices

The appendix of the staff inspection brief contains additional information on the inspection program, industry sector and market capitalization demographics, and inspection focus data for public company audits from inspection cycles in 2013 through 2015.

### **2016 Inspections of Auditors of Broker-Dealers**

According to the staff inspection brief regarding the 2016 inspections of auditors of broker-dealers (available [here](#)), inspections staff are focusing on the following broker-dealer audit areas and attestation procedures in 2016:

- ▶ Auditor independence, including examining whether firms performed bookkeeping or other services that resulted in impaired independence, and focusing on whether firms confirmed annually, in writing, to the audit committee that the firm is independent of the broker or dealer.
- ▶ Financial statement areas with recurring deficiencies, including revenue, the assessment and response to risks of material misstatement due to fraud, financial statement presentation and disclosures, and fair value measurements.
- ▶ Audit procedures for related party transactions under AS 2410 (currently AS 18), *Related Parties*.
- ▶ Audit procedures on the supporting schedules required by SEC Rule 17a-5 to accompany the financial statements, and whether the auditor's report on such supporting schedules is in accordance with AS 2701 (currently AS 17), *Auditing Supplemental Information Accompanying Audited Financial Statements*.
- ▶ Procedures required by Rule 17a-5 for the examination of compliance reports and the review of exemption reports.
- ▶ The engagement quality review, including the reviewer's evaluation of the engagement team's significant judgments and conclusions; the reviewer's identification of significant engagement deficiencies; and the reviewer's qualifications.

We encourage you to explore the resources cited as you fulfill your duties on behalf of the boards and companies that you serve. For additional audit committee along with financial accounting and reporting tools and resources, visit BDO's Board Governance page at: [www.bdo.com/services/assurance/board-governance/overview](http://www.bdo.com/services/assurance/board-governance/overview).