

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

# BDO FLASH REPORT

## CORPORATE GOVERNANCE



### SUBJECT

## PCAOB 2017 INSPECTIONS WILL CONTINUE TO FOCUS WHERE RISK RESIDES

### SUMMARY

The PCAOB will continue to select the majority of issuer audits for inspection review on a risk-weighted basis – focusing on audit work on the most challenging areas, including financial statement accounts and disclosures requiring the highest degree of management judgment. Key areas of inspection focus continue to stem from recurring audit deficiencies, recent economic developments, and areas of significant judgment. Additionally, new accounting and auditing standards, multinational audits, and audit firms' use of information technology and systems of quality control make the list as well.

### DETAILS

#### Timing and Population

The PCAOB has issued its [August 2017 Staff Inspection Brief](#) detailing information about the upcoming 2017 PCAOB inspections of registered audit firms.

### CONTACT

#### AMY ROJIK

National Assurance Partner  
617-239-7005 / arojik@bdo.com

#### LEE SENTNOR

National Assurance Senior Manager  
617-239-4142 / lsentnor@bdo.com



It is estimated that **195 firms** will be reviewed...

including **11 US firms** that issued over 100 issuer audit reports...



and **55 non-US firms**.



### Key Areas of Inspection Focus in 2017

**Recurring audit deficiencies** will again be key areas of focus this year including assessing and responding to risks of material misstatement, auditing accounting estimates, and internal control over financial reporting. While some corporations continue to argue that requirements from Sarbanes-Oxley Section 404(b) come at significant cost without perceived benefit, a study in the current issue of [Auditing: A Journal of Practice & Theory](#) provides statistical data correlating internal control environments with identified material weaknesses with significantly higher fraud risk than is found in the general population.

**Recent economic developments** are garnering attention from the PCAOB and this may include M&A activity, international events such as Brexit, investments in higher risk instruments, fluctuations in oil and natural gas prices, and other industry specific risk factors.

**Areas of significant judgement** continue to represent more challenging audit areas and generally greater risk, including considerations related to going concern analyses and income tax disclosures.

**New accounting standards and new reporting requirements** this year include the hot topics of FASB issued guidance on revenue recognition and lease accounting in addition to the newly enacted PCAOB audit rules requiring public auditor disclosures on Form AP. While the revenue and lease accounting guidance is not yet effective, audit firms can expect to answer questions on how they are assessing the readiness of their issuer clients' plans for addressing and reporting on the pending accounting changes.

Audit firms themselves will attract PCAOB reviews for **multinational audits, use of information technology, and audit firm systems of quality control**. In today's environment, firms are challenged to facilitate transparency and opine on the integrity of financial statements while managing similar external and competitive risk factors as issuers. The PCAOB has expressed it is particularly interested in firms' software audit tools, consideration of cybersecurity risk, and systems of quality control including: root cause analysis, independence, engagement quality reviews, and professional skepticism.

The [Staff Inspection Brief](#) also includes an appendix that contains historical data related to inspections of registered firms. This data indicates that revenues, receivables, non-financial assets, financial instruments, inventory, income taxes, and equity transactions as the most frequently inspected areas due to both materiality and risk.

For more information and educational opportunities on these and other topics related to audit committee oversight, please visit [BDO's Center for Corporate Governance and Financial Reporting](#).

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