

Small Business Securities Bulletin

A periodic bulletin keeping small businesses informed about current developments in securities law and related matters



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PCAOB Adopts Guidance for Audit Committees on PCAOB Inspection Process

Last month, the [Public Company Accounting Oversight Board \(PCAOB\)](#), released its “[Information for Audit Committees About the PCAOB Inspection Process](#)” [PDF] (Release). The purpose of the Release is to “assist audit committees in (1) understanding the PCAOB’s inspections of their audit firms and (2) gathering useful information from their audit firms about those inspections.”

The Release provides an overview of the PCAOB’s inspection process, explaining that the PCAOB conducts inspections of audit firms that audit Securities and Exchange Commission (SEC) reporting companies for compliance with certain laws, rules and professional standards in connection with the audit firms’ audit of their public company clients, noting that that the inspections are “designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.” The PCAOB’s inspection process includes an in-depth examination of certain aspects of certain audits performed by the audit firm as well as the firm’s system of quality control over its audit processes. Individual audits are chosen for inspection not randomly but on a “risk-weighted basis” that “heighten[s] the possibility that auditing deficiencies are present.” Therefore, if a company’s audit is chosen for inspection, it can indicate that the PCAOB believes there is a higher risk of a deficiency with that audit.

Companies often are unaware that their audit was selected for review by the PCAOB as part of the inspection process, as there is no rule requiring auditors to inform their clients of such selection or of the results of any PCAOB inspection, including in instances where the PCAOB finds deficiencies in the firm's audits – whether in the client's audit or in similar audits. Part of the PCAOB's reports are public and posted on its Web site, but the PCAOB is prohibited from disclosing certain information that may relate to an individual company's audit, including deficiencies that the PCAOB may have found in such audit or in the audit of similar companies, that are not included in the public portion of the firm's inspection report. The PCAOB also cannot release quality control criticisms unless the firm does not address such criticisms within 12 months. Audit firms themselves, however, are not prohibited from disclosing such information.

The PCAOB believes that the information in its inspection reports and about the inspection of an individual firm can be useful to an audit committee as a starting point in discussions with the audit firm it oversees. The Release suggests that an audit committee may wish to ask its audit firm to keep it informed with respect to certain matters related to the PCAOB's inspection process, including (1) whether the company's audit was selected for PCAOB inspection, (2) whether the PCAOB identified deficiencies in the company's audit or other audits involving auditing and accounting issues similar to the company's audit, (3) the firm's response to the findings (and audit firm responses that should be viewed with skepticism), and (4) the quality control procedures issues addressed in the non-public portion of the PCAOB's inspection report and how the audit firm is addressing any deficiencies. We are aware that some companies include language in their engagement letter with their auditors requiring the audit firm to keep them informed of such matters.

The Release is available at

http://pcaobus.org/Inspections/Documents/Inspection_Information_for_Audit_Committees.pdf.

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About Me

I am a former SEC attorney who also has prior "big firm" experience. I assist public as well as private companies with compliance with federal and state securities laws, including assisting public companies with their reporting obligations under the Securities Exchange Act of 1934, at competitive billing rates. Please

contact me if you would like more information about my practice or to discuss how I can be of assistance to you. Visit my bio at www.ober.com/attorneys/penny-somer-greif.

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