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# Highlights of Recent PCAOB Activities

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## Introduction

In late 2021, the SEC appointed a new PCAOB chair, Erica Williams, and three new Board members: Christina Ho, Kara Stein, and Anthony Thompson. Duane DesParte, who was appointed in 2017, is continuing his service as a Board member. In [announcing](#) the new appointments, SEC Chair Gary Gensler noted that “[f]inance is about trust, and the PCAOB has a critical role to play in ensuring that public company financial disclosures can be trusted by investors.” The newly constituted Board has been considering its primary areas of strategic focus to ensure that it is adapting to the changing world in a way that is consistent with its mission, including creating new advisory groups and updating the standard-setting and research agendas.

This *Heads Up* discusses certain recent activities undertaken by the PCAOB as a result of what the Board's May 4, 2022, [news release](#) describes as its “assessment of priorities that advance audit quality to protect the interest of investors.”

## The PCAOB's New Advisory Groups

In January 2022, the Board announced its intent to create an Investor Advisory Group (IAG) and a Standards and Emerging Issues Advisory Group (SEIAG). The Board adopted charters for the groups and named new members of both groups in March 2022. These newly formed advisory groups are intended to enable the PCAOB to obtain essential input and insights from investors and other stakeholders on a wide variety of matters related to improving audit quality, including PCAOB standards.

The inaugural meetings for the newly appointed IAG and SEIAG were held virtually on June 8, 2022, and June 15, 2022, respectively. Both meetings included presentations by PCAOB staff that provided an overview of the various PCAOB divisions and offices, as well as discussions on the PCAOB's strategic plan and its standard-setting agenda. Broad feedback and perspectives were shared by both IAG and SEIAG members in response to the questions posed. The PCAOB maintains [Web pages](#) for both advisory groups on which more details about the meetings are provided.

In her [statement](#) on the adoption of charters for the new advisory groups, Chair Williams observed that “[f]or the PCAOB to faithfully execute its mandate to protect investors and further the public interest in the preparation of informative, accurate and independent audit reports, it is critical that the Board engage with stakeholders with diverse viewpoints, including investor advocates who advance the goal of investor protection that is at the heart of our mandate.”

## The PCAOB's Adoption of New Requirements for the Lead Auditor's Use of Other Auditors

As discussed in Deloitte's October 15, 2021, [Heads Up](#), the roles of other accounting firms and individual accountants in audits (collectively, “other auditors”) continue to take on greater significance with companies' increasingly global operations. Such cross-border operations pose unique challenges because of a number of factors — including a myriad of laws and regulations, such as those related to access to information and the ability to conduct oversight.

Consequently, on June 21, 2022, the PCAOB issued [Release 2022-002](#),<sup>1</sup> in which the Board adopted (1) amendments to its auditing standards and (2) a new auditing standard that applies to a lead auditor's use of other auditors. The new provisions are intended to strengthen existing requirements and align the applicable requirements with the PCAOB's risk-based supervisory standards. Subject to the SEC's approval, the amendments and new standard will take effect for audits of financial statements for fiscal years ending on or after December 15, 2024.

Among the provisions in Release 2022-002 are the following:

- Rescission of AS 1205, *Part of the Audit Performed by Other Independent Auditors*.
- Amendments to AS 2101, *Audit Planning*, and AS 1201, *Supervision of the Audit Engagement*.
- Adoption of a new auditing standard, AS 1206, *Dividing Responsibility for the Audit With Another Accounting Firm*.

Release 2022-002 states that the “amendments to the Board's auditing standards are intended to improve PCAOB standards principally by (i) applying a risk-based supervisory approach to the lead auditor's oversight of other auditors and (ii) requiring that the lead auditor perform certain procedures when planning and supervising an audit that involves other auditors.” In addition, the Release notes that the “amendments take into account recent practice developments in the lead auditor's oversight of other auditors' work, including the greater use of communication technology.”

<sup>1</sup> PCAOB Release No. 2022-002, *Planning and Supervision of Audits Involving Other Auditors and Dividing Responsibility for the Audit With Another Accounting Firm*.

“As we approach the twentieth anniversary of the enactment of the Sarbanes-Oxley Act,” said Chair Williams in her [statement](#) on the PCAOB’s adoption of new requirements for the lead auditor’s use of other auditors, “we have an exciting task ahead of us: to modernize and streamline our standards and rules to meet the modern-day challenges and complexities, and to do so in a manner that continues to put our investor protection mission front and center. This is the first standard this newly constituted Board has had the opportunity to consider.”

Further, in a [news release](#) accompanying the announcement of the PCAOB’s adoption of the new requirements, Chair Williams stated that “[t]oday, after an extensive process of analysis and public input regarding the lead auditor’s use of other auditors, the Board is taking action to improve audit quality and strengthen investor protection. These amendments will require audit firms to ensure that lead auditors sufficiently plan, supervise, and evaluate the work of other auditors.”

## The PCAOB’s Standard-Setting and Research Agendas

In May 2022, the PCAOB updated its standard-setting and research agendas, which, as indicated on the Board’s [Web site](#), are “primarily focused on enhancing investor protection by prioritizing the areas where improvements to PCAOB standards could have the most significant impact on audit quality and the public interest.” In a [news release](#) announcing the new agendas, Chair Williams stated that the “agendas represent the Board’s focus to modernize, simplify, and enhance our professional standards.”

The PCAOB’s updated standard-setting agenda is divided into “short-term” and “mid-term” projects. The six short-term standard-setting projects are projects under current (or recent) active development by the PCAOB staff in which a Board action (e.g., issuance of a proposed standard or adoption of a final standard) is (or was) anticipated in less than 12 months. One such project, which is awaiting final SEC action, is that related to the lead auditor’s use of other auditors (discussed above). The remaining short-term projects are intended to strengthen auditing, quality control, and other professional practice standards in the following targeted areas:

- Audit firm quality control systems.
- The auditor’s consideration of possible noncompliance with laws and regulations.
- Updates to the Board’s interim attestation standards.
- The auditor’s evaluation and reporting of a company’s ability to continue as a going concern.
- Use of confirmations in an audit.

Mid-term standard-setting projects are projects in which the PCAOB staff is actively engaged but no Board action is anticipated within the next 12 months. The four mid-term projects focus on the following:

- Substantive analytical procedures.
- Fraud.
- Enhancements and updates to the Board’s interim ethics and independence standards.
- The modernization and streamlining of the Board’s interim standards to reflect the impact of technological changes to financial reporting and audit practice as well as the audit profession’s evolution over time.

The PCAOB’s research agenda continues to include projects on audit evidence and data and technology. The PCAOB staff has indicated that it is engaged in these research projects to determine whether there is a need for changes to existing standards or other regulatory responses. If standard setting is deemed appropriate, projects will be added to the standard-

setting agenda. If standard setting is not pursued, consideration will be given to whether any other action is warranted.

Chair Williams and other PCAOB Board members highlighted throughout the IAG and SEIAG meetings that while the Board recently issued its updated standard-setting and research agendas, those agendas are intended to be dynamic, and changes will be made as needed to respond to the most pressing issues facing the profession.

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