Dailey LLP

Audit Committee Update

Implications and Considerations for Communicating with the Public Company Accounting Oversight Board

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The Public Company Accounting Oversight Board ("PCAOB") recently released its 2019 Staff Inspections Outlook for Audit Committees. In it, the PCAOB provides more detail about its plans to communicate with audit committees as part of its oversight of audit firms. Audit committees need to understand the potential implications of these communications and develop a thoughtful approach in deciding whether to engage in communications with the PCAOB.

The PCAOB's stated purpose for these communications is:

- "to inform [audit committees] about our core activities—including our inspections—and to maintain an ongoing dialogue with them"; and
- "to provide further insight into our process and obtain their views."

The PCAOB also has issued a list of questions for audit committees to consider asking audit firms, which track areas of PCAOB inspection focus.

The concern lies with the PCAOB's desire "to maintain an ongoing dialogue" with audit committees and "obtain their views."

First, the PCAOB has stated that it plans to report the results of its interviews to the public. Issuers will not have any control over how those interviews are reported by the PCAOB.

Second, any communications could potentially lead to enforcement activity against an issuer. While the PCAOB itself only has authority to bring actions against auditors, the PCAOB regularly shares information with other government enforcement agencies, including the SEC and DOJ.

Here are some guidelines to consider when determining whether, or how, your audit committee should engage with the PCAOB:

- The audit committee should consider what benefit (if any) it will get by communicating with the PCAOB.
- If an audit committee chooses to communicate with the PCAOB, it should first obtain assurance that the PCAOB inspection of the audit firm is final and no deficiencies were identified by the PCAOB.
- Any communication should be narrow and limited to the PCAOB providing (1) substantive information to the audit committee, and (2) new insight into the PCAOB's process.
- To the extent a company provides information to the PCAOB, it should be limited to the audit committee's views on the PCAOB process.
- The audit committee should consider using company counsel, or counsel to the audit committee as the point person to communicate with the PCAOB.

If you have any questions concerning this alert, please contact:

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