Conversations with Audit Committee Chairs: COVID-19 and the Audit

Overview

As part of the Public Company Accounting Oversight Board's (PCAOB) strategic goal of enhancing transparency and accessibility through proactive stakeholder engagement, the Board has committed to engaging more directly and more often with audit committees. In 2019, we reached out to nearly 400 audit committee chairs of U.S. issuers whose audits we inspected and offered them the opportunity to speak with us. We reported out on those discussions in *Conversations with Audit Committee Chairs: What We Heard & FAQs*.

We have continued this outreach to audit committee chairs during our 2020 inspections. Given the unprecedented challenges for auditors, audit committees, and issuers created by the COVID-19 pandemic, we asked audit committee chairs how they are thinking about the effect of COVID-19 on financial reporting and the audit as they perform their oversight duties.

What we've heard has depended largely on how the pandemic has affected different industries and issuers. While some audit committee chairs said the effect of COVID-19 on the audit had not been significant to date, others shared that the magnitude of the impact of COVID-19 quickly surpassed their expectations. Most audit committee chairs indicated that they are contending with new or increased risks associated with the effects of COVID-19. Audit committee chairs from across industries have identified a wide range of topics that present increased risk—both related to financial reporting and the audit as well as other issues—that they are focusing on at this time. For many, these include cybersecurity, employee safety and mental health, going concern, accounting estimates, impairments, international operations, and accounting implications of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

This document summarizes certain of the common themes we heard from audit committee chairs related to the effects of COVID-19 and the audit through the first half of the year. We plan to share general takeaways from our audit committee conversations at the end of the year. Please note that the PCAOB does not require or necessarily endorse what we heard from audit committee chairs. We share their perspectives to offer increased transparency into our activities and to further our ongoing efforts to provide audit committees with timely and useful information.

Additional Resources

To learn more about PCAOB views on issues related to COVID-19—as well as other topics of interest—watch the replay of our July 8, 2020 webinar for audit committees. We have also published a staff Spotlight, *COVID-19: Reminders for Audits Nearing Completion*, that focuses on certain auditor responsibilities that may be impacted by circumstances related to COVID-19.

Increased Risks Associated with Remote Work

Addressing risks related to remote work was the most prevalent theme that we heard from audit committee chairs about the impact of COVID-19. The transition to an almost entirely remote workforce for both issuer personnel and the external auditors was rapid, but most audit committee chairs stated that the transition was effective. Specifically, many noted that internal control over financial reporting (ICFR) was managed, maintained, or adjusted as necessary.

Multiple audit committee chairs identified cyber-related risks—such as increased phishing attempts and email security—as also being top-of-mind with the move to remote work. The auditor's consideration of cybersecurity is addressed in the context of identifying and assessing risks of material misstatements to the financial statements and, for integrated audits, in identifying and testing the controls that mitigate those risks. Audit committee chairs have been discussing with the auditor cyber-related controls that are in the scope of the audit, putting increased focus on the importance of effective operation of these controls. Several committee chairs noted that having much of the issuer's data stored in the cloud eased the transition to remote work.

Audit Committee Perspectives: Questions to Consider Related to Remote Work

The following are examples of the types of questions that audit committees have identified as helpful to discuss with their auditors in understanding risks related to remote work.

- ✓ Will additional time be needed to get the audit work done remotely? What complexity does working remotely add to the audit?

- ✓ Will working remotely affect productivity of audit engagement team members? If so, does the audit plan need to be updated, and do fees need to be revisited?

- ✓ Has remote work affected the company's ICFR? If so:
  - o Is the auditor including new controls in their assessment, or evaluating changes to existing ones?
  - o Has the auditor identified any concerns with respect to segregation of duties?

- ✓ If a review of the issuer's interim financial information has been completed already, are there any lessons learned that can be applied to the year-end audit?

- ✓ Are there any technology enhancements or collaborative tools that should be considered to support longer-term remote work?

- ✓ Has the auditor assessed potential risks of material misstatement related to cybersecurity, and how does the auditor plan to respond to those risks?

Increased Communications with the Auditor

The majority of audit committee chairs told us that there was more frequent communication with their auditor as a result of the pandemic. Audit committee chairs were generally satisfied with the amount, type, and frequency of communication with their auditors. Several also noted that, as the pandemic continues, new risks and uncertainties may arise and that they expect to stay engaged with both management and auditors to understand how they are addressing emerging issues.

The following forms of communication were highlighted by audit committee chairs as helpful or useful:

- Discussions about trends auditors are seeing across their client base, particularly those pertaining to industry peers;

- Presentations on areas of the audit that may or will warrant increased attention due to the effects of COVID-19, as well as how the auditor plans to approach those areas; and

- Audit firm resources and webinars with industry-specific content.

Audit Committee Perspectives: Considerations for Communicating with the Auditor during COVID-19

✓ Engage with the auditor and management to discuss potential challenges to a timely completion of the audit. Review and discuss the timeline for the phases of audit work.

✓ Determine a good cadence for communications that include both the auditor and management so that the audit committee receives the information it needs in a timely manner, while also considering the additional demands on auditors and management during the pandemic.

✓ Discuss any changes to the audit plan with the auditor, including changes to areas of focus and how the auditor plans to address areas of new or modified risk. Discuss if there are changes to how the auditor will identify and test internal controls.

✓ Discuss which disclosures may need to change as a result of COVID-19.

We Want to Hear from You

We are grateful for the opportunity to speak with audit committee chairs. This continuous dialogue on areas of mutual importance helps us to advance our mission.

In an effort to continue to improve external communications and provide information that is timely, relevant, and accessible, we welcome your feedback on this document via a short survey. Or if you have other suggestions on how we can provide useful information to our stakeholders, we would like to hear from you. Please email our stakeholder liaison, Erin Dwyer, at dwyere@pcaobus.org or outreach@pcaobus.org.

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