

Illustrative Examples for Auditors of Public Company's

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October 2021

DISCLAIMER

Any views expressed are my own and do not necessarily reflect the views of the Board as a whole, any individual Board Member, or other staff.

AGENDA

- Overview of recurring deficiencies in Engagement Quality Review and Auditing Revenue.
- Examples of good practices that may address these deficiencies.



ENGAGEMENT QUALITY REVIEW

- A rigorous engagement quality review (EQR) performed by a qualified, objective reviewer can serve as a meaningful check on the quality of work performed by the engagement team.
- PCAOB inspectors continue to identify deficiencies in the EQR in many of our inspections.
- Deficiencies observed by the PCAOB range from not conducting an EQR at all, to the engagement quality reviewer failing to perform an EQR with due professional care.
- Failure by an engagement quality reviewer to conduct the review with due professional care may result in inspection comments and/or enforcement actions.

ENGAGEMENT QUALITY REVIEW DEFICIENCIES

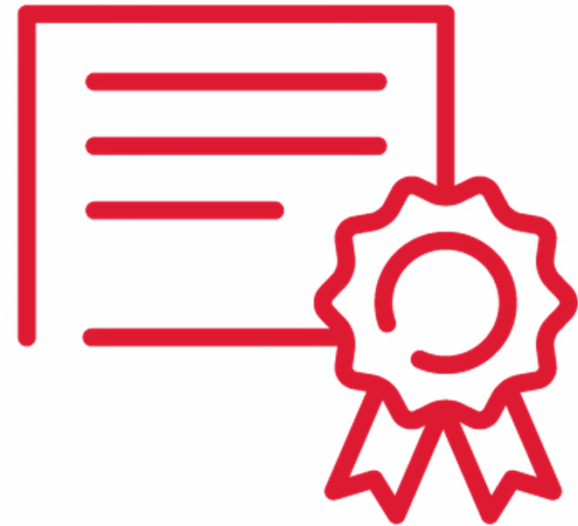
- In one instance, a reviewer was the subject of an enforcement action because he was aware of a potential misstatement in the public company's financial statements, but failed to appropriately evaluate the engagement team's significant judgments regarding the potential misstatement.
- In other instances, PCAOB inspectors have identified engagements in which engagement quality reviewers placed too much reliance on discussions with the engagement team or limited their reviews to reading summary memos that did not provide sufficient detail about the engagement team's significant judgments and related conclusions.

COMMON DEFICIENCIES IN AUDITING REVENUE

- In determining revenue based on transfer of services provided to customers, the auditor did not evaluate whether the performance obligation for the services was satisfied before revenue was recognized.
- The auditor did not evaluate whether customer contracts met the collectability criteria required to identify a contract with a customer.
- In determining revenue based on performance obligations satisfied over time, the auditor did not obtain sufficient appropriate audit evidence from related measure of progress, including reasonableness of the total expected cost to satisfy remaining performance obligations or the accuracy of the estimated total units to be completed.

GOOD PRACTICES

- A good practice could be a procedure, technique, or methodology that is appropriately comprehensive and suitably designed in relation to an audit firm's size and the nature and complexity of the audit firm's practice.



GOOD PRACTICES – ENGAGEMENT QUALITY REVIEW

Some good practices we observed include:

- Monitoring workload and areas of expertise of partners assigned as an engagement quality reviewer.
- Implementing milestone programs to promote the timeliness and quality of audit procedures, including the increased involvement of an engagement quality reviewer.
- Establishing programs to expand accountability for an engagement quality reviewer including rewarding or penalizing reviewers depending on whether internal or external inspections found deficiencies related to their review.

GOOD PRACTICES – ENGAGEMENT QUALITY REVIEW

- Providing training to emphasize the importance of an EQR and the related requirements. These trainings used examples that illustrated the level of rigor and detail of review expected of the engagement quality reviewer.
- Creating and revising tools such as smart lists or work paper views to highlight fraud or significant risks identified by the engagement team. In this case, smart lists automate the work papers of some firms and generate data related to previously obtained information.
- Involving an engagement quality reviewer earlier in the audit process. By doing so, focus was placed on emphasizing the importance of setting expectations for the EQR.

GOOD PRACTICES – AUDITING REVENUE

Some good practices we observed include:

- Developing templates and training tools to assist auditors in testing controls and performing substantive procedures.
- Implementing interactive engagement team meetings, often tied to particular audit milestones, and coaching workshops among engagement team members.
- Performing timely and rigorous risk assessments on the different revenue streams, along with appropriately designed and executed audit procedures to address the corresponding risks.

GOOD PRACTICES – AUDITING REVENUE

- Developing practice aids to guide auditors through the steps and process of an audit, including public company-specific scenarios.
- Articulating steps that auditors should take to evaluate the types of potential misstatements related to revenue that could result from the identified risks and the accounts, disclosures, and assertions that could be affected.
- Overseeing the work of specialists has increased to better understand the procedures performed and whether such procedures are responsive to the risk identified.

CONCLUSION

- This session illustrated two areas where we have observed deficiencies across our inspections: engagement quality review procedures and auditing of revenue.
- We encourage you to consider this material, along with the other staff publications available on our website, as you execute audits of high quality.
- Please submit any questions or feedback you might have on this presentation to forum@pcaobus.org.

