

# [Summary of recent pcaob actions that impact an audit, its auditors and its audit ...](https://assignbuster.com/summary-of-recent-pcaob-actions-that-impact-an-audit-its-auditors-and-its-audit-committee/)

Summary of recent PCAOB actions that impact an audit, its auditors and its audit committee Introduction The Public Company Accounting Oversight Board (PCAOB) is a non-profit making organization, which governs auditors of public limited companies. The birth of the Sarbanes-Oxley Act of 2002 led to the establishment of the PCAOB (Knapp 12). The board aims at safeguarding stakeholders and investors of publicly traded companies through ensuring that auditing of a public companys financial statements follows a set of severe standards. It is a five-member board with the responsibility of establishing quality control, auditing, ethics, attestation, and independence measures involving audit reports preparation on behalf of the SEC. Moreover, the PCAOB oversees the registration of public accounting bodies responsible for auditing publicly traded companies, conducts disciplinary proceedings and investigations of registered firms, inspects the registered firms’ practices, and approves registered firms (Carmichael 6).
Recently, The Public Company Accounting Oversight Board (PCAOB) has suggested new guidelines aimed at investors’ protection via strengthening prerequisites for audit substantiation. One of these guidelines includes inspections, which is an effort by PCAOB to promote high quality audit. Annual inspection oversees the improvement of quality audit. PCAOB requires any audit firm auditing a public company to be registered with PCAOB. Such a firm is inspected annually by the PCAOB if it audits 100 or more publicly traded companies or after every three years if it audits less than 100 public companies (Knapp 62). Results obtained after inspection help point out areas which require further practice, audit guidance, reminders training, or enhanced skills leading to better performance by audit professionals. A report is prepared after every inspection by the PCAOB and made available to public.
Recently, the PCAOB added more responsibilities to the audit committee which include responsibility of overseeing the work of external auditors, compensation, and appointment (Carmichael 25). The committee is obliged by SOX to comprise of at least one person with financial expertise in order to facilitate its duties. With some expertise, the audit committee is in a better position to challenge financial statements, ascertain the appropriateness and sufficiency of internal controls, and, if need be, perform certain accounting procedures to safeguard interests of Shareholders. Companies that lack a financial expert as a member of the audit committee are required to disclose and give an explanation for this in the yearly proxy statement. Further, SOX demands independence of the members of the audit committee of a public company. Therefore, a committee member should not be associated with the company or its subsidiary and he or she is prohibited from receiving compensation directly or indirectly from the company. Auditors are obliged to provide the audit committee with any information regarding practices and polices used. SOX also allows an audit committee to involve advisers and counsel in their duties whenever need arises (Rittenberg, Karla and Audrey 56).
For enhancement of independence of auditors, SOX requires the lead auditor to be rotated after every five years, as opposed to the previous requirement of seven years. Further, other engagement partners who play substantial roles in the audit are also subject to rotation after every seven years. Audit firms that audit publicly traded companies are prohibited by SOX from offering particular non-audit services. Any non-audit service undertaken by the external auditors must have pre-approval of the independent audit committee (Adelopo 5).
Works Cited
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