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it is devoted to auditor independence.

**Jason Bramwell** • May. 02, 2023



There is a brand-new section that debuted today in PCAOB inspection reports of audit firms, and it is devoted to auditor independence.

“We are committed to making our inspection reports as valuable as possible for investors, audit committees, and others, and today we take another significant step in advancing that goal by shining a greater light on independence violations and more,” PCAOB Chair Erica Williams said in a written statement. “These enhancements will provide relevant information that investors have asked for and support improvements in overall audit quality.”

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We identified the following instance of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

Under Rule 2-01(c)(7) of Regulation S-X, an accountant is not independent if it does not obtain audit committee pre-approval for audit and non-audit services. We identified one instance for one issuer in

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one audit reviewed in which this circumstance appears to have occurred related to certain non-audit services.

### Firm-Identified

The firm did not bring to our attention any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

The new beefed-up inspection reports will include:

**A new section of the report focused on independence violations:** Reports will feature a new independence section (Part I.C) that will discuss instances of noncompliance with PCAOB rules related to maintaining independence, as well as potential noncompliance with Securities and Exchange Commission independence rules.

**More information related to fraud procedures and the identification and assessment of the risks of material misstatements:** Reports will expand Part I.B to

include deficiencies related to AS 2401, *Consideration of Fraud in a Financial Statement*

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“These enhancements will further drive audit quality and make our inspection reports even more useful for the public,” said George Botic, director of the PCAOB’s Division of Registration and Inspections. “We are especially pleased to provide more information on auditor independence, which is essential to audit quality and underpins the objectivity, credibility, and integrity of the audit.”

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