INSIGHTS • PCAOB INSPECTIONS

Navigating Your PCAOB Inspection

A practical two-step approach to preparation and execution.

Having helped numerous audit firms navigate PCAOB inspections, we have observed what separates firms that navigate the process more successfully from those that don't — and it often comes down to proper preparation and execution.

Most firms scheduled for a PCAOB inspection have been through the process before and understand its general mechanics. Therefore, this article is not intended to explain how inspections work — it is intended to address the harder challenge: *how to prepare effectively and interact with inspectors* in a way that leads to better outcomes.

Based on our experience, we developed a practical two-step approach designed to help firms prepare purposefully, respond to PCAOB inquiries effectively, and reduce the risk of inspection findings.

Step	Description
Step 1	**Preparation** — Key considerations before inspection week begins
Step 2	**Execution** — A structured framework for responding to PCAOB inquiries (the "MARS" framework)

STEP 1 PREPARATION

Once an inspection is scheduled and issuer engagements are selected, the PCAOB will communicate "Focus Areas" for each engagement — typically about two weeks before the inspection begins. Focus Areas generally involve elevated audit risk, complex estimates, new accounting or auditing standards, or themes recurring from prior inspections.

Preparation should begin the moment Focus Areas are communicated.

1. Assign an Independent Reviewer

Designate an experienced partner, senior manager, or outside consultant with in-depth knowledge of PCAOB standards who was *not* involved in the engagement or the engagement quality review. This individual should bring an objective lens to the audit work and is better positioned to anticipate the questions a PCAOB inspector is likely to ask.

2. Revisit the Relevant Workpapers and Standards

Review all workpapers related to the identified Focus Areas alongside the applicable auditing standards. This is not merely a refresh — it should include an honest, independent assessment of audit quality considering the applicable standards.

Because inspections occur well after audit completion, this review serves two equally important objectives:

First, it reconnects the engagement team with the reasoning behind the audit approach — the risk assessment procedures including reasons why certain areas were identified as significant or high risk, the design of audit procedures, and why those procedures were considered sufficient.

Second, it helps the team think through how to clearly communicate and demonstrate to the PCAOB that the audit was performed in accordance with the applicable standards — in short, it gives the team the opportunity to frame a coherent, well-supported story before the inspection begins.

3. Conduct Internal Preparation Sessions

Hold focused discussions with the team to identify likely PCAOB inquiries, potential documentation gaps, and any supplemental evidence that may exist outside the audit file but could support the work performed.

> *In our experience, firms that invest in this preparation step are better positioned for a more productive inspection experience, which can lead to fewer findings.*

STEP 2 EXECUTION — THE "MARS" FRAMEWORK

The primary objective of a PCAOB inspection is to assess whether the firm's audit work complies with PCAOB standards and rules — both with respect to the firm's system of quality control and the specific engagements selected for review.[1]

Even experienced, high-performing engagement teams can become defensive under the pressure of an inspection. While this instinct is understandable, it is often counterproductive. We encourage teams to embrace the PCAOB process as a developmental tool and a learning experience.

There are many ways to approach the audit of a particular area. The team's focus should therefore be on helping the PCAOB understand how its approach satisfied the applicable standards and supported the conclusions reached — not on defending every decision made.

To help teams respond consistently and effectively, we developed the **MARS Framework**, which we encourage all engagement teams to apply during inspection week:

M Materiality

Auditors are expected to focus on matters that could reasonably result in a material misstatement — and PCAOB inspectors understand this concept very well.

If an inspector's inquiry relates to a matter that could not reasonably give rise to a material misstatement, walk the inspector through how the team evaluated materiality with respect to that specific matter. Where helpful, teams may prepare sensitivity analyses to illustrate why a matter did not present a realistic risk of material misstatement. Pointing out materiality in this context is not pushback — it is professional context that frames the audit work appropriately and that PCAOB inspectors expect.

A Audit Procedures

When responding to PCAOB inquiries, do not limit the response to only the procedures most directly associated with the Focus Area. Cast a wide net. Identify the full universe of procedures performed that are relevant to the assertion or area under discussion — including risk assessment procedures, tests of controls, and substantive procedures located elsewhere in the audit file.

Persuasive evidence beyond the formal workpapers — such as emails, meeting notes, or other contemporaneous communications — may also support the audit work performed. Before sharing any materials outside the audit file, however, the team and national office should carefully review such materials and evaluate whether they could introduce new questions or concerns.

Do not concede that the documented audit procedures were insufficient until every avenue has been explored. In our experience, teams sometimes identify relevant workpapers later in the inspection process that directly address the PCAOB's concerns and prevent potential findings. Having an experienced partner, senior manager, or outside consultant assist in identifying all relevant documentation can make a meaningful difference.

R Risk Assessment

Clearly articulate how the nature, timing, and extent of audit procedures performed were directly responsive to — and commensurate with — the risks of material misstatement identified and assessed during the engagement, with full consideration of both the magnitude and likelihood of potential misstatements.

Auditors are expected to direct effort where risk warrants it — and less effort in lower-risk areas is entirely appropriate. For example, after performing risk assessment procedures, a team may have identified only specific aspects or assertions within the revenue account — such as cut-off or the determination of standalone selling prices — as significant risks, rather than treating the entire account as such. That said, the PCAOB will sometimes challenge why a particular account or area was not assessed as a significant risk, and teams should be prepared to address that question by reference to the significant risk factors outlined in the risk assessment standard.

S Standards

Auditors are required to comply with applicable PCAOB standards — not to exceed them. This distinction is important and should be highlighted when responding to PCAOB inquiries, where appropriate.

When the PCAOB questions a particular area, the team should directly compare the procedures performed to the requirements of the relevant standard and articulate that connection clearly — the goal is to demonstrate that the work performed satisfied the standard, nothing more.

If a PCAOB observation appears to be escalating toward a potential comment form, ask the inspector directly which standard he or she believes was not complied with. That question is reasonable, professional, and tactically important — it gives the team the opportunity to formulate a targeted response grounded in the specific requirements of the applicable standard.

Final Thoughts

Respond only to what is asked. The PCAOB will follow up if it needs additional information — volunteering beyond the scope of an inquiry can open lines of questioning that are better left unopened. Brevity is not evasiveness; it is professionalism.

It is also good practice to listen carefully to each PCAOB question, write it down, and align internally as a team before providing a formal response. That brief pause can make the difference between a precise, well-framed answer and one that inadvertently raises new questions.

Firms that invest in structured preparation and apply the MARS framework during inspection week are better positioned for a more productive inspection experience, which can lead to fewer findings.

[1] Inspection Procedures | PCAOB (pcaobus.org/oversight/inspections/inspection-procedures)