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AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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Summary

2022 PCAOB Inspections Preview Says 40 Percent of Audits Reviewed Had Deficiencies. The PCAOB staff anticipates that approximately 40 percent of the audits inspected in 2022 will have one or more deficiencies included in Part I.A of the audit firm’s inspection report, up from 34 percent in 2021 and 29 percent in 2020. [Spotlight: Staff Update and Preview of 2022 Inspection Observations](#) presents aggregate observations from the PCAOB’s 2022 inspections of 710 public company audits performed by 157 audit firms. In a [statement](#), PCAOB Chair Erica Williams described the 40 percent deficiency rate as “completely unacceptable.” Ms. Williams also urged audit committees “to hold audit firms accountable on behalf of investors” and noted that the report “includes important questions audit committees should ask their audit firm” regarding its inspection results. ([more](#))

So Many Questions: PCAOB Suggests Questions Audit Committees Should Ask. The PCAOB staff has issued its 2023 list of questions to aid audit committees in communicating with their auditors. [Spotlight: Audit Committee Resource](#) “suggests questions that may be of interest to audit committee members to consider amongst themselves or in discussions with their independent auditors, particularly given today’s economic and geopolitical landscape.” The [Audit Committee Resource](#) contains 38 questions, arranged under ten topics. The staff’s suggested questions are a useful starting point for a dialog with the auditor on key audit issues, and some questions could be reframed and posed to management as part of the audit committee’s oversight of the company’s financial reporting and internal controls. ([more](#))

SEC Accounting Enforcement Continues Apace. During the past year, there has been a sharp increase in SEC actions alleging accounting violations. In many of these cases, the SEC has filed charges, not just against the reporting company, but also against corporate officers and employees. Three recent SEC enforcement matters indicate that the focus on accounting and on individual culpability for accounting violations has not abated. Two of the cases involve revenue recognition frauds, a traditional SEC accounting enforcement priority. Audit committees should be vigilant as to the adequacy of controls around revenue, especially when revenue-based goals are a key part of measuring management performance and setting compensation. ([more](#))

Digital Assets: Next Steps on the Audit Committee’s Journey. The Center for Audit Quality has released [Continuing Your Digital Assets Journey: A Tool for Audit Committees](#). This publication examines digital asset-related topics and provides questions for audit committees to consider when discussing these matters with management and the auditor. [Continuing Your Digital Assets Journey](#) is aimed at audit committees of companies that hold or transact with digital assets and is an in-depth follow-up to the CAQ’s prior publication, [Jumpstart Your Digital Assets Journey: A Tool for Audit Committees](#). ([more](#))

[What is Audit Quality? The CAQ Updates its Disclosure Framework.](#) The Center for Audit Quality has updated its framework for accounting firm communication of information to help stakeholders in understanding how the firm supports and monitors audit quality. [Audit Quality Disclosure Framework \(Update\)](#), released in June, is a revised version of the CAQ’s original audit quality disclosure framework, published in 2019. The CAQ believes that “a combination of metrics—taken as a whole and supplemented with robust discussion—may provide those overseeing the audit and other stakeholders with information and additional transparency into the firm’s systems and processes that impact audit quality.” While the purpose of the CAQ’s guide is to assist accounting firms in preparing audit quality reports, it could also be helpful to an audit committee in understanding how to use and interpret such reports. Audit committees are one of the main audiences for firm audit quality disclosures. ([more](#))

[KPMG Finds that Audit Committees Are Feeling the Effects of Increased Complexity.](#) KPMG has released the results of a global survey of 786 audit committee members in 19 countries. [2023 Audit committee survey insights](#) reports the views of the 144 U.S. audit committee members and chairs that participated in the survey. Among other things, 74 percent of the U.S. respondents identified “Increased complexity of business and risk environment -- e.g., cybersecurity, AI, supply chains, workforce challenges” as the “macrotrend” that will have the greatest impact on the audit committee’s focus and agenda in the coming months. “Geopolitical and economic risks, including inflation and possible recession” (50 percent) and “Rigor of the control environment in light of business disruption and/or pressures from economic slowdown” (40 percent) placed second and third. The KPMG survey provides insight into what issues are on the minds and agendas of U.S. audit committee members and how committees are addressing challenges in the current environment. Audit committees may want to use the survey as a way of benchmarking their agendas and approaches against those of their peers. ([more](#))

[ISSB Issues its Inaugural Disclosure Standards.](#) On June 26, the International Sustainability Standards Board issued its first two sustainability standards – IFRS S1 ([General Requirements for Disclosure of Sustainability-related Financial Information](#)) and IFRS S2 ([Climate-related Disclosures](#)). Use of the ISSB standards is not mandatory in the United States, but they are likely to be adopted in most of the rest of the developed world and to become de facto global standards. Many U.S. companies are likely to make ISSB disclosures voluntarily, either in response to investor demand or as a way of providing disclosures that are comparable to those of peer companies. IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Audit committees may want to discuss with management the potential benefits of voluntary ISSB reporting. ([more](#))

[SEC Approves Claw Back Listing Standards.](#) As On June 9, the SEC approved [New York Stock Exchange](#) and [Nasdaq Stock Market](#) listing standards requiring listed companies to have a policy regarding the recovery of executive compensation that was erroneously awarded based on financial reporting that was subsequently restated. The new listing standards, which become effective on October 2, 2023, will potentially affect the work of the audit committees by changing the stakes of a decision to restate. ([more](#))

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The [Update’s](#) website is www.auditupdate.com.

[Updates](#) issued after June 1, 2020, are available [here](#). Updates issued between January 1, 2019, and May 31, 2020, are available [here](#). An index to titles and topics in the [Update](#) beginning with No. 39 (July 2017) is available [here](#).