Dan Goelzer

AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

Update No. 88
February 2024

This Update summarizes recent developments relating to public company audit committees and their oversight of financial reporting and of the company's relationship with its auditor.

In This Update:

SEC Chief Accountant Calls on Auditors to Improve and on Audit Committees to Be Proactive

More Audit Reports Contain CAMs, But There are Fewer CAMs Overall

PCAOB Charges Four More Firms with Audit Committee Communications Violations

On the Update Radar: Things in Brief

Large Companies Worldwide Continue to Expand Their ESG Disclosure and Assurance

EY on SEC Priorities for 2024

Your Controller is Probably Making Lots of Accounting Mistakes

The Audit Blog

SEC Chief Accountant Calls on Auditors to Improve and on Audit Committees to Be Proactive

Earlier this year, the PCAOB announced 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. See 2022 PCAOB Inspections Preview Says 40 Percent of Audits Reviewed Had Deficiencies, July 2023 Update. In connection with that announcement, PCAOB Chair Erica Williams described the 40 percent deficiency rate as "completely unacceptable."

SEC Chief Accountant Paul Munter has now also issued a statement commenting on the increase in inspection deficiencies and urging auditors "to exercise objective, impartial judgment and rigorous professional skepticism in gathering and evaluating evidence throughout the audit to support the audit opinions provided." An Investor Protection Call for a Commitment to Professional Skepticism and Audit Quality (February 5, 2024). Mr. Munter's statement also emphasizes the role of audit committees in

---

Dan Goelzer is a retired partner of Baker McKenzie, a major international law firm. He advises a Big Four accounting firm on audit quality issues. From 2017 to July 2022, Dan was a member the Sustainability Accounting Standards Board. The SEC appointed him to the Public Company Accounting Oversight Board as one of the founding members, and he served on the PCAOB from 2002 to 2012, including as Acting Chair from 2009 to 2011. From 1983 to 1990, he was General Counsel of the Securities and Exchange Commission.

promoting audit quality. “Auditors and audit committees serve as gatekeepers for investor protection and the financial reporting process and have an important role in facilitating the high-quality audits that are critical to the proper functioning of our capital markets.”

Auditors’ Exercise of Professional Skepticism

With respect to auditors, the theme of Mr. Munter’s remarks is the importance of professional skepticism. He points out that during the past three annual inspection cycles, audits of internal control over financial reporting have been a frequent source of deficiencies. “Accordingly, we remind auditors of their responsibility to exercise professional skepticism in the gathering and evaluating of evidence, including related to internal controls, and approaching management’s judgments in these areas with professional skepticism.” He also notes that companies facing challenges, such as “pressure to meet earnings expectations in the face of declining revenue or increased costs” may present enhanced fraud risk. In these circumstances, auditors must consider whether proper professional skepticism “requires more persuasive evidence to corroborate management’s assertions.”

Mr. Munter describes four “strong practices” that support auditor professional skepticism.

- The auditor “should frequently and proactively engage with the audit committee.” Auditor-audit committee discussions should include, among other things, any red flags arising from the management’s interactions with the auditor. “[T]he auditor should not agree to truncated or summary presentations of their concerns with management or management responses to audit concerns with the audit committee.”

- The auditor should integrate specialists and other experts into the engagement team to assist in auditing areas where specialized knowledge is needed. “Doing so will help ensure that the auditor has adequate expertise to challenge management’s assessments and assertions.”

- Engagement team members should be trained on biases that could affect auditor judgment and might undermine professional skepticism.

- The engagement partner should ensure that the team is empowered to exercise professional skepticism and challenge management judgments. This may, for example, include “insulating audit staff from any undue pressure to accept less than persuasive audit evidence, and refusing management requests or demands to replace audit team members.”

Role the Audit Committee in Prioritizing and Promoting Audit Quality

Mr. Munter also reminds audit committees that they are “critical gatekeepers for investor protection” and of the “benefit of having an audit committee that is independent of management.” Audit committees should prioritize, and aim to promote, audit quality. For example, in selecting an auditor, committees should encourage firms to compete based on their ability to perform a high-quality audit. Committees should also frequently evaluate their process for assessing the auditor’s performance. Factors that audit committees should considering in monitoring performance include:

- The results of the auditor’s PCAOB inspections, the firm’s internal monitoring programs, or other firm audit quality reporting.

- Whether the engagement team has appropriate industry expertise and whether the engagement partner is sufficiently engaged and provides leadership to the engagement team.

- The engagement team’s total hours and staffing mix (such as, the use of specialists, the experience of the members of the engagement team, and the portions of the engagement performed by other auditors).

- Significant changes in hours or staffing mix from previous audits.

The audit committee should also support the auditor's independence and encourage the exercise of professional skepticism. To accomplish this, Mr. Munter encourages audit committees to:

- Meet – formally or informally -- with the auditor, independent of management.

- Engage in "open dialogue" with auditor that includes in-depth discussions of financial reporting and internal control matters.

- Ask the auditor "probing questions to assess audit quality."

- Speak directly with the engagement team about the importance of professional skepticism and the audit committee's support of the engagement team.

- Avoid "substituting management's judgments or interactions with the independent auditor for the audit committee's own judgments and engagement."

Comments: Mr. Munter has issued a series of statements over the past several years calling on audit committees to be more proactive in various facets of their oversight of the external auditor. See, e.g., SEC Chief Accountant Discusses Audit Committee Oversight of Other Auditors, April 2023 Update and Acting Chief Accountant Stresses Auditor Independence and Audit Committee Oversight, November-December 2021 Update. Audit committees should seriously consider the suggestions in his most recent statement regarding how they can enhance their monitoring of auditor performance and foster an environment that encourages professional skepticism. As noted in prior Updates, in light of the history of SEC pronouncements concerning audit committee responsibilities, the SEC may ask about the rigor of audit committee oversight in cases where there has been an audit or financial reporting failure.

More Audit Reports Contain CAMs, But There are Fewer CAMs Overall

Ideagen Audit Analytics (IAA) has released Critical Audit Matters: A 3-Year Review 2020-2022, a study of critical audit matters (CAMs) that appeared in the more than 22,000 audit reports filed by SEC-registered companies since 2020. IAA finds that about two-thirds of all FY2022 audit reports (65 percent) contained at least one CAM, up from 62 percent in 2020, the first year of CAM reporting. However, for audit opinions that contained at least one CAM, the average number of CAMs per opinion has fallen from 1.51 in 2020 to 1.34 in 2022. While these numbers do not seem to suggest a dramatic change in the level of CAM reporting, the PCAOB has commenced a research project to determine "why there continues to be a decrease in the average number of critical audit matters reported in the auditor's report over time and whether there is a need for guidance." See PCAOB Updates its Agendas and Adds a CAMs Review, November-December 2023 Update.

Background

As described in earlier Updates (see, e.g., The CAQ Summarizes CAM Reporting, January-February 2021 Update and More PCAOB Advice for Audit Committees on CAMs, July, 2019 Update), a CAM is defined as any matter arising from the audit of the financial statements that was (1) communicated or required to be communicated to the audit committee, (2) relates to accounts or disclosures that are material to the financial statements, and (3) involved especially challenging, subjective, or complex auditor judgment. The auditor's report must identify each CAM, describe the main considerations that led the auditor to determine that the matter was a CAM, describe how the auditor addressed the CAM in the audit, and refer to the financial statement accounts or disclosures related to the CAM. The requirement that public company auditor's reports include a discussion of CAMs was phased in beginning with reports filed by large accelerated filers (companies with public float of $700 million or more) for fiscal years ending on or after

June 30, 2019. (For IAA's analysis of large accelerated filer first year CAM disclosures, see Audit Analytics Provides an Update on CAM Disclosures, June 2020 Update.)

IAA Review Findings

Highlights of the IAA review include the following:

- More audit opinions contain CAMs. As noted above, IAA finds that, in FY2022, 65 percent of audit opinions contained at least on CAM, up from 64 percent in 2021 and 62 percent in 2020.

- The total number of CAMS declined. In FY 2022, 6,654 CAMs were disclosed, while in 2021 there were 6,995 CAMs, and in 2020 there were 6,769 CAMs. Of course, during these years the total number of audit reports filed with the SEC also fluctuated. In 2022, there were about .88 CAMs per opinion (based on a total of 7,586 total audit reports filed). In 2021, there were also .88 CAMs per report (7,945 total audit reports), while in 2020 there were .94 CAMs per report (7,180 total audit reports). Looking only at the subset of audit reports that contained at least one CAM suggests a slight decrease in CAM frequency: In 2022, there were 1.34 CAMs per opinion for opinions that contained at least one CAM. The comparable figures in 2021 and 2020 were, respectively, 1.38 and 1.51.

- Most audit reports only contain one CAM. In each of the three years IAA studied, most opinions that contained CAMs had only one CAM, and the frequency of one-CAM opinions is increasing. In FY2022, 73 percent of opinions with CAMs had only one CAM, while in 2021 and 2020, the percentages of one-CAM opinions were 70 percent and 61 percent, respectively. Conversely, the percentage of opinions with two CAMs fell from 29 percent in 2020 to 22 percent in 2022, while the percentage with three or more CAMs dropped from slightly over 10 percent in 2020 to slightly over 5 percent in FY2022. As the share of one-CAM opinions increases, the average number of CAMs per opinion (for opinions that contain at least one CAM) necessarily falls. As noted in the prior bullet, in 2022, that average was 1.34 CAMs per opinion.

- Going concern qualifications are frequently accompanied by CAMs. When an audit opinion expresses substantial doubt about the entity's ability to continue in business, it is also likely to contain a CAM. In these circumstances, the most common CAM topics over the three-year study period were Other Debt (in 20 percent of CAMs), Going Concern (in 18 percent of CAMs), and Revenue from Customer Contracts (in 14 percent of CAMs).

- The larger the company, the more likely it is to have a CAM. During the three years studied, 98 percent of large accelerated filer audit opinions contained at least one CAM, compared to 71 percent of accelerated filer opinions and 43 percent of non-accelerated filer opinions. IAA observes that the "complexity of large accelerated filer audits also leads them to have the largest average number of CAMs per opinion of any filer status. On average, large accelerated filer opinions have 10% more CAMs per opinion than both accelerated and non-accelerated filers." In 2022, large accelerated filers averaged 1.38 CAMs per opinion; accelerated filers averaged 1.28, and non-accelerated filers averaged 1.31.

- Revenue tops the list of CAM topics. For the three years IAA studied, the most common CAM topic was Revenue from Customer Contracts, which was discussed in 13 percent of CAMs. Business Combinations and Goodwill each appeared in 9 percent of CAMs. Allowance for Credit Losses was in 7 percent of CAMs. Other Contingent Liabilities, Inventory, and Other Investments each appeared in 4 percent of CAMs. The top five CAM topics in FY2022 were the same as the top five during the entire three-year period, except that Inventory replaced Allowance for Credit Losses in fifth place. Below is a chart from the IAA report listing the most common CAM topics.

Top10 CAM Topics: 2020-2022

represented as a percent of total CAMs for the three year period

Rank	CAM Topic	# of CAMs	% of CAMs
1	Revenue from Customer Contracts	2,683	13%
2	Business Combinations	1,887	9%
3	Goodwill	1,797	9%
4	Allowance for Credit Losses	1,521	7%
5	Other Contingent Liabilities	851	4%
6	Inventory	820	4%
7	Other Investments	742	4%
8	Long-Lived Assets	676	3%
9	Other Debt	625	3%
10	Deferred Income Taxes	588	3%

Source: Ideagen Audit Analytics, Critical Audit Matters: A 3-Year Review 2020-2022, page 5.

- CAM topics by industry. Revenue from Customer Contracts was the most common CAM topic in three industries: Construction (appearing as a topic in 52 percent of opinions with at least one CAM), Services (in 42 percent of opinions with at least one CAM) and Manufacturing (in 20 percent of opinions with at least one CAM). The most common CAM topic in other industries were:
    - Finance – Allowance for Credit Losses (in 40 percent of opinions with at least one CAM).
    - Mining -- Proven and Unproven Reserves (in 40 percent of opinions with at least one CAM).
    - Transportation, Communications and Utilities – Regulatory Assets and Liabilities (in 29 percent of opinions with at least one CAM).
    - Wholesale Trade—Goodwill (in 25 percent of opinions with at least one CAM).
    - Agriculture – Inventory (in 18 percent of opinions with at least one CAM).
    - Retail Trade – Long-Lived Assets (in 17 percent of opinions with at least one CAM).

Comments: Audit committees might find the IAA study useful as a tool for comparing the number and nature of their company's CAMs with the study's overall findings. At minimum, committees of companies that have no CAMs – or more than 2 CAMs – should explore the reasons why their company differs from the broad averages. The PCAOB has provided guidance concerning the types of questions audit

committees should raise with their auditor concerning CAMs. See More PCAOB Advice for Audit Committees on CAMs, July 2019 Update.

PCAOB Charges Four More Firms with Audit Committee Communications Violations

On February 20, the Public Company Accounting Oversight Board announced settled disciplinary proceedings against four audit firms for violating the Board's rules related to communications with audit committees. The four firms each failed to provide client audit committees with one or more required items of information; three of the firms also committed other audit committee-related violations, such as failing to obtain audit committee pre-approval of certain services or failing to document such approval. The four firms, the sanctions to which they consented, and the nature of the violations are:

- Baker Tilly US, LLP – $80,000 civil money penalty and censure. The PCAOB's order alleges that Baker Tilly (1) obtained audit committee pre-approval of certain audit services but failed to document the pre-approval in the work papers; (2) informed a client's audit committee that audit procedures would be performed in China but failed to communicate the name and responsibilities of the firm performing those procedures; and (3) informed a client's audit committee of eight critical accounting policies and estimates, but it failed to inform it of two other critical accounting estimates.

- Grant Thornton Bharat LLP (India) – $40,000 civil money penalty and censure. The PCAOB's order alleges that Grant Thornton Bharat (1) failed to inform a client's audit committee of the name, location, and planned responsibilities of other firms and individuals that performed audit procedures and (2) failed to provide a copy of management's representation letter to a client's audit committee or to obtain evidence that management provided the letter to the committee.

- Mazars USA LLP – $60,000 civil money penalty and censure. The PCAOB's order alleges that in one audit Mazar's (1) failed to inform a client's audit committee of certain significant risks identified during its risk assessment procedures and (2) failed to inform the audit committee of the name, location, and planned responsibilities of a person not employed by Mazars that performed audit procedures. In another audit, the Board alleges that Mazar's (1) failed to inform a client's audit committee of certain significant risks identified during its risk assessment procedures, of the specialized skill needed to perform certain audit procedures, and of the extent to which the engagement team planned to use the work of internal auditors; (2) failed to inform the audit committee of the names, locations, and planned responsibilities of another firm and of an individual, each of which performed audit procedures; and (3) failed to inform the audit committee of the results of the audit, including Mazars' evaluation of the quality of the client's financial reporting, its assessment of critical accounting policies and practices, and its conclusions regarding critical accounting estimates.

- SW Audit (Australia) – $60,000 civil money penalty and censure. The PCAOB's order alleges that in one audit SW Audit (1) failed to obtain audit committee pre-approval to provide certain services and (2) entered into an indemnity agreement with the client, thereby impairing its independence. In another audit, the Board alleges that SW Audit failed to inform the audit committee of critical accounting policies and practices; of its evaluation of matters relevant to the quality of the client's financial reporting; of its responsibility with respect to other information presented in documents containing the audited financial statements; and of any significant difficulties encountered in performing the audit. SW Audit also failed to inform the audit committee in writing about material weaknesses included in the client's Form 10-K.

This is the second set of firms that the PCAOB has charged with failing to comply with the audit committee communications requirements. In July, the Board settled similar charges against five other firms. See PCAOB Charges Five Firms with Audit Committee Communications Failures, August-September 2023 Update. According to the PCAOB's press release announcing the new cases, these actions and those

made public in July arose from a PCAOB enforcement sweep. Sweeps are investigations in which the Board collects information about a specific type of potential violation from many firms at the same time. The press release quotes PCAOB Chair Erica Williams as stating: "Engaged and informed audit committees play a key role in promoting audit quality and protecting investors, and they must be kept informed in accordance with our standards. * * * Sweeps are a valuable tool in our enforcement toolbox to ensure there are consequences for putting investors at risk."

Comment: The cases announced on February 20 include both allegations of violations that would seem to have little effect on an audit committee's ability to discharge its responsibilities (e.g., failure to document audit committee preapproval that was in fact obtained) and violations that could deprive the committee of important information (e.g., failure to communicate significant audit risks affecting key financial statement accounts). In any event, enforcement actions of this nature are likely to spur auditors to be scrupulous in assuring that all required audit committee communications are made and fully documented. Audit committees should have a general understanding of the types of information their auditor is required to communicate and should ask questions if they do not receive all required communications.

On the Update Radar: Things in Brief

Large Companies Worldwide Continue to Expand Their ESG Disclosure and Assurance. ESG reporting is almost universal among the world's largest companies, and third-party assurance over ESG disclosures is becoming the norm. Those are two conclusions that emerge from The State of Play: Sustainability Disclosure & Assurance--2019-2022 Trends & Analysis, the International Federation of Accountant's (IFAC) and the Association of International Certified Professional Accountant's (Association) fourth annual report on global sustainability reporting practices. The IFAC/Association report is based on a review of the disclosures made by 1,400 companies, representing the largest companies by market capitalization in 22 jurisdictions. For the United States and five other countries, the study included the 100 largest companies.

The report finds that, in fiscal year 2022, 98 percent of these large companies reported some ESG information. That compares to 95 percent in 2021 and 91 percent in 2019 (the earliest year studied). In addition, 69 percent of ESG reporting companies obtained third-party assurance over at least some of their ESG information. This reflects an increase from 64 percent that obtained assurance last year and 51 percent in 2019. For the U.S. companies studied, 99 percent reported on sustainability in 2022, and 88 percent obtained some degree of assurance. (For a summary of the prior IFAC/Association report, see IFAC Issues Third Report on ESG Disclosure and Assurance, February-March 2023 Update.)

Other findings of the IFAC/Association report include:

Stand-alone ESG reporting is declining, while ESG information in annual reports is increasing.

- In 2022, 30 percent of the 1,400 companies issued a stand-alone sustainability report (down from 50 percent last year and 57 percent in 2019), rather than including ESG disclosure in other documents. Conversely, 40 percent reported ESG data in their 2022 annual report, up from 2 percent in 2021 and just 18 percent in 2019. Twenty-seven percent issued an integrated report, and two percent did not report on ESG.

- Ninety-one percent of U.S. companies studied included ESG information in their annual report, while only 3 percent issued only stand-alone reports.

Most companies use more than one ESG reporting standard or framework.

- Eighty seven percent of the companies in the study disclose ESG information pursuant to more than one reporting standard or framework. In 2022, 83 percent referenced or used the United Nations's Sustainable Development Goals (SDGs), 77 referenced or used the standards of the

Global Reporting Initiative (GRI), 71 percent referred to or applied the Taskforce on Climate-related Financial Disclosure (TCFD) framework, and 52 percent used or referenced the Sustainability Accounting Standards Board (SASB) standards.

- In the United States, the SASB standards were the most popular reporting framework: SASB was referenced or used by 93 percent of the 100 U.S. companies in the study, followed by TCFD at 88 percent. It should be noted that the report uses the phrase "referenced or used" with respect to standards, because companies may not necessarily adhere strictly or completely to any given set of standards or disclosure framework. For example, the report notes that "37 different phrases were used to describe the application of SASB Standards."

Audit committees play a key role in sustainability governance.

- Eighty-three percent of companies disclosed board-level oversight of sustainability strategy, and 68 percent of those companies identified the audit committee as having such oversight responsibility. Sixty-five percent gave sustainability strategy oversight responsibility to more than one board committee.

- Fifty-six percent of companies disclosed board-level oversight of sustainability reporting, and 41 percent of those companies identified the audit committee as having such oversight responsibility (although a still greater number – 45 percent – said that the sustainability committee had responsibility for oversight of sustainability reporting). Twenty-nine percent of companies that made disclosure concerning board-level oversight of reporting gave that responsibility to more than one committee.

- Twenty-two percent of companies disclosed board-level oversight of sustainability assurance, and 79 percent of those companies identified the audit committee as having such oversight responsibility. Only 5 percent gave sustainability assurance oversight responsibility to more than one board committee.

Assurance over ESG disclosures continues to increase.

- As noted above, 69 percent of companies obtained third party assurance over at least some of their ESG reporting, up from 64 percent in 2021. For the U.S. companies studied, 88 percent obtained some level of assurance over at least some ESG disclosures.

- Audit firms performed 58 percent of assurance engagements, a slight increase from 57 percent last year, but below the 63 percent share audit firms had in 2019. In the United States, audit firms only provided about 23 percent of ESG assurance.

- Information disclosed using GRI standards is subject of assurance more often than any other reporting standard or framework – 40 percent of reports that referenced GRI were subject to assurance in 2022. Only 11 percent of SASB disclosures were subject to assurance.

- Ninety-five percent of audit firm ESG engagements resulted in limited assurance reports, while 6 percent provided moderate assurance, and 9 percent provided reasonable assurance. In contrast, 64 percent of engagements conducted by other service providers resulted in limited assurance, while 15 percent resulted in moderate assurance and 15 percent in reasonable assurance.

The report contains detailed information concerning reporting and assurance practices on a country-by-country basis. Audit committees might find this material of interest in benchmarking their company's approach to ESG disclosure and assurance.

EY on SEC Priorities for 2024. In last month's Update, What Should be on the Audit Committee's 2024 Agenda?, January 2024 Update lists accounting and consulting firm publications that suggest issues on which audit committees should focus in 2024. In setting their agendas, audit committees may also want to review a new EY publication, SEC top five: What public companies, boards and investors should watch for in 2024. While the focus is broader than issues that directly affect audit committees, many of the topics discussed will impact the committee's work. (For a discussion of EY's outlook last year on SEC priorities, see EY on SEC Priorities for 2023, February-March 2023 Update.)

EY groups pending SEC initiatives under five headings – Disclosure Rulemaking, Shareholder Proposals, Potential Rulemaking Impacting Private Companies, Technology, and Enforcement. In each area, EY discusses recent developments and outlines expected 2024 activity.

The chapter on Disclosure Rulemaking is the most directly relevant to audit committees. EY discusses three disclosure-related SEC rulemaking actions likely to occur in 2024:

- Adoption of climate-related disclosure rules. The Commission is likely to finalize its long-awaited (and controversial) climate disclosure rules. In 2022, the SEC proposed rules that would require public companies to make disclosures about climate-related risks, climate-related targets and goals, greenhouse gas emissions, and how the board and management oversee climate-related risks. The proposals would also require companies to quantify the effects of certain climate-related events and transition activities in their financial statements. See SEC Unveils its Climate Disclosure Proposals, March 2022 Update.

- Proposal on human capital management disclosure. According to its regulatory agenda, the Commission intends to release a proposal on human capital management disclosure.

- Proposal on corporate board diversity disclosure. A rule proposal on board diversity disclosure is also on the Commission's regulatory agenda.

The Shareholder Proposals chapter of the paper may also be of interest to audit committees. EY notes that the SEC will consider adopting a final rule based on a pending proposal to impose new limits on the ability of companies to exclude shareholder proposals from the proxy statement. Opponents of these proposals have, as EY points out, highlighted "concerns, such as interference with the roles of management and the board and higher costs, including for non-petitioning investors."

With respect to Enforcement, the paper cites, among other trends that may impact 2024, SEC Chair Gensler's emphasis on the responsibilities of gatekeepers, such as lawyers and accountants, and his assertion that "[w]hen we hold accountable those in positions of trust, that builds trust in the markets." Among other enforcement areas to watch in 2024, EY includes ESG disclosure: "The Commission is expected to continue scrutinizing market participants' claims around ESG matters to make sure that these are consistent with companies' actions. * * * The Commission [is] also focused on the adequacy of disclosure controls on ESG-related matters and the accuracy of governance-related disclosures." See ESG Meets Disclosure Controls in an SEC Enforcement Action, February-March 2023 Update.

Your Controller is Probably Making Lots of Accounting Mistakes. A survey of corporate controller employees by consulting firm Gartner found that 18 percent of accountants make financial errors at least daily, a third make at least a few errors every week, and 59 percent make several errors per month. According to Gartner's February 21 press release, the firm surveyed 497 individuals working in the controllership function and asked how often they or their peers made common errors "such as those due to manual work, automation, those made by other internal business partners, insufficient review, reopening books, misinterpretation, or volume/complexity overload."

Gartner found that errors were "closely linked" to inadequate capacity (i.e., staffing). Mallory Barg Bulman, senior director, research in the Gartner Finance practice stated:

> "While capacity issues aren't new to accounting, demands on accounting staff capacity continue to rise. In the past three years, 73% of accountants report that their workload has increased because of new regulations, and 82% say economic volatility has increased demands for their work."

Gartner also concluded that staff acceptance of technology, not access to technology per se, was a significant factor in reducing errors. According to Ms. Bulman:

> "It stood out that when users displayed acceptance of the technology they were using in accounting, they used it much more effectively, realized capacity improvements, and made significantly fewer errors. * * * It's better to have less technology with a workforce that accepts it than to have the cutting edge of technology and resistant employees. * * * [B]uilding acceptance [has] more to do with putting in place practices that allow staff to perceive technology as easy to use and helpful."

The challenges of building technology acceptance aside, from an audit committee perspective the key point seems to be that some level of accounting error is inevitable, and it is essential that companies have effective controls in place to detect and correct errors when they occur. Effective internal control over financial reporting is one of the central themes of the Sarbanes-Oxley Act, and oversight of both management's and the auditor's assessments of ICFR is a fundamental audit committee responsibility.

The Audit Blog

I am a co-founder of The Audit Blog and blog on developments in auditing and financial reporting, on auditor oversight and regulation, and on sustainability disclosure. The blog is available here.

You can follow @BlogAuditor on twitter or @the-audit-blog on medium.com.

For further information, please contact:

Daniel L. Goelzer
301.288.3788
dangoelzer@gmail.com

The Update's website is www.auditupdate.com.

Receipt of the Update by email distribution is free of charge. If you would like to be added to the distribution, please email me at the address above. Readers are also free to recirculate the Update.

Updates Nos. 76-88 (August 2022 to present) are available here. Updates Nos. 60-75 (June 2020 to July 2022) are available here. Updates Nos. 49-59 (January 2019 to May 2020) are available here. Updates prior to No. 49 are available on request.

An index to titles and topics in the Update beginning with No. 39 (July 2017) is available here.

The Update seeks to provide general information of interest to audit committees, auditors, and their professional advisors, but it is not a comprehensive analysis of the matters discussed. The Update is not intended as, and should not be relied on as, legal or accounting advice.