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AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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Summary

SEC Chief Accountant Discusses Audit Committee Oversight of Other Auditors. SEC Chief Accountant Paul Munter has issued a statement in response to the increased use in audits of SEC reporting companies of accounting firms and individual accountants in addition to the lead audit firm. In Responsibilities of Lead Auditors to Conduct High-Quality Audits When Involving Other Auditors (March 17, 2023), Mr. Munter discusses the responsibilities of the lead auditor with respect to the work of other auditors and points out some of the risks and issues that can arise. He also urges audit committees to actively engage with the lead auditor concerning the work of other firms and suggests questions that the audit committee should ask. Audit committees should be aware of the concerns Mr. Munter raises and should make his suggested questions part of their dialogue with the engagement partner. (more)

COSO Issues Guidance on Internal Control Over Sustainability Reporting. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has published guidance on the application of its internal control framework to sustainability reporting. Achieving Effective Internal Control Over Sustainability Reporting (ICSR): Building Trust and Confidence through the COSO Internal Control—Integrated Framework states that "akin to internal control over financial reporting (ICFR), we are now seeing the emergence of what we call internal control over sustainability reporting (ICSR)." The paper explains in detail how the 17 principles in COSO's Internal Control Integrated Framework, as revised in 2013, apply to sustainability reporting. Audit committees may want to consider how COSO's framework can be extended to their company's sustainability reporting. (more)

The SEC is Zeroing in on Disclosure Controls. Disclosure controls and procedures have become something of a hot button issue in SEC enforcement. Two recent cases are the latest examples of that trend. On March 9, the Commission filed an administrative enforcement action against Blackbaud, Inc., a South Carolina company that provides donor relationship management software to non-profit organizations. Blackbaud was the target of a ransomware attack. The company's initial disclosures concerning the attack, including a Form 10-Q filed with the SEC, understated its seriousness, essentially because the technology staff investigating the breach failed to communicate with management responsible for disclosure. Among other problems, the SEC found that Blackbaud had no disclosure controls designed to ensure such communication.

On March 14, five days after the Blackbaud case, the SEC issued an administrative order against DXC Technology Company, an IT company with its principal office in Virginia. The DXC matter involves the publication of misleading non-GAAP financial measures. The order finds that DXC

lacked any formal procedures or guidance to identify certain costs that were asserted to have been excluded in calculating non-GAAP net income and EPS. In both cases, the SEC found that (in addition to substantive disclosure violations) the companies involved had violated the SEC rule requiring the maintenance of disclosure controls and procedures. These SEC enforcement actions suggest several lessons that audit committees may want to keep in mind when discussing disclosure controls with management. (more)

CAQ's Guide to Audit Quality Reports. Most large accounting firms publish reports describing how the firm seeks to maintain, promote, and strengthen audit quality. The Center for Audit Quality has prepared an analysis of the audit quality reports issued by the eight firms represented on the CAQ's governing board. Audit Quality Reports Analysis: A Year in Review examines both the qualitative disclosures and quantitative metrics that frequently appear in these reports and discusses how each metric may provide insight into the firm's audit quality. The CAQ's guide is a good introduction to the type of information found in audit firm quality reports, and the commentary on the relevance of the quantitative metrics is particularly useful. Audit committees should review their accounting firms' audit quality report as part of their evaluation of the firm's work. These reports would also be a good source for audit committees of companies that are considering retaining a new firm. (more)

PwC Has Ten Items for Your Next Audit Committee Agenda. In PwC's Governance Insights Center has agenda suggestions for upcoming audit committee meetings. Q1 2023 Audit committee newsletter: Helping you prepare for your next meeting proposes ten agenda items, five of which relate to developments affecting financial reporting. PwC's list also flags recurring topics that should be part of every meeting, or at least discussed at regular intervals. Audit committees may want to consider these suggestions, along with those of other firms, in planning their meeting agendas. (more)

ISSB Prioritizes Climate Reporting and Defers Other Disclosures. The International Sustainability Standards Board has announced that companies that follow its standards will only be required to report on climate-related risks and opportunities in their first year of ISSB's compliance; reporting on other sustainability issues can be deferred to the second year. According to the ISSB's press release, "companies can prioritise putting in place reporting practices and structures to provide high-quality, decision-useful information about climate-related risks and opportunities in the first year of reporting using the ISSB Standards. Companies will then need to provide full reporting on sustainability-related risks and opportunities, beyond climate, from the second year." ISSB standards (which incorporate the standards of the Sustainability Accounting Standards Board) are not mandatory in the United States, but may become de facto global standards, and many U.S. companies may follow them voluntarily. (more)

The Role of the Auditor in Climate Disclosure. A new Center for Audit Quality publication discusses the role that auditors can play in public company reporting of climate-related information. The Role of the Auditor in Climate-Related Information considers the impact of climate-related risks on the financial statement audit and on attestation engagements with respect to separate climate reports. While the CAQ's paper is aimed at providing auditors with insight concerning their role in climate disclosure, it could also be useful to an audit committee that is considering how their auditor can aid in the company's climate disclosure initiatives. (more)

For Audit Partners, Adverse ICFR Opinions May be a Career Hazard. How Do Audit Firms Treat Partners Who Issue Adverse Internal Control Opinions?, by Ashleigh L. Bakke (University of Kansas). Elizabeth N. Cowle (Colorado State University), Stephen P. Rowe (University of Arkansas), and Michael S. Wilkins (University of Kansas) finds that individual partners issuing adverse ICFR opinions experience unfavorable changes in their client portfolios in the form of lower fees and less prestigious assignments. The study also finds that audit firms are significantly more likely to remove a partner from a continuing engagement when the partner issued an adverse internal control opinion to any of the firm's clients in the previous year. While it is difficult to gauge the extent to which the possible impacts this study reports affect auditor behavior, audit committees should be alert to the possibility that career considerations could influence the auditor's views regarding control effectiveness. (more)

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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.