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## **AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE**

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### **Summary**

**SEC Chief Accountant Calls on Auditors to Improve and on Audit Committees to Be Proactive.** SEC Chief Accountant Paul Munter has issued a statement commenting on the increasing number of audit deficiencies identified in PCAOB inspections 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.” In [An Investor Protection Call for a Commitment to Professional Skepticism and Audit Quality](#), Mr. Munter also emphasizes the role of audit committees in 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.” His statement lists steps that audit committees should take to enhance their monitoring of auditor performance and to foster an environment that encourages auditor professional skepticism. ([more](#))

**More Audit Reports Contain CAMs, But There are Fewer CAMs Overall.** Ideagen Audit Analytics has released [Critical Audit Matters: A 3-Year Review 2020-2022](#), a study of critical audit matters that appeared in the more than 22,000 audit opinions filed by SEC-registered companies since 2020. IAA finds that about two-thirds of all FY2022 opinions (65 percent) contained at least one CAM, up from 62 percent in 2020. 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. In FY2022, 73 percent of opinions with CAMs had only one CAM, 22 percent included two CAMs, and 5 percent contained three or more. During the three years IAA studied, the most common CAM topic was Revenue from Customer Contracts, which was discussed in 13 percent of CAMs. 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. ([more](#))

**PCAOB Charges Four More Firms with Audit Committee Communications Violations.** On February 20, the PCAOB announced settled disciplinary proceedings against four audit firms for violating the Board’s rules related to communications with audit committees. The civil money penalties imposed in these cases ranged from \$40,000 to \$80,000. 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 services or failing to document such pre-approval. In July, the Board settled similar charges against five other firms. 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. ([more](#))

**Large Companies Worldwide Continue to Expand Their ESG Disclosure and Assurance.** The International Federation of Accountants and the Association of International Certified Professional Accountants have published [The State of Play: Sustainability Disclosure & Assurance--2019-2022 Trends](#)

[& Analysis](#), their fourth annual report on global sustainability reporting practices. The report is based on a review of the disclosures made by 1,400 companies, representing the largest companies by market capitalization in 22 jurisdictions. According to its findings, in fiscal year 2022, 98 percent of these companies reported ESG information. In addition, 69 percent of ESG reporting companies obtained third-party assurance over at least part of the ESG information they disclosed. For the U.S. companies studied, 99 percent reported on sustainability in 2022, and 88 percent obtained some degree of 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. ([more](#))

[EY on SEC Priorities for 2024](#). In setting their 2024 agendas, audit committees may want to review a new EY publication, [SEC top five: What public companies, boards and investors should watch for in 2024](#). 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 chapters on Disclosure Rulemaking and Enforcement are particularly relevant to audit committees. EY foresees SEC disclosure rulemaking on climate disclosure, human capital management, and board diversity. Among enforcement trends that may impact 2024, EY includes a focus on the responsibilities of gatekeepers, such as lawyers and accountants, and on ESG disclosure, including the adequacy of ESG-related disclosure controls. ([more](#))

[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. Gartner reports that errors were closely linked to inadequate accounting staff capacity and that staff acceptance of technology, not access to technology per se, was a significant factor in reducing errors. From an audit committee perspective, the key point may 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. ([more](#))

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