

Dan Goelzer



AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

Update No. 104
October 2025

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

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CAQ's Auditor Assessment Tool: The 2025 Version

The Center for Audit Quality (CAQ) has released an updated version of its [External Auditor Assessment Tool: A Tool for US Audit Committees](#). Audit committees are responsible for evaluating the external auditor, at least annually, and making a recommendation to the board on whether to retain the auditor. The assessment tool is designed to assist audit committees in performing this evaluation. The CAQ originally issued the U.S. assessment tool, along with a companion worldwide tool, in 2015. See [The](#)

Dan Goelzer is a retired partner of Baker McKenzie, a major international law firm. The SEC appointed him to the Public Company Accounting Oversight Board as one of its founding CPA members, and he served on the PCAOB from 2002 to 2012, including as Acting Chair from 2009 to 2011. Dan was on the Securities and Exchange Commission's staff for 16 years and served as SEC General Counsel from 1983 to 1990. He chaired Deloitte's Audit Quality Advisory Council for eleven years, and, from 2017 to July 2022, was a Sustainability Accounting Standards Board member.

Audit Committee Collaboration Publishes External Auditor Assessment Tools, [July 2015 Update](#). See also CAQ Updates its Auditor Assessment Tool, [April 2017 Update](#).

The assessment tool is a questionnaire that the audit committee can use to guide its evaluation of the auditor. It has four parts -- the qualifications and performance of the external auditor; the firm-level approach to promoting and monitoring audit quality; the quality and candor of the external auditor's communications with the audit committee and the company; and the external auditor's independence, objectivity, and professional skepticism. Each part consists of several topics, each with sample questions and space for the committee to record its observations. In total, there are 20 evaluation topics

The assessment tool also includes two appendices. Appendix I contains relevant U.S. legal requirements and standards, including the statutory requirements relating to non-audit services, SEC and PCAOB rules on auditor/audit committee communications, and the New York Stock Exchange's listing standard regarding audit committee charters. Appendix II is a list of resources and suggested reading. This list includes accounting firm publications on audit committee responsibilities and relevant CAQ publications.

The Assessment Process

The assessment tool begins with an overview of the auditor assessment process. That process should draw on the audit committee's experience with the auditor during the engagement, including presentations, reports, and dialogue during formal and informal meetings, and should be informed by prior evaluations. The committee should also consider the views of management and internal audit. The assessment tool includes a suggested survey form for obtaining observations about the auditor from others in the company.

Other sources of input into the audit committee's assessment may include discussions with the auditor regarding its firm-level approach to promoting and monitoring audit quality and information published by the firm that addresses audit quality issues (such as firm transparency and audit quality reports, see [Six Large Firms Describe Their Commitment to Audit Quality, January 2025 Update](#)). Audit committees may also want to review regulatory inspection reports or peer review findings.

The CAQ recommends that audit committees consider disclosing to shareholders that they perform an annual auditor evaluation and the process, scope, and factors considered in the evaluation.

Assessment Topics

As noted above, the assessment tool consists of a four-part framework with topics and sample discussion questions under each part. The four parts of the evaluation are listed below, along with the 20 evaluation topics. An example of a discussion question for each topic is also included.

Part 1: [Quality of services and sufficiency of resources provided by the external auditor – the engagement team](#)

The audit committee's evaluation of the external auditor begins with consideration of the quality of the services provided by the engagement team during the audit and throughout the financial reporting year. This includes an assessment of the team's competence, resources, and responsiveness. The team's knowledge, skills, and experience, its ability to address risks of material misstatement, its access to specialized expertise, and its use of technological resources are key factors.

1. [Engagement team competence, resources, and responsiveness](#)

Sample question: Did the lead audit engagement partner and engagement team demonstrate the necessary knowledge, skills, and experience (company-specific, industry, accounting, auditing, and reporting) to perform the audit of the company's financial statements?

2. Engagement team hours and workload.

Sample question: Did the lead audit engagement partner discuss key engagement team members' workloads and workload information (compared to a standard workload by level as determined by the audit firm)?

3. Audit plan and risks.

Sample question: Did the lead audit engagement partner discuss the audit plan, including the use of technology and how it addressed risks of material misstatement relevant to the company's financial statements (including fraud risk and other significant risks) with the audit committee?

4. Audit participants.

Sample question: Did the lead audit engagement partner explain how he or she reviews and supervises those other auditors (such as component teams or audit teams in other locations), specialists, or personnel at shared service center(s), if applicable?

5. Engagement team succession.

Sample question: If applicable, has the audit firm sufficiently explained how the changes or rotations of lead audit engagement partner or senior engagement team personnel would be managed?

6. Complex accounting and auditing matters, including consultations.

Sample question: Did the lead audit engagement partner bring the resources of his or her firm to the audit and advise the audit committee of the results of any consultations with the audit firm's national professional practice office or other technical resources on accounting or auditing matters?

7. Scope and cost considerations.

Sample question: Were the scope, hours, and cost of the audit reasonable and sufficient for the size, complexity, and risks of the company?

Part 2: Quality of services and sufficiency of resources provided by the external auditor – the audit firm.

This facet of the evaluation involves assessing the audit firm's industry expertise, geographical reach, resources, and system of quality control.

8. Audit quality report.

Sample question: Does the firm's audit quality report, if applicable, provide transparency into how the audit firm promotes and monitors audit quality and how trends and disclosures are calculated?

9. Governance and leadership.

Sample question: Have there been any changes to the firm structure (including outside investment), and what is the impact of these changes?

10. Resources.

Sample question: Does the audit firm have adequate financial strength and stability to appropriately execute its responsibilities and serve its client base?

11. Engagement performance.

Sample question: Do audit firm policies reinforce planning and performing the audit to avoid surprises, promote early detection of issues, and achieve the timely completion of the audit?

12. Monitoring and remediation.

Sample question: If the audit was subject to inspection by the PCAOB or other regulators—or other internal quality review—did the external auditor advise the audit committee in a timely manner of the inspection, communicate any significant findings, and the impact, if any, on the audit results?

Part 3: Communication and interaction with the external auditor.

Frequent and open communication between the audit committee and the external auditor is important to effective oversight of the company's financial reporting process. The audit committee should evaluate the quality, openness, and frequency of these communications, including discussions on financial reporting quality, accounting estimates, industry trends, new standards, critical audit matters, and any concerns the auditor may have about management's reporting processes, internal controls, and cooperation.

13. Openness of communications.

Sample question: Was the lead audit engagement partner able to explain accounting and auditing matters in an understandable manner?

14. Nature of communications.

Sample question: Did the lead audit engagement partner discuss critical audit matters (CAMs) communicated in the auditor's report and how CAMs were identified?

15. Communication of concerns.

Sample question: Did the lead audit engagement partner promptly alert the audit committee if he or she did not receive sufficient cooperation from management, including management in other jurisdictions?

Part 4: Auditor independence, objectivity, and professional skepticism.

The audit committees should ensure the auditor complies with statutory and regulatory independence requirements, including those related to services or relationships that could impact independence. The auditor should also demonstrate objectivity and skepticism, particularly when assessing management's estimates, assumptions, and accounting policies.

16. Independence compliance.

Sample question: Did the external auditor discuss processes in place to monitor and remediate independence violations?

17. Disagreements with management.

Sample question: Were there any significant differences in views between management and the external auditor?

18. Promotion of professional skepticism.

Sample question: Did the external auditor promote the application of professional judgment and exercise of professional skepticism in executing the audit?

19. Internal audit reliance.

Sample question: Were there any significant differences in views between the internal auditors and the external auditor?

20. Non-audit services.

Sample question: In obtaining pre-approval from the audit committee for all non-audit services, did the lead audit engagement partner discuss safeguards in place to protect the independence, objectivity, and professional skepticism of the external auditor?

Audit Committee Takeaways

The CAQ's assessment tool provides an organized way for an audit committee to evaluate the company's auditor. The tool is a comprehensive framework for gauging the auditor's performance, independence, and audit quality. Even if the committee chooses not to ask all sample questions, the tool is a useful framework for identifying factors to consider and for conducting an auditor evaluation. Audit committees can also use the assessment tool to foster dialogue with the auditor and as a predicate for disclosure to shareholders concerning the evaluation process.

What Audit Committees Need to Know About Artificial Intelligence

Oversight of the risks and opportunities presented by artificial intelligence (AI) is one of the key challenges facing audit committees. From March to June 2025, Tapestry Networks (Tapestry) convened six in-person meetings of its U.S. audit committee network to discuss the role of the board in ensuring that AI is implemented responsibly and consistent with long-term value creation. Tapestry's audit committee network, which is organized and supported by Ernst & Young, is a group of audit committee chairs of North American companies. The six AI meetings included both audit committee chairs and guests, such as executives, academics, and technical experts. [Artificial intelligence and the board: what audit committees need to know](#), a publication in Tapestry's *ACN Viewpoints* series, summarizes the discussion at these sessions and suggests questions audit committees may want to consider as they come to grips with the complexity of AI oversight.

Four Discussion Themes

Tapestry's report addresses four themes that emerged from the audit committee network meetings and related conversations.

1. Technology tools deliver the most value when aligned with business strategy.

Companies are integrating AI into business processes, but are at different stages of implementation. "During this early transition period, the key question is not where AI can be applied, but rather where and why it *should* be applied, especially when not every task or function is ripe for automation." Successful AI implementation requires identifying a problem space (i.e., a challenge or opportunity where AI can create value), understanding available AI capabilities, and weighing the trade-offs between off-the-shelf and custom-built AI solutions. Strong data practices, including governance, handling of unstructured data, limiting access, and employee education, are critical for effective AI adoption.

2. Rapid change prompts deeper board engagement across functions.

AI is moving from experimentation to enterprise-wide impact. This rapid evolution is forcing boards to engage with the broader implications of AI implementation. Participants discussed key themes that have emerged from this shift:

- The right guardrails are essential to managing risks. Audit committee chairs are focused on managing risks such as bias, fairness, data quality, and privacy. “Risk mitigation strategies include employee training, board-management alignment, and technical testing (such as penetration tests).”
- Boards see potential not just to automate but also to explore completely new opportunities. Many participants see AI as an enabler of productivity, creativity, and competitive advantage.
- Workforce strategies are evolving to meet new needs. Workforce strategies are shifting to include retraining employees and creating new roles to manage AI-related tasks. “Rather than merely eliminating jobs or job categories wholesale, companies are upskilling current employees or hiring new talent.”
- Companies are preparing for regulatory shifts. The AI regulatory landscape is fragmented, especially in the US. Some companies are aligning with EU standards in anticipation of global harmonization.

3. Oversight responsibilities are shifting as governance policies evolve.

Companies are experimenting with new AI oversight models. Participants discussed how AI is changing expectations regarding the audit committee's role and leading to changes in board structure. AI oversight can extend beyond the audit committee. Some boards have shifted AI oversight to other committees that have relevant expertise. One participant observed: “If you think about all the other responsibilities that audit committees have, when we are dealing with issues of this complexity that are potentially existential, it strikes me that the audit committee is totally inadequate.” Participants also pointed out that effective oversight requires human judgment and clear policies. Directors can add value to the evolving oversight model by asking questions and engaging in dialogue with technology leaders.

4. Audit committees are encouraging curiosity and exploring how to support innovation.

Companies must act now to establish AI governance structures and to build the capacity to test and learn responsibly. Audit committees should foster a culture of AI experimentation while ensuring appropriate guardrails.

- Create space for experimentation. “Boards should ensure management strikes the right balance with safety nets, such as updated crisis response plans and open lines of ongoing communication.”
- Think about new roles. Boards should “consider new structures for managing AI-related risk, especially emerging, less-defined risks that fall outside traditional oversight.”
- Start now. “Companies that lag in technology must act quickly to narrow the gap.”

AI and External Audits

Tapestry's report also includes comments on integrating AI tools into audits. These tools include “code readers, disclosure checklists, policy search tools, and risk benchmarking systems.” In addition, audit firms “are increasingly leveraging internal models to analyze client data for anomalies, accelerate testing, and identify targeted risks.” Tapestry suggests that audit committees ask their auditors the following questions regarding their use of AI:

- How is AI used in our audit?
- What productivity or quality gains are expected, and how are they measured?
- How is our company data being protected?
- How does AI change the way risks are identified or addressed in the audit?

Reflection Questions for Audit Committees

Tapestry's report concludes with eleven "reflection questions" that audit committees may want to explore as part of their oversight of the company's AI initiatives:

- How does your company currently use AI? Which business functions are implementing AI tools? Which use cases have delivered the most value so far?
- Who is responsible for AI oversight in your company? What about at the board level? What role does the audit committee play in overseeing AI?
- What steps is your company taking to ensure data quality, privacy, and governance as AI adoption grows? Are internal data-governance programs in place? How is unstructured data being addressed?
- How are audit committee agendas evolving with AI? Is AI a standing topic?
- How are your board and committees staying informed about AI developments? What steps are being taken to build AI fluency at the board level (e.g., training, advisory support)?
- How are your external auditors using AI in their work? What new AI-related tools are they introducing, and how is your company managing the associated data risks?
- How is your company preparing for the evolving regulatory landscape around AI?
- What are the biggest risks your company sees with AI adoption, and how are they being mitigated? Where do they sit in the broader risk framework?
- What oversight mechanisms exist for reviewing and approving AI use cases? Is there a formal governance body or review process for new AI applications?
- How is your board thinking about emerging AI-related roles and talent needs?
- Is your company creating space for safe experimentation with AI? How are you balancing innovation with control?

Audit Committee Takeaways

The Tapestry report provides insight into how AI is reshaping corporate governance, risk oversight, and strategic decision-making as it becomes a key part of many business functions. Audit committees that are just beginning to consider the ramifications of AI may find the report particularly useful since it reflects the views of audit committee members who have already had experience with this evolving responsibility. Committees may want to consider the suggestions in the report on aligning AI tools with business strategy and on establishing governance mechanisms. The report's reflection questions could also be useful in helping audit committees assess their organization's AI readiness, oversight frameworks, and AI culture.

Audit committees that are interested in this topic may also want to review PwC's suggestions on AI oversight. See [PwC on Audit Committee Oversight of AI, June-July 205 Update](#).

Audit Fees Continued to Climb in 2024

Public company audit fees rose to record levels last year. Ideagen Audit Analytics' (IAA) annual analysis of fees paid to external auditors reports that, in FY2024, the average public company's total payments to its auditor rose to \$3.26 million, a nine percent increase from 2023. See [Audit fee trends: A 20-year review](#) (September 2025). Average fees rose for the third consecutive year in 2024, a trend that IAA attributes to "the increasing complexity and regulatory demands of the auditing landscape."

IAA's analysis is based on fee information from SEC Forms 10-K, 20-F, and 40-F and from proxy and information statements. The analysis excludes Investment Company Act of 1940 filers and public company subsidiaries and affiliates that are included in the parent's audit fee reporting. For a discussion of last year's IAA fee report, see [It's Another All-Time High! Audit Fees Rose Again in 2023, January 2025 Update](#). (The 20-year fee table in IAA's report is inconsistent with data reported for 2023-2005 in the fee table in last year's report, as is some of the other comparative information in the report. The reason for these inconsistencies is not explained.)

Other highlights of IAA's report include:

- Total fees SEC registrants paid to auditors increased even though the number of public companies fell. In 2024, the 6,656 public companies in IAA's analysis paid \$21.675 billion in fees to their external auditors. Compared to 2023, this represents a 1.4 percent increase in total fees, despite a seven percent decrease in the SEC registrant population. The 6,656 public companies that reported fees for FY2024 is the lowest number of reporting companies in the 20-year period covered in IAA's report. In contrast, the \$21.675 billion in fees is the highest annual amount.
- Average audit, audit related, and tax fees all rose in 2024. As noted above, the average total fee payment in 2024 was \$3.26 million, compared to \$3.06 million in 2023. Total fees are comprised of audit fees, audit-related fees, tax fees, and other fees. Looking only at the audit fee component of total fees, the average company paid \$2.726 million, up eight percent from \$2.516 million in 2023. The average amount that SEC registrants paid for other types of services (i.e., audit-related fees, tax fees, and other) was \$530,000, a 14 percent increase from \$460,000 in FY2023.
- Audit fees per \$1 million of revenue fell slightly. In FY2024, audit fees per \$1 million of client revenue averaged \$612, a decrease of one percent from \$619 in 2023. Audit fees per million dollars of revenue peaked in FY2006 at \$743. In 2013, audit fees were \$566 per \$1 million of revenue, the lowest in IAA's 20-year data series. Between FY2023 and FY2024, total SEC registrant revenue decreased by two percent while total audit fees increased by 0.6 percent.
- The four largest audit firms dominate the public company audit market. In FY2024, 69.5 percent of SEC registrant audit fee payments were to a Big Four firm (PwC, EY, Deloitte, and KPMG). Over 250 other firms account for the remaining 30.5 percent. All four of the large firms had record total audit fees in 2024. PwC had the highest average audit fee amount, \$5.52 million per client. PwC also had the highest market share with slightly over 20 percent of total audit fees. EY was second with slightly under 20 percent.
- Foreign private issuers (FPIs) paid more in audit fees as a proportion of revenue than domestic companies. FPIs paid \$638 in audit fees per \$1 million of revenue, a one percent increase over FY2023. In contrast, U.S. companies paid an average of \$606 in audit fees per \$1 million of revenue, a decrease of two percent from FY2023. However, falling revenue, not rising fees, drove the increase in FPI audit fees relative to revenue. Total FPI revenue fell 5.3 percent in FY2024, while total audit fees decreased four percent.

- The average audit fee rose for companies of all sizes. For large accelerated filers, average audit fees increased five percent to \$6.06 million in FY2024. Accelerated filers paid an average of \$1.62 million in FY2024 audit fees, a one percent increase from FY 2023. For the smallest public companies, non-accelerated filers, average audit fees increased three percent to \$734,000. Companies in the size mid-tier, accelerated filers, experienced the highest audit fees relative to revenue. In FY2024, accelerated filers paid \$2,201 per \$1 million of revenue, compared to \$1,349 for non-accelerated filers and \$523 for large accelerated filers.
- Industry matters. As was the case in the prior year, the industry sectors with the highest average audit fees in 2024 were Finance (\$4.055 million) and Manufacturing (\$3.386 million). The industries with the lowest average audit fees were Life Sciences (\$1.579 million) and Real Estate and Construction (\$1.421 million). Average audit fees increased for all eight of the industry sectors that IAA tracks.

IAA discusses factors that have contributed to the increase in audit fees during the past 20 years. These include:

- Regulatory changes, such as new or amended auditing standards, FASB accounting standards, and SEC regulations.
- “Increasing business complexity, including mergers and acquisitions and international operations [which] create additional regulatory oversight.”
- New risks associated with investments in technology.
- Rising labor and technology costs.
- Consolidation in the audit industry, driven by mergers and private equity investment.

Audit Committee Takeaways

Audit committees may find IAA's report useful for benchmarking changes in their company's fees against industry-wide trends and data from companies of similar size or in the same industry sector. This type of analysis could help assess whether fee increases proposed by the company's auditor are consistent with overall trends, reflect company-specific factors (such as changes in reporting complexity, acquisitions, or weaknesses in internal controls), or are driven by the audit firm's inefficiency or pricing power.

High or low fees relative to peers could also be an audit risk indicator. Low fees might raise questions about the adequacy of the scope of the audit or the resources the auditor devotes to the engagement. High fees might suggest that the company's controls or accounting systems have inherent weaknesses. The audit committee could use the IAA report as a basis for discussion with the auditor about whether the audit plan appropriately scales resources to the audit risks.

Committees may also want to focus on how the level of fees their company paid for non-audit services compares to the averages. As IAA points out, financial statement users may view high levels of non-audit service fees as potentially impacting auditor independence.

Sustainability Reporting is Alive and Well as a Best Practice

The Governance & Accountability Institute (G&AI) has released [2025 Sustainability Reporting In Focus](#), the fourteenth edition of its annual series tracking sustainability reporting. The report analyzes trends in sustainability reporting by companies in the S&P 500 and Russell 1000 indices. In a [press release](#) announcing the 2025 report, G&AI says that its research “shows continued increases in sustainability

reporting for both large-cap and mid-cap U.S. public companies -- as publishing an annual sustainability report is now widely recognized as a best practice for U.S. public companies.” The 2025 G&AI report covers sustainability reporting during the 2024 publication year.

G&AI published its first analysis of S&P 500 company sustainability reporting in 2012. Since then, sustainability reporting has become almost universal. G&AI’s initial report found that, in 2011, just 20 percent of S&P 500 companies published sustainability reports or disclosures. In 2019, G&AI expanded its research to include companies in the Russell 1000. For a discussion of last year’s G&AI report, see [What Backlash? ESG Reporting Continues to Grow, September-October 2024 Update](#).

According to the press release, the key findings of the 2025 report include:

- A record 94 percent of Russell 1000 companies reported on sustainability in 2024, up from 93 percent in 2023.
- The smaller half by market cap of the Russell 1000 (mid-cap companies with \$2 billion to \$4 billion in market cap) had the greatest increase in reporting -- reaching 90 percent in 2024, compared to 87 percent in 2023.
- The larger half by market cap of the Russell 1000 (the S&P 500) are nearing 100 percent reporters with 99 percent reporting on sustainability in 2024, compared to 98.6 percent in 2023.

Most Russell 1000 companies use one or more ESG disclosure frameworks as the basis for their reporting. For the fourth consecutive year, the Sustainability Accounting Standards Board (SASB) disclosure standards were the most widely used framework, with 82 percent of Russell 1000 reporters aligning with SASB in 2024, compared to 81 percent in 2023 and only 12 percent in 2019. Alignment with the disclosure recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD) was the second most popular choice. TCFD usage had the largest increase – from 60 percent in 2023 to 65 percent in 2024. Russell 1000 use of Global Reporting Initiative (GRI) disclosures remained constant at 55 percent in 2024. In 2020, GRI was the most frequently employed framework (at 52 percent usage), but both SASB and TCFD have since surpassed GRI.

In two of the eleven industry sectors that G&AI tracks, all companies published a sustainability report. These 100 percent reporting sectors were Materials and Utilities. In five other sectors, at least 95 percent of companies issued such a report -- Real Estate (98 percent), Energy (97 percent), Industrials (96 percent), Consumer Staples (95 percent), and IT (95 percent). As in 2022 and 2023, the sector with the lowest percentage of sustainability reporters was Communications, with 82 percent of companies issuing a sustainability report. Financials (89 percent) was the only other sector in which less than 90 percent of companies were sustainability reporters.

External assurance on sustainability reporting continues to increase. In 2024, 51 percent of Russell 1000 companies that made sustainability disclosures obtained external assurance over at least part of their non-financial disclosures, up from 48 percent in 2023 and 40 percent in 2022. Sixty-eight percent of the companies in the largest half of the Russell 1000 index obtained assurance, compared to 66 percent in 2023 and 57 percent in 2022. Thirty-two percent of companies in the smallest half of the Russell 1000 obtained such assurance, an increase from 27 percent in 2023 and 21 percent in 2022.

The scope, level, and providers of sustainability assurance services vary widely. For all Russell 1000 companies that obtained external assurance, only four percent obtained assurance over their entire sustainability report, up from two percent in 2023. Fifty-four percent obtained assurance over only greenhouse gas (GHG) emissions data, down from 57 percent in 2023. Further, only five percent of assurance reports provided a reasonable/high level of assurance, compared to six percent in 2023. In contrast, 91 percent of assurance reports provided limited or moderate assurance.

Engineering firms continued to be the most frequent sources of assurance, probably because GHG emissions were the most frequent assurance topic. Engineering firms provided 63 percent of Russell 1000 assurance reports, down from 66 percent in 2023 and 68 percent in 2022. Accountants provided the assurance report in 19 percent of Russell 1000 assurance engagements (compared to 21 percent last year), and “Small consultancy/Boutique firms” were the providers of 11 percent of assurance reports. In seven percent of the reporting, the assurance provider was not specified.

Audit Committee Takeaways

During the past year, the sustainability reporting landscape has changed considerably in the United States. While the prior Administration enthusiastically supported sustainability disclosure, particularly as it related to climate change, the current Administration has the opposite philosophy. The SEC’s climate disclosure requirements are, as a practical matter, dead (see [SEC Takes Another Step Away From Climate Disclosure, March-April 2025 Update](#)), and it is unlikely that the Commission will venture into other areas of sustainability disclosure. In contrast, California has enacted far-reaching climate disclosure requirements (see [California Climate Disclosure Laws Survive a Challenge, September 2025 Update](#)), and other states are considering following suit.

Despite the uncertainty inherent in this environment, voluntary sustainability disclosure is still increasing. As G&A observes:

“In this context it is worth remembering that, in the 14 years of G&A’s annual research, there has been a consistent year-over-year increase in sustainability reporting by the largest companies in the U.S., despite there being no regulatory force requiring it. * * * Whether driven by investors, customers, or employees, by market pressures or concern for a social license to operate, managing non-financial issues adds business value by mitigating risk and capitalizing on opportunities for innovation, efficiency, and engagement. * * * The latest practices and financial strength of the Russell 1000 prove G&A’s long-standing hypothesis – that transparent and accountable communication on corporate sustainability issues is essential to strong and resilient business”.

Oversight of sustainability disclosure will likely be an important aspect of the work of most audit committees for the foreseeable future. Audit committees that are not already doing so should focus on what sustainability disclosures their company makes, how the company collects sustainability information, how the disclosures impact financial reporting, and on the controls and procedures to which sustainability disclosures are subject. For additional discussion of the implications of sustainability disclosure for audit committees, see [Sustainability Disclosure and Assurance Have Caught on Big-Time, June-July 2025 Update](#).

On the Update Radar: Things in Brief

SEC to Reconsider Quarterly Reporting. At the urging of President Trump, the Securities and Exchange Commission will consider whether to eliminate quarterly reporting. In a social media post on September 15, the President said, “Subject to SEC Approval, Companies and Corporations should no longer be forced to ‘Report’ on a quarterly basis (Quarterly Reporting!), but rather to Report on a ‘Six (6) Month Basis.’” He asserted that semi-annual reporting would allow management to “focus on properly running their companies.” President Trump made a similar suggestion during his first term, and the SEC responded by issuing a [release](#) inviting public comment on whether quarterly reporting should be ended and [convening a public roundtable](#). However, the Commission took no action on the idea during the first Trump Administration.

SEC Chair Paul Atkins seems to share the President’s view and will apparently restart regulatory consideration of making quarterly reporting optional. In a [September 29 opinion piece](#) in the [Financial Times](#), Mr. Atkins wrote:

“It is time for the SEC to remove its thumb from the scales and allow the market to dictate the optimal reporting frequency based on factors such as the industry, size and investor expectations. Mandatory quarterly reporting is hardly a cornerstone of the dynamism that distinguishes our capital markets. Giving companies the option to report semi-annually is not a retreat from transparency. Instead, it puts a renewed focus on market-driven disclosure practices that favor the interests of companies and their investors over prescriptive regulatory mandates.”

As noted in [Springtime in Washington: The SEC's Regulatory Agenda, September 2025 Update](#), the SEC's most recent regulatory agenda includes an item entitled “Rationalization of Disclosure Practices” with a projected publication by April 2026 for public comment of “rule amendments to rationalize disclosure practices to facilitate material disclosure by companies and shareholders’ access to that information.” That initiative could serve as a vehicle for a proposal to eliminate mandatory quarterly reporting.

Ending quarterly reporting would reduce public company compliance costs and could ease short-term performance pressures. This, in turn, would potentially allow management to focus more on long-term strategy and growth. Eliminating quarterly reporting would also make U.S. disclosure requirements more comparable to those of some foreign jurisdictions, such as the United Kingdom. However, investors would strongly oppose less frequent reporting. Ending quarterly reporting would reduce transparency and increase information asymmetry between management and the market. Less frequent reporting would make it harder for investors and analysts to assess company performance in real time and could also provide more opportunities and incentives for insider trading.

Eliminating mandatory quarterly reporting would have significant implications for public company audit committees. Oversight of Form 10-Q reporting is an important audit committee responsibility, and ending the requirement to make such filings could free up time that committees would then be able to devote to other responsibilities. On the other hand, companies would face difficult decisions about what financial and other information, if any, to disclose between semi-annual reports and in what format to make those disclosures. Oversight of these judgments and of the resulting unregulated disclosures might prove to be more complex and time-consuming than oversight of quarterly Form 10-Q reporting.

CAQ Suggests Five Audit Committee Questions About Inspections. In a [blog post](#) on the website of the National Association of Corporate Directors, the Center for Audit Quality’s Senior Director of Professional Practice, Vanessa Teitelbaum, suggests five questions that audit committees may want to ask their auditor regarding the firm’s PCAOB inspection report.

1. How did your firm respond to areas identified as deficiencies in the inspection? This question provides “visibility into whether the auditor is taking corrective actions that will improve future engagements.”
2. Were any of the inspection findings relevant to our industry or business type? Ms. Teitelbaum explains that “This question helps the audit committee zero in on whether risks flagged by the PCAOB may be pertinent to its own financial reporting and oversight.”
3. How do inspection findings affect the engagement team working with our company? Deficiencies identified in other engagements may or may not be relevant to the performance of the team assigned to the company’s audit. Audit committees may want to explore whether inspection findings in other audits will have ramifications for the company’s future audits, such as by triggering additional training, oversight, or personnel changes.
4. How do inspection results compare across different audit firms? Ms. Teitelbaum states that “PCAOB inspection reports are not report cards for audit firms” but that comparing inspection results can help the audit committee “gauge whether its auditor is performing at, above, or below audit firm peers.” Such comparisons may help the audit committees evaluate relative

audit quality and “inform both immediate and long-term oversight considerations when reappointing auditors.”

5. How do PCAOB inspection trends reflect emerging risks? PCAOB inspections reflect emerging areas of audit risk, such as cybersecurity disclosures, sustainability reporting, or reliance on advanced technologies. Asking about these trends can help the committee understand how their auditor is adapting to emerging risks.

Audit committee may also want to consider the inspection-related questions that the PCAOB staff suggested in [Spotlight: Staff Update and Preview of 2022 Inspection Observations](#). See [2022 PCAOB Inspections Preview Says 40 Percent of Audits Reviewed Had Deficiencies](#), [July 2023 Update](#).

PCAOB Data Shows that a Restatement is Likely to Follow an Auditor Change.

The Public Company Accounting Oversight Board’s Office of Economic and Risk Analysis (OERA) has published [Data Points: Financial Restatements and Auditor Turnover](#). The report finds that, from 2005 to 2024, 29 percent of Big R restatements followed an auditor change in the previous year. For the entire public company population, the Big R restatement rate was around three percent. OERA’s analysis excludes investment companies, employee benefits plan, and restatements related to the SEC’s 2021 [Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies](#).

A Big R restatement occurs when a company determines that a previously issued financial statement contained a material error and therefore cannot be relied upon. Big R restatements must be disclosed in an SEC Form 8-K filing. OERA’s report finds that the number of Big R restatements has declined substantially during the past twenty years but ticked upward recently. (Other studies have reached the same conclusion, see [Two Studies Find that Restatements Rates Remain Low, Although Big R Restatements Have Begun to Increase](#), [July 2024 Update](#).) For example, in 2005, there were 911 restatements, 155 of which (17 percent) followed an auditor change. 2020 was the low point for restatements. In that year, there were only 79 Big R restatements, 20 of which (25 percent) came after an auditor change. In 2024, there were 180 Big R restatements, 54 of which (30 percent) occurred in the year following a change in auditor.

The new [Data Points](#) report also provides information on the frequency of auditor changes from 2005 to 2024. During these 20 years, the auditor-change rate averaged 11 percent. The year with the lowest rate of auditor change was 2020, when 7.8 percent of companies changed auditors. The years with the highest rate of auditor change – 13.1 percent -- were 2005 and 2009. Since bottoming in 2020, change rates have increased each year, and were a near-record 12.8 percent in 2024.

The fact that restatements are more likely in the first year of a new auditor’s tenure is not surprising. A new audit firm takes a fresh look at the company’s financial reporting and brings no assumptions or biases from prior audits. Similarly, the new auditor has no incentive to overlook or perpetuate past mistakes or debatable judgment calls. A new auditor may also perform more rigorous procedures as part of building its knowledge of the client. While restatements can have negative consequences for the company, from an audit committee perspective the fresh look that a new auditor provides may improve long-term reporting integrity.

It Isn’t Getting Easier: Deloitte Has Suggestions for the Audit Committee Chair of the Future.

Deloitte has published [The Audit Committee Chair of the Future](#), a paper that explores the “emerging trends, challenges, and opportunities that are shaping the role of the audit committee chair.” Deloitte interviewed audit committee chairs of S&P 500 companies from a range of industries. Deloitte’s report “draws on their insights to provide practical guidance for navigating complexity and driving positive change.” Below is a summary/overview of the paper.

The role of the audit committee chair is evolving. Expectations for audit committee chairs are increasing due to changes driven by emerging risks, technological advancements, and heightened

stakeholder scrutiny. Chairs must “continually adapt, learn, and lead with purpose.” Audit committee chairs face growing demands and challenges in four key areas:

- Anticipating and navigating emerging risks. Audit committee chairs must adopt a proactive and strategic mindset to oversee an array of risks, including cybersecurity, data privacy, sustainability, AI, and geopolitical shifts. Risk oversight is often assigned to the audit committee, and chairs are expected to manage complex risk landscapes, collaborate with other board committees, and engage with internal and external auditors to address emerging threats. The increasing complexity of the issues for which audit committees are responsible has led to a demand for expertise beyond traditional accounting and finance, including areas such as technology, sustainability, and culture. Audit committee chairs should assess the skills and experience of committee members to determine when to engage external advisors to supplement the committee’s capabilities.
- Evolving from technical experts to strategic leaders. The role of audit committee chairs has shifted from compliance-focused to strategic and forward-thinking. Both chairs and committee members need broader business expertise, leadership skills, and a global perspective to address the audit committee’s expanded responsibilities. Specific attributes chairs and committee members should exhibit include intellectual agility and adaptability, leadership and interpersonal skills, global, industry, and strategic perspective, commitment to continual learning, and varied board service. While having specialists on the board can be valuable, it is not necessary to have a specialist for every topic. Audit committees should focus on a mix of skills and experience.
- Cultivating continual learning and curiosity. Audit committee chairs and members must embrace ongoing education and intellectual curiosity to stay ahead of the rapidly changing risk landscape. Chairs can play a key role in fostering a culture of learning by exhibiting a commitment to education, organizing learning opportunities, and encouraging members to challenge assumptions and share insights. Committee members cannot rest on their existing expertise and should continually refresh their knowledge, stay current with industry trends, and seek out learning opportunities on topics like technology, regulation, and global business dynamics. Chairs should foster a culture in which committee members feel comfortable asking questions, sharing insights, and challenging assumptions, regardless of a member’s expertise in an area.
- Modernizing committee processes for agility. Traditional audit committee structures and processes may need to be reevaluated as demands on the committee change. Structural and process issues that may warrant reconsideration include meeting cadence, committee composition, committee coordination with other committees, the use of technology such as AI to streamline committee processes, and meeting materials. As to the latter, the volume and complexity of materials can make it difficult for committee members to identify key issues. The report offers suggestions as to how chairs might address this problem.

Deloitte’s paper concludes with this observation:

“The ability of audit committees and their chairs to meet future challenges may hinge on their willingness to adapt, improve information flows, foster a culture of open dialogue, embrace continual learning, and engage and equip members to contribute and add value. The most effective audit committees are likely to be those that balance tradition with innovation, leveraging the strengths of their members while remaining agile and responsive to a world of change.”

Are You the One? Half of Directors Think a Colleague Should be Replaced.

Fifty-five percent of directors think someone on their board should be replaced, up from 49 percent who wanted a fellow board member to depart in 2024. That is one of the key findings of PwC’s [2025 Annual Corporate Directors Survey, Driving a culture of accountability in the boardroom](#).

PwC surveyed 638 directors. Seventy percent of the companies these directors represent have annual revenue of over \$1 billion. Sixty-five percent of the respondents were men, and 32 percent were women. Fifty-six percent of respondents have served on their board for more than five years.

Top reasons for wanting a colleague replaced were “Does not contribute meaningfully to discussions” (41 percent), “Long tenure has led to diminished performance” (34 percent), “Lacks the necessary expertise for the role” (21 percent), and “Interaction style negatively impacts board dynamics (e.g., culture/fit)” (20 percent).

Despite these views, many directors also reported that their board had not taken action to replace underperforming members. The chief reasons for inaction were “Collegiality/personal relationships between board members” (25 percent), “Replacing a director can be awkward/time-consuming” (21 percent), and “Director in question is close to mandatory retirement age” (19 percent).

While they may have personally concluded that another director should be replaced, directors do not have much faith in their board’s performance assessment process. Seventy-eight percent do not believe the assessment process provides a complete picture of overall board performance, and 51 percent said their boards are not sufficiently invested in the assessment process.

The great majority (88 percent) of directors surveyed believe that specific actions short of replacing a director could improve board effectiveness. These included:

- Seek additional education or training on key topics (45 percent).
- Strengthen relationships with fellow board members (33 percent).
- Encourage more diverse viewpoints or innovation (25 percent).
- Be more willing to speak up during discussions (24 percent).

Other key findings of PwC’s survey were:

- Board appointments largely focus on traditional areas of expertise. The top skills/traits that boards seek when adding new directors are industry knowledge (34 percent), financial acumen (27 percent), and operational experience (22 percent). This emphasis on traditional director characteristics contrasts with the fact that only 32 percent of executives believe their board has the right expertise.
- Only 35 percent of directors said that their board has incorporated AI into its oversight.

PwC’s survey report ends with a roadmap outlining steps “to cultivate a board culture defined by shared ownership and responsibility.” These steps are divided into four categories – actions that can be taken by the individual director, board leadership, the full board, and the executive team.

The Audit Blog

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For further information, please contact:

Daniel L. Goelzer
dangoelzer@gmail.com

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

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Update Nos. 99-present (March-April 2025 to present) and summaries are available [here](#). Update Nos. 89-98 (March 2024 to February 2025) and summaries are available [here](#). Update Nos. 76-88 (August 2022 to February 2024) and summaries are available [here](#). Update Nos. 60-75 (June 2020 to July 2022) are available [here](#). Update 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](#).

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