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AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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Summary

Audit Committees are Disclosing More About Members' Skills and Less About Auditor Oversight. The Center for Audit Quality and Ideagen Audit Analytics have released the Audit Committee Transparency Barometer 2025, the CAQ's annual analysis of audit committee disclosures. The press release announcing Barometer 2025 reports that while "disclosure of cybersecurity expertise on boards has grown, most disclosure areas have stagnated or declined." For example, S&P 500 disclosure of the audit committee's annual evaluation of the external auditor decreased from 39 percent to 38 percent, and disclosure of considerations in appointing or re-appointing the auditor was flat at 50 percent. Only seven percent of the S&P 500 discussed the relationship between audit fees and audit quality.

Audit committees can use the Barometer to benchmark their company's disclosures. Further, committees should consider expanding their audit committee reports, particularly in areas that are declining or need improvement. The audit committee's core responsibilities are financial reporting and auditor oversight, and transparency about that work should be the paramount goal of the committee's report. As Barometer 2025 states, "These disclosures ultimately enhance trust and instill confidence in the audit committee's leadership."

SEC Public Company Enforcement Dipped Sharply in 2025. During fiscal year 2025, the SEC brought 30 percent fewer cases against public companies and their subsidiaries than in FY 2024, and 93 percent of those cases were brought before January 25, 2025 – the day on which Biden Administration SEC Chair Gensler resigned. Those findings are reported in SEC Enforcement Activity: Public Companies and Subsidiaries—Fiscal Year 2025 Update, the annual report of Cornerstone Research and NYU's Pollack Center for Law & Business on SEC enforcement actions against public companies. The Cornestone/Pollack Center report also found that monetary settlements in SEC public company cases in 2025 were $808 million, the lowest for any year with an SEC administration change and the second-lowest in the database. The average monetary settlement was $15 million, down from $19.8 million in FY 2024 and the second-lowest since 2016.

For audit committees interested in predicting the level and focus of the SEC's enforcement program over the next several years, the Cornerstone/Pollack Center report could suggest a reduction in enforcement intensity. However, there is also reason to expect that the new SEC will be active in enforcing public company disclosure and reporting requirements. Chair Atkins has stressed returning the agency to its core mission. This suggests that traditional disclosure and reporting matters will be a priority, at least where they involve allegations of fraud. Moreover, enforcement policy changes may not be the primary cause of the drop in cases against public companies following Chair Gensler's departure. The advent of the new presidential Administration corresponded with a substantial reduction in SEC staffing. The Commission may not have had sufficient personnel to continue enforcement at prior levels. Over time, that constraint is likely to be mitigated. On balance, audit committees should assume that SEC enforcement will remain active where public companies have engaged in fraudulent reporting.

Most Audit Reports Contain a CAM, But Only One. Ideagen Audit Analytics has released Critical Audit Matters: A five-Year Review 2020-2024, a study of critical audit matters that appeared in audit reports filed by SEC-registered companies between 2020 and 2024. IAA finds that, in both FY 2023 and FY 2024, 68 percent of audit reports had at least one CAM, up from 62 percent in 2020, the first year of CAM reporting. However, for audit opinions with a CAM, the average number of CAMs per opinion has decreased from 1.51 in 2020 to 1.27 in 2024. Revenue recognition was the most frequent CAM topic, appearing in 17 percent of FY 2024 CAMs, up from 12 percent in 2020. Audit committees may find the IAA study helpful for comparing the number and nature of their company's CAMs with the study's overall findings and with industry trends. Audit committees of companies that have no CAMs – or more than two CAMs – may want to discuss with their auditor why their company differs from the broad averages.

Being Mean to an Auditor Hurts Audit Quality, and It Happens a Lot. Over 75 percent of auditors in a survey reported instances where clients "rudely told them how to perform their work or rudely questioned their work procedures, and one third report being subjected to bullying by clients." Moreover, when they encounter this type of behavior, auditors are less likely to challenge aggressive client financial reporting. However, there are coping strategies that may mitigate the adverse effects of client incivility on the auditor's judgment. These are some of the findings of The Influence of Client Incivility and Coping Strategies on Audit Professionals' Judgments, the report of a survey and experimental study conducted by Tim D. Bauer (University of Waterloo), Sean M. Hillison (Virginia Tech), and Ala Mokhtar (University of Waterloo). The authors conclude: "For audit firms committed to maintaining high audit quality, it is critical to assess the risks associated with serving uncivil clients. Client incivility pervades the audit profession, and there is no reason to believe that it will diminish."

While intimidating the auditor into accepting dubious accounting decisions may seem expedient in the short run, the long-term consequences can include the need to restate, an SEC investigation, and/or private litigation against the company and its directors. Audit committees should encourage the engagement team to report any instances of attempted intimidation to the committee and ensure management understands that such behavior will not be tolerated.

SEC Seeks Shelter from the SolarWinds Case. On November 20, the SEC announced that it had filed a joint stipulation with SolarWinds Corporation and its CISO to dismiss, with prejudice, the Commission's civil enforcement action against them. In 2023, the SEC brought the action charging the company with, among other things, violating the internal control requirements of the Securities Exchange Act. SolarWinds had been the victim of Russian hackers who surreptitiously inserted a vulnerability into one of its software products, making SolarWinds' customers' IT systems susceptible to exploitation. The SEC's theory was that the company's source code, databases, and software products were its most vital assets, but that SolarWinds failed to limit access to those assets "only in accordance with management's general or specific authorization" as required by the Act. However, in 2024, a federal district court held that the statutory internal control requirements do not apply to cybersecurity controls, while permitting some of the Commission's disclosure-based charges to proceed.

The SEC's announcement does not explain why it dismissed the case. The decision, however, appears to mark the end of the Commission's initiative to expand the scope of the internal control requirements beyond financial reporting. Since bringing the SolarWinds case, the SEC has adopted new cybersecurity disclosure requirements and is likely to enforce them actively. Accordingly, oversight of cybersecurity disclosure should remain an audit committee priority.

Court of Appeals Pauses California Climate Disclosures. The Court of Appeals for the Ninth Circuit has issued an order temporarily blocking implementation of California Senate Bill 261, the Climate-Related Financial Risk Act, which requires U.S. entities with annual global revenue exceeding $500 million that do business in California to disclose their climate-related financial risks and the measures they are taking to reduce and adapt to those risks. The first reports under the law were due on January 1, 2026, although the order suspended that deadline. The court declined to enjoin companion legislation, SB 253, the Climate Corporate Data Accountability Act. SB 253 requires entities with annual global revenue exceeding $1 billion that do business in California to report their Scope 1, 2, and 3 greenhouse gas emissions. Initial GHG reporting under SB 253 is due August 10, 2026.

Following the court's order, the California Air Resources Board issued an Enforcement Advisory stating it will not enforce SB 261 against covered entities for failing to post and submit reports by January 1, 2026. CARB also issued instructions for companies that choose to submit reports voluntarily. Audit committees of companies subject to California's climate disclosure requirements should discuss with management how it intends to proceed, considering the injunction and CARB's statements.

What Keeps Internal Audit Up at Night? Technology, business transformation, and digitization are internal audit's primary concerns according to consulting firm Jefferson Wells' 2025 Internal Audit Priorities Annual Survey. For audit committees, the top emerging risks were data privacy and cybersecurity, Gen AI, strategic risk, and business transformation/digitization. Talent is also a leading concern for internal audit leaders, with 59 percent reporting that hiring employees with the right technical skills is one of their biggest challenges.

The Audit Blog. The Audit Blog provides commentary on developments in auditing and financial reporting, auditor oversight and regulation, and sustainability disclosure. The blog is available here. You can also follow @BlogAuditor on X or @the-audit-blog on medium.com.

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

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.