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AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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Summary

PCAOB Adopts Pared Back Engagement Performance Metrics and Audit Firm Reporting Rules. The PCAOB [adopted rules](#) that will require accounting firms to disclose performance metrics regarding their larger audit engagements. The Board [also adopted](#) expanded firm operational and financial condition reporting. PCAOB-registered public accounting firms that audit accelerated filers or large accelerated filers will be required to publicly report eight performance metrics, all of which call for information at the engagement level and six of which also include firm-level information. The new operational and financial reporting rules will require more detailed aggregate audit fee disclosure, information concerning firm governance and network relationships, and notice to the Board of significant cybersecurity incidents. Large firms will also be required to provide the Board with financial statements and with information concerning material events, such as new financial arrangements that would materially affect firm liquidity or operations. Financial statements, cybersecurity incidents, and material events disclosures will be nonpublic.

Performance metric reporting will not begin until 2027. Audit firms and audit committees should use the next three years to gain a better understanding of the metrics and their relevance to the company's audit. ([more](#))

PCAOB Puts NOCLAR on Hold but Reminds Auditors of Their Illegal Acts Responsibilities.

The PCAOB will not take further action this year on its controversial proposal to expand the auditor's responsibilities to consider client noncompliance with laws and regulations (NOCLAR). According to a PCAOB staff spokesperson, the Board "will continue engaging with stakeholders, including the SEC, as we determine potential next steps." The Board's [regulatory agenda](#) describes the next action on the NOCLAR proposal as "TBD pending analysis" of input the Board has received and lists the anticipated timing of the next action as 2025.

Three days before announcing the deferral of NOCLAR, the Board issued [Spotlight: Auditor Responsibilities for Detecting, Evaluating, and Making Communications About Illegal Acts](#), a staff paper reminding auditors of their responsibilities under current law and PCAOB standards to detect, evaluate, and communicate illegal acts. Audit committees may want to review the Spotlight to refresh their understanding of the existing requirements, discuss with their engagement partner how the current standards affect the company's audit, and inquire whether the engagement team anticipates any changes in its procedures regarding the possibility of illegal acts. ([more](#))

[SEC Sanctions Four Companies for Misleading Solar Winds Breach Disclosures](#). The SEC has filed enforcement actions against four companies alleging that each made misleading disclosures concerning the impact on the company of the cyberattack on SolarWinds Corp.'s Orion software. One of the companies was also charged with failing to maintain adequate disclosure controls and procedures. In the [press release](#) announcing these actions, Sanjay Wadhwa, Acting Director of the SEC's Division of Enforcement, said: "As today's enforcement actions reflect, while public companies may become targets of cyberattacks, it is incumbent upon them to not further victimize their shareholders or other members of the investing public by providing misleading disclosures about the cybersecurity incidents they have encountered."

These cases offer insight into how the Commission applies the concept of materiality in the context of cyber breach disclosures. They also highlight the risks of disclosure that minimizes or downplays the seriousness of a cyber incident. In addition, the charges involving disclosure controls underscore the importance of clear guidance concerning the circumstances in which cyber security staff should bring alerts or incidents to the attention of management charged with making disclosure decisions. ([more](#))

[CAQ and IAA: Companies are Saying More About Their Board's Cyber and ESG Expertise](#). The Center for Audit Quality and Ideagen Audit Analytics have released [Audit Committee Transparency Barometer 2024](#), the CAQ's annual analysis of the audit committee disclosures of companies in the S&P Composite 1500. [Barometer 2024](#) reports that the "most dramatic increase in audit committee disclosures in 2024 is in cybersecurity and ESG - board expertise and oversight." However, many traditional audit-related disclosures have plateaued, and CAQ and IAA believe there is considerable room for improvement. Audit committees can use [Barometer 2024](#) to benchmark their company's disclosures. Committees should also consider expanding their audit committee reports, particularly in the areas that [Barometer 2024](#) flags for improvement. ([more](#))

[Deloitte Has Suggestions for Audit Committee Support of the New Internal Audit Standards](#). Deloitte's Center for Board Effectiveness has released [Governing a relevant, effective, and valued internal audit function](#). This paper provides an overview of the Institute of Internal Auditors' new [Global Internal Audit Standards](#) and offers suggestions for how audit committees can support their implementation. Audit committees should familiarize themselves with the basics of the new IIA Standards and monitor how the company's internal audit function is implementing them. Deloitte's paper provides a good overview of the objectives of the Standards and of the role that the audit committee can play. ([more](#))

[SEC Charges that Personal Friendship with an Executive Undermined Director's Independence](#). The SEC has charged James R. Craigie, a former director of Dwight & Church, with violating the proxy rules. The charges are based on allegations that Craigie served as an independent director without informing the board of his close friendship with a company executive. The Commission alleges that Craigie concealed his relationship with the executive from the board by failing to disclose the relationship in his D&O questionnaire responses. The SEC's [complaint](#) states, "As a result of Craigie's concealment, Church & Dwight's proxy statements in 2021 and 2022 contained misstatements of material fact when they represented that Craigie was an independent director."

These charges shed light on the circumstances in which, in the SEC's view, a close friendship with a member of management is inconsistent with a director's independence. The case also illustrates that directors should be inclusive in their D&O questionnaire responses concerning

any personal relationships they may have with members of management, especially senior company executives. ([more](#))

[PCAOB Releases 2020 Criticisms of Grant’s Quality Control.](#) On October 24, the PCAOB released three previously nonpublic portions of [Grant Thornton’s 2020 inspection report](#). These portions of the report contain criticisms of Grant’s quality controls with respect to testing controls, reliance on company-prepared data or reports, and supervision of audits. The release of this material indicates that Grant failed to persuade the PCAOB that, as of September 30, 2022, it had satisfactorily remediated these quality control deficiencies. Audit committees of Grant clients may want to discuss with their engagement partner how the firm is addressing these matters, quality control changes it has made since the PCAOB’s determination that the deficiencies had not been remediated, and whether the deficiencies might have affected the company’s audit. ([more](#))

[California Tweaks its Climate Disclosure Law But Reporting Deadlines are Unchanged.](#) The California legislature has passed, and Governor Newsom has signed, [Senate Bill 219](#), which makes minor changes to California’s far-reaching climate disclosure legislation. However, the legislature declined to postpone the reporting deadlines, and litigation challenging the Constitutionality of the California requirements has also failed to delay implementation. As a result, U.S. public and private companies with annual global revenue exceeding \$1 billion that do business in California will be required to begin greenhouse gas emissions disclosure in 2026. In addition, companies doing business in California that have annual global revenue exceeding \$500 million must file a biennial climate-related financial risk report beginning January 1, 2026. Audit committees that have not already done so should discuss with management whether the company is subject to the California climate disclosure requirements and, if so, whether it has processes in place to collect the information needed to comply. ([more](#))

[EY: Cybersecurity Disclosure Continues to Grow Along with Cyber Risks.](#) The largest U.S. companies are disclosing more information about their cybersecurity. That is the central finding of the 2024 edition of the EY Center for Board Matters’s annual analysis of Fortune 100 company cybersecurity disclosures. [Cyber disclosures: what companies shared about cyber risks in 2024](#) reports that every aspect of cybersecurity disclosure EY tracks has increased since 2018. The 2024 study also found that 81 percent of Fortune 100 companies reported that the audit committee has cybersecurity oversight responsibility, and that 72 percent of companies reported seeking board-level cyber expertise. Audit committees with responsibility in this area may find it helpful to review EY’s report, especially the leading cyber risk oversight practices it describes. ([more](#))

[PCAOB Investor Advocate Issues a Bulletin on Engagement with Audit Committees.](#) The PCAOB’s Office of the Investor Advocate has issued an [Investor Bulletin](#) describing PCAOB resources that investors “may consider as they engage with audit committees concerning the audit committees’ dialogues with their independent auditors.” Audit committees may want to review the Bulletin since investors may use it as a source for questions to pose to the committee. ([more](#))

[RSM Finds Middle Market Companies Preparing Cautiously for ESG Rules.](#) According to the findings of [The RSM Middle Market Sustainability Survey 2024: US and Canada](#), 75 percent of mid-sized companies have begun preparing to implement climate-related regulations. But a still-larger majority – 84 percent -- said they are “monitoring developments before acting on them.” And 56 percent said their organization was waiting until after the U.S. presidential

election before taking further action. RSM also reports that 54 percent of survey respondents said their organization has a written decarbonization plan in place and 77 percent reported that their organization has a dedicated project manager/project management team to support sustainability reporting. Audit committees of middle market public companies might want to consider how their organization compares with these findings. ([more](#))

[The Audit Blog](#). The Audit Blog provides commentary on developments in auditing and financial reporting, auditor oversight and regulation, and sustainability disclosure. Recent blog posts include –

- [Enhanced Auditor Quality Control: Companies Will Feel the Effects](#) (Dan Goelzer, September 20, 2024)

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

Update Nos. 89-present (March 2024 to present) 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](#).