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AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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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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Common Threads 2025: Audit Committee Top Priorities are Still Cybersecurity and ERM

The Center for Audit Quality (CAQ) and the Deloitte Center for Board Effectiveness have released their annual survey of audit committee practices and priorities, Audit Committee Practices Report: Common Threads Across Audit Committees (2025 Practices Report). As was the case last year, cybersecurity, enterprise risk management (ERM), and finance and internal audit talent topped the list of audit committee concerns. In terms of improving audit committee effectiveness, 21 percent of respondents thought that the most impactful step would be to increase committee member discussion and engagement during meetings, while 18 percent believed that improving the quality of meeting

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presentations would have the most impact. For an overview of last year's survey results, see Cybersecurity and ERM Are Top Audit Committee Priorities. ESG, Not So Much, March 2024 Update.

The CAQ and Deloitte surveyed 237 audit committee members, 86 percent of whom served on the board of a public company. Fifty-seven percent were audit committee chairs. Seventy-two percent of respondents' companies had a market capitalization of $2 billion or more. Directors on boards of financial services companies made up 27 percent of the respondents. The survey consisted of fourteen questions related to audit committee priorities and practices and six questions related to respondent demographics to the companies on the boards of which they served. The detailed survey results are presented in appendices to the 2025 Practices Report, including breakouts of the results for respondents on audits committees of financial services firms. Some highlights of the 2025 Practices Report are described below.

Top Audit Committee 2025 Priorities

Respondents were asked to identify the top priorities of their audit committee over the next 12 months, apart from financial reporting and internal control. The top three priorities – which are unchanged from last year -- are:

- Cybersecurity. Fifty percent of respondents identified cybersecurity as the top audit committee focus area this year, and 93 percent included it as one of the top three priorities. The survey found that 62 percent of audit committees have primary oversight responsibility for cybersecurity risk, while 23 percent assign responsibility to the full board. Seventy percent of non-financial services companies' audit committees have cybersecurity oversight responsibility, while, at financial services companies, 41 percent of audit committees have oversight of cybersecurity risk. Financial services companies are required to have a risk committee, and those committees often have primary cybersecurity oversight. For 71 percent of respondents, cybersecurity is on the audit committee's agenda quarterly. Many committees would like to increase their expertise in this area: Thirty-one percent of respondents pointed to cybersecurity as the skill most likely to enhance the audit committee's effectiveness.

- Enterprise risk management. The second highest priority for audit committees is ERM. Thirty-three percent of respondents thought this was their committee's first priority, and 76 percent included it in the top three. Fifty-two percent of respondents indicated the audit committee has responsibility for ERM, followed by the full board (28 percent), and the risk committee (19 percent). Nearly half of the financial services companies in the survey assign ERM oversight to the risk committee. ERM is on the audit committee agenda quarterly for 49 percent of survey respondents. Audit committees appear to be more comfortable with their ERM expertise than with their cybersecurity knowledge. Only eight percent of respondents identified ERM as the top skill needed to enhance committee effectiveness, while 27 percent included it in their top three.

- Finance and internal audit talent. Twenty-five percent of respondents said that financial and internal audit talent is the top priority for their audit committee during the next 12 months and 65 percent cited this topic as among the top three. For 92 percent of respondents, the audit committee has primary oversight of finance and internal audit talent. The topic is on the quarterly agenda for 38 percent of audit committees. Most respondents gave the work of their internal audit team high markets. For example, 89 percent thought that internal audit "has a high level of understanding about business operations," and 82 percent thought it "is effective at assisting management in identifying new risks." Nonetheless, 82 percent agreed or strongly agreed that there is an opportunity to extract more value from internal audit. The 2025 Practices Report references the Institute of Internal Auditors' new Global Internal Audit Standards and suggests that '[u]nderstanding the new Standards and their implications will help audit committees ensure their company leverages the internal audit function effectively, achieving greater value from their internal audit activities." See Deloitte Has Suggestions for Audit Committee Support of the New Internal Audit Standards, November 2024 Update.

Beyond these top three priorities, there were some changes in the ranking that survey respondents assigned to other topics. The chart below shows the top nine audit committee priorities and how their rankings in 2025 and 2024 reports compare.

Ranking	2025 priorities	Change	2024 priorities
1	Cybersecurity	⟷	Cybersecurity
2	Enterprise risk management	⟷	Enterprise risk management
3	Finance and internal audit talent	⟷	Finance and internal audit talent
4	Compliance with laws and regulations	↑ 1	Finance transformation
5	Finance transformation	↓ 1	Compliance with laws and regulations
6	ESG reporting	↑ 1	AI governance
7	AI governance	↓ 1	ESG reporting
8	Third-party risk	⟷	Third-party risk
9	Data privacy	⟷	Data privacy

Source: Audit Committee Practices Report: Common Threads Across Audit Committees, 4th edition (February 2025)

Audit Committee Practices and Effectiveness

Survey respondents were presented with five strategies to enhance audit committee effectiveness during meetings. Sixty-nine percent thought that at least one of these strategies could improve effectiveness; conversely, 31 percent indicated that none of the suggested options would improve their meetings. The strategies, and the share of respondents that thought each strategy was the most impactful or among the top three that would enhance meeting effectiveness, are:

- Improve the quality of presentations during meetings (most impactful-18%, among top three-40%).
- Increase discussion and/or engagement from members during meetings (most impactful-21%, among top three-34%).
- Improve the quality of pre-read materials (most impactful-14%, among top three-29%).
- Improve the level of committee member advanced preparation for meetings (most impactful-10%, among top three-18%).
- Improve management of the agenda during meetings (most impactful-6%, among top three-17%).

Eighty-eight percent of respondents agreed or strongly agreed that their committee had sufficient time to cover meeting agenda items, while 12 percent disagreed or strongly disagreed. The survey found that the average quarterly audit committee meeting is two hours and 28 minutes, down from two hours and 44 minutes last year.

Quality of the Independent Auditor

Respondents were given a list of factors and asked to identify the three most important considerations for assessing the quality of the company's independent auditor. These factors, along with the percentage of respondents that identified each as the most important or among the top three, are:

- Previous experience working with the auditor (most important-29%; among top three-53%).
- The audit firm's overall reputation (most important-17%; among top three-53%).
- Audit quality indicators (most important-18%; among top three-53%).
- Value provided beyond the audit (most important-15%; among top three-50%).
- A formal evaluation process (most important-18%; among top thiree-42%).
- Use of metrics and trends analysis (most important-1%, among top three-15%).
- None of the above are top factors (3%).

Audit Committee Takeaways

The 2025 Practices Report survey results can serve as a benchmarking resource to aid audit committee members in understanding what their peers are doing and whether there are priorities and practices other audit committees are considering that they may wish to employ.

The top priorities identified in the 2025 Practices Report are priorities for most audit committees. In addition to the survey findings, the report includes suggestions for audit committees in addressing these priorities. For example, concerning cybersecurity, the report lists six "audit committee considerations" and three questions for audit committees to consider in connection with cybersecurity oversight. The report also provides audit committee considerations for ERM and talent oversight. Examples include:

- Consider cyberattacks reported by other entities and ask management to assess how your company would have responded to a similar incident.
- Understand management's process for updating their risk assessment outside of their usual cycle. For example, are there triggering events that would initiate an update? This dynamic approach to ERM monitoring prepares boards and management to adapt when an issue arises.
- Receive periodic updates on key talent metrics, including involuntary turnover of high performers.

Committees may find the CAQ/Deloitte suggestions useful as they consider their approach to these topics.

PCAOB Issues Guidance on the Use of Specialists

The PCAOB inspection staff has published Spotlight: Considerations for Audit Firms Using the Work of Specialists (Specialist Spotlight). This paper discusses considerations for audit firms that use the work of a specialist in public company or broker-dealer audits. The Specialist Spotlight highlights inspection staff observations, including common audit deficiencies and good practices. It is intended to help audit firms perform appropriate procedures when using the work of a specialist. However, the Specialist Spotlight notes that other stakeholders, including audit committees, may also find the information presented helpful in understanding how audit firms use specialists in obtaining or evaluating audit evidence. The publication includes suggested questions for audit committees to consider in connection with their auditor's use of specialists. Below is an overview.

Background

A specialist is defined as a person or firm with special skills or knowledge in a field other than accounting or auditing. Companies may use specialists to assist in developing financial statement accounting estimates. Auditors frequently use specialists engaged or employed by the audit firm to evaluate significant accounts and disclosures. The types of specialists that companies and auditors use include actuaries, appraisers, and legal specialists. Audit areas in which specialists are commonly utilized include estimates and valuations (e.g., valuations in business combinations, financial instrument fair values, and asset impairment determinations), legal interpretations, and evaluation of physical characteristics of financial statement items such as inventories or mineral reserves.

Evaluating the Work of a Company Specialist

The auditor's responsibilities for data, significant assumptions, and methods that a company specialist used to assist in developing financial statement amounts fall into four categories:

- Company-produced data. Test the accuracy and completeness of company-produced data the company specialist used.

- Data from sources external to the company. Evaluate the relevance and reliability of data from sources external to the company that the company specialist used.

- Significant assumptions: Evaluate the reasonableness of significant assumptions that the company specialist used, including assumptions developed by the specialist, assumptions provided by company management, and assumptions based on the company's intent and ability to carry out a particular course of action.

- Methods: Evaluate whether the methods used by the company specialist are appropriate under the circumstances, taking into account the requirements of the applicable financial reporting framework.

Several factors that may affect the extent of the audit evidence necessary to support the auditor's evaluation of the work of a company specialist:

- The significance of the specialist's work to the auditor's conclusion.

- The ability of the company to significantly affect the specialist's judgments about work performed, conclusions, or findings.

- The risk of material misstatement in the relevant assertion to which the specialist's work relates.

- The specialist's level of knowledge, skill, and ability.

The auditor should evaluate the relevance and reliability of the company specialist's findings and perform additional procedures if those findings or conclusions appear to contradict the relevant financial statement assertion or if the work of the company specialist does not provide sufficient appropriate evidence to support the assertion. The auditor may also need to consider additional procedures when the company specialist's report contains restrictions, disclaimers, or limitations regarding the auditor's use of the report or if the auditor identifies a conflict of interest.

Using the Work of an Auditor-Employed Specialist

In the case of a specialist employed by the auditor, the extent to which the auditor must supervise the work of the specialist depends on (1) the significance of the specialist's work to the auditor's conclusions, (2) the risk of material misstatement of the relevant assertion, and (3) the specialist's knowledge, skill, and ability. Auditors can use the firm's quality control system to assess specialists, but the engagement partner remains responsible for determining if the specialist is qualified and independent. Auditor-employed specialists must be assigned based on their knowledge, skill, and ability, just like other team members, and must be independent of the audit client.

The auditor should establish and document an understanding with the specialist regarding the specialist's responsibilities for testing company-produced data or evaluating external data, evaluating or developing significant assumptions, and evaluating methods used or using their own methods. The engagement partner or other engagement team members performing supervisory activities should inform the auditor-employed specialist about matters that could affect the specialist's work, such as information about the public company and its environment, the public company's processes for developing the related accounting estimate (including the role of company specialists), the relevant requirements of the financial reporting framework, possible accounting and auditing issues, and the need to apply professional skepticism.

Using the Work of an Auditor-Engaged Specialist

In the case of a specialist engaged by the auditor, the auditor's objective is to determine whether the specialist's work is suitable and supports the auditor's conclusion about the relevant assertion. The auditor must assess the specialist's knowledge, skill, and ability, considering the nature and scope of the work. The auditor must also assess the specialist's objectivity. If objectivity concerns arise, the auditor should either perform additional procedures or engage another specialist. With respect to informing the specialist of the work to be performed, determining the extent of review, and evaluating the specialist's work, the requirements are parallel to those for an auditor-employed specialist.

Common Deficiencies Related to Use of Specialists

Examples of deficiencies that the PCAOB inspection staff has observed in the use of specialists include:

- The auditor's risk assessment failed to consider information in annual filings or other sources that were inconsistent with the company specialist's report.
- The auditor merely included the company specialist's report in the audit file without performing procedures to evaluate the specialist's work.
- The auditor did not involve a specialist to assist in areas where the auditor lacked the necessary knowledge, skill, and ability.
- The auditor performed appropriate procedures on financial data provided to the specialist and obtained an understanding of the specialist's significant assumptions and methods but failed to test the completeness and accuracy of non-financial data, such as geological or engineering data used for extraction industry reserve reports or employee census data for actuarial calculations.

Reminders for Audit Firms

Key areas auditors should focus on when using the work of specialists include:

- Continual risk assessment. Risk assessment should be a continual and iterative process. Auditors should reevaluate earlier risk assessments if contradicted by information from company specialists or auditor's specialists.

- Knowledge, skills, and ability. The use of a company specialist might introduce data, significant assumptions, and methods that could be beyond the auditor's knowledge, skill, and ability. The auditor must ensure it has or retains individuals with the necessary expertise to obtain sufficient and appropriate audit evidence.

- Testing and evaluating specialist data. Auditors must test the accuracy and completeness of company-produced data used by company specialists. They must also evaluate the relevance and reliability of external data that company and auditor specialists used.

- Supervising and analyzing specialist procedures. The engagement partner and supervisory team members should review the specialist's report or equivalent documentation and evaluate whether the specialist's work provides sufficient appropriate audit evidence.

Good Practices

The Specialist Spotlight provides examples of good practices in the use of specialists that the inspection staff has observed including:

- Risk assessment. Many auditors involved firm specialists in the risk assessment process. Some firms create inventories of assumptions and methods, documenting risk assessments for each.

- Consistency. Some auditors use a matrix to check that identified risks are consistent with other available information sources, such as annual filings, industry information, and the specialist's report.

- Coordination. Engagement teams establish a clear division of responsibilities between auditors and specialists to ensure that sufficient and appropriate audit evidence is obtained.

- Contrary Evidence. Some firms use a matrix document to compare specialist assumptions and findings with comparable relevant assertions and information in the financial statements to identify differences that may require the auditor to perform additional procedures.

- Competence. Some firms may send a questionnaire to the company specialist to obtain information regarding the specialist's professional qualifications and the existence of relationships with the company that could impair the specialist's objectivity.

Questions for Audit Committees

The Specialist Spotlight offers the following questions to aid audit committees in their consideration of their engagement team's use of specialists:

- How did the auditor ensure that the auditor's specialist(s) (employed or engaged) is/are appropriately identified and utilized to test significant estimates requiring specialization in the audit?

- Has the auditor engaged or employed specialists in the same field as the company's specialist(s) that were used to develop accounting estimates?

- How did the auditor identify and evaluate areas where a specialist would be used to perform or assist with audit procedures?

- Did the audit firm employ or engage a specialist to help with (1) understanding the process by which the company makes accounting estimates and (2) how the audit firm assesses the risks of material misstatement related to those accounting estimates?

- If auditor's specialist(s) was/were not used to evaluate significant assumptions, critical estimates, or disclosures prepared by the company specialists, how did the auditor perform sufficient procedures?

- What were the significant judgments discussed or challenged by the auditor's specialist(s)? What was the outcome of those discussions?

- Did the auditor's specialist(s) (employed or engaged) have any significant differences in methodology or results when compared to the company specialist? If so, how did the auditor assess those differences?

Audit Committee Takeaways

The audit committee should discuss with the auditor its process for determining when to use specialists in the audit and consider whether the auditor has involved specialists in appropriate high-risk or complex areas where the engagement team may lack the necessary knowledge, skill, and ability. For auditor-engaged specialists, the committee may want to inquire about how the auditor evaluates the specialist's objectivity. For both auditor-engaged specialists and auditor-employed specialists, the audit committee may also want to inquire how the auditor has ensured that specialists meet the independence requirements.

The audit committee should also discuss how the auditor coordinates work between the core audit team and specialists and have a general understanding of the level of supervision and review applied to specialists' work. The committee should also review with the auditor any significant judgments or findings from specialists' work and understand how any differences between company specialists and auditor specialists were resolved.

The questions in the Specialist Spotlight report address these and other issues and can serve as a roadmap for audit committees in their oversight of the role of specialists in the audit process.

On the Update Radar: Things in Brief

The Better Part of Valor: PCAOB Withdraws its Engagement Metrics and Firm Reporting Rules.

On February 11, the Securities and Exchange Commission issued a notice stating that the Public Company Accounting Oversight Board had withdrawn its rules on firm reporting and firm and engagement metrics. PCAOB rules and standards cannot take effect unless approved by the SEC. Therefore, the PCAOB's decision to withdraw these rules from SEC consideration means that they are dead, at least for now. News accounts reported that the Board withdrew the rules after consultation with the SEC and that it would continue "to work with the Commission and all stakeholders to protect investors and increase transparency."

In November 2024, the PCAOB adopted rules requiring registered accounting firms to disclose performance metrics regarding their larger audit engagements. These rules would have required firms that audit accelerated filers or large accelerated filers to publicly report eight metrics relating to specific audit engagements or to the firm's overall audit practice (e.g., hours worked by senior professionals relative to more junior staff across all of the firm's large accelerated and accelerated filer engagements and on each specific engagement). The Board also adopted expanded firm operational and financial condition reporting. Under the firm reporting rules, PCAOB-registered accounting firms would have been required to disclose certain financial information (e.g., aggregate fees billed to issuer clients), governance information (e.g., the names of the individuals holding certain leadership positions), network relationships, and material events impacting the firm's audit services. See PCAOB Adopts Pared Back Engagement Performance Metrics and Audit Firm Reporting Rules, November 2024 Update.

The SEC published the firm reporting and performance metrics rules for comment in early December, and both rules attracted considerable comment. Opponents, including several large accounting firms, argued that the rules had been rushed to approval without a full analysis of their costs and benefits and that the performance metrics were potentially misleading. Investor advocates strongly supported the rules, arguing that they would provide audit committees and investors with useful information that would better inform decision-making and auditor evaluation. In conjunction with the change in the Presidential Administration, SEC Chair Gensler and Democratic Commissioner Lizárraga resigned from the Commission in January, and it seems unlikely that a majority of the remaining Commissioners would have approved the rules. See SEC Sidetracks PCAOB Engagement Metrics and Firm Reporting Rules, January 2025 Update.

While mandatory disclosure of the PCAOB's metrics seems unlikely in the foreseeable future, audit committees are free to request any performance data they feel would be useful from their auditor.

PCAOB Makes Public 2021 Quality Control Criticisms of Deloitte and Grant Thornton. On February 3, the Public Company Accounting Oversight Board released previously nonpublic portions of the 2021 inspection reports of Deloitte & Touche and Grant Thornton. Board criticisms of a firm's quality control system appear in Part II of a firm's inspection report, and, under the Sarbanes-Oxley Act, Part II is nonpublic when the report is issued. If the firm does not, in the PCAOB's view, satisfactorily address a quality control criticism within 12 months, the Board makes the criticism public. For both Deloitte and Grant Thornton, the quality control deficiencies that the Board found in its 2021 inspection are identical to deficiencies that the Board found in its 2020, 2019, and 2018 inspections and has previously made public.

2021 Inspection Report: Deloitte & Touche LLP

The now-public quality control criticism in Deloitte's 2021 inspection report is that Deloitte's system of quality control did not provide reasonable assurance that Deloitte personnel will comply with the firm's policies and procedures concerning independence-related regulatory requirements.

Deloitte conducts periodic audits of a sample of its personnel to monitor compliance with firm independence policies. In the reviews Deloitte conducted during the 12 months ending December 31, 2020, the firm found that 20 percent of partners and principals and 33 percent of managing directors and managers who were audited had not reported financial relationships that were required to be reported under the firm's policies. The inspection report states: "This high rate of non-compliance with the firm's policies, which are designed to provide compliance with applicable independence regulatory requirements, provides cause for concern, especially considering that these individuals are required to certify on a semi-annual basis that they have complied with the firm's independence policies and procedures."

The date of Deloitte's 2021 inspection report is November 4, 2022. Therefore, the PCAOB's disclosure of this portion of the 2021 report indicates that Deloitte failed to persuade the PCAOB that, as of November 4, 2023, it had satisfactorily remediated the deficiency related to compliance with the firm's financial relationship reporting policies.

2021 is the fourth year for which the PCAOB has found that Deloitte failed to remedy this deficiency. On July 23, 2024, the Board made public the same finding in Part II of Deloitte's 2020 inspection report. See PCAOB Discloses a Criticism of Deloitte's Internal Independence Reporting – Again, August 2024 Update. The Board also released this finding in Part II of Deloitte's 2019 inspection report. And, on January 24, 2023, the Board disclosed the same finding in Part II of Deloitte's 2018 inspection report. See PCAOB Makes Public a 2018 Criticism of D&T's Quality Control, February-March 2023 Update. These quality control lapses relate to Deloitte's internal procedures, and there is no indication that they resulted in violations of the SEC's or PCAOB's independence rules.

During the past year, the Board has made public substantially the same quality control deficiency concerning each of the other three largest firms. See PCAOB Discloses Three 2019 Criticisms of EY's Quality Control, July 2024 Update; PCAOB Discloses Non-Public Portions of 2018 and 2019 KPMG Inspection Reports, April 2024 Update; and 2019 Inspection PricewaterhouseCoopers LLP (portion of Part II made public on July 13, 2023).

2021 Inspection Report: Grant Thornton LLP

The PCAOB made public three quality control criticisms in Grant's 2021 inspection report:

- Testing Controls. Grant's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel to test controls will meet the requirements of the Board's auditing standards. In five audits, the inspectors concluded that Grant "did not identify and test controls, or test aspects of certain controls, that sufficiently addressed the risks of material misstatement related to relevant assertions of certain significant accounts." In addition, the inspection team "identified instances in which the firm did not identify and test, or sufficiently test, controls over the accuracy and completeness of data or reports used in the operation of controls."

- Reliance on Data or Reports. The firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel to establish a basis for reliance on company-prepared data or reports will meet the requirements of the PCAOB's standards. The inspection team identified five audits with deficiencies related to unwarranted reliance on data or reports. In three of these audits, "the firm did not identify and test controls over the accuracy and/or completeness of certain data or reports that the issuer used in the operation of controls that the firm tested." In four audits, "the firm did not perform procedures, or sufficient procedures, to test the accuracy and/or completeness of certain data or reports that it used in its substantive testing, or in the alternative, test controls over those data or reports."

- Supervision of the Audit. Grant's system of quality control does not provide reasonable assurance that supervisory activities, including engagement partner reviews of audit work, will meet the requirements of the Board's auditing standards. This finding is based on the inspection team's identification of deficiencies in seven audits that the engagement partner should have identified and appropriately addressed. In four of these audits, the engagement team identified a significant risk, including in some cases a fraud risk, in an area in which the inspection found a deficiency.

The date of Grant's 2021 inspection report is November 4, 2022. Therefore, the release of these portions of the report indicates that Grant failed to persuade the PCAOB that, as of November 4, 2023, it had satisfactorily remediated these three quality control deficiencies.

On October 24, 2024, the Board made public the same findings in Part II of Grant's 2020 inspection report. See PCAOB Releases 2020 Criticisms of Grant's Quality Control, November 2024 Update. Grant's 2019 inspection report also included these deficiencies and was made public. Similar deficiencies also appeared in Grant's 2018 inspection report.

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Audit committees of Deloitte and Grant clients may want to discuss with their engagement partner how the firm is addressing these matters and the changes it has made since the PCAOB's determination that the deficiencies were not remediated. Because Grant's deficiencies relate to the conduct of audits, audit committees of Grant clients may also want to inquire whether the deficiencies might have affected their company's audit.

Acting Chair Asks Court to Pause Challenges to SEC Climate Disclosure Rules. Acting SEC Chair Mark Uyeda has directed the Commission's appellate litigation team to request that the Court of Appeals for the Eighth Circuit, which is considering challenges to the validity of the SEC's climate disclosure rules, suspend consideration of the case while the Commission reconsiders its position. In Acting Chairman Statement on Climate-Related Disclosure Rules, he instructs the staff to request "that the Court not schedule the case for argument to provide time for the Commission to deliberate and determine the appropriate next steps in these cases."

On March 6, 2024, the Commission adopted rules requiring public companies to disclose certain climate-related information, including material Scope 1 and Scope 2 GHG emissions. See SEC Adopts Landmark Climate Change Disclosure Rules, March 2024 Update. Several lawsuits were filed challenging the validity of the rules. The Commission suspended their effectiveness pending the outcome of these cases, which were consolidated in the Eighth Circuit. See SEC Puts its Climate Disclosure Rules on Hold, April 2024 Update.

Acting Chair Uyeda's statement is likely the first step toward SEC withdrawal of the climate disclosure rules. He notes that both he and Commissioner Peirce voted against the rules and that the briefs that the Commission has filed in defense of the rules do not represent his views. (In light of the resignation of Chair Gensler and Commissioner Lizarraga, Acting Chair Uyeda and Commissioner Peirce now constitute a majority of the three-person Commission.) Mr. Uyeda states that he continues to question the Commission's authority to adopt the rules, the need for the rules, the cost/benefit analysis, and the Commission's adherence to the Administrative Procedure Act. The third member of the Commission, Caroline Crenshaw, issued a statement reiterating her support for the climate disclosure rules and "disagree[ing] with the position unilaterally taken today by the acting Chairman."

President Trump has nominated former SEC Commissioner Paul Atkins to Chair the Commission, although his confirmation hearings have not yet been scheduled. It seems unlikely that, under his leadership, the Commission will continue to defend the validity of these rules and may instead seek to rescind them. However, for public companies and their audit committees, this may not end the need to make GHG emissions and other climate-related disclosures. Many large U.S. companies will be subject to California's climate disclosure requirements, and some will be required to comply with E.U. requirements. See California Tweaks its Climate Disclosure Law But Reporting Deadlines are Unchanged, November 2024 Update. In addition, many public companies make climate disclosures voluntarily in response to investor interest. See What Backlash? ESG Reporting Continues to Grow, September-October 2024 Update.

What Should be on the Audit Committee's 2025 Agenda? – Part III. The December 2024 Update and the January 2025 Update included a discussion of five papers in which accounting or consulting firms suggest issues that audit committees should focus on during 2025. See What Should be on the Audit Committee's 2025 Agenda?, December 2024 Update, and What Should be on the Audit Committee's 2025 Agenda? – Part II, January 2025 Update. An additional paper is now available. On January 21, BDO released Audit Committee Priorities for 2025.

BDO states that in "an era when the business landscape is characterized by rapid changes and rising uncertainties, the need for robust governance oversight has never been more critical." The BDO agenda paper "discusses the evolving priorities and responsibilities of audit committees (ACs) in 2025, emphasizing risk governance, technology integration, and investor expectations." Some topics addressed include:

- Enhanced Risk Governance and Enterprise Risk Management Integration. "The AC's oversight of ERM goes beyond oversight of management's processes to stress testing those results to help ensure priorities are aligned, mitigation efforts are sound, and the company can be resilient against new challenges. The AC should not only review the formal ERM processes performed by management but receive further reporting and updates at an established cadence throughout the year to enhance recurrent risk conversations."

- Emerging Technology and Cybersecurity. "ACs should evaluate the impact of technology, including generative AI use in the financial reporting function. Three increasingly interdependent elements — technological efficiency, regulatory compliance, and talent — impact both corporate finance teams and audit engagement teams. Data governance challenges can increase the risk for potential reporting issues, errors, or unreliable insights." The paper includes a list of nine questions directors should ask as part of their oversight of generative AI.

- Investor Expectations of Audit Committee Effectiveness. "While ACs are often assigned expanding responsibilities, they must not fall behind on the traditional mandate of their role. It is important to clearly define and regularly review the AC's responsibilities and associated charter to ensure compliance with requirements, along with assessing the capacity and experience around expanded oversight responsibilities." The paper includes a list of 16 questions audit committees should ask about their responsiveness to investor expectations.

- Oversight of Internal Audit. BDO states that "regular reports to the AC to ensure continued alignment on audit strategy and goals, along with timely resolution of identified deficiencies before they become material issues" is a best practice. The paper also recommends that audit committees consider the Institute of Internal Auditors' Global Internal Audit Standards as a basis for evaluating the quality of the internal audit function. (Regarding the new IAA standards, see Deloitte Has Suggestions for Audit Committee Support of the New Internal Audit Standards, November 2024 Update.)

- Disclosure. "The AC should inquire about the rigor for how disclosures outside the financial statements (such as those related to earnings releases and sustainability reports) are verified for accuracy and consistency, including reviewing presentation slides and management's commentary, while overseeing internal controls around non-financial metrics."

- Oversight of the External Auditor. BDO states that it is a best practice for audit committees to "build a strong professional relationship with their external auditors, which includes frequent, transparent communications about the audit." Discussion topics should include auditor independence; the scope, status, and conduct of the audit; the engagement team's and audit firm's experience, supervision, and review; the audit firm's structure and its potential impact on audit quality; inspection results at the engagement and firm level; and the audit firm's system of quality control.

President Puts FCPA Enforcement on Hold. On February 10, President Trump issued an Executive Order directing Attorney General Bondi to pause enforcement of the Foreign Corrupt Practices Act for 180 days. During the pause, the Attorney General will draft new FCPA enforcement guidelines. Specifically, the order directs the Attorney General to take the following actions during the 180-day review period–

(i) "Cease initiation of any new FCPA investigations or enforcement actions, unless the Attorney General determines that an individual exception should be made."

(ii) Review existing FCPA investigations or enforcement actions and "take appropriate action * * * to restore proper bounds on FCPA enforcement and preserve Presidential foreign policy prerogatives."

(iii) Issue guidelines or policies "to adequately promote the President's Article II authority to conduct foreign affairs and prioritize American interests, American economic competitiveness with respect to other nations, and the efficient use of Federal law enforcement resources."

FCPA investigations and enforcement actions initiated or continued after the pause will be governed by the new guidelines or policies and must be specifically authorized by the Attorney General. The President also directs the Attorney General to determine whether "remedial measures" are warranted as to past FCPA enforcement matters.

The Executive Order states that the FCPA has been "systematically, and to a steadily increasing degree, stretched beyond proper bounds and abused" and has harmed the interests of the United States. "[N]ational security depends in substantial part on the United States and its companies gaining strategic business advantages whether in critical minerals, deep-water ports, or other key infrastructure or assets" and "overexpansive and unpredictable FCPA enforcement against American citizens and businesses" harms American economic competitiveness.

The White House also released a Fact Sheet on the Executive Order. The Fact Sheet adds that "U.S. companies are harmed by FCPA overenforcement because they are prohibited from engaging in practices common among international competitors, creating an uneven playing field." The Fact Sheet also notes that, in 2024, the DOJ and SEC filed 26 FCPA-related enforcement actions and that, during the past decade, there has been an average of 36 FCPA-related enforcement actions per year, "draining resources from both American businesses and law enforcement."

The brief order does not address several key questions, such as —

- Does the Executive Order apply to SEC enforcement of the FCPA? By its terms, the order directs only the Attorney General to pause enforcement, although the statistics in the Fact Sheet include SEC cases. As a practical matter, it is likely that the current SEC administration will also observe the pause and will follow the new guidelines when they are issued.

- Are ongoing FCPA investigations and enforcement actions paused? The Executive Order only directs the Attorney General to refrain from initiating new investigations and actions. While ongoing matters will be reviewed under the new guidelines when they are issued, it's not clear what the status of these matters is now.

The Foreign Corrupt Practices Act of 1977 enacted both prohibitions against foreign bribery and accounting provisions that require SEC reporting companies to keep accurate books and records and maintain internal accounting controls. The Executive Order cites the antibribery prohibition applicable to public companies but does not appear to have any impact on enforcement or interpretation of the accounting provisions.

For public companies and their audit committees, the Executive Order should not be taken as a signal to change their practices with respect to FCPA compliance or to begin ignoring any suspected instances of foreign bribery. The tone of the order suggests that the new guidelines will provide companies with more flexibility in their business practices in areas of the world where corruption is common. However, there is no way of knowing at present what these guidelines will permit or how they will be implemented. Moreover, payments to foreign officials may violate other laws to which a company is subject, including the laws of the country in which the payment is made, and may raise difficult securities law disclosure issues.

The Audit Blog

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An index to titles and topics in the Update beginning with No. 39 (July 2017) is available here.

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