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## AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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### Summary

**PCAOB Outlines 2025 Inspection Priorities and Questions Audit Committees Should Ask Their Auditor.** The PCAOB’s inspection staff describes its 2025 priorities in [Spotlight: Staff Priorities for 2025 Inspections and Interactions With Audit Committees](#). Inspectors will prioritize audits of companies in the Financial, Real estate, and Information technology sectors and focus on audits of companies engaged in M&A activity or that have changed their supply chain or logistics. In engagements selected for inspection, the staff plans to focus on audit areas that pose a heightened risk to audit quality, such as responses to cybersecurity incidents and crypto asset transactions. The staff’s discussion of its 2025 priorities provides audit committees with insight into how the PCAOB selects audits for review and why, if selected, inspectors concentrate on particular aspects of an engagement. The report may also help audit committees understand their auditor’s work plan since auditors are likely to devote special attention to areas of PCAOB inspection emphasis. The report includes suggested questions for audit committees to consider in their auditor oversight role. ([more](#))

**SEC Enforcement in 2024: Fewer Cases But More in Penalties.** Two recent reports on the FY 2024 activities of the SEC’s Division of Enforcement indicate that the number of cases the Commission brought in 2024 decreased, compared to 2023. At the same time, total monetary sanctions rose, although the Commission rewarded company cooperation in its investigations with reduced penalties.

The SEC’s Division of Enforcement issued its annual [press release](#) describing the results of its enforcement program. The total number of SEC enforcement actions of all types fell 26 percent in FY 2024. The financial remedies ordered in those cases rose to \$8.2 billion, an all-time high, although 56 percent of the \$8.2 billion is attributable to the judgment in a single case. The Division noted that some enforcement targets “self-reported or remediated securities law violations or otherwise cooperated meaningfully with the Division’s investigations” and that cooperation resulted in reduced penalties or no penalty in certain cases.

Cornerstone Research and the New York University Pollack Center for Law & Business released [SEC Enforcement Activity: Public Companies and Subsidiaries—Fiscal Year 2024 Update](#), their annual report on SEC enforcement actions against public companies and their subsidiaries. The Cornerstone/Pollack Center report finds that the SEC filed 80 actions against public companies and their subsidiaries in fiscal 2024 – a 12 percent decrease from the 91 actions in 2023. Forty-five percent of these actions involved reporting or disclosure violations. Despite the drop in cases, monetary settlements in public company and subsidiary actions grew to \$1.5 billion, up from \$1.3 billion in 2023. Cornerstone and the Pollack Center found that the

defendant or respondent cooperated in 75 percent of settled actions involving public company and subsidiary defendants and that five percent of cooperating defendants were not required to make any monetary payment.

Companies involved in an SEC investigation and their audit committees should consider the Commission's record of rewarding cooperation when deciding how to respond. ([more](#))

**[PCAOB Reports on the Link Between Audit Firm Culture and Audit Quality](#)**. The PCAOB staff has published a report on the findings of its ongoing study of the relationship between audit firm culture and audit quality. [Spotlight: Insights on Culture and Audit Quality](#) discusses the impact of centralization, remote work, messaging from audit firm leaders, and other firm culture factors on audit quality. Among other things, the staff found that audit firm culture can drive audit quality – positively or negatively; centralization and standardization of audit processes may be positively correlated with audit quality; the remote/hybrid work environment adversely affects audit firm culture; and that firms need to promote a culture of accountability (i.e., acceptance of responsibility for “negative audit quality events”). The report also raises questions about whether the growing practice of assigning routine audit tasks to shared service centers undermines the ability of junior personnel to develop foundational audit skills.

Audit committees may find the report on firm culture useful as background in evaluating their audit firm's commitment to audit quality. The report could serve as a source of discussion topics to raise with the company's engagement partner or with candidates when considering retention of a new audit firm. ([more](#))

**[What Should be on the Audit Committee's 2025 Agenda?](#)** Each year, accounting and consulting firms present their views on the issues on which audit committees should focus during the coming 12 months. This [Update](#) lists four of these 2025 agenda papers. Some of the most frequently identified audit committee agenda topics in the papers are cybersecurity trends and related governance issues; company use of artificial intelligence; climate reporting and other sustainability disclosures; internal audit areas of focus; compliance and corporate integrity challenges; fraud risk exposures; the FASB's new requirement to disaggregate certain income statement expenses; the impact of new PCAOB auditing standards; and audit committee composition and effectiveness. A high-level review of these papers could be helpful to audit committees as a check that they are not overlooking topics that should be considered during 2025. Also, the papers include suggested questions that the audit committee could pursue with management or the auditor to better understand the implications of the various topics. ([more](#))

**[PCAOB Describes Common Auditor/Audit Committee Communications Glitches](#)**. The PCAOB's staff has issued [Audit Focus: Audit Committee Communications](#). This publication highlights auditor responsibilities related to audit committee communication, describes common deficiencies in auditor/audit committee communications, and discusses good practices in this area. For audit committees, this short paper is a useful summary of the kinds of communications they should receive from their auditor and of communication breakdowns that may occur, especially in the smaller public company context. ([more](#))

**[Audit Committee Nonfinancial Oversight Responsibilities Continue to Expand](#)**. In [How board committee responsibilities and structures are changing](#), the EY Center for Board Matters explores changes in board committee structure and responsibilities at S&P 500 companies from 2021 to 2024. EY found that audit committee responsibility for oversight of nonfinancial matters has increased, particularly in the areas of enterprise risk, cybersecurity, sustainability, and AI.

The report describes a periodic review of how board oversight responsibilities are allocated to committees as a “leading practice” and includes a list of questions to guide board consideration of whether to modify committee structure or the matters assigned to particular committees. ([more](#))

**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 twitter or [@the-audit-blog](#) on medium.com.

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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](#).