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AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

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Summary

PCAOB Adopts Enhanced Quality Control Standard for Audit Firms. The PCAOB has adopted a new standard, QC 1000, governing the quality control (QC) systems of public accounting firms. The [press release](#) announcing the adoption of QC 1000 states that the objective of the new standard is to “require all PCAOB registered firms to identify their specific risks and design a QC system that includes policies and procedures to guard against those risks.”

Effective QC is foundational to the consistent performance of high-quality audits. Most audit committees are however unlikely to see specific changes in their auditor’s procedures due to QC 1000, although, to the extent that it improves compliance with professional standards, some companies could face requests for more extensive audit evidence. In addition, related changes to other auditing standards may afford audit committees greater visibility into the impact of inspection deficiencies. QC 1000 will involve internal implementation costs for audit firms, and audit committees may encounter audit fee increases as a result. QC 1000 could also cause some audit firms to drop their PCAOB registration, which would reduce competition in the smaller public company audit market. ([more](#))

PCAOB Reworks the Foundations of Auditing. The PCAOB has adopted a new standard, AS 1000, General Responsibilities of the Auditor in Conducting an Audit, to “modernize, clarify, and streamline” the foundational concepts of auditing. AS 1000 consolidates into one standard the general principles and responsibilities of the auditor, such as due professional care, professional skepticism, competence, and professional judgment. The [press release](#) announcing the adoption of AS 1000 describes the new standard as “enhance[ng] investor protection by reaffirming the general principles and responsibilities of the auditor and solidifying the foundation of every audit.” While it does not appear that the PCAOB intended these revisions to cause any specific changes in the audit process, it may take some time for the profession to assimilate the new standard and determine its practical effect. Audit committees may want to ask their engagement partner whether he or she envisions any impact on the company’s audit. ([more](#))

Deloitte on How the Audit Committee Can Leverage the Disclosure Committee. Audit committee oversight is one of the key responsibilities of audit committees. This responsibility is becoming more challenging because of the volume of new disclosure requirements, the

expanding scope of nontraditional disclosures, and the increase in voluntary disclosures. One tool that audit committees can use to leverage their oversight of the disclosure landscape is the company's disclosure committee. [Aligning the disclosure committee in the era of disclosure](#), a publication of the Deloitte Center on Board Effectiveness, offers suggestions for how disclosure committees can help make audit committee disclosure oversight more effective. ([more](#))

[KPMG-U.K. Has Audit Committee Agenda Suggestions](#). The Harvard Law School Forum on Corporate Governance has published [The 2024 Audit Committee agenda and the questions investors should be asking](#). The blog post, which is based on a [paper with the same title](#) issued by KPMG-U.K., discusses nine matters audit committees should have on their 2024 agendas and suggests questions that investors may wish to ask the committee about each. While prepared for a U.K. audience, the paper is also relevant to U.S. audit committees. ([more](#))

[Revised 2022 PCAOB Large Firm Inspection Reports Analysis](#). A new version of the [Update's](#) summary and analysis of the 2022 PCAOB's inspection reports for the U.S. affiliates of the six global network audit firms has been posted on the [Update's](#) website. [2022 PCAOB Large Firm Inspection Reports – Updated](#) includes the unredacted KPMG 2022 inspection report. The version of KPMG's 2022 report that the PCAOB released in February omitted any discussion of one of the 54 KPMG engagements inspected in 2022. The March 2024 [Update](#) included a summary and analysis of the 2022 large firm inspection reports, although some aspects of the analysis were incomplete due to the redactions. [2022 PCAOB Large Firm Inspection Reports – Updated](#) reflects the additional information that became available when the PCAOB released the unredacted KPMG report. ([more](#))

[PCAOB Updates its Agenda and Sets its Sights on Internal Audit](#). The staff of the PCAOB has announced updates to the Board's [standard-setting, research, and rulemaking agendas](#). The Board removed two projects completed in May from the standard-setting agenda – Quality Control and General Responsibilities of the Auditor in Conducting an Audit (see summaries above). A new project on the auditor's consideration and use of a client's internal audit function has been added to the mid-term standard-setting agenda. The updated agendas indicate that the PCAOB intends to move forward with several important initiatives during the second half of 2024, including a final standard on the auditor's consideration of client noncompliance with laws and regulations (NOCLAR). ([more](#))

[Read Any Good CAMs Lately? The PCAOB's Investor Advisory Group Wants to Know](#). The PCAOB's Investor Advisory Group has [requested nominations](#) for the most decision-useful critical audit matter (CAM) or key audit matter (KAM) in a public company audit report filed with the SEC as part of a 2023 Form 10-K or Form 20-F. The IAG will select the top three 2023 CAMs/KAMs and discuss them in a public report later this year. Nominations should not exceed 500 words and should explain why the CAM or KAM provides decision-useful information to investors. Nominations should be emailed to allie@cii.org by June 30, 2024. ([more](#))

[PwC Explains Audit Committee Responsibilities under the EU's CSRD](#). According to [The audit committee has specific responsibilities under the EU's CSRD](#), a publication of PwC's Governance Insights Center, the European Union's Corporate Sustainability Reporting Directive includes new audit committee responsibilities that will affect many U.S. companies. The CSRD "explicitly puts audit committees of the reporting entities on the spot as it relates to sustainability reporting." Audit committee responsibilities will include informing the board of the outcome of sustainability reporting assurance and explaining how assurance contributed to the integrity of sustainability reporting. In addition, audit committees will need to monitor the sustainability

reporting process and to make recommendations to ensure the integrity of these processes. For those companies that will be subject to CSRD reporting, PwC's paper provides a good introduction to the CSRD's impact on audit committees. ([more](#))

Sustainability Assurance is the New Expectations Gap. Under PCAOB standards, an auditor's opinion on financial statements must provide reasonable assurance that the statements are fairly presented in conformity with GAAP. However, assurance reports on sustainability disclosures often provide only limited, rather than reasonable, assurance. In [Managing Expectations: How Assurance Level and Sustainability Reporting Approach Affect Investor and Auditor Confidence](#), Lori Shefchik Bhaskar (Indiana University), Jeffrey Hales (University of Texas at Austin and a member of the International Sustainability Standards Board), Tamara A. Lambert (Lehigh University), and Roshan K. Sinha (Indiana University) explore how the choice between reasonable and limited assurance affects nonprofessional investor confidence in sustainability information. They find "significant expectation gaps" and that "investors fail to sufficiently adjust for the lower level of assurance that a limited-assurance engagement provides." Audit committees may want to consider the findings of this study when discussing with sustainability assurance providers the level of assurance they will provide. ([more](#))

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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](#).