Dan Goelzer

AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

Update No. 97
January 2025

Summary

It's Another All-Time High! Audit Fees Rose Again in 2023. Two annual reports on audit and other fees paid to auditors have been released, and both reach the same conclusion: Fees hit a new high in 2023. Ideagen Audit Analytics' annual analysis of fees paid to external auditors finds that in 2023 the average total fees that SEC-registered public companies paid to external auditors increased 13 percent over 2022 and hit a 20-year high of $3.064 million. Similarly, the Financial Executives Research Foundation annual audit fee survey finds that average audit fees increased 6.4 percent from 2022 to 2023. While these studies have somewhat different methodologies and databases, both make clear that the long-term upward fee trend showed no signs of abating in 2023. Audit committees may find it useful to compare changes in their company's fees with the information in these reports. (more)

Six Large Firms Describe Their Commitment to Audit Quality. The U.S. members of the six global network accounting firms issue annual audit quality reports. These reports describe the firm's commitment to audit quality, its performance on various self-selected quality-related audit metrics, and its plans to maintain and enhance the caliber of its audit performance. This Update lists the most recent report for these six firms (BDO, Deloitte, EY, Grant Thornton, KPMG, and PwC) and provides each firm's description of its performance on eight metrics common to most of the reports. Audit committees should review their audit firm's audit quality report as part of their evaluation of the firm and consideration of whether to continue its engagement. The reports may also serve as a basis for discussion among committee members and with the engagement partner regarding how the firm views quality and how its efforts to enhance quality may affect the company's audit. (more)

SEC Sidetracks PCAOB Engagement Metrics and Firm Reporting Rules. The SEC has issued an order postponing its decision whether to approve the PCAOB's firm and engagement performance metrics and firm reporting rules until March. As a result, the future of these rules is uncertain. The PCAOB adopted rules in November that would require accounting firms that audit large companies to publicly report eight metrics relating to their audit engagements and overall audit practice. The Board also adopted expanded its firm operational and financial condition reporting requirements. However, PCAOB rules do not take effect unless the SEC approves them, and the Commission published the performance metrics and firm reporting rules for comment in early December. The rules attracted considerable comment, both in support and in opposition. SEC Chair Gensler and Commissioner Lizárraga have resigned, and it is unclear what position the remaining three Commissioners will take on these controversial rules. (more)

What Should be on the Audit Committee's 2025 Agenda? – Part II. The Deloitte Center for Board Effectiveness has released On the Audit Committee's Agenda: Looking Ahead to 2025 setting forth issues on which audit committees should focus in 2025. As a supplement to last month's discussion of four other firms' papers, this Update includes a summary of Deloitte's suggestions. Audit committees may want to review these recommendations as they consider the issues they should address in 2025. (more)

California Will Go Easy on Enforcement of GHG Emissions Reporting in 2026. The California Air Resources Board has announced that it will not take enforcement action during the first reporting year against companies that fail to make complete greenhouse gas emissions disclosure as required under California Senate Bill 253. In an Enforcement Notice issued on December 5, 2024, CARB stated that it will "exercise its enforcement discretion such that, for the first report due in 2026, reporting entities may submit scope 1 and scope 2 emissions * * * that can be determined from information the reporting entity already possesses or is already collecting at the time this Notice was issued." This relief is conditioned on a reporting entity's demonstration of good faith efforts to comply with the law. Audit committees of companies subject to the California GHG emissions disclosure requirement should discuss with management whether the company can fully report its Scope 1 and 2 GHG emissions for FY 2025 and, if not, how it would demonstrate good faith efforts to work toward full compliance. (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.

Daniel L. Goelzer
301.288.3788
dangoelzer@gmail.com

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.