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Report from the Working Group on The Relationship and Role of the Auditor with the Audit Committee

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Audit Committees have fiduciary and statutory duties – yet their work is often not appreciated by, or transparent to, investors.

Audit Committees play a key role in controls over financial reporting – yet the report on their work does not appear with the audited financials.

Audit Committees may be made up of members who have far less training or experience than the individuals whom they oversee – yet they are expected to challenge these individuals.

Audit Committees spend most of their time on matters other than the annual audit – yet oversight of the audit is the only required responsibility reported to investors.
The Relationship and Role of the Auditor with the Audit Committee

Multiple Regulators of Audit Committees

- Sarbanes-Oxley Act – Covers Duties and Responsibilities
- SEC – Covers Independence and Monitoring
- Exchanges – Cover Governance Roles and Reporting
- PCAOB – Covers Auditor Interactions
The Relationship and Role of the Auditor with the Audit Committee

Current State Issues

- Investors and regulators are seeking more discussion and analysis of the financial reporting and auditing process – but seem to be bypassing the Audit Committee for that information.

- Governance advocates are calling for more discussion and transparency from the Audit Committee – NACD, CAQ and others have endorsed a “call for action”.

- Regulators outside the US are requiring more information from the Audit Committee – even asking for a shareholder vote on Audit Committee performance.

- Regulators within the US seem to be accepting the by-pass instead of subjecting the work of the Audit Committee to greater transparency and oversight.
Audit Committees could become a more transparent part of the disclosure framework – reporting on the processes they oversee within the same documents that contain the outcomes of those processes.

The Audit Committee report could be required to address specific interests of investors and regulators.

External auditors could be required to assess and report on the design (charter) and effectiveness (qualifications and activities) of the Audit Committee as a critical part of assessing an issuer’s controls over financial reporting and tone-at-the-top.

This is the dilemma in the current system – can auditors independently and objectively assess the effectiveness of the body that hires them?
The Relationship and Role of the Auditor with the Audit Committee

Discussion Questions

- Should the Audit Committee report on its role alongside CEO, CFO and audit firm?

- Should auditors be required to assess and report on the duties and operational effectiveness of the issuer’s Audit Committee? Or should some other party?

- Should the auditor’s evaluation of the Audit Committee’s role be reported privately (to the full board) and/or publicly?

- Should the auditor be required to assess the objectivity of Audit Committees and expect that auditor independence be protected by Audit Committees?
The Relationship and Role of the Auditor with the Audit Committee

Questions