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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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# The Relationship and Role of the Auditor with the Audit Committee

## Current State Observations

- ❑ 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

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## **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.

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## Potential Future State

- ❑ 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?

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## 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?

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## Questions

