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## PCAOB Investor Advisory Group Addresses Role of the Audit Committee

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The Public Company Accounting Oversight Board's Investor Advisory Group (IAG) was established to provide views and advice to the PCAOB on broad policy issues, and other matters that affect investors and are related to the work of the PCAOB. At the [IAG's fifth-annual meeting](#) on October 20, the IAG considered, among other topics, questions regarding the role and responsibilities of the audit committee.

A subcommittee of the IAG presented four observations with respect to the current role of the audit committee:

- An actual or perceived lack of transparency exists for audit committee activities, despite fiduciary and statutory duties imposed on the audit committee.
- The work of the audit committee does not appear in the financial statements, only in the annual proxy statement.
- Audit committees members may have less training or experience than the auditors who the audit committee oversees.
- A disparity exists between the amount of time the audit committee spends on activities other than overseeing the auditors and the emphasis the audit committee report places on auditor oversight.

The subcommittee advanced various ideas for improving the role of the audit committee, including:

- The audit committee could increase its transparency by reporting on the processes it oversees within the same documents containing the outcomes of those processes, namely annual and quarterly reports filed on Form 10-K and 10-Q, respectively.
- The requirements of the audit committee report could be increased to better match the specific interests of investors and regulators.
- As a check on the audit committee, the external auditors could be required to assess and report on the design (the audit committee charter) and effectiveness (the qualifications and activities) of the audit committee as a critical part of assessing an issuer's internal control over financial reporting and the tone at the top.

Many of these proposals fall outside the domain of the PCAOB, which has no power to regulate audit committees. Any proposal to expand the auditor's role to include more substantive assessments of the committee's effectiveness would likely be controversial. Auditing Standard No. 5 (AS 5), which governs audits of internal control over financial reporting, currently requires the auditor to consider the audit committee's exercise of its oversight responsibilities as part of the entity-level control environment. However, when the PCAOB adopted AS 5's predecessor standard in 2004, it expressly decided not to require the auditor to conduct a separate and distinct evaluation of the performance and effectiveness of the audit committee.

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## *Authors*



**Alan J. Wilson**

PARTNER

✉ [alan.wilson@wilmerhale.com](mailto:alan.wilson@wilmerhale.com)

☎ +1 202 663 6474