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## SEC Chief Accountant Offers Guidance to Audit Committees

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SEC Chief Accountant Wesley Bricker recently delivered another [speech](#) in which he discussed current issues in financial reporting and highlighted the critical roles that auditors, audit committees and audit regulation play in ensuring public trust in financial reporting. While the speech covered a wide range of topics, several of Mr. Bricker's comments touched directly on the activities of audit committees. Concluding that "high quality financial information [produced] with the oversight of an effective audit committee . . . energizes our capital markets . . .," Mr. Bricker stated that "[a] high quality financial reporting process starts with companies and their audit committees." In particular, Mr. Bricker's message to audit committees centered around auditor tenure and auditor independence.

***Auditor Tenure.*** Mr. Bricker discussed the Public Company Accounting Oversight Board's recently adopted revisions to the auditor reporting standard ([See our June 2, 2017 post](#)), which, among other things, would require disclosure of audit firm tenure. Mr. Bricker noted that some audit committees already provide such disclosure in their audit committee reports. ([See our November 3, 2016 post](#).) In addition, some research and information service companies collect and publish this information. "Regardless of where, or whether, prior years of service of an audit firm is disclosed," Mr. Bricker said, "the years of experience may be one of the many factors considered by audit committees in their selection and oversight of the external auditor." He suggested that audit committees may want to consider prior service experience when evaluating an auditor's understanding of the company's business and audit risks. In addition, audit committees may want to consider an auditor's prior service experience in connection with its "oversight of the auditor's expertise, incentives and, ultimately, appropriate performance in the conduct of the audit." Acknowledging that "years of service is often a matter to be evaluated in the context of company- and firm-specific facts and circumstances," Mr. Bricker also noted that existing research has reached "varied conclusions" on whether there is a relationship between auditor tenure and either audit quality or auditor independence.

***Auditor Independence.*** Mr. Bricker also emphasized the importance of auditor independence to maintaining public trust in financial reporting. "Audit committees of listed companies play an important role in this regard by protecting auditor objectivity, in part, through direct oversight of the audit relationship." As Mr. Bricker further advised, audit committees "must own the selection of the

audit firm, make the final decision when it comes time to negotiate the audit fee, and oversee the auditor's independence." Mr. Bricker noted that, in addition to the audit firms themselves, audit committees and management can also address matters affecting auditor independence with the SEC staff; indeed, he noted that the staff occasionally reaches out to audit committees to get their input on independence issues that have been presented to the staff. As it relates to the selection of a successor auditor, Mr. Bricker encouraged audit committees to ensure that such successor is independent at the outset of the engagement and to consider circumstances that may require any adjustment to the company's prior period financial statements. Specifically, audit committees should keep these considerations "in mind before entering into any relationships that would impair the predecessor auditor's independence after the end of the predecessor's professional engagement period."

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