SEC's Chief Accountant Focuses on Audit Committees

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Paul Beswick, Chief Accountant of the Securities and Exchange Commission's Office of the Chief Accountant, focused on the role of audit committees during his February 22, 2014 presentation at the Practising Law Institute's SEC Speaks conference, indicating that audit committees would be a priority for the Commission in 2014. Mr. Beswick highlighted the importance of communication between the committee and the external auditor and ongoing monitoring of the auditor's work. Consistent with a recent OCA theme, Mr. Beswick emphasized that companies and audit committees share responsibility for safeguarding auditor independence with the auditor. Mr. Beswick also urged audit committees to provide more than "boilerplate" committee reports and to consider including information about their oversight processes and that would be relevant to investors in ratifying the selection of the external auditor. To conclude his presentation, Mr. Beswick offered the following "key takeaways":

- "Audit committees are in a unique position to represent investors and play an important role in promoting high-quality, transparent financial reporting to investors."
- "Monitoring independence is an ongoing responsibility of the audit committee."
- "Frequent dialogue with management and a direct line of communication with the auditor are an important part of the oversight role."
- "Audit committees are encouraged to think critically about disclosures to investors about the committee's work."

Mr. Beswick again expressed concern over "audit fees [that] fluctuate with the state of the economy." He noted, "the 'bottom line' should not drive the decision to retain or hire an auditor. The decision should focus on which auditor is going to protect the interests of shareholders best."

In his comments about the role the audit committee plays in ensuring auditor independence, Mr. Beswick also noted that it is "critical" that the audit committee understand the nature and scope of proposed services. Mr. Beswick cited the Commission's January 24, 2014 Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934, which discussed auditor provision of non-audit services by a company's audit firm. The Section 21(a) report, which involved the provision of loaned staff from the audit firm to provide tax services for the client, cautioned audit committees to "carefully consider" the nature and scope of non-audit services provided by an auditor or accountant and to examine "the degree of control that the audit client exercises over audit firm personnel."

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