

The Capital Area Chapter of NACD: The New World of Audit Committees

APRIL 13, 2016

Please join The Capital Area Chapter of NACD for a discussion about the changing role of the public company audit committee. Since the enactment of the Sarbanes-Oxley Act in 2002, the responsibilities and the workload of audit committees have increased significantly. This trend shows no signs of abating. Audit committees today are often asked to assume a wide range of responsibilities beyond oversight of financial reporting and the work of the company's outside and internal auditors, including such matters as risk assessment, cyber security, legal and regulatory compliance and special investigations. In addition, a series of regulatory measures could add new dimensions to the committee's work and alter the relationship between the audit committee and the outside auditor.

WilmerHale Partner Tom White will be a featured panelist. Among the audit committee topics that the panel will explore are:

- *Audit committee overload.* The independence and expertise of audit committee members makes the committee an attractive home for new responsibilities, especially those related to risk and compliance. Are added duties crowding out the audit committee's ability to effectively perform its core functions? Or are they a logical extension of the committee's financial reporting oversight?
- *Audit committee disclosure.* In July, the SEC issued a concept release inviting views on a host of potential new disclosures about how audit committees oversee, appoint and evaluate the company's independent auditor. At the same time, many audit committees are voluntarily expanding what they tell shareholders about their work. What is the current state of audit committee reporting and what are the pros and cons of requiring more disclosure about the work of the audit committee?
- *Audit transparency.* The PCAOB recently adopted rules that will require disclosure of the identity of the engagement partner and of firms in addition to the principal auditor that participate in the audit. Will the public focus on individual engagement partners and their professional records and reputations improve audit quality? Will it change how audit committees select and evaluate auditors?

- *Audit committee evaluation of audit quality.* Both the PCAOB and the CAQ have issued papers discussing audit quality indicators—AQIs—which are intended to assist audit committees in evaluating the quality of the work performed by their auditor. What is the nature of these AQIs and how should audit committees use them in their oversight? Can audit quality be measured through quantitative metrics alone? To what extent are more qualitative measures necessary?
- *Potential impact of changes in auditor reporting.* The PCAOB has proposed to require auditors to include in their audit reports a discussion of “critical audit matters” or CAMs. CAMs would be specific aspects of the audit that were the most difficult or required the exercise of significant judgment. CAM disclosure would have the effect of making each audit report unique (unlike the current standardized reporting) and could result in auditor disclosure of information not previously disclosed by management regarding the company's financial reporting. How would CAM reporting affect the relationship between the auditor and the audit committees? Would expanded auditor reports benefit the users of audited financial statements?

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