The Audit Committee Brief focuses on the timely coverage of issues and insights important to audit committees. Questions, comments, or suggestions should be directed to centerforboardeffectiveness@deloitte.com.

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Publications and topics of interest

Critical audit matters and the board

The inclusion of critical audit matters (CAMs) represents a dramatic change in auditor reporting and will likely result in significant media attention during the first year of adoption. Board members need to understand their role with respect to CAMs, how to interact with their auditor when CAMs are identified, and what they should consider when they are presented to investors.

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On the board’s agenda - The 2019 boardroom agenda: Something old, something new?

Risks of emerging technologies and the auditor’s focus

The Center for Audit Quality released a guide to help auditors, audit committees, and management understand the risks, opportunities, and business impacts of new technologies used in financial reporting, such as artificial intelligence, the internet of things, and smart contracts. This guide also details the implications emerging technologies will have on the audit process and the audit committee’s oversight of financial reporting.

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Investigations into ICFR weaknesses is a risk factor for SEC enforcement
Audit Analytics evaluated the previously disclosed risk factors of four companies recently fined by the SEC for longstanding weaknesses in internal controls over financial reporting (ICFR). Among the companies’ common issues was an inability to demonstrate effective internal controls for seven to ten consecutive annual periods. The article cautions that merely disclosing ineffective controls may not be enough to avoid further SEC scrutiny.

SEC seeks to balance reporting requirements with protecting investors
The SEC chairman, Jay Clayton, asked the SEC staff to convene a roundtable discussion this summer on utilizing a mixture of market-based initiatives and regulatory changes to foster a long-term performance perspective in reporting companies. Chairman Clayton intends for the roundtable to evaluate whether the existing quarterly reporting framework has encouraged too much investor focus on the short-term. Among the proposed roundtable topics are evaluating whether annual reports may cover some quarterly reporting requirements, as well as market practices to encourage longer-term investment in public companies.

Rule-making and standard-setting developments
PCAOB staff guidance for communication with audit committees regarding independence
The PCAOB staff issued guidance regarding PCAOB Rule 3526(b), Communication with Audit Committees Concerning Independence, which details the responsibilities of the audit firm during annual disclosure of independence, while also offering useful information for audit committees.

PCAOB staff guidance on CAM implementation
The PCAOB staff issued guidance on the criteria the auditor should consider before including a CAM in their audit report. The guidance includes requirements and tips around communicating CAMs, as well as FAQs.

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