

December 31, 2019

SEC Issues Statement on Role and Responsibilities of Audit Committees

With an eye towards 2019 calendar year financial reporting, the SEC Chairman, Chief Accountant, and Director of the Division of Corporation Finance have issued a [statement](#) sharing several timely observations on the role of audit committees and reminders regarding oversight responsibilities. The statement covers, among other things:

- the importance of audit committees setting a strong “tone at the top” encouraging integrity in the financial reporting process, independence of the audit and open, candid communications among the audit committee, management and auditor;
- the shared responsibility of audit committees, issuers and audit firms to ensure compliance with auditor independence rules, including effective monitoring processes to cover changes in relationships that may occur over time;
- the audit committee’s key role in promoting an environment for management to implement new GAAP standards successfully;
- the audit committee’s responsibility to develop a detailed understanding of identified internal controls-related issues, engage proactively in resolving them and prioritize prompt remediation by management of material weaknesses; and
- encouraging audit committees to leverage their dialogue with auditors in connection with the year-end financial reporting process under PCAOB AS 1301, *Communications with Audit Committees*.

In addition to these general observations, the statement emphasizes the importance of audit committees’ active oversight as to several specific matters, including appropriate use of [non-GAAP measures](#), the expected [discontinuation of LIBOR](#) and the [new requirement](#) for communication by auditors of “critical audit matters” in audit reports of public companies.

While the statement covers a variety of topics, several themes underpin the observations, including the importance of audit committees’ proactive engagement, robust communications with auditors and management and developing a detailed understanding of key financial reporting and audit issues as they arise.

Benjamin M. Roth
Sabastian V. Niles
Zachary S. Podolsky

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