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2024 Audit Committee Priorities

Reflections of the Annual Survey by the Center for Audit Quality and the Deloitte Center for Board Effectiveness

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While there are many surveys on audit committee priorities, a recent favorite of mine is the *Audit Committee Practices Report: Common Threads Across Audit Committees* (Survey Report) published in March 2024, by the Center for Audit Quality (CAQ) and the Deloitte Center for Board Effectiveness (Deloitte). The Survey Report data is based on responses from 266 audit committee members, most of which are from U.S. public companies with large accelerated filer status as defined by the U.S. Securities and Exchange Commission (SEC). Respondents were asked to identify the top priorities for audit committees over the next twelve months. The top two should be of no surprise as cybersecurity and enterprise risk management (ERM) were again leading the list. However, environmental, social, and governance reporting (ESG) fell to the sixth overall priority after ranking third last year. This article offers my perspectives on some of the Survey Report findings. I also encourage you to read the full Survey Report for more complete data and insights. The prior year Survey Report can also be downloaded here.

Top Priorities

The Survey Report conveys the following top audit committee priorities over the next 12 months:

1. Cybersecurity
2. ERM
3. Finance and internal audit talent
4. Compliance with laws and regulations
5. Finance transformation
6. ESG
7. Artificial intelligence governance
8. Third-party risk
9. Data privacy
10. Other

While I have written on all of these topics in the past, I find it interesting that cybersecurity and ESG have been on the SEC's rulemaking agenda with two different outcomes thus perhaps influencing the Survey Report results. First, the proposal for enhanced cybersecurity disclosures was largely voted into a final rule on July 26, 2023, whereas the proposal for enhanced ESG disclosures was significantly watered down through a final rule on March 6, 2024. Perhaps the proponents of robust ESG disclosures were too overzealous as evidenced by the flood of negative comment letters received by the SEC. In any event, these are two important topics that will likely continue to capture headlines considering the importance to investors.

ERM is a broad priority for audit committees to have these threats and opportunities on their radar screens. This has been a long-standing responsibility for many audit committees, while those with very-large companies (i.e., billions of dollars in annual revenue) or in risk-based industries, such as insurance or banking, may have their own board risk committee and a dedicated chief risk officer (CRO) reporting directly to them. Refer to *The Board's Role with Risk*, *Crafting Board and Committee Agendas*, and *Risk Management in the Boardroom* for previous articles on this topic. While ERM is foremost a management function to address, understanding the identified risks is an oversight function of the board and its committees.

While it is hard to argue against the top two audit committee priorities, I am glad to see 'finance and internal audit talent' as the number three priority. Simply said, without top talent in these roles – all bets are off on long-term company success. The Survey Report (page 8) states "Overall, the majority of respondents view internal audit as both an effective function and one that adds demonstrable value." A key challenge remains in attracting, developing, and retaining competent finance and internal audit resources.

The fifth and seventh priorities of 'finance transformation' and 'artificial intelligence governance' are related. They draw on the importance for companies to identify, assess, and utilize appropriate technologies. While it is not realistic or necessary for audit committee members to become technology experts, it is critical for them to stay informed on these emerging risks and opportunities. They should also consider leveraging their internal audit function and perhaps seeking other advisors who can provide independent advice in a timely manner.

As functions and activities have moved to cloud services and Software as a Service (SaaS) vendors, priorities eight (third-party risk) and nine (data privacy) will likely continue to be in the top-ten list of priorities for audit committees. Of course, promoting strong purchasing practices and robust contract terms, as well as holding third-party stakeholders accountable, are prudent practices for which formal controls should exist. For outsourced service providers (OSP), obtaining, reviewing, and acting upon a SOC report based on AICPA standards from the service organization's auditors (i.e., SOC 1, SOC 2, or SOC 3 reports) is a common way for companies to gain comfort. However, companies must also understand their limitations and residual risk exposures. These reports should be carefully reviewed to confirm that they adequately cover the contractual scope of services provided, as well as the identification of risks and control exceptions that may need additional attention. Some questions for the user organization to consider regarding SOC 1, type 2, reports include:

1. Are all relevant objectives, processes, and sub-processes included in the applicable report?
2. Is the design of controls and applicable testing procedures at the right depth for us?
3. If an outsourced area is not covered, what risk exposures remain and how should we address them?
4. Do any subservice organizations perform control activities for the OSP? If yes, are they included or carved-out?
5. What design or testing exceptions are identified, and what is the impact to us?
6. Is the corrective action pertaining to applicable deficiencies appropriate?
7. Should we follow-up directly with the OSP on concerns or questions raised from the report?
8. Do we have controls consistent with suggested complementary user entity controls (CUECs)?
9. Have we evaluated the design and operation of our CUECs?

10. Is the SOC report signed by a licensed certified public accountant (CPA) or CPA firm? Keep in mind that only CPAs can sign AICPA reports.

Refer to *What Do You Know About Your Outsourced Service Providers?* for an article providing greater details on this topic.

Conclusion

The audit committee's world will continue to evolve like all other business aspects. The difference is that the board of directors and its' committees, such as the audit committee, are in a powerful monitoring and decision-making role that needs to be proactive. Resources, such as the Survey Report, helps to keep audit committee members informed.

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