Audit Committee Leadership Network

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ACLN SUMMARY OF THEMES

# Post-election business landscape, the SEC and PCAOB agendas, audit chair top concerns, regulatory law developments, and AI applications

November 2024

**On October 17 and 18, 2024, the Audit Committee Leadership Network (ACLN) met in Arlington, Virginia. This *Summary of Themes*[1] captures insights from six sessions held during the meeting. Topics included:**

- **Post-election business landscape** with Neil Bradley, Executive Vice President, Chief Policy Officer, and Head of Strategic Advocacy, US Chamber of Commerce
- **Dialogue with US Securities and Exchange Commission (SEC) Commissioner Hester Peirce**, including a briefing from Mark Kronforst, EY Americas Director of SEC Regulatory Matters and Capital Markets Leader – Professional Practice, and Bridget Neill, EY Americas Vice Chair – Public Policy
- **Dialogue with Public Company Accounting Oversight Board (PCAOB) Members George Botic and Christina Ho**, including a briefing from Katrina Kimpel, EY Americas Vice Chair – Professional Practice, and Bridget Neill, EY Americas Vice Chair – Public Policy
- **Members-only: today's top concerns for audit chairs**
- **Recent developments in regulatory law** with Elad Roisman, Partner, Cravath, Swaine & Moore LLP and Former Commissioner and Acting Chair of the SEC, and Michael Arnold, Partner, Cravath, Swaine & Moore LLP
- **Artificial Intelligence (AI) applications: use cases, governance, and audit impacts** with Richard Jackson, EY Global Assurance AI Leader, Paul Goodhew, EY Global Assurance Innovation & Emerging Technology Leader, Dan Diasio, EY Global Artificial Intelligence Consulting Leader, and Sheena Patel, Product Manager – EY Digital Audit – EY Smart Automation

*For a list of meeting participants, see Appendix 1 (page 12).*

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# Post-election business landscape

The post-election business landscape session and dialogue with SEC Commissioner Peirce included members from Tapestry's regional Audit Committee Networks (ACN). These themes reflect insights and commentary from both ACLN and ACN members.

Members discussed potential implications of the 2024 US elections with Mr. Bradley, who also outlined the US Chamber of Commerce's role and priorities. The Chamber represents organizations of all sizes and sectors and advocates for pro-growth policies, taking a long-term view to support US businesses.

Several themes emerged from the discussion:

- **Long-term economic growth in the US has slowed.** Growth averaged 3.4% annually from 1950 to 2010 but has dropped to 2.2% since 2010, with projections of 1.8% over the next decade.[2] Forces that historically drove substantial growth, such as women entering the workforce, have largely ebbed, while countervailing pressures such as an aging workforce now tend to push the economy in the other direction. With the goal of countering the downward trend, the Chamber launched the Growth and Opportunity Imperative for America, an initiative which aims for policies that will support a goal of 3%+ annual growth.

- **Public policy is critical for growth.** *"For the past 50 years, we've trusted the markets to determine outcomes, but that dynamic is now changing, and some believe the government can do a better job,"* Mr. Bradley said, reflecting new social attitudes toward government-private sector collaboration. This shift in attitude crosses party and ideological lines: people disagree about which public policies will best drive economic growth but agree that policy is critical. Mr. Bradley stressed that without strong tailwinds in the economy effective public policy becomes essential: *"We need the right policies on tax, immigration, AI, infrastructure, and other key issues to achieve 3%+ growth."*

- **Audit chairs are monitoring a range of policy issues.** They discussed several:

  - **Tax.** The Chamber advocates stable and predictable pro-growth tax policies, such as measures that allow businesses to fully deduct capital and research and development (R&D) spending. It opposes corporate tax increases. Mr. Bradley cited recent research on this topic which indicates that corporate tax increases lead to higher costs for shareholders, employees, and consumers. *"Recent peer-reviewed studies show that, over time, employees and customers bear more of the burden than shareholders,"* he added.

  - **Trade.** Trade remains a critical issue. One member even described it as *"dominating"* boardroom discussions: *"If you're in an industry making long-term investments, you try to make sure you have options and the ability to pivot in practically every major decision. The government's trade posture is a difference-making factor."* The Chamber sees anti-trade stances from both major political parties and believes that challenges will persist regardless of the election outcome.

- **Immigration.** *"Is there any scenario where bipartisan agreement on immigration could happen?"* a member asked. Mr. Bradley suggested there could be, especially if the election results in divided government. He mentioned the Lankford bill, a bipartisan border security bill which had support earlier this year but ultimately failed in the Senate, and noted that bipartisan discussions on immigration are ongoing in both the Senate and the House.
- **Federal debt.** Members expressed concerns about the federal debt and deficit. *"They matter because they can crowd out more productive spending,"* Mr. Bradley said, which could harm the economy. For example, this year marked the first time the US spent more on interest payments for the national debt than on national defense.[3] *"As long as we grow the economy faster than the debt and deficit, we can have confidence that the debt level is sustainable,"* he said.
- **Regulatory environment.** Mr. Bradley discussed the Chamber's ongoing concerns about regulatory overreach and described its legal challenges against federal and state agencies. Attendees discussed the implications of different election outcomes. For example, a Trump victory could roll back regulations via the Congressional Review Act; it would also likely encourage the current administration to push through as many pending regulations as possible during the transition period. A Harris victory would likely result in the continuation of current regulatory priorities and activity levels.
- **Antitrust.** Members voiced concerns about Federal Trade Commission Chair Lina Khan's approach to antitrust policy, which emphasizes market concentration over consumer benefit, in a broad shift away from the guiding doctrine that had prevailed since at least the Reagan administration.
- **Artificial intelligence.** Members and Mr. Bradley emphasized AI's transformative potential while expressing concerns about the risk that some states might adopt regulations that are too strict, stifling innovation while contributing to an inefficient regulatory patchwork. *"The Chamber is tracking 500 different pieces of state legislation,"* Mr. Bradley said. The Chamber advocates for a federal regulatory framework with preemption and cautions against regulating specific end uses. Members agreed, stressing the need for government-business collaboration to craft sensible regulations. They also noted that existing laws, like those addressing discrimination and intellectual property, can be applied to AI.

## SEC and PCAOB developments

In separate closed-door conversations, members met with SEC Commissioner Hester

Peirce and with PCAOB Board Members George Botic and Christina Ho. The guests discussed their respective organizations' priorities and shared views on rulemaking, standard-setting, inspections, and enforcement. Katrina Kimpel, Mark Kronforst, and Bridget Neill from EY provided preparatory briefings. Members also debriefed among themselves.

Insights from the EY briefings and member discussions included:

- **Both agencies have robust, active agendas.** Under Chair Gary Gensler, the SEC has undertaken an ambitious program of rulemaking and enforcement. The PCAOB has followed suit with its standard-setting, inspections, and enforcement agenda. Ms. Kimpel highlighted the lasting impact of these efforts: *"Once the PCAOB finalizes a standard, it is difficult to change. These new standards will have enduring effects."*
- **The regulatory environment is polarized and uncertain.** *"Unanimous votes from the SEC commissioners used to be common. Now, we almost never see them,"* Mr. Kronforst said. A clear example of the environment is the SEC's climate rule: *"It is notable that what could be considered the centerpiece of this commission's rulemaking faces litigation challenging the SEC's authority,"* he noted. Regulatory priorities now shift based on election outcomes, and he expects this trend to continue. He observed that views from the top of the SEC seem to drive daily staff behavior to an unprecedented degree: *"Interactions like comment letters and requests for relief used to be fairly consistent between administrations. Now, the day-to-day staff actions are influenced more by leadership."*
- **Questions about the SEC's climate rules persist; companies are shifting focus to other regulators.** Members reported an increasing focus on compliance with the EU's Corporate Sustainability Reporting Directive (CSRD) and California's climate disclosure laws. One questioned how the SEC will handle CSRD information, as companies will need to include it in their 10-K filings. *"That means the SEC's division of corporation finance will have to deal with the information. It would almost have been better if the SEC had collaborated on a set of agreed upon disclosures,"* the member said. *"The SEC will likely find it difficult to ignore the information. I hope they take a light touch approach,"* said Mr. Kronforst, who formerly worked in the SEC's division of corporation finance.
- **PCAOB audit inspection findings diverge from audit chairs' views on audit quality.** The PCAOB's 2023 inspection findings reported a 46% deficiency rate for inspected audits, an increase from previous years.[4] For the "Big 4" firms, the deficiency rate was steady at 26%.[5] But audit chairs were skeptical about these findings. Most have firsthand experience with PCAOB inspections and cited concerns that inspection reports do not differentiate deficiencies based on severity. *"There is frustration because we believe that audit quality has improved substantially over the last 20 years, as has audit committee oversight of auditors. But PCAOB*

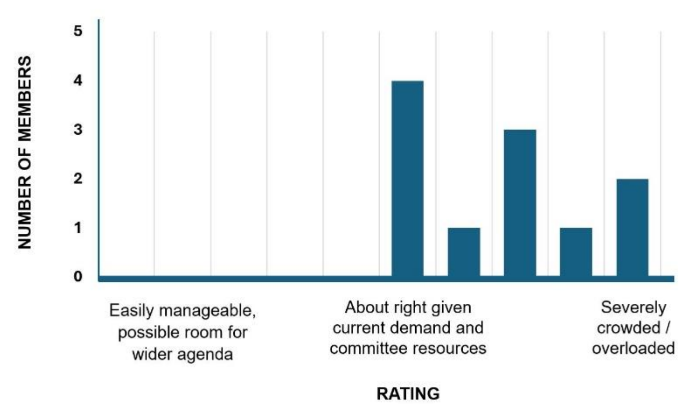
*inspection findings suggest the opposite,"* one said. Members called for more dialogue with the PCAOB on this topic.

- **Concerns continue to grow about talent challenges in accounting.** Members expressed significant concerns about the shrinking talent pipeline in the accounting profession. An EY leader spoke of studies asserting that 75% of US certified public accountants (CPA) will soon be eligible for retirement. Factors like increased regulatory scrutiny and the 150-hour rule for CPA eligibility, which typically takes candidates about five years of study to complete, may deter new entrants. Ms. Neill and Ms. Kimpel clarified that the PCAOB does not have direct authority over this specific issue but remains attentive to the industry's talent challenges. They noted that the Board engages with academics, and that insights from audit chairs could provide valuable context for the PCAOB's discussions.

## What's top of mind for audit chairs?

Members debriefed the day's discussions over a members-only dinner and shared other top-of-mind issues, including the growing agendas of audit committees. In preparation, members rated their audit committee's workload on a scale from "easily manageable" to "severely overcrowded."  More than half placed their workload on the higher end, while the remaining members found it "about right" for current demands and resources. They noted that industry and board structures heavily influence audit committee workloads. For example, cybersecurity can be a significant agenda item for audit committees, but some boards assign cyber risk oversight to another committee or the full board, which can lighten the audit committee load.

**How would you rate the current workload of your audit committee?**




Members discussed both challenges and good practices in setting agendas, managing meeting length and materials, coordinating with management, and structuring board committees.

A key question that arose was whether boards should establish separate risk committees. One member argued that audit committee overload is more common when the board does not have a risk committee. *"Issues get assigned to the audit committee that don't belong there and then you are trying for force a lot into a certain amount of time. I hope to see more of a trend toward setting up risk committees."* Other members challenged the need for a separate risk committee, citing concerns about fragmentation and noting that many risks ultimately affect financial statements, necessitating audit committee oversight.

*"Having seen work overload, there is a downside to having a separate committee for risk,"* one explained. *"It can be unhelpful in terms of keeping the entire board integrated and coordinated."*

# Recent developments in regulatory law

Mr. Roisman and Mr. Arnold discussed court cases and other forces that are reshaping the regulatory environment, adding to overall uncertainty for businesses. A few key themes emerged:

- **Recent Supreme Court rulings limit the power of federal administrative agencies.** Mr. Roisman explained that these cases reflect broader resistance to the administrative state, stemming from decades-long concerns about regulatory overreach. Some argue that aggressive regulation is a result of Congress's failure to set clear policies, leaving agencies to fill the gaps. *"Do you anticipate the House and Senate will roll up their sleeves and be clearer in what they intend? Or is that a pipe dream?"* one member asked. The guests replied that clearer and more detailed legislation is unlikely. It is difficult to write laws that are both principles-based and highly specific, and it can be even tougher to get them enacted. But *"that is what those who challenge the administrative state want to happen,"* Mr. Arnold said. He added that, in the absence of clear legislation, opponents of a muscular administrative-law regime want to see interpretive calls made by the courts, rather than by agencies. Messrs. Roisman and Arnold highlighted several Supreme Court cases whose holdings may have broad implications for companies:
  - ***Loper Bright Enterprises v. Raimondo.*** This decision set aside "Chevron deference," a doctrine that gave federal administrative agencies wide latitude to interpret ambiguous statutes. *"It will create more unpredictability and uncertainty in how the courts resolve issues, which makes the broader regulatory environment more uncertain than ever,"* Mr. Arnold said. Effects will vary by agency; for example, the SEC may be relatively less affected than other regulatory agencies given some key sources of authority are either derived directly from statutes that are relatively clear or arise from caselaw that did not receive Chevron deference in the first place.
  - ***SEC v. Jarkesy.*** This ruling limits the use of administrative law judges by agencies like the SEC for cases involving civil penalties, affirming the right to a jury trial in such actions. Mr. Roisman explained that this decision challenges the enforcement practices of agencies, potentially affecting bodies such as the PCAOB and the Financial Industry Regulation Authority.
  - ***Corner Post, Inc. v. Board of Governors of the Federal Reserve System.*** This decision clarified that the statute of limitations for facial challenges under the Administrative Procedures Act begins when a party is harmed, not when an

agency first takes action, meaning longstanding rules can still be challenged decades later. Mr. Roisman noted that this poses an ongoing risk for agencies: future cases may hinge on outdated evidence and interpretations and the people who were responsible for the original rules will no longer be at the agencies.

- **The "deference wars" are just beginning.** Mr. Roisman observed that *Loper Bright* is only the start of challenges to agency deference. There are many other types of deference than *Chevron*; Mr. Arnold noted that one of the organizations responsible for much of the litigation in this space identified a "dirty dozen" list of deference doctrines that could be potential targets.[6] Among these, "*Baltimore Gas* deference" could be a potential next target. This doctrine, from the 1983 case of *Baltimore Gas & Electric Co. v. NRDC*, grants agencies "super deference" on scientific and technical matters within their area of expertise.[7] Mr. Arnold explained that critics of Baltimore Gas deference argue that regulatory interpretations in the scientific arena should be treated similarly to expert testimony in criminal trials, with a process for validating expertise, rather than providing liberal deference to agencies.

### Dialogue with regulators is critical

Reiterating a theme heard from Ms. Kimpel, Mr. Kronforst, and Ms. Neill, Mr. Roisman, a former commissioner and acting chair of the SEC, urged the audit chairs to actively engage with regulators: *"It makes a world of difference. During my time as a commissioner, there was no more influential force than meetings and letters."* Even when specific points of feedback seem to go unheard, early and consistent engagement helps establish trust, especially in a shifting regulatory environment.

- **Companies may be more willing to challenge regulators.** *"As a board member, you worry about suing a regulator,"* one member said. *"It is a very serious decision for the board to consider, but it feels like there has been a sea change."* Recent Supreme Court rulings have made it substantially easier for a company to challenge regulations, Mr. Roisman noted, and he expects this trend to continue. Mr. Arnold added that companies also seem more open to submitting critical comments on proposed rules: *"That remains a difficult decision, and companies may not even be concerned about the regulator's response but may be more concerned that an activist or nongovernmental organization will see the letter and take it out of context."*

- **Scrutiny of the gatekeeping role played by boards and audit committees will continue.** Mr. Roisman noted that the SEC hears a constant refrain from Congress and others about "individual accountability." SEC commissioners and division directors repeatedly point to this chorus in public statements. Mr. Arnold advised members to expect more attention to gatekeepers, including audit committees: *"Following recent events like some of the fallout from the SPAC boom, the SEC identified a shortcoming: insufficiently robust gatekeepers. The audit committee* *could be a target for this."* And for this reason, Mr. Roisman said that it is important for audit chairs to be very focused and *"maintain a strict box around what the audit committee is responsible for. The more expansive the agenda, the more difficult the job becomes."*

## AI applications: use cases, governance, and audit impacts

Members met with AI leaders from EY to discuss use cases, governance, and audit implications of AI. The discussion focused on AI and recent developments in generative AI—technologies that operate with some degree of autonomy, learn from data without explicit programming, can build on massive collections of language text, and can mimic human behavior. They touched on the following key themes:

- **Audit chairs seek to better understand practical applications for AI, especially in finance and internal audit.** The group discussed a few significant cases:
  - **Finance functions.** Unsurprisingly, finance teams were initially cautious and slower to adopt AI due to control and accuracy concerns. But that reluctance is fading, the EY guests said. Companies are using AI for tasks like forecasting, detecting anomalies, and automating financial processes. *"You could expand that into financial reporting,"* Mr. Jackson said. *"It could take the information that management has in reports, decks, and other places and use it to create a first draft of financial discussions and management discussion and analysis (MD&A). It is still entry level and not replacing those teams, but you can start to see patterns."* Mr. Diasio described a case where a company is integrating AI into financial planning and analysis teams, which typically focus on guiding the leadership team rather than preparing statutory disclosures. AI can extend this advisory role much deeper into the company, providing tailored, data-driven guidance. *"Imagine if a territory manager five levels down in the organization received AI-generated insights on which customers to prioritize and with what optimal pricing strategies,"* he said. Another example: controllers using AI to review entire sets of contracts, moving beyond sample-based checks so as to automate first-level review of the entire data set.
  - **Internal audit.** Internal audit teams increasingly use AI for risk and compliance assessments, our EY guests said. The technology can be used to analyze data from large groups of distributors and third parties to detect patterns and anomalies and to pinpoint potential fraud or control risks. One member reported asking internal audit teams to present applications of AI at each audit committee meeting and discuss how the technology offers improvements in coverage, quality, and speed. In all these cases—internal audit and beyond—Mr. Jackson said, *"The AI doesn't have to be perfect; it just has to be better than the human*

*that it is supplementing (or potentially replacing).”*

- **Other applications.** Additional examples included supply chain optimization, inventory management, marketing, and product design and innovation. *“Coming up with ideas is relatively easy; the difficult part is narrowing them down to a few that can transform the business and actually capture value,”* Mr. Diasio said.

- **Consider your tolerance for inaccuracy.** Generative AI can produce “hallucinations,” generating false or fabricated information in the guise of well-formed language and convincing narratives. As Mr. Diasio noted, AI hallucinations are in fact *“the system making up the information.”* In response, a member said, *“I’d almost feel better if it were at least pulling incorrect information that existed somewhere.”* Another added that AI hallucinations *“can look unbelievably plausible.”* While accuracy is crucial in many applications, such as finance, Mr. Diasio noted that some areas can still benefit from the novel ideas produced by AI despite the hallucination risk. For instance, he described a watch company that used generative AI to streamline its R&D process, generating multiple designs quickly, which led to improved product design and sales. *“There was little to no risk in getting something wrong in that case,”* he said. Members noted that humans also create “hallucinations,” not out of ill intent but simply because of mistakes and false associations between data sources.

- **Companies continue to explore effective AI governance models.** Robust governance is critical as companies integrate AI into their operations. One member emphasized that companies *“need to have good data.”* Another said, *“Companies need to think about governance relative to how AI is thought about in the front-line business units, in the corporate functions, and in internal audit and external audit.”* Other themes included:

  - **Streamlined governance structures are emerging.** Initially, some companies set up large steering committees. However, Mr. Jackson noted a shift toward smaller, core management groups to streamline decision-making. Structures will

## What to expect from the SEC on AI

Mr. Arnold and Mr. Roisman commented on this topic. *“Look at comments made in recent speeches by Chair Gensler and others from the SEC. They are talking about AI and governance around the management of AI risks. It’s where they were on cybersecurity three years ago,”* Mr. Arnold said. While the SEC’s approach to AI regulation is still evolving, Mr. Roisman noted that activity has begun. Proposed rules regarding predictive data analytics used by broker-dealers and investment advisors aim to address conflicts of interest related to the use of advanced technologies, including AI. *“It is a piecemeal way of regulating the broader topic of AI, but it has the same effect,”* Mr. Roisman said.

depend on the company, its strategy, resource allocation, and risk appetite. Some companies may set up dedicated technology or risk committees, while others involve the full board.

- **Conversations are shifting beyond identifying risk and toward identifying value.** Risk-based categorization is a helpful model, but Mr. Jackson noted that some companies' governance bodies are now also focusing on identifying the value that AI can bring, and channeling investment accordingly.
- **Ethics is coming to the fore.** *"How many organizations are you seeing addressing ethical considerations around AI?"* a member asked. The EY guests noted that ethics is increasingly part of governance conversations. ACLN members discussed the ethics of AI earlier this year, summarized here; as did the European Audit Committee Leadership Network, summarized here.

### Keep sustainability effects in mind

AI uses high amounts of energy, and its adoption can bring a company into conflict with its sustainability goals. As an example, Mr. Jackson noted that *"after putting AI technology into the hands of every employee, some companies realize there is a hidden cost when they get the bill for cloud consumption."*

- **AI will significantly change the audit and assurance landscape.** Members are eager to understand how external auditors are incorporating AI into their practice. One said, *"All Big 4 firms are spending a tremendous amount on AI. How does it trickle down to our audits?"* EY is implementing AI across more of its assurance work. Members witnessed a demonstration that included examples from an AI tool that checks the accuracy and consistency of financial statements; reviews take minutes instead of days. The software can accept a PDF of a highly complex financial report like a 10-K, parse the financial information embedded in it, and check for anomalies using internal references within the document as well as external sources. Remarkably, the tool was not "programmed," but developed through teaching itself based on the input of vast quantities of financial statements.

  Mr. Jackson described another tool, *"a ChatGPT experience for accounting and audit guidance,"* that creates a repository of knowledge. One member asked about potential future cost savings: *"Projecting forward, what percentage of audit work and fees will this take up?"* The EY guests noted that the current focus is on research and development, which is expected to facilitate productivity gains and efficiencies over time but will need to balanced alongside the costs of investment into the technology. When asked about the potential overall impact of AI on the audit, Mr. Jackson replied, *"I think it will raise the bar and you will be able to ask more of your auditors and get better results."*

*A forthcoming ViewPoints will provide additional detail on the themes of this session.*

## Appendix 1: Participants

The following members participated in all or part of the meeting:

Joan Amble, Booz Allen Hamilton
Jeff Campbell, Aon
Jonathan Foster, Lear Corporation
David Herzog, MetLife
Akhil Johri, Cardinal Health
Dagmar Kollmann, Deutsche Telekom*
Brad Martin, FedEx
Kim Ross, Cigna
Tom Schoewe, General Motors and Northrop Grumman
Darrell Thomas, British American Tobacco
Jim Turley, Citigroup
Tracey Travis, Meta
John Veihmeyer, Ford

The following EY representatives participated in all or part of the meeting:

Julie Boland, US Chair and Managing Director and Americas Area Managing Partner
Dante D'Egidio, Americas Vice Chair - Assurance
Jennifer Lee, Managing Director, Americas Center for Board Matters
Pat Niemann, Partner, Americas Center for Board Matters

The following Tapestry Networks representatives participated in all or part of the meeting:

Jonathan Day, Chief Executive
Kelly Gillen, Senior Associate
Todd Schwartz, Executive Director
Abigail Ververis, Project and Event Manager
Jason Watkins, Managing Director

** Denotes European Audit Committee Leadership Network Member*

# Endnotes

[1] *Summary of Themes* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn directly from members and guests in connection with the meeting but may be edited for clarity.

[2] Neil Bradley, "The Growth and Opportunity Imperative for America," *US Chamber of Commerce*, July 4, 2024.

[3] Benn Steil and Elisabeth Harding, "For the First Time, the U.S. Is Spending More on Debt Interest than Defense," *Council on Foreign Relations (blog)*, May 23, 2024.

[4] Public Company Accounting Oversight Board, *Spotlight: Staff Update on 2023 Inspection Activities, August 2024* (Washington, DC: Public Company Accounting Oversight Board, 2024), 4.

[5] Public Company Accounting Oversight Board, *Spotlight: Staff Update on 2023 Inspection Activities, August 2024*, 4.

[6] "NCLA Killed Chevron! Relentless and Loper Bright End Chevron Deference," *New Civil Liberties Alliance*, accessed November 11, 2024.

[7] "NCLA Killed Chevron! Relentless and Loper Bright End Chevron Deference," *New Civil Liberties Alliance*.