Business Process Improvement

Audit Committee Oversight: A Forgotten Issue? -*December 4, 2000*

H. Stephen Grace, Jr., Ph.D. and John E. Haupert -Grace & Co. Consultancy, Inc.

by H. Stephen Grace, Jr., Ph.D. and John E. Haupert

After an all-too-brief flurry of activity, it appears that corporations have set aside efforts to improve audit committee oversight. We're not sure what brought this about but have some thoughts as to the reason, and observations about potential consequences.

The reason there may be less attention paid to strengthening the audit committee's role is that the SEC has seemingly shifted its attention to several other important issues, such as auditor independence and Regulation FD, the new Fair Disclosure rule. While these new issues clearly pertain to a corporation's responsibility for ethical behavior, insured by careful oversight practices, we fear that they are not being perceived that way.

Instead of recognizing these latest initiatives as part of the SEC's model of this century's well-managed and controlled corporation, it seems corporations and others involved in assuring good corporate governance and oversight view this shift in emphasis as a reason to set aside audit committee revamping to focus on these more current issues in isolation. It is perfectly understandable why the shift in emphasis may be taking place. The tremendous amount of time and effort required to manage today's very large and complex corporations often forces management and boards to focus on the hottest items and those where they see a direct impact on the firm either from litigators or regulators. Without this immediate threat, it seems that the first choice is to shelve difficult and complex issues until some future (usually very distant) date.

This is often a mistake, but it seems most firms concentrate their efforts on the problem du jour, willing to take the risk that less pressing problems will go away or take care of themselves. While this is never the sound approach, it is particularly foolish in the case of improving audit committee performance. This matter is so clearly part of the SEC's thrust to put in place controls that insure corporations protect their investors, that it cannot be set aside while the other two issues are considered. Audit committees are, and are expected to be, intimately involved with the issues of auditor independence and Regulation FD.

Clearly, to make sure that the demands of the SEC for accurate financial reporting, fair disclosure and auditor independence are met, a professional audit committee, with clear oversight guidelines, is essential. Management that lacks this strong governance partner is at great risk of litigation and may even face criminal penalties if problems develop.

H. Stephen Grace, Jr. is President of Grace & Co. Consultancy, Inc., and John E. Haupert is a member of the Board of Advisors of Grace & Co. Prior to his retirement, Mr. Haupert was Treasurer of The Port Authority of New York and New Jersey.

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