Glass Lewis – Heat on the Audit Committee to Make It Right (Restatements)

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I have been evaluating Glass Lewis' Proxy Paper Guidelines, 2015 Proxy Season, An Overview of the Glass Lewis Approach to Proxy Advice, United States – there are many provisions pertaining to audit committees, audit committee members, and under what circumstances Glass Lewis will recommend voting for or against audit committee members and/or the entire committee. Audit committee members should read the Guidelines, to be informed. Some of the provisions are reasonable, others I believe are not or are overstated. This post discusses Standards for Assessing the Audit Committee #14 (restatements). Although we all agree that in most circumstances restatements should not occur and should be prevented, as far as deciding whether or not to vote for or against an audit committee member or the entire committee when a restatement has occurred isn't necessarily cut and dry.

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The STANDARDS FOR ASSESSING THE AUDIT COMMITTEE are at pages 9-11 of the Glass Lewis Proxy Paper Guidelines.

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In pertinent part Glass Lewis advises: "When assessing the decisions and actions of the audit committee, we typically defer to its judgment and generally recommend voting in favor of its members. However, we will consider recommending that shareholders vote against the following: . . . .

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14. All members of an audit committee at a time when annual and/or multiple quarterly financial statements had to be restated, and any of the following factors apply:

•The restatement involves fraud or manipulation by insiders;

•The restatement is accompanied by an SEC inquiry or investigation;

•The restatement involves revenue recognition;

•The restatement results in a greater than 5% adjustment to costs of goods sold, operating expense, or operating cash flows; or

•The restatement results in a greater than 5% adjustment to net income, 10% adjustment to assets or shareholders equity, or cash flows from financing or investing activities.

My thoughts. Footnote 19 of the Paper, also states “Research indicates that revenue fraud now accounts for over 60% of SEC fraud cases . . . .” Provision #14 seems overstated and too bright line – (1) the audit committee members are significantly dependent on information provided by others including the CEO, CFO, internal audit, the independent outside auditor, foreign operations, etc. – (2) the audit committee only has oversight responsibilities – (3) what if the accounting treatment was a judgment call [i.e., see the new upcoming changes to "principles" based accounting for revenue]? – (4) why the entire audit committee as a group – each member has only one vote – really the entire committee out? – (5) what is “fraud”? – (6) fraud is often very difficult to prevent and detect – (7) what if the director is good for the company except perhaps in this instance of oversight? – (8) what if the audit committee was diligent and the restatement occurred anyway – (9) maybe recommend keeping the director, but not as an audit committee member? – (10) why is one of the criteria whether or not there was an SEC inquiry or investigation? – (11) more?

You can also see this post at http://directorofficernews.com/2014/11/13/glass-lewis-heat-on-the-audit-committee-to-make-it-right-restatements/

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