

Continuing Spotlight on Audit Committee Reports and the Preponderance of Other Functional Board Committees

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Six governance groups, including the National Association of Corporate Directors, Tapestry Networks and the Center for Audit Quality, have issued a [“call to action”](#) urging companies to enhance the audit committee reports in proxy statements. Many of the topics recommended are similar to our prior [discussion](#) of an E&Y survey that found large-cap companies already providing additional information beyond regulatory requirements, and indeed the report gives several helpful examples from those companies.

Some of the groups' specific suggestions include details located in other parts of proxy statements, such as describing the scope of the audit committee's duties as reflected in the charter and defining the committee's composition by discussing independence determinations and qualifications. The report also encourages audit committees to explain the factors considered when selecting or reappointing an audit firm, which may include the capacity to staff the audit, geographical reach of the practice and industry or sector-specific expertise. Other information regarding the auditor that the group would like to see disclosed include the process and involvement of the committee in the selection of a new lead audit engagement partner after the mandatory rotation, the considerations made in settling on auditor compensation and how the committee oversees and evaluates the external auditor. The last item could include revealing the committee's interactions with the auditor, such as the nature or number of meetings outside the presence of management, the types of issues discussed at those meetings and other activities central to the committee's oversight.

While the report encourages companies to provide the information voluntarily, SEC Chair White is focused on whether regulation can make the audit committee report more useful to investors. Chair White [announced](#) that she has asked the SEC staff to find out the views of investors, companies, legal and accounting professionals and other market participants about the improvements that could be made to the SEC disclosure requirements pertaining to these reports.

Beyond the audit, nominating and compensation committees, a recent [E&Y survey](#) discovered that among the S&P 500 companies, finance (38%) and executive (37%) committees were the most prevalent board committees. Slightly over 10% have compliance committees, primarily in the health care and energy sectors, while risk committees were present at only 8% of the large-cap, with three-quarters in the financial services. More emerging committees include sustainability committees (7%), often with oversight for corporate responsibility, environmental sustainability, diversity and inclusiveness, and technology committees (4%), particularly at financial services companies.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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