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SEC Issues Concept Release on Audit Committee Disclosures

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The SEC is seeking public comment through a concept release (Possible Revisions to Audit Committee Disclosures) that it issued yesterday on whether the disclosure of the role of the audit committee should be expanded.

The SEC believes that current disclosures do not describe how the audit committee executes its responsibilities, particularly related to the oversight of the auditors. The Commission is interested in determining whether additional information would help investors make voting decisions about auditor ratification and election of audit committee members. The concept release is seeking comments on a wide variety of topics, as noted below.

Audit committee's oversight of the auditor:

1. Additional information regarding communications between the audit committee and the auditor, which could include all communications required under the PCAOB rules, the nature of the committee's communication with the auditor related to the auditor's overall audit strategy, timing, significant risks, nature and extent of specialized skill used in the audit, planned use of other firms or persons, planned use of internal audit, the basis for determining that the auditor can serve as principal auditor, the results of the audit, and how the audit committee considered these items in its oversight of the auditor

2. How often the audit committee met with the auditor

3. The audit committee review of and discussion about the auditor's internal quality review and most recent PCAOB inspection report

4. Whether and how the audit committee assesses, promotes and reinforces the auditor's objectivity and professional skepticism. It is unclear what the SEC is expecting in this regard and in fact, the SEC itself questions what type of disclosures would satisfy this possible requirement.

The audit committee's process for appointing or retaining the auditor:

1. Whether and how it assesses the auditor and its rationale for retaining the auditor

2. The process for selecting the auditor through any requests for proposals (RFPs)

3. The board's policy, if any, for a shareholder vote on auditor ratification and the consideration of the vote in selecting the auditor

Qualifications of the audit firm and members of the engagement team:

1. Disclosure of the name of the engagement partner and key members of the engagement team and their experience

2. The audit committee's input in selecting the engagement partner

3. The number of years that the auditor has audited the company

4. Other firms involved in the audit

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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