

Audit Committees Continue to Expand Reporting in 2015 Proxy Statements

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The SEC's recent concept release on possible revisions to audit committee disclosure has ignited debate about whether additional information, and the type of information, that would be useful to investors regarding the audit committees' oversight of external auditors. Our memo on the [concept release is here](#), and our comment letter to the [SEC is here](#).

Regardless of whether the SEC takes formal action, the [recent review by EY's Center for Board Matters](#) shows a continuing increase in audit committee disclosures since EY started analyzing these findings in 2012. After examining 76 of the Fortune 100 companies that have provided three years of consecutive disclosure, the report found that 71% of companies in 2015 proxy statements specified that the audit committee is responsible for the appointment, compensation and oversight of the auditor, compared to 66% last year and 41% in 2012. 58% stated that their selection of the auditor is in the best interest of shareholders, compared to 50% in 2014 and only 3% in 2012.

61% disclosed that the audit committee was involved in the selection of the lead engagement partner, compared to 47% last year. No company made this statement in 2012. 59% now disclose the length of the auditor's tenure and 41% state that the audit committee considers the impact of changing auditors when assessing whether to retain the current external auditor, compared to 50% and 30%, respectively, in 2014. While 61% of audit committees are involved in the selection of the lead partner, only 9% provided information on when the lead partner was appointed.

Companies appear reluctant to make certain other disclosures, however, as only 8% identified topics discussed by the audit committee and the external auditor, a percentage that has remained fairly steady over the last several years as the same number of companies provided this information in 2012. The SEC concept release suggests that the SEC would consider requiring all companies to provide more detail about these conversations. The EY report found that companies reported voluntarily that audit committees discussed with auditors matters of risk controls and compliance, cybersecurity, information technology matters, pension funding and other investments.

Another possible disclosure cited in the SEC concept release includes the audit committees' assessment of the auditor's qualifications and work quality. 39% of companies indicated in 2015 that their audit committees examined criteria such as the independence and integrity of the auditor and its controls and procedures, the auditors' performance and qualifications such as expertise on the company and the audit firm's global reach, quality of the audit firm's personnel, fees, length of tenure and the PCAOB reports on the audit firm.

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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