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Via E-mail: rule-comments@sec.gov

Office of the Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: SEC Concept Release No. 33-9862; 34-75344: *Possible Revisions to Audit Committee Disclosures*; File No. S7-13-15

Dear Office of the Secretary:

BDO USA, LLP appreciates the opportunity to respond to the request for comments on the Securities and Exchange Commission's Concept Release No. 33-9862; 34-75344: *Possible Revisions to Audit Committee Disclosures* (the Concept Release). We recognize the important role that audit committees play in financial reporting, public disclosure, corporate governance, and enhancing investor confidence in capital markets. We further recognize that current public disclosures made by the audit committee generally provide information about the role of the audit committee with respect to its oversight of the auditor and not necessarily how the audit committee executes such responsibilities. We support the SEC's outreach to stakeholders to explore ways to enhance an audit committee's disclosure about how an audit committee discharges its responsibilities with respect to its oversight of the auditor, the process for selecting the auditor, and consideration of the qualifications of the audit firm and certain members of the engagement team when selecting the audit firm. Furthermore, we support the SEC's efforts to update its existing disclosure requirements to include updated references to required communications between auditors and audit committees contained in PCAOB Auditing Standards. (E.g., AS 16, *Communications with Audit Committees*; recently effective AS 18, *Related Parties*; PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*).

An audit committee's interaction with and oversight of the external auditor represent only part of the audit committee's responsibilities with respect to its oversight of a company's accounting and financial reporting process. Such oversight encompasses both internal and external audit functions as well as the audit committee's interactions with management, among other matters - all of which are equally important to the process as a whole. An understanding of the other responsibilities of an audit committee and how it executes upon them could further inform investors in their "evaluation of the audit committee's performance in connection with among other things, their vote for or against directors who are members of the audit committee, the ratification of the auditors, or their investment decisions." Additional areas that investors may find informative in their decision-making with respect to the overall performance of the audit committee may include: the audit committee's composition, qualifications, and independence; its interactions with other committees of the board and the full board; its oversight of the accounting and financial reporting processes including internal audit; its oversight of internal controls over financial reporting; its oversight of risk management of cybersecurity, information technology, and



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handling of complaints; and its authority to engage independence counsel and other advisors.

While we support the SEC's goal to provide sufficient useful information to investors regarding the role and performance of the audit committee, we believe there are a number of challenges to providing certain information. For example, audit committees consider a wide range of facts and circumstances in making their decisions and recommendations, many of which may require significant context for investors or others to fully appreciate. The evaluation of information the audit committee makes in discharging its function includes the relevance of such information to a specific company's investors, the environment in which the business and audit committee operate, and the business stage of the company. Further, we have significant concerns with respect to certain specific disclosures that the SEC is considering which may have the unintended consequence of "chilling" or negatively impacting the open and two-way dialogue between the audit committee and the auditor. For these reasons, we do not support making such expanded disclosures mandatory. Rather, we support a flexible, voluntary approach that would allow audit committees to design disclosure in accordance with the needs of their specific investor communities. The voluntary disclosures could then correspond with the nature and extent of the organization's unique challenges and opportunities and could best reflect the scope of the audit committees' actual specific processes. This flexible and voluntary approach would also avoid the risk of potential "boilerplate" or "check the box" disclosures that may result from mandating disclosures.

We also think it's important to recognize the improvements in disclosure discussed below that are already occurring in practice - without a mandate from the SEC. Practice is already moving in the right direction of greater transparency. We think the approach the SEC should take should be to foster and provide overall direction for continued movement rather than issuing prescriptive disclosure requirements. We recommend that the Commission continue to watch practice evolve and consider the need for further action if the evolution is not sufficient.

General Comments

The SEC acknowledges within the Concept Release that a significant number of audit committees are currently voluntarily disclosing information beyond information currently required through regulation.¹ The SEC cites findings by the Center for Audit Quality's and Audit Analytics' *2014 Audit Committee Transparency Barometer* along with an analysis performed by EY's March 2015 "Enhancing Audit Committee Transparency" - annual proxy season update on audit committee reporting: "some audit committees may disclose only what is specifically required, for a variety of reasons, for instance, to avoid legal exposure, to avoid incremental associated efforts of the disclosure process, or because they do not believe such additional information would be useful to investors." The variability in audit committee reporting may further be explained by "among other things, differences in regulatory and listing requirements across jurisdictions and interest by investors and others

¹ Refer to Section IV of the SEC's Concept Release and reference to the Center for Audit Quality's "2014 Audit Committee Transparency Barometer."



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for disclosures that go beyond the minimum."² It is our understanding that audit committees are increasingly choosing to provide additional voluntary information in response to demands by investors and other stakeholders that provides transparency about the unique facts and circumstances related to their organization's business. Mandating and/or providing increased prescriptive disclosures run the risk of curbing organic enhancements to disclosures already occurring in practice. (Questions 11, 12, 14, 55, 62)

We support the SEC in its recognition of the difficulty in balancing providing further transparency into the role of the audit committee through more robust disclosure while at the same time allowing for a principles-based approach that allows for flexibility and customization of information (for the reasons cited above) as opposed to a one-size-fits-all approach that may lead to disclosure overload or conveyance of information that is not relevant and/or not provided in the appropriate context. See specific comments below in this regard.

As mentioned further below, where there are concurrent rule-making and standard-setting initiatives being undertaken by the SEC and PCAOB that potentially complement each other (e.g., auditor reporting and transparency, disclosure of critical audit matters, audit quality indicators, etc.), we strongly encourage the SEC to continue to work collaboratively with the PCAOB in issuing guidance related to public companies audits.

Specific Comments

Our specific comments below relate to certain of the questions posed in the Concept Release about the disclosure of proprietary information about audit methodology; the concern with chilling or overly formalizing the auditor-audit committee relationship; and the potential impacts on audit quality.

Audit Committee's Oversight of the Auditor: Additional Information Regarding Communications Between the Audit Committee and the Auditor

Questions 11 and 12 of the Concept Release pertain to mandating disclosures, including those with respect to communications under paragraphs 9 and 10 of PCAOB AS 16 as it relates to significant risks identified, nature and extent of specialized skill used in the audit, planned use of the company's internal auditors, involvement by other independent public accounting firms or other persons, and the basis for determining that the auditor can serve as the principal auditor. These are highly subjective areas that shape the course of the audit and directly impact the quality of an audit but that also depend significantly on numerous factors and circumstances specific to each organization as well as how an auditing firm executes its audit methodology. These subjective areas require the proper context to understand how such decisions are made collectively between the auditor and the audit committee. These matters are typically discussed in depth between the auditor, management, and the audit committee in the context of a dialogue where all of the relevant considerations can be explored in proper context. These are discussions where, per Questions 16 and 17, the "chilling" effect may come into play and thus, we would support such disclosure by the audit committee but only at their discretion. Taking this concept a

² Refer to footnote 65 within the Concept Release.



step further, Question 14 seemingly scopes in “any information” (beyond SEC rules and PCAOB standard requirements) about the extent to which additional matters were discussed with the auditor that would require mandatory disclosure. This raises concerns about the relevance to the investor community about all of the discussions between the auditor and the audit committee and information overload, the risk of overly formalizing such discussions, and the risk of disclosures becoming boilerplate. Again, we believe this is an area that should be at the discretion of the audit committee in consideration of specific facts and circumstances and its interactions and dialogue with the auditor and the company’s investors.

Frequency with which the Audit Committee Met with the Auditor

Questions 18 and 19 pertain to potential disclosures regarding the nature of certain private conversations between the audit committee and the auditor and the frequency of such meetings. There are likely a variety of reasons (e.g., specific transactions in the current year that require more focused attention; new accounting and/or auditing standards; changes in the composition of the audit committee or engagement team; etc.) that impact the need for additional conversations between the auditor and audit committee. Therefore, metrics around the frequency of such may not be meaningful without the proper context into the reasoning and substance of such discussions. Depending on the circumstances, the audit committee would be in the best position to determine whether and how disclosure of such information would be of incremental value to investors.

Review of and Discussion About the Auditor’s Internal Quality Review and Most Recent PCAOB Inspection Report

We support robust discussion between auditors and the audit committees they serve around the auditor’s internal quality review processes along with PCAOB inspection process and report trends, particularly those that correlate to the risks faced by the particular organization. Such conversations are meaningful and should be made in a timely fashion and are part of the robust two-way dialogue that must occur to allow for an effective auditor/audit committee relationship that helps form a basis for audit quality. In our experience, these robust discussions are occurring between the audit committees and the auditor and help form the fabric of the contextual nature upon which each individual audit engagement is designed and executed. Questions 20-24 suggest mandating specific disclosures and potentially run several risks, including: (1) the potential for reducing the free flow of information resulting from potential increased risks of litigation if disclosure does not properly adhere to privacy rules and is taken out of context by investors and others; and (2) placing undue emphasis on matters that may not be reported timely by the PCAOB due to the length of time currently required between the inspection process and the publishing of inspection results (e.g., findings that relate to specific controls or other items that may have already been remediated and addressed by the audit firm). Because of the nature of and variability in the findings by the PCAOB and internal inspection processes, as evidenced by the need for distinction between public disclosure of PCAOB Part I findings and only publicly disclosing Part II findings under specific circumstances, this remains a highly complex area for which mandatory disclosures may have unintentional negative consequences and prove detrimental. If the SEC chooses to pursue disclosures in this area, we believe additional thought and research in this area is necessary, including consideration of the work currently



be conducted by the PCAOB and auditing firms with respect to “root cause” analysis of audit deficiencies.

Audit Committee’s Process for Assessing the Auditor

The following comments encompass several areas within the Concept Release that relate to the audit committee’s assessment of the auditor including:

- the auditor’s independence, objectivity and audit quality, and the audit committee’s rationale for selection or retention of the auditor (Questions 26-28) and
- qualification of the audit firm and certain members of the engagement team (Questions 34-49) – *see further discussion related to disclosure of certain individuals and auditor’s tenure.*

For each of these areas, we support voluntary disclosure at the discretion of the audit committee, except as otherwise noted below. We further recognize the potential for the identification of audit quality indicators (AQIs) that can help inform audit committees in their assessments of auditors. We support the considerable work on AQIs being done by the PCAOB and the CAQ (particularly in on-going public outreach efforts and forums to gather further information). We believe the SEC should work together with the PCAOB and CAQ to support their respective projects on AQIs.³

Disclosure of Certain Individuals on the Engagement Team

Similar to the SEC’s Concept Release, the PCAOB’s Supplemental Request for Comment: *Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*, reflects significant work that the PCAOB has undertaken over the past several years. The Supplemental Request also seeks public input on disclosure of the name of the engagement partner and other audit participants within a new Form AP that would be publicly accessible on the PCAOB’s website. The Concept Release is proposing disclosure of the engagement partner’s name within the audit committee report or proxy statement. As expressed in our comment letters provided to the PCAOB,⁴ we do not believe that identification of the engagement partner and other audit participants provides meaningful information about audit quality or creates an increased sense of accountability. However, we do support the PCAOB’s efforts to improve transparency about the conduct and nature of the audit, and consequently, in addition to being responsive to calls from users of the auditor’s report, believe that identification of the audit partner and certain other participants in the newly contemplated Form AP, *Auditor Reporting of Certain Audit Participants* (Form AP), rather than in the auditor’s report, is appropriate and would avoid our concerns relating to consents and increased liability issues. Given the objective of both proposals, at least in part, is to increase transparency about the identity of the engagement partner and other audit participants, we recommend that the SEC work with the PCAOB in determining the most appropriate way forward and avoid unnecessary duplication.

³ Refer to recent [PCAOB Concept Release on Audit Quality Indicators](#) and the [CAQ’s Approach to Audit Quality Indicators](#) and related public outreach in the form of public forums to be held and the CAQ’s AQI pilot program.

⁴ Refer to BDO’s Comment Letters available at:
http://pcaobus.org/Rules/Rulemaking/Docket029/034d_BDO.pdf and
http://pcaobus.org/Rules/Rulemaking/Docket029/035c_BDO.pdf.



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Number of Years the Auditor has Audited the Company

Metrics related to the auditor's tenure are under continued debate in terms of the relative impact on and correlation with audit quality. In response to the PCAOB's *Proposed Auditing Standard on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*,⁵ we note in our comment letter to the PCAOB⁶ that while investors may find information about audit tenure to be interesting, we do not believe that including such information within the audit report provides the appropriate context for that communication. We are concerned that including such a disclosure in the audit report may infer a correlation between audit quality and audit tenure - a correlation which we believe has not been established.

Other PCAOB Related-Matters

Question 71 asks broadly how the SEC should address potential changes in the auditor's report with respect to audit committee oversight of the auditor. Such potential changes have not been defined in the Concept Release and thus, we would reiterate our encouragement that the SEC work with the PCAOB to ensure that such communication goals are aligned with audit quality and any changes to requirements are thoroughly vetted publicly.

Question 72 pertains to requiring disclosure that relates to information provided by the audit committee that is not currently required to be communicated by the auditor under existing PCAOB auditing standards. While the scope of just what such information may include is not defined in the Concept Release, we reiterate our support for voluntary and principles-based disclosure.

* * * *

We would be pleased to discuss our comments with the Commission at your convenience. Please direct any questions to Chris Smith, Audit and Accounting Professional Practice Leader, at 310-557-8549 (chsmith@bdo.com) or Jeffrey Lenz, National Director - SEC Practice at 312-616-3944 (jlenz@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP

⁵ Refer to [PCAOB Docket No. 34, Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments](#).

⁶ BDO's Comment Letter is available at: http://pcaobus.org/Rules/Rulemaking/Docket034/155b_BDO.pdf.