

AN OFFERING FROM THE BDO CENTER FOR CORPORATE GOVERNANCE
AND FINANCIAL REPORTING

BDO FLASH REPORT

CORPORATE GOVERNANCE



SUBJECT

CAQ QUESTIONS ON NON-GAAP MEASURES – A TOOL FOR AUDIT COMMITTEES

SUMMARY

In June 2016, the Center for Audit Quality (CAQ) released "[Questions on Non-GAAP Measures, A Tool for Audit Committees](#)". This tool is aimed at assisting audit committees in assessing the appropriateness and reliability of company management's presentation, outside of the audited financial statements, of performance metrics that do not conform to Generally Accepted Accounting Principles (GAAP). This tool is, in part, responsive to the SEC's May 2016 update to [its compliance and disclosure interpretations](#), together with existing rules and regulations, and overall heightened scrutiny by the SEC and others in this area.

DETAILS

The use of non-GAAP measures continues to increase as a means for companies to supplement GAAP financial information and provide analysts and investors with additional company and industry specific information to better understand the company and its performance. Regulators continue to express concerns and have cautioned companies against providing misleading presentations of non-GAAP measures and ensuring that such measures are properly reconciled to the appropriate GAAP measure.

The CAQ tool aims to complement the existing regulations and guidance to help the audit committee determine the meaningfulness of such information and whether:

1. management is complying with the SEC rules and related interpretations to non-GAAP measures and
2. non-GAAP measures are aiding analysts and investors in understanding the business and its performance.

The *Questions on Non-GAAP Measures* tool provides a brief background regarding the increased use of non-GAAP financial measures and information with associated guidance surrounding non-GAAP measures. It also summarizes the auditor's responsibilities for other

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information included in documents which contain audited financial statements. Currently, the PCAOB requires the auditor to read the other information for material inconsistency with the financial statements, but he/she is not required to perform any other procedures over this information in situations where no inconsistencies are identified.

The remainder of the tool comprises sample questions audit committees may consider posing to management and the auditors separated into three main areas of focus:

- ▶ **Transparency:** consideration of the purpose, prominence, and labeling of non-GAAP information, specifically in relation to traditional GAAP measurements (e.g., *Has the non-GAAP measure been given more prominence than the most directly comparable GAAP measure?*)
- ▶ **Consistency:** determination of whether non-GAAP measures are consistent and balanced (e.g., *Are the non-GAAP measures presented by the company balanced? Do the measures eliminate similar items that affect both revenue and expense, or do they only eliminate one or the other?*)
- ▶ **Comparability:** promotion of the comparability of non-GAAP measures presented (e.g., *Do other companies present this measure or similar measures? If not, why is this measure important for this company but not its peers?*)

Through use of this tool, the CAQ believes that the questions provided will "spark a dialogue among audit committees, management, and auditors on the non-GAAP measures presented by companies."

The important role of the audit committee in overseeing the integrity of an organization's financial statement reporting process continues to evolve. We encourage you to explore the CAQ's tool as you fulfill your duties on behalf of the boards and companies that you serve. For additional audit committee along with financial accounting and reporting tools and resources, visit BDO's Board Governance page at: www.bdo.com/services/assurance/board-governance/overview.

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