

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

CORPORATE GOVERNANCE



SUBJECT

CAQ ISSUES 2015 AUDIT COMMITTEE TRANSPARENCY BAROMETER

SUMMARY

The Center for Audit Quality (the CAQ) has issued its second edition of the *Audit Committee Transparency Barometer*, an annual report issued jointly with Audit Analytics. The 2015 *Barometer* identifies encouraging trends in 2015 with respect to voluntary, enhanced disclosure around external auditor oversight, an important facet of the audit committee's broader financial reporting oversight role. The *Barometer* reflects findings from the review of the robustness of proxy statement disclosures among companies in the S&P Composite 1500 - comprised of S&P 500 (large-caps), the S&P MidCap 400, and the S&P SmallCap 600. It also highlights certain disclosure examples as references.

The 2015 *Barometer* builds on the initial 2014 edition and provides a year-over-year comparison in certain key audit committee disclosure areas. Among other findings, the 2015 *Barometer* indicates:

- ▶ 25% of the S&P 500 companies include a discussion of the audit committee's consideration in recommending the appointment of the audit firm, up from 13% in 2014.
- ▶ 16% of S&P 500 companies explicitly stated the role audit committees play in determining the audit firm's compensation, doubling from 8% in 2014.
- ▶ Disclosure of the criteria considered when evaluating the audit firm more than tripled among S&P MidCap 400 companies, rising from 7% to 25%. Disclosure of this criteria among S&P SmallCap 600 companies increased from 15% to 22%.

According to the *Barometer*, these efforts by audit committees to enhance their disclosures are encouraging, given the importance of meaningful, tailored information for investors and other stakeholders. Through tracking of such data and provision of examples, this tool can provide a fresh perspective to audit committees as they assess their approach to disclosures in the coming proxy seasons.

BDO USA CORPORATE GOVERNANCE PRACTICE

BDO USA's Corporate Governance Practice was developed to provide guidance to corporate boards. The firm works with a wide variety of clients, ranging from entrepreneurial businesses to multinational Fortune 500 corporations, on a myriad of accounting, tax, risk management and forensic investigation issues.

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The importance of transparency is further underscored by the 2015 issuance, and extension of the comment period until November 30, 2015, of the SEC's Concept Release on *Possible Revisions to Audit Committee Disclosures*. A significant amount of commentary provided to date on this Concept Release has come from audit committee members who, while expressing they are in favor of expanded disclosure, would prefer to do so on a voluntary basis that allows for a flexible, scalable, and meaningful principles-based approach to be most reflective of the needs of a company's stakeholder base and not result in a boiler-plate exercise after a few iterations.

The Barometer further cites direct requests to and compliance by large-cap companies from several investment groups and pension funds for additional information relating to the audit committee's oversight of the external auditor as a contributing factor to enhanced reporting in proxy disclosures.

NEXT STEPS

We encourage our client and contact audit committee members to review the *Barometer* and consider the transparency and value provided to the public by your current disclosures. We further encourage, if you have not done so already, review of the SEC's Concept Release and consider providing your thoughts and perspectives to the SEC, as this will undoubtedly continue to be a significant topic of interest to regulators, audit committees, management, auditors, shareholders and other stakeholders.

For additional audit committee tools and resources, including [BDO's Alert on the SEC's Concept Release](#), visit BDO's [Board Governance](#).

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