

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

2019 YEAR END AUDIT COMMITTEE AGENDA



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Assessing the Market's Pulse

Audit committees continue to be recognized by stakeholders in the financial reporting ecosystem as playing a key role in driving audit quality in the marketplace. The Center for Audit Quality's [2019 Main Street Investor Survey](#) reveals continued high marks with 81% of retail investors expressing confidence in the role that audit committees play in investor protection.

The following year-end snapshot is designed to help audit committees frame their respective committee agendas as they close out 2019 and look ahead to the 2020 proxy season. 2019 has shaped up similarly to 2018 with some newer areas emerging in importance and urgency for directors. From newly effective and pending accounting standards to significant changes to auditor reporting related to Critical Audit Matters, financial reporting remains high on the agenda. Internal controls over financial reporting, with an emphasis on impacts related to adoption of new reporting standards, also remains high on the list. Other staples include: consideration of establishing and maintaining effective relationships among stakeholders; management's assessment of risk and opportunities posed by cybersecurity, data privacy and digital transformation; and continued assessment on impacts from U.S. tax reform. Increasing focal points that may require audit committee scrutiny include: voluntary disclosures reflective of their oversight of the audit; proxy advisory focus; auditor independence; and education around trending ESG reporting.

BDO has compiled the following year-end snapshot of issues and select resources that audit committees will find helpful in addressing their oversight responsibilities and communications with management and auditors during the year-end audit cycle and related reporting. While the following is intended as a high-level reference, additional resources are available and include BDO's [Quarterly Technical Update - Q4 2019](#) webinars and our upcoming annual newsletter highlighting the [AICPA Conference on SEC and PCAOB Developments](#) and recently released topical publications – all of which are or will be made available on BDO's [Center for Corporate Governance and Financial Reporting](#).



Engaging the Audit Committee: Leading Practices in a Significant Period of Disruption

As the expectations of audit committees continue to grow in light of newer accounting, auditing and reporting standards – from both a mandated and a voluntary basis – the [2019 AICPA SEC and PCAOB Conference Highlights](#) spotlighted perspectives from an audit committee chair, a chief compliance officer and BDO's own national managing partner of auditing. Certain of the panelists' thoughts, combined with additional commentary provided by regulators and others during the Conference, are laid out below and set the tone for consideration of subsequent sections contained within this publication.

Significant emphasis continues to be placed on setting clear communication expectations among management, auditors and audit committees to ensure free flow of timely and candid information to avoid surprises and provide audit committees with much needed insight into various aspects of the business. Taking into consideration the various committee structures within organizations (e.g. separation or combination of risk and audit), there was agreement on the expectation for "straight talk" and creating an environment that is conducive to sharing of information not only specific to the audit but around emerging areas that the audit committee should be mindful of.

The importance of continuing audit committee education and preparedness for meetings with auditors and management was a consistent theme along with the need for sourcing of independent information to both verify and help audit committees confirm their viewpoints about the quality of the company's financial reporting and disclosures.

To close out 2019, SEC leadership issued a [joint statement](#) featuring several year-end reminders to the audit committee with respect to tone at the top, auditor independence, new GAAP, internal controls, and auditor communications along with several specific reminders on reporting related to non-GAAP measures, LIBOR and critical audit matters. These noted overarching observations are supported by more specific observations gathered from a variety of sources around the role of audit committees with respect to evolving areas of oversight.

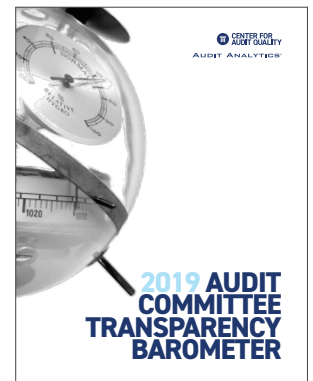


Taking the Audit Committee's Pulse

In November, the CAQ and Audit Analytics released their annual [Audit Committee Barometer](#) analyzing the proxy statements of audit committees representative of small-, mid-, and large-cap public companies. The Barometer looks specifically at the disclosures audit committees are choosing to make within the annual proxy statements, with a particular focus on the oversight of the audit.

Transparency continues to be reflected in disclosures about non-audit services and the impact on independence, criteria considered when evaluating the audit firm, involvement in audit partner selection as well as the audit committee's role in cybersecurity. Topics cited for improvement include significant areas discussed with the auditor, audit firm and partner selection, and audit firm compensation. As mentioned below, auditor disclosures about critical audit matters provide an opportunity for the audit committee to consider the current level of disclosure being made by the company and determining whether shareholders may benefit from additional information provided by the audit committee on related matters.

Annual re-consideration of the role and responsibilities as laid out in the [Audit Committee Charter](#), coupled with a rigorous self-assessment of how the audit committee is executing on those responsibilities, are best practices that we advise all audit committees to engage in. Earlier this year, BDO released an updated version of our [Audit Committee Self-Assessment Tool](#) that we encourage audit committees to consider that allows flexibility and customization. The tool is comprehensive yet flexible and we recommend that the tool be used in conjunction with your organization's audit committee charter (or similar document) to ensure that governance responsibilities are adequately aligned with the charter and are being fulfilled appropriately. You may choose to customize this self-assessment further to reflect specific attributes of your organization and develop specific action steps and estimated completion dates to enhance your audit committee's performance and accountability.



Standard Setting and Oversight Activities: Spotlight on the PCAOB

PCAOB BOARD ACTIVITIES

In early December, PCAOB Chairman Duhnke gave a [speech](#) during the Annual Audit Conference at Baruch College in which he outlined significant focal points in driving improvement in the quality of audit services; anticipating and responding to a changing environment; proactive stakeholder engagement; and the pursuit of operational excellence. Certain of his points are captured in the following update.

In November, the PCAOB swore in new board member [Rebekah Goshorn Jurata](#), who replaced outgoing board member and cyber expert Kathleen Hamm.

AUDIT COMMITTEE AND STAKEHOLDER OUTREACH

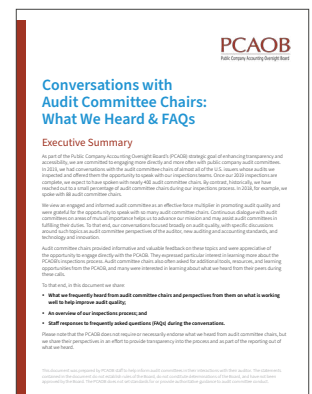
As part of the transparency and accessibility initiatives within its Strategic Plan, announced in 2018 and re-affirmed in 2019, the PCAOB engaged in dialogue with nearly 400 audit committee chairs of inspected issuers, increasing its outreach from 10% to nearly 100% in the current year, in an effort to both collect and convey information from/to the audit committee with respect to insights into the inspection process. Additionally, in 2019, the PCAOB established the Office of External Affairs to liaise directly with investors, audit committees, and preparers. This office has been busy conducting stakeholder roundtables and gathering additional input for its standard setting and other activities and in doing so has engaged over 800 investors and 600 audit committee members.

“The PCAOB views an engaged and informed audit committee as an effective force multiplier in promoting audit quality.”

In December, based on their outreach, the PCAOB released [Conversations with Audit Committee Chairs: What We Heard & FAQs](#) capturing views touching on:

- ▶ Audit quality – engagement level metrics commonly thought of as audit quality indicators (AQIs), use of shared service centers, leveraging various reporting including firm transparency and audit quality reports and inspection reports
- ▶ Relationship and communication with the auditor – information received, level of detail and means for delivery
- ▶ New auditing and accounting standards – proactive approach to education and leveraging of resources for implementation
- ▶ Technology driven changes – familiarity of audit firm tools and technology, reliance on education on emerging technologies, and significant resources being allotted to cybersecurity

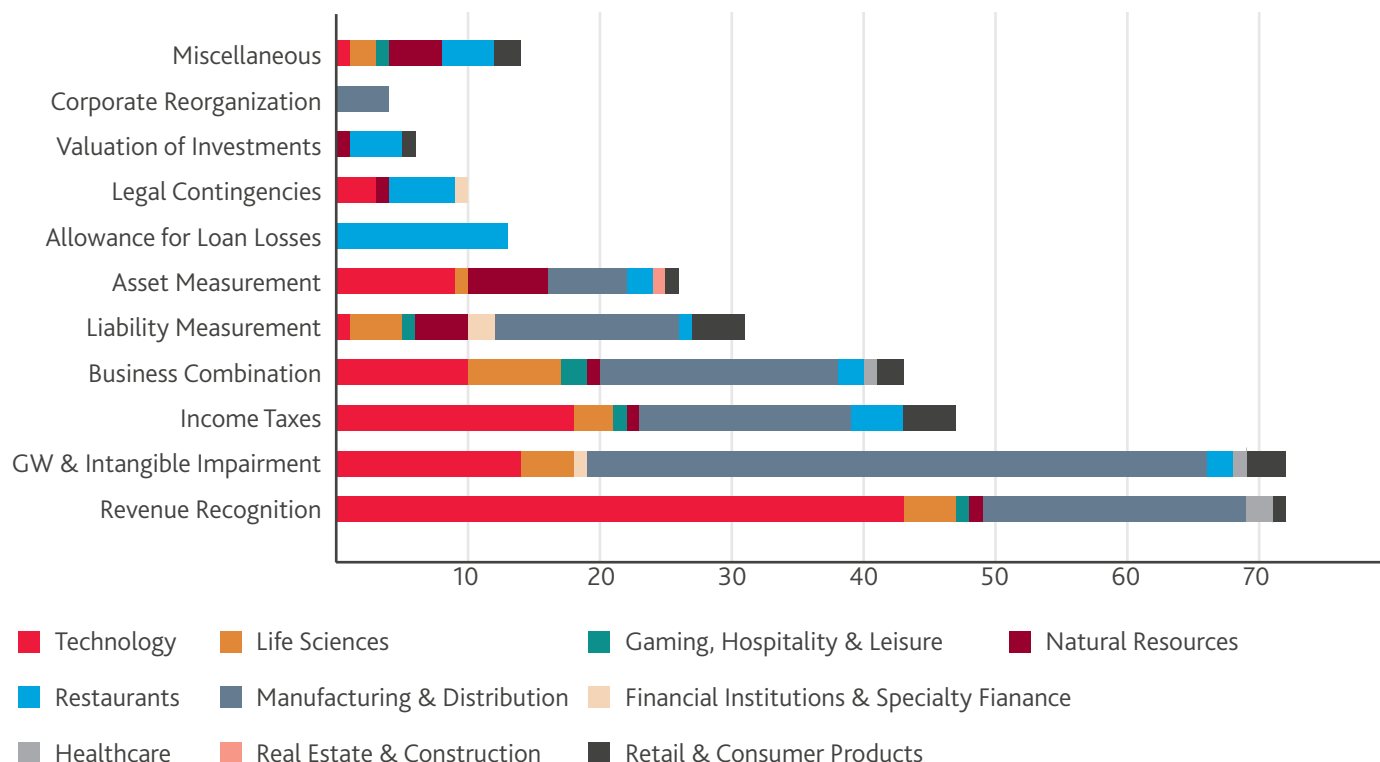
The publication further contains valuable insights into what is working well in each of the areas and covers some of the frequently asked questions on strategic areas related to the inspection process, education for audit committee members, cost-benefit analysis of standards, and AQIs.



CRITICAL AUDIT MATTERS (CAM)

Highly anticipated auditor report CAM disclosures under PCAOB Auditing Standard (AS) 3101 have begun to arrive within the filings of annual reports for June 30 year-end larger accelerated filers (LAFs). Auditor reports filed through early December have yielded an average 1.73 CAMs per issuer in the following concentration by industry:

PCAOB: CAM OBSERVATIONS AS OF DECEMBER 2019



Regulators and others are busy analyzing implementation by these early filers to ensure that the spirit of the standard is being adhered to by auditors and meaningful, audit-specific information is being conveyed to investors. Certain matters are being made clear to auditors, preparers and users of financial statements including the recognition that CAM is a point in time disclosure and likely may differ from year to year based on the specific facts and circumstances of each audit and should not be expected to be comparable purely based on industry. Additionally, it should be further recognized that CAM does not have a one to one relationship with management's identified critical estimates. That is, simply because something is a critical management estimate does not make it a CAM.

In anticipation of the new auditor's report, significant emphasis has been placed on the value of performing "dry runs" between the auditors, management and audit committees that have allowed each of these parties insight into what is being considered for inclusion in the auditor's report that fall within matters that are communicated to the audit committee and reflect material accounts or disclosures that represent specially challenging, subjective, or complex auditor judgment. Other stakeholders who are encouraged to be included in the dry run process may include company compliance, legal and investor relations professionals. Additionally, we encourage preparers and audit committees to take advantage of the opportunity to take a "fresh" look at areas relative to CAMs that are included in the company's financial reporting disclosures and ensure alignment and transparency with the anticipated auditor's report. Dry runs are highly encouraged for non-LAFs that will be contemplating adoption of AS 3101 in the coming year and early and frequent communication are keys to success.



Both the SEC and the PCAOB acknowledge the close scrutiny they are giving to adoption of AS 3101 and the activities firms and companies are engaged in to do this properly. Significant guidance continues to be issued along with education opportunities and direct outreach by standard-setters around this important sea change including the recently released [PCAOB Spotlight](#) discussing the targeted inspection of 12 audits of large accelerated filers with fiscal years ending on or after June 30, 2019, to specifically review how auditors of these filers implemented the CAM requirements.

The following reflects a series of stakeholder-specific CAM guidance issued by both the PCAOB and the Center for Audit Quality aimed at audit committees, investors and auditors:

RECOMMENDED RESOURCES	
BDO Future of Auditor's Reporting is Here Resources	Continually Updated
PCAOB New Auditor's Report Resource Site	Continually Updated
PCAOB Critical Audit Matters Spotlight	December 2019
BDO Webinar Demystifying Critical Audit Matter (CAM) Reporting	October 2019
Intelligize Critical Audit Matters: Public Company Adaptation of Enhanced Auditor Reporting	September 2019
PCAOB Implementation of CAM: A Deeper Dive on the Communication of CAMs	May 2019
PCAOB Webinars on Critical Audit Matters - 4/25 and 5/8	April/May 2019
PCAOB Webinar on Critical Audit Matters - 5/15	May 2019
CAQ Webinar: The Enhanced Auditor's Report is Here: Get the Facts on CAMs and More	April 2019
PCAOB Additional CAM Resources for Audit Committees	March 2019
CAQ Critical Audits Matters: Lessons Learned, Questions to Consider, and an Illustrative Example	December 2018



OTHER PCAOB STANDARD SETTING

In August, the PCAOB issued [four staff guidance alerts](#) on auditing standards related to auditor's use of specialists and auditing accounting estimates which become effective for audits of financial statements for fiscal years ending on or after December 15, 2020. Additional areas of emphasis in standard setting and rulemaking, as being communicated publicly by the PCAOB, is the increasing role and the required consideration of technology impacting the conduct of audits.

PCAOB INSPECTION UPDATE

During the AICPA 2019 Conference on SEC and PCAOB Developments, several members of the PCAOB including Chairman Bill Duhnke and George Botic, Director of Registration and Inspections, indicated that in contemplation of market feedback, the PCAOB intends to change the format of its inspection reports of audit firms beginning with its completed inspections of the 2018 audit cycle of the six largest U.S. audit firms to better meet needs of investors. The new form reports, to be released in the first quarter of 2020, are expected to "deliver results of our inspections in a clear, easier to read format that goes directly to our findings..." This will include more comparative information and reduce boiler plate language.

The PCAOB staff continues to note the areas of recurring inspection findings include ICFR, revenue recognition, allowance for loan losses and other accounting estimates (including fair value measurements), and auditor independence violations. The key areas of focus they cited for the 2020 PCAOB inspections cycle will include:

- ▶ The audit firms' system of quality control;
- ▶ Auditor independence;
- ▶ Firm remediation efforts in areas of recurring audit deficiencies identified through the PCAOB inspections process;
- ▶ Considerations of omitted audit procedures after the auditor's report date and subsequent discovery of facts existing at the date of the auditor's report;
- ▶ Implementation of new accounting and auditing standards; and
- ▶ Cybersecurity and emerging technologies such as digital assets and blockchain.

In recent months, the PCAOB has issued [staff documents](#) that contain descriptions of "good practices" they are noting from inspections in addition to traditional reporting on deficiency trends.

AUDIT FIRMS' SYSTEMS OF QUALITY CONTROLS AND AUDITOR INDEPENDENCE

Chairman Duhnke has stated, "The PCAOB views a strong system of quality control within [audit] firms as crucial to promoting consistent, high-quality audits. We also view it as foundational to our shift towards a more preventive regulatory approach." The PCAOB is highly focused on audit firms' internal systems of quality controls, evidenced in its [Inspections Outlook for 2019](#). As part of its review of existing related standards, the PCAOB held an open meeting on December 17, 2019 approving a [Concept Release](#) to solicit public comment on a proposed approach to revising quality control standards. The objective is to update standards to better reflect the evolution of the auditing environment in the past 15+ years. The PCAOB is closely monitoring similar international standard setting by the IAASB, specifically its current [proposed standard ISQM-1](#) with the intent to converge standards but may further include modifications to:

- ▶ Align with U.S. federal securities law, SEC, and PCAOB requirements
- ▶ Retain important topics addressed in PCAOB current standards that are not covered (or not covered as specifically) in ISQM 1
- ▶ Address emerging issues we have observed in oversight
- ▶ Provide more definitive direction to promote appropriate implementation in certain areas

Comments on the PCAOB's Concept Release are due by March 16, 2020.

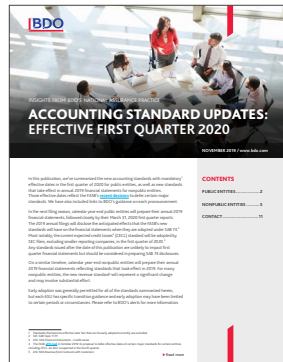
Another hot area of focus for the PCAOB is auditor independence. In 2019, the PCAOB completed several [enforcement](#) actions focused around widely publicized improper conduct by auditors impacting their independence of certain of their audit clients serving as a reminder to audit committees to be vigilant in ensuring the proper oversight and approval of audit services and propriety of auditor relationships with management.

Standard Setting: Implementation of New FASB Reporting Standards: Lessons Are There...What Is Being Learned?

Accounting standard implementation continues to be a significant undertaking. BDO has compiled a [summary of effective dates](#) for your reference.

To summarize recent [comments](#) made by SEC Chief Accountant Sagar Teotia of the Office of the Chief Accountant (OCA), implementation of new standards has been aided by:

- ▶ Collaboration between preparers, industry groups, auditors, standard setters and others
- ▶ Early, proactive identification of issues to allow sufficient time to develop judgments
- ▶ Consultation with the OCA where well-reasoned judgments on factually supported matters were provided
- ▶ Disclosures providing users of financial statements with implementation progress and anticipated impact of adoption
- ▶ Real time monitoring that has allowed for timely updates to regulatory guidance



BDO regularly issues technical accounting guidance via BDO's [Center for Corporate Governance and Financial Reporting](#). We continue to encourage clients to perform standard implementation timely, remain educated, and work closely with your engagement teams to raise accounting issues early in the process. We invite you to register for our [Quarterly Technical Update](#) webinar series and [other programming](#). Below are some recent resources for your consideration relative to several significant accounting standards:

RECOMMENDED RESOURCES

[Accounting Standards Updates: Effective First Quarter 2020](#)

[FASB Issues Improvements for Credit Losses Standard](#)

[BDO Knows CECL: FASB Topic 326, Financial Instruments – Credit Losses](#)

[FASB Issues Two Updates to Finalize Deferral of Effective Dates for Major New Accounting Standards](#)

[FASB Clarifies Accounting for Share-Based Payments to Customers](#)

[3 Reasons Why You Need to Forge Ahead with Lease Accounting Implementation](#)

[BDO Knows Lease Accounting](#)

[Lease Accounting Road to Compliance Checklist](#)

[BDO Lease Accounting Resource Center](#)

[BDO Revenue Recognition Resource Center](#)

[CECL Implementation Guide](#)

[Your CECL Implementation Roadmap](#)

Internal Controls Over Financial Reporting

The SEC is currently considering [significant changes to filer definitions](#) that may impact required auditor attestation on internal controls over financial reporting (ICFR) under 404(b) of the Sarbanes-Oxley Act. Management, audit committees, investors and other stakeholders need to recognize that such rule-making would not change the attestation responsibilities of the company's management under 404(a) of the Act nor of the auditor's responsibility in terms of understanding the control environment in order to perform an audit of financial statements. However, it does mean a potential loss to the audit committee of the auditor's perspective as to whether management controls are operating as intended.

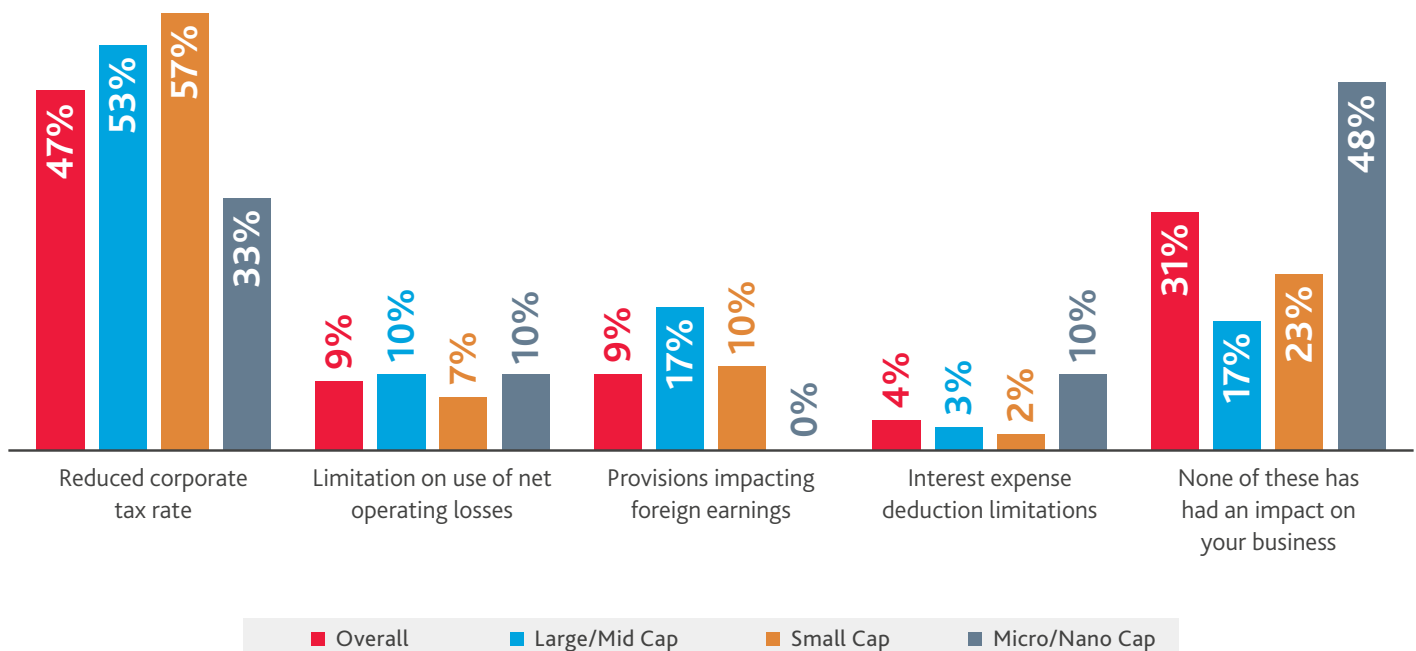
In the meantime, the PCAOB continues to cite deficiencies in their public company inspection reports with respect to internal controls, including management review controls (MRCs). To aid company management and audit committees in better designing, executing and documenting MRCs, BDO has published a [Management Review Controls Mini-Guide](#) that leverages BDO's [Professional Judgement Framework](#) to be responsive to evolving complexity of business operations, regulations and economic developments which impact financial reporting.

Taxation and the Audit Committee

Given the complexities of [domestic](#) and [global tax regimes, tariffs or trade deals](#), seemingly small changes in strategic approach can have far-reaching consequences to a company or individual's various [tax liabilities](#).

In response to the U.S. Tax Cuts and Jobs Act of 2017, here is what public company directors [reported](#) were most impactful, based on size of company:

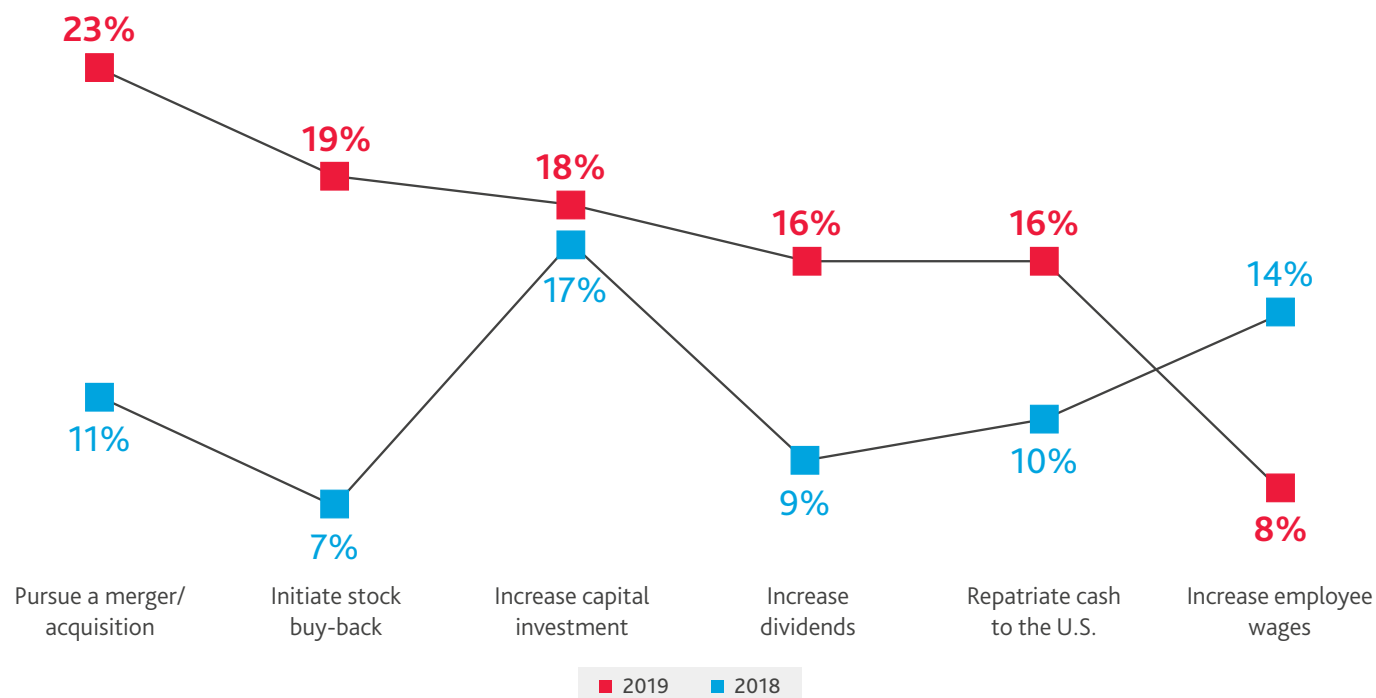
MOST IMPACTFUL TAX REFORM PROVISIONS



Source: BDO 2019 Board Survey

Over 50% of directors surveyed further reported they were motivated to act on changes to their tax position and pursued diverse activities in doing so:

ACTIONS PURSUED/PLANNED AS A RESULT OF TAX REFORM



Source: BDO 2019 Board Survey

Audit committees are encouraged to consult with their tax professionals as they look to better understand the tax consequences that strategic decisions may have on corporate financial reporting.

RECOMMENDED RESOURCES

BDO Knows Tax Reform Resources Page*	Continually Updated
Total-Tax Liability*	Continually Updated
The Business Impacts of Wayfair*	Continually Updated
BDO Tax Transformation Guide	2019
BDO 600 – 2019 Study of CEO/CFO Compensation Practices	December 2019
BDO 2019 Year-End Tax Planning for Businesses	November 2019
BDO 2019 Year-End Tax Planning for Individuals	November 2019
BDO 600 – 2019 Study of Board Compensation Practices	October 2019
BDO 2019 Tax Outlook Survey Insights	February 2019
Tax Transformation Maturity Continuum	November 2018

*Timely tax resources continued to be added regularly

Beyond Financial Reporting: ESG and Sustainability

When asked about the importance of emerging calls for enhanced disclosure on environmental, social and governance ("ESG") matters within corporate reporting, many audit committee members acknowledge that, in general, they (along with other stakeholders) need more education to inform their position on gathering and disclosing meaningful information, as part of a fuller board responsibility. The current emphasis by shareholders, proxy advisors and regulators on companies demonstrating long-term value creation through sustainability metrics and disclosures, coupled with the numerous, competing reporting frameworks and activity by rating agencies, has many scrambling to meet demands while trying to provide well-thought out, accurate and relevant information.

According to the annual [2019-2020 National Association of Corporate Director \(NACD\) Public Company Governance Survey](#), 79% of boards are focused on ESG and how they are improving their understanding of ESG, how it relates to strategy and risk at an enterprise level and how it materially contributes to value preservation and creation. In early December 2019, the [Sustainability Accounting Standards Board](#) hosted its annual conference to a growing crowd of company management, board of directors, regulators and financial service providers focused on the evolution of reporting on environmental, social and governance matters that support the financial sustainability of a company. The SASB's industry specific [sustainability standards](#) issued just last year are starting to take hold with approximately 100 companies in 15 countries and across 35 industries adopting the standards. Use of such standards are intended to provide common industry-specific accounting metrics with regard to information that is likely financially material to investors. Additionally, the standards have been designed to provide technical protocols for compiling data and activity metrics for normalization.

Many companies, particularly large global organizations, are already down the road in providing public ESG metrics, but as more reliance is potentially being placed on information that is supplemental to traditional financial information, many question the comfort level with respect to the integrity and comparability of such metrics. To confused matters, there are multiple internationally accepted frameworks, in addition to SASB, being used by companies to report such information as well as a myriad of rating agencies all of which request volumes of data from companies in making their assessments.

There are increasing resources for companies considering their own ESG reporting including [Ceres' SEC Sustainability Disclosure Search Tool](#) and [NASDAQ's ESG Reporting Guide 2.0](#) to name just a few.

Audit committees are encouraged to seek continuing education in this developing area to inform their oversight of risk and how it is captured within the company's financial reporting disclosure in the broad sense. The [NACD](#) poses several questions that boards may ask when contemplating meaningful disclosure:

- ▶ Has our company identified the most salient environmental, social, and governance (ESG) risks to our business operations?
- ▶ If the company has identified risks, are they incorporated into our broader enterprise risk management system?
- ▶ Are our disclosure practices around key ESG risks in line with those of our industry and proxy peers?
- ▶ What questions are shareholders, regulators, employees, customers, or other stakeholders asking about long-term strategy and the potential impact of ESG risks on corporate performance?

Roles of auditors and regulators (refer to the SEC's current [proposal](#) on Human Capital Reporting) are continuing to evolve in this space in response to market expectations and demand. We encourage engagement with auditors and your investor relations professionals to maintain a pulse on this developing area. For more information visit BDO's [integrated thinking and reporting guide](#).

Safeguarding Assets in the Age of Data Privacy

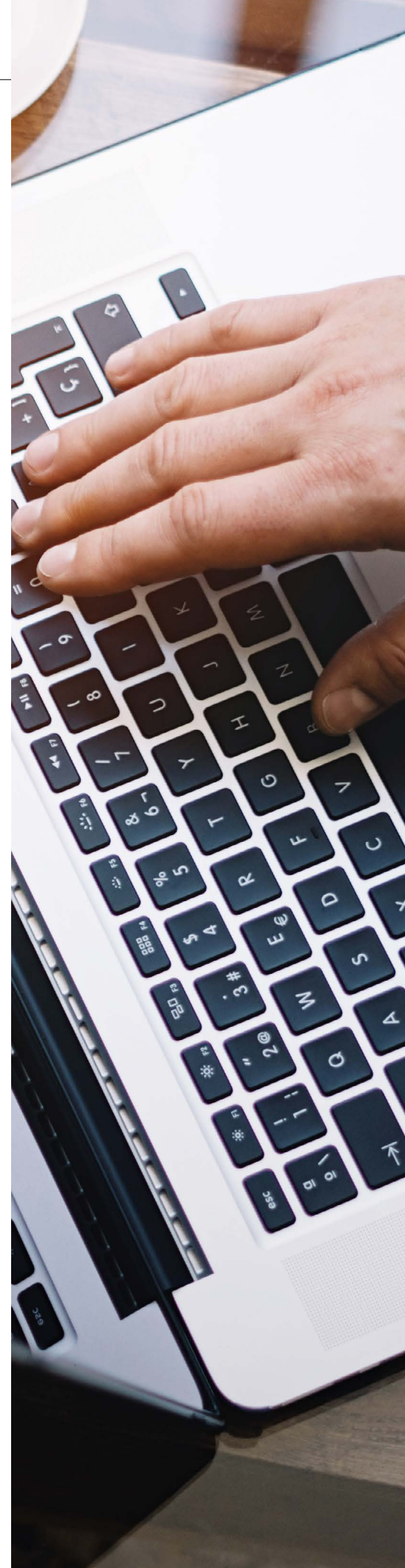


Companies sustain more annual growth when they are guided by data-driven insights. In order to unlock the full power of data across all business processes, company management need holistic enterprise information governance. This enables the collection of data with consistency, ensures quality and guarantees its security throughout the lifecycle. From a risk oversight perspective faced with escalating cyberattacks and increased regulations for consumer privacy, data governance has never been more important. Through proper governance, companies can decrease the complexity of business solutions and

leverage them across multiple teams, while saving time and resources in the process. Refer to BDO's [Comprehensive Guide to Data Governance](#) to learn more.

The new California Consumer Privacy Act (CCPA), a significant piece of legislation which goes into effect on January 1, 2020, builds upon existing privacy law principles that prohibit unlawful, opaque, and limitless capture and processing of personal data. Consumers' rights will be extended to allow requests to businesses to disclose the categories and specific pieces of personal information that the business collects about the consumer, the categories of sources from which that information is collected, the business purposes for collecting or selling the information, and the categories of third parties with which the information is shared. Refer to [BDO Knows California Consumer Privacy Act](#) for more information.

The Center for Audit Quality has further issued [Emerging Technologies, Risk and the Auditor's Focus: A Resource for Auditors, Audit Committees, and Management](#) to highlight the financial reporting implications of the evolving use of technology together with the benefits, risks, and associated auditor considerations.



Risk Management: Continued Focus on Cybersecurity

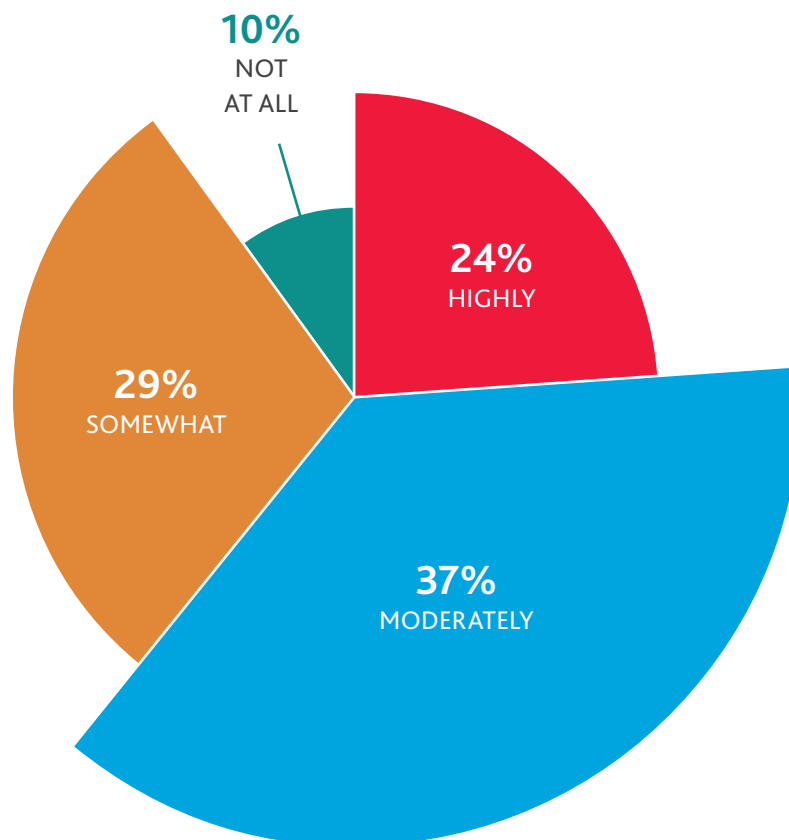


While boards may be fatigued by cybersecurity and data privacy alarm, the reality is that risks are only growing in complexity while scrutiny from regulators continues to heat up. The costs of cybercrimes, according to Juniper Research, have already accounted for \$2 trillion in losses in 2019.

Not only must companies protect their most valuable assets—like their customer data, intellectual property and trade secrets—but they must also consider how bad actors could disrupt their operations or supply chains and cause financial and reputational harm.

Board directors not only need to [understand the cyber landscape](#) but also need to understand how their companies are poised to respond to a data breach when it happens.

HOW FAMILIAR ARE YOU WITH YOUR ORGANIZATION'S DATA BREACH RESPONSE PLAN?



To find out more about what directors think about cybersecurity and their organizations, refer to the [2019 BDO Board Survey results](#).

Proxy Season and the Audit Committee

Updated proxy advisory guidelines for 2020 issued by Glass Lewis that directly impact the audit committee focus on disclosure of audit fees and may include a recommendation of a vote against the audit committee chair when fees paid to the company's external auditor are not disclosed. If the company has a staggered board and the audit committee chair is not up for re-election, then Glass Lewis will not recommend a vote against other audit committee members but will note its concern regarding the audit committee chair. Glass Lewis believes,

“When considering a proposal to ratify the board's choice of auditor, the balance of fees paid to the auditor for audit-related and non-audit services is crucial information. Without this basic disclosure, we do not believe shareholders are able to make an informed judgement on the independence of the company's external auditor and we believe it is the duty of the audit committee to provide this information to shareholders.”

With respect to disclosure of audit committee meetings, Glass Lewis has clarified that it will recommend voting against governance committee chairs when records for committee meeting attendance are not disclosed and against an audit committee chair, specifically, if the audit committee did not meet at least four times during the year.

In November, in a stated effort by Chairman Clayton to “enhance the accuracy, transparency and effectiveness of our proxy voting system,” the SEC proposed two rule amendments impacting proxy advisors and shareholder voting that may be viewed as wins for company management if they move forward. The SEC was split over the proposals with the two Democratic Commissioners [dissenting](#).

Proxy advisory solicitation: Under the proposal, company management would be given the opportunity to look at shareholder proposals before they can be distributed publicly. Proxy advisors would only be exempt from having to file full proxy statements if they let corporate executives review and respond to the shareholder recommendation. Companies would have five days to review along with a two-day notice period before the proxy advice is made public. Proxy advisors would also need to disclose if they are promoting standards that are materially different than the requirements of the SEC. Additionally, the SEC would require proxy advisors to disclose material conflicts of interest in its proxy advice.

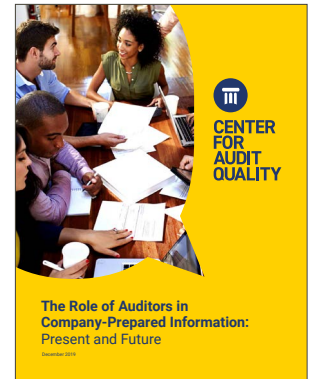
Shareholder proposals: The SEC is further proposing to change submission and resubmission thresholds of shareholder proposals that would require a shareholder to own at least \$2,000 worth of shares for at least three years to be able to submit a proposal; \$15,000 for two years; or \$25,000 for one year. Shareholders would also have to make themselves available to speak to the company within 30 days of submission. The SEC is also proposing to significantly change thresholds for resubmission of proposals:

THRESHOLD OF S/H SUPPORT	1ST TIME PROPOSED (WITHIN 5 YEARS)	2ND TIME PROPOSED	3RD TIME PROPOSED
Current	3%	6%	10%
New	5%	15%	25%

Both of these new proposals follow SEC guidance issued earlier this year regarding: [the proxy voting responsibilities of investment advisers](#) and the [applicability of the proxy rules to proxy voting advice](#). Additionally, the SEC Staff [announced](#) that its response to no-action requests in 2019-2020 during the shareholder proposal season may be delivered either orally or in writing.

The Evolving Role of the Audit Profession

In contemplation of developing areas related to accounting and auditing standards combined with the increasing use of and reliance upon evolving disclosures beyond traditional financial reporting such as sustainability and ESG, non-GAAP, Key Performance Indicators (KPIs) and cybersecurity reporting, the CAQ released [The Role of the Auditors in Company-Prepared Information: Present and Future](#) to provide a foundational understanding of the current role of auditors in various types of company-prepared and publicly disclosed information. It also serves to assist audit committees and investors in understanding how auditors are well-positioned to help fill existing gaps in enhancing the reliability of decision-useful information. Click [here](#) for thoughts from Wayne Berson, CEO, BDO USA, LLP.



Next Steps

These are just some of the many issues that audit committees continue to contemplate in exercising their oversight responsibilities. We encourage audit committees to be thoughtful in their continued education and take advantage of the numerous opportunities available through BDO's [Center for Corporate Governance and Financial Reporting](#). To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), [visit www.bdo.com/member/registration](http://www.bdo.com/member/registration) and create a user profile. Please reach out to your engagement teams with questions about content contained within this publication.





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CONTACT US



AMY ROJIK
National Assurance Partner
617-239-7005 / arojik@bdo.com



SERGEY STARYSH
National Assurance Partner
404-979-7217 / sstarysh@bdo.com



CHRISTOPHER TOWER
National Managing Partner – Audit Quality
and Professional Practice
714-668-7320 / ctower@bdo.com



MATT BECKER
National Managing Partner – Tax
616-802-3413 / mkbecker@bdo.com



PHILLIP AUSTIN
National Assurance Managing Partner, Auditing
312-730-1273 / paustin@bdo.com



PAUL HEISELMANN
Managing Partner – Tax
312-233-1876 / pheiselmann@bdo.com



PATRICIA BOTTOMLY
National Assurance Partner
310-557-8538 / pbottomly@bdo.com



STEPHANIE GIAMMARCO
Partner, Technology & Business Transformation Services
National Leader
212-885-7439 / sgiammarco@bdo.com



ADAM BROWN
National Assurance Managing Partner, Accounting
214-665-0673 / abrown@bdo.com



KAREN SCHULER
Principal, Data & Information Governance National Leader
703-336-1533 / kschuler@bdo.com



TIM KVIZ
National Assurance Managing Partner, SEC Services
703-245-8685 / tkviz@bdo.com



GREGORY GARRETT
Head of US & Intl Cybersecurity
703-770-1019 / ggarrett@bdo.com



PAULA HAMRIC
National Assurance Partner
312-616-3947 / phamric@bdo.com



DAMON PIKE
STS Intl Principal
561-207-3205 / dpike@bdo.com