

# SEC Solicits Comment on Possible Revisions to Audit Committee Disclosures

[Istvan Benko](#)

August 5, 2015

On July 1, 2015, the Securities and Exchange Commission (SEC) published a [concept release](#) seeking public comment on current audit committee disclosure requirements, focusing on the committee's oversight of independent auditors. The SEC solicited information about the audit committee and auditor relationship and whether improvements can be made to enhance the information provided to investors about the audit committee's responsibilities and activities. The SEC seems to believe that "[r]egulators, policy-makers, and many investors would benefit from a more robust understanding of what the public company audit committee does and how it oversees the external audit firm and performs its other responsibilities." The SEC noted that while current audit committee reporting requirements provide information about the role of the audit committee with respect to its oversight of the auditor, current disclosures do not describe how the audit committee executes its responsibilities. According to the SEC, some investors have requested additional information to enable them "to differentiate between companies based on the quality of audit committee oversight, and determine whether such differences in quality of oversight may contribute to differences in performance or quality of financial reporting among companies." Accordingly, the SEC is seeking input as to whether additional disclosures should be required about audit committees, what type of additional information should be disclosed regarding oversight of the audit and the committee's relationship with its auditors, and whether additional disclosure would help inform investment and voting decisions.

The concept release contains 77 questions regarding potential changes to audit committee disclosures, primarily in the following areas:

- A. **Audit Committee's Oversight of the Auditor.** The SEC is seeking input regarding possible disclosures regarding how the audit committee performs its duties. These potential additional disclosures would include, for example, information regarding the communications between the audit committee and the auditor, the number of times the audit committee met with the auditor, the audit committee's review and discussion of the auditor's internal quality-control review and the most recent inspection report from the PCAOB, and whether/how the audit committee assesses, promotes and reinforces the auditor's objectivity and professional skepticism.
- B. **Audit Committee's Process for Appointing or Retaining the Auditor.** Since selecting and retaining the auditor is one of the primary functions of the audit committee, the SEC is also seeking comment on potential disclosures about the actions the audit committee took in reaching its decision about which auditor to select for the upcoming fiscal year's audit. These potential disclosures regarding the retention of the auditor include how the audit committee assessed the auditor, the auditor's independence, objectivity and audit quality, as well as the audit committee's rationale for selecting or retaining the auditor. Specifically, the SEC is seeking comment on disclosures whether the audit committee sought proposals for the audit, the number of proposals it considered, and the factors the audit committee considered in selecting the auditor, the board of directors' policy, if any, for annual shareholder votes on the selection of the auditor, and the audit committee's consideration of the voting results when selecting the audit firm.
- C. **Qualifications of the Audit Firm and Certain Members of the Engagement Team Selected By the Audit Committee.** The SEC asked for comments on whether it should require

additional disclosures with respect to the key participants in an audit. Possible additional disclosures could include the identification of the engagement partner or additional members of the engagement team, the length of time they have served in their respective roles, descriptions of their experience, the involvement, if any, of the committee in selecting the engagement partner, the number of years the auditor has audited the company, and the names of other firms, tax advisors or actuaries, involved in the company's audit.

The concept release also seeks public comment on whether audit committee disclosures should be part of registration statements and prospectuses in registered offerings, and if and how these additional audit committee disclosures should apply to smaller reporting companies and emerging growth companies.

Comments should be received on or before September 8, 2015.