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At a glance

The SEC is seeking public input on whether investors would benefit from enhanced disclosure relating to the audit committee's oversight of the independent auditor and, if so, what information would be useful.

SEC considers changes to audit committee disclosure of auditor oversight

What happened?

On July 1, 2015, the SEC published a [concept release](#) to solicit public input on possible changes to its audit committee disclosure requirements. The concept release is focused on disclosures relating to the audit committee's oversight of the independent auditor.

Current audit committee disclosure requirements

Audit committees play a critical role in protecting the interests of investors, and disclosures about audit committee interactions with the independent auditor promote investor confidence. The majority of the SEC's current audit committee disclosure requirements were adopted in 1999. Since that time, there have been significant changes in audit committee responsibilities, including the 2002 Congressional mandate that the audit committee of a listed issuer be directly responsible for the appointment, compensation, retention, and oversight of the work of the independent auditor.

Current audit committee disclosure requirements (e.g., that the committee has discussed certain required communications with the auditor and has received written communications relating to the auditor's independence) provide some information about the audit committee's role in overseeing the independent auditor. However, the SEC's current rules do not provide insight into how the audit committee executes its responsibilities.

Focus of the concept release

The concept release seeks public input on a number of potential changes to the SEC's audit committee disclosure requirements on topics such as:

- communications between the audit committee and the auditor;
- frequency of meetings between the audit committee and the auditor;
- discussions about the auditor's internal quality review and most recent PCAOB inspection report;
- how the audit committee assesses, promotes, and reinforces the auditor's objectivity and professional skepticism;
- how the audit committee assessed the auditor (including the auditor's independence, objectivity and audit quality) and its rationale for selecting or retaining the auditor;
- whether the audit committee sought proposals for the independent audit and if so, the process the committee undertook and the factors it considered in selecting the auditor;
- policies for an annual shareholder vote on the selection of the auditor, and the audit committee's consideration of the voting results;

- disclosures of certain individuals on the engagement team (e.g., the naming the engagement partner);
- audit committee input in selecting the engagement partner;
- the number of years the auditor has served as the company's independent auditor; and
- information relating to other firms involved in the audit.

Some of these topics (e.g., naming the engagement partner and disclosing auditor tenure) are the subject of on-going projects by the PCAOB. The SEC is also seeking input on those topics so it can evaluate whether the disclosures, if they are important, would be more appropriately placed (or perhaps repeated) in company filings where they can be made in the broader context of the audit committee's oversight of the independent auditor.

Why is this important?

High quality, independent audits are critical to the proper functioning of the capital markets because they give the public confidence in the credibility and reliability of financial statements. Audit committees promote confidence through their oversight of the independent auditors.

In this concept release, the SEC is exploring whether additional disclosure about the audit committee's oversight of the independent auditor could be beneficial to investors, for instance, by providing useful information for making investment decisions or helping inform voting decisions regarding the ratification of auditors and the election of directors who are members of the audit committee.

It is important to note the SEC's current audit committee disclosure rules establish the "floor" for audit committee disclosure, not the "ceiling." Many audit committees have already gone beyond these minimum reporting requirements to provide enhanced disclosures around their independent auditor oversight activities. In November 2013, a group of nationally recognized corporate governance and policy organizations known as the Audit Committee Collaboration published *Enhancing the Audit Committee Report: A Call to Action* to encourage audit committees to voluntarily strengthen their disclosures. The Audit Committee Collaboration recently published its *External Auditor Assessment Tool: A Reference for U.S. Audit Committees* to assist audit committees in evaluating the external auditor. Audit committees may find these resources helpful as they consider their own disclosures.

What's next?

Comments are due within 60 days after the concept release is published in the Federal Register. The SEC will use the input it receives to evaluate whether to propose changes to its rules. The issuance of the concept release is only the first step in the rulemaking process.

Questions?

PwC clients who have questions about this *In brief* should contact their engagement partner. Engagement teams who have questions should contact the National Professional Services Group (1-973-236-7800).

Authored by:

John May
SEC Services Leader
Phone: 1-973-236-4793
Email: john.a.may@us.pwc.com

Brian Schramm
Senior Manager
Phone: 1-973-236-7720
Email: brian.c.schramm@us.pwc.com