# Audit Committee Disclosures Among Largest Companies Continue to Expand

SEPTEMBER 30, 2015

In its fourth annual report on enhanced audit committee reporting to shareholders, Ernst & Young reports that "the previously observed trend of Fortune 100 companies going beyond minimum disclosure requirements and providing voluntary audit-related disclosures has continued and expanded even further." In addition to providing additional disclosure, an increasing number of companies are grouping audit-related disclosures together in an "audit-related" section, which often includes the company's description of the audit committee's activities, the audit committee report, and the management proposal seeking ratification of the appointment of the company's auditors.

EY evaluated proxy statements of 76 companies in the 2015 Fortune 100 that filed annual proxy statements from 2012-2015. Among the trends identified in its review of Fortune 100 companies, EY observed the following:

- 71% disclosed that the audit committee is responsible for the appointment, oversight and compensation of the audit firm, compared to 41% in 2012 (54% in 2013 and 66% in 2014).
- 58% stated that the selection of the auditor is in the best interests of the company/stockholders, compared to 3% in 2012 (24% in 2013 and 50% in 2014).
- 61% indicated that the committee was involved in the selection of the lead audit partner, compared to 0% in 2012 (17% in 2013 and 47% in 2014).
- 21% stated that the audit committee is responsible for audit fee negotiations, compared to 0% in 2012 (9% in 2013 and 18% in 2014). Notably, in 2015 only 9% provided explanations for changes in fees paid to auditors.
- 41% said that the committee considers the impact of changing auditors when assessing whether to retain the current external auditor, compared to 3% in 2012 (17% in 2013 and 30% in 2014). Of Fortune 100 companies, 59% now disclose the length of the auditor's tenure (compared to 25% in 2012, 30% in 2013 and 50% in 2014).

Notably, in 2015 only 8% of the Fortune 100 companies disclosed the topics that the audit committee discussed with the auditor beyond the matters required to be discussed under the SEC rules. This percentage has not changed since 2012. The minority of companies providing such disclosure indicated that the audit committee raised certain topics with its auditors other than those required by regulations, including risk controls and compliance, cybersecurity and other information technology matters, pension funding and other investments.

As reported in prior posts, many regulators, governance groups and investor advocates have recommended that audit committees voluntarily expand the disclosures about their work included in the proxy statement. (See previous posts: November 26, 2013 and March 3, 2014) The EY report follows on the heels of the SEC's Concept Release on possible revisions to audit committee disclosures (see this previous post), which also noted the current trend toward enhanced audit committee disclosure among the largest companies. As regulators consider enhancements to required audit committee disclosures, audit committees for all companies will want to consider the possibility of including voluntary disclosures in proxy statements during the 2016 proxy season.

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