
CAQ Issues Non-GAAP Tool for Audit Committees

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As has been widely reported, in recent months the Securities and Exchange Commission has raised concerns about the use of non-GAAP measures by public reporting companies, through public speeches, revised compliance guidance and the comment letter process. (See our prior posts from [May 27, 2016](#) and [March 28, 2016](#).) SEC officials have emphasized the role of the audit committee in overseeing a company's use of non-GAAP measures and related disclosures, most recently in a [June 27, 2016 speech](#) by Chair Mary Jo White.

Against this backdrop, the Center for Audit Quality, a public policy organization associated with the accounting profession, has issued a new publication entitled [Questions on Non-GAAP Measures: A Tool for Audit Committees](#). The stated purpose of the CAQ tool is to assist audit committees in assessing management's presentation of non-GAAP performance metrics in light of the SEC's "heightened scrutiny" in this area. The tool provides sample discussion questions aimed at helping audit committees determine "(1) that management is complying with the SEC rules and related interpretations to non-GAAP measures, and (2) that the non-GAAP measures are aiding analysts and investors in understanding the business and its performance." As described by the CAQ, the sample questions are organized into three categories:

- **Transparency:** The tool offers audit committees ways to consider the purpose, prominence, and labeling of non-GAAP information, specifically in relation to traditional GAAP measurements. For example, has the non-GAAP measure been given more prominence than the most directly comparable GAAP measure?
- **Consistency:** The tool suggests ways that audit committees can question management to determine whether non-GAAP measures are consistent and balanced. For example, do the measures eliminate similar items that affect both revenue and expense, or do they only eliminate one or the other?
- **Comparability:** The tool provides questions to promote the comparability of non-GAAP measures presented. For example, do other companies present this particular measure or similar measures? If not, why is this measure important for this company but not its peers?

The tool also outlines procedural questions applicable to all three categories, including management's process for the oversight of non-GAAP measures, management's consultation with legal counsel and internal audit, and management's consideration of external information such as

SEC speeches and comment letters and the experience of others in the industry who may have received SEC comment letters.

Finally, the CAQ addresses the role of the auditor with respect to non-GAAP measures. It noted recent suggestions that “some users may have a misunderstanding about the level of auditor involvement with non-GAAP measures.” The CAQ points out that audited financial statements are not permitted by SEC rules to include such measures. The auditor is required under auditing standards to read and consider “other information” contained in periodic reports for material inconsistency with the financial statements, but it is not required to perform any other procedures over this information in situations where no inconsistencies are identified. Nor does the auditor have any responsibility for non-GAAP information presented in information not filed with the SEC, such as earnings releases or presentations.

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