About the Center for Audit Quality

The Center for Audit Quality (CAQ) is an autonomous, nonpartisan public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs.

For more information, visit www.thecaq.org.

About Audit Analytics

Audit Analytics is an independent research provider that enables the accounting, legal, and investment communities to analyze auditor market intelligence, public company disclosure trends, and risk indicators.

For more information, e-mail info@auditanalytics.com or call 508-476-7007.

Methodology

Consistent with the methodology used in prior years, we reviewed the most current S&P Composite 1500 proxy statements (i.e., those filed in the period from July 1, 2016 through June 30, 2017). Each edition of the Barometer tracks the companies that comprise the S&P indices at the end of the filing period. For purposes of presenting the findings, the disclosures we analyzed were located in the audit committee report or elsewhere in the proxy. In certain instances, the disclosure was also duplicated in other sections of the proxy.
Overview

In 2014, the CAQ, together with Audit Analytics, undertook an effort to gauge how public company audit committees approach the public communication of their external auditor oversight activities by measuring the robustness of proxy disclosures of companies in the S&P Composite 1500 (S&P 1500). This index is comprised of the S&P 500 large-cap companies (S&P 500), the S&P MidCap 400 (S&P MidCap), and the S&P SmallCap 600 (S&P SmallCap).

In our fourth year of analyzing proxy disclosures, we continue to observe encouraging trends with respect to voluntary, enhanced disclosure around external auditor oversight, an important facet of the audit committee’s broader financial reporting oversight role. In this 2017 Audit Committee Transparency Barometer, we detail the four-year trends and provide examples of disclosures of S&P 500, S&P MidCap, and S&P SmallCap companies to illustrate best practices.

Each of the indices we track showed increases in many disclosures related to external auditor oversight, including the following results from the S&P 500:

- An increase from 31% in 2016 to **37% in 2017** in disclosing audit committee considerations in appointing the audit firm (Figure 1);
- An increase from 59% in 2016 to **63% in 2017** in disclosure of length of audit firm engagement (Figure 2);
- An increase from 17% in 2016 to **20% in 2017** in stating that the audit committee is responsible for fee negotiations (Figure 3);
- An increase from 34% in 2016 to **38% in 2017** in discussing criteria considered when evaluating the audit firm (Figure 5);
- An increase from 19% in 2016 to **21% in 2017** in disclosing that an evaluation of the external auditor is at least an annual event (Figure 6);
- An increase from 43% in 2016 to **49% in 2017** in explicitly stating the audit committee is involved in the selection of the audit engagement partner (Figure 7); and
- An increase from 39% in 2016 to **46% in 2017** in stating the engagement partner rotates every five years (Figure 8).

One key area that we track – an explanation for a change in fees paid to the external auditor – either decreased or remained flat across the S&P 1500 indices from 2016 to 2017 (Figure 4). The number of companies including this disclosure in their proxy statements has fluctuated year to year since 2014. We believe, and the examples show, disclosure tends to be more robust when there is a significant change in fees. Such changes can be driven, for example, by merger and acquisition activity or other nonrecurring business activity.

As considerations in appointing the external auditor (Figure 1) and discussing criteria considered when evaluating the audit firm (Figure 5) are increasingly disclosed, so too are discussions of audit quality indicators (AQI). We are encouraged to see factors considered such as the auditor’s engagement team knowledge and experience, the audit firm’s system of quality control, results of Public Company Accounting Oversight Board (PCAOB) inspections, as well as the auditor’s historical performance discussed in the audit committee reports.

The enhanced disclosure trends observed in the data the CAQ and Audit Analytics collected from the 2017 proxies of the S&P 1500 are consistent with findings from the most recent Trends in Audit Committee Reporting (January 2017) from Deloitte’s Center for Board Effectiveness, which reviewed proxies for the S&P 100 and notes that disclosure in three key areas increased by more than 10% in 2016 – (1) the number of financial experts on the audit committee; (2) the audit committee’s role in reviewing earnings or annual report press releases with management and the independent auditor; and (3) the audit committee’s role in approving audit engagement fees.

EY Center for Board Matters also reports increased audit committee disclosure in its *Audit Committee Reporting to Shareholders in 2017* which has tracked such disclosure in the Fortune 100 since 2012. In its latest report, EY notes that in 2017, 87% of reviewed companies explicitly stated that the audit committee is responsible for the appointment, compensation, and oversight of the external auditor, compared with 45% in 2012. The report also notes that 56% of reviewed companies disclosed factors used in the audit committee’s assessment of the external auditor’s qualifications and work quality, compared with 17% in 2012. Disclosure that the audit committee was involved in the selection of the audit firm’s lead engagement partner jumped from 1% in 2012 to 75% in 2017. Further, the report notes that of the reviewed companies, 67% disclosed auditor tenure in 2017, compared to 27% in 2012.

REGULATORS’ VIEWS ON AUDIT COMMITTEE DISCLOSURES

While the US Securities and Exchange Commission (SEC) has not taken formal action since its concept release in July 2015 that solicited public comment on possible revisions to audit committee reporting requirements (primarily focusing on the role of the audit committee with respect to overseeing the external auditor), SEC officials continue to monitor and speak on the topic publicly.

In a September 2017 interview with the Brookings Institution, SEC Chairman Jay Clayton noted that the audit is “the bedrock of our financial system,” adding that “disclosure is very valuable for investors, valuable just as a general matter.” He also credited the creation of the independent audit committee and requirement of an audit committee financial expert with being “one of the greatest enhancements to investor protection that we’ve had in the last 25 years...,” adding that “the kind of dialogues that audit committees have today with their auditors and the [audit committee] disclosure that comes out of that versus 20 years ago, you can’t help but say, ‘this is a huge improvement.’”

The SEC’s Chief Accountant, Wes Bricker, has also spoken about audit committee disclosures. In remarks before the University of Tennessee’s C. Warren Neel Corporate Governance Center on March 24, 2017, Bricker noted: “As it relates to the transparency of activities performed by audit committees, I am encouraged by the momentum that appears to exist for increased voluntary reporting by the audit committee over the past several years, particularly about the audit committee’s work in overseeing the independent auditor. I encourage audit committee members of listed companies to continue to consider reviewing their audit committee disclosures and consider whether providing additional insight into how the audit committee executes its responsibilities would make the disclosures more effective in communicating with investors.”

EY Center for Board Matters also reports increased audit committee disclosure in its *Audit Committee Reporting to Shareholders in 2017* which has tracked such disclosure in the Fortune 100 since 2012. In its latest report, EY notes that in 2017, 87% of reviewed companies explicitly stated that the audit committee is responsible for the appointment, compensation, and oversight of the external auditor, compared with 45% in 2012. The report also notes that 56% of reviewed companies disclosed factors used in the audit committee’s assessment of the external auditor’s qualifications and work quality, compared with 17% in 2012. Disclosure that the audit committee was involved in the selection of the audit firm’s lead engagement partner jumped from 1% in 2012 to 75% in 2017. Further, the report notes that of the reviewed companies, 67% disclosed auditor tenure in 2017, compared to 27% in 2012.

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3 The interview, “A Conversation with SEC Chairman Jay Clayton” occurred September 28, 2017 at the Brookings Institution. The remarks can be heard in their entirety at: https://www.brookings.edu/events/perspectives-on-securities-regulation/.
4 See remarks before the University of Tennessee’s C. Warren Neel Corporate Governance Center: “Advancing the Role and Effectiveness of Audit Committees” available at https://www.sec.gov/news/speech/bricker-university-tennessee-032417.
Audit Firm Selection/Ratification

For the fourth year in a row, the S&P 500 proxy statements reviewed in 2017 showed a significant jump (6 percentage points) in the number of companies providing a discussion of audit committee considerations in appointing the external auditor (Figure 1). Leading companies tailor their disclosures effectively and minimize boilerplate language.

Consistent with our 2016 Barometer, disclosure of the length of time an audit firm has been engaged continues to trend upward, increasing by 4 percentage points and surpassing the 60% mark in the S&P 500 this year (Figure 2).
EXAMPLE 1 – AUDIT FIRM SELECTION/RATIFICATION

Source: Walgreens Boots Alliance, Inc. (S&P 500), 2017 Proxy Statement, Ratification of Independent Registered Accounting Firm

https://www.sec.gov/Archives/edgar/data/1618921/000119312516788520/d278460dddef14a.htm

At least annually, the Audit Committee reviews the Company’s independent registered public accounting firm to decide whether to retain such firm on behalf of the Company. [Audit Firm], has been the Company’s independent registered public accounting firm (including its predecessor Walgreens) since May 2002.

When conducting its latest review of [Audit Firm], the Audit Committee actively engaged with [Audit Firm]’s engagement partners and senior leadership where appropriate and considered, among other factors:

► the professional qualifications of [Audit Firm] and that of the lead audit partner and other key engagement partners relative to the current and ongoing needs of the Company;

► [Audit Firm]’s historical and recent performance on the Company’s audits, including the extent and quality of [Audit Firm]’s communications with the Audit Committee related thereto;

► the appropriateness of [Audit Firm]’s fees relative to both efficiency and audit quality;

► [Audit Firm]’s independence policies and processes for maintaining its independence;

► [Audit Firm]’s tenure as the Company’s independent registered public accounting firm and its related depth of understanding of the Company’s businesses, operations and systems and the Company’s accounting policies and practices;

► [Audit Firm]’s capability, expertise and efficiency in handling the breadth and complexity of the Company’s operations across the globe;

► [Audit Firm]’s demonstrated professional integrity and objectivity, which is furthered by the Audit Committee-led process to rotate and select the lead audit partner and other key engagement partners at least every five years or as otherwise required by applicable law or regulation, and which was done most recently in 2016; and

► the relative benefits, challenges, overall advisability and potential impact of selecting a different independent public accounting firm...

As a result of this evaluation, the Audit Committee approved the appointment of [Audit Firm], subject to stockholder ratification.

Note: The 2017 Walgreens Boots Alliance discussion of considerations in appointing its auditor is robust. The 2017 proxy disclosures are noteworthy given the change from the 2016 proxy which states, “The Audit Committee and the Board believe that the continued retention of [Audit Firm] to serve as the Company’s independent registered public accounting firm is in the best interests of the Company and its stockholders.”
As a result of a new auditing standard, audit reports issued on financial statements of public companies for fiscal years ending on or after December 15, 2017 will be required to include a statement containing the year the auditor began serving consecutively as the company’s auditor. We encourage companies to provide context in the audit committee report regarding the audit committee’s considerations of a firm’s tenure in selecting the external auditor. As illustrated in Example 2, General Electric disclosed considerations in deciding whether to retain its audit firm, including the benefits of a long-tenured auditor.

**EXAMPLE 2 – AUDIT FIRM SELECTION/RATIFICATION**

**Source:** General Electric Company, (S&P 500), 2017 Proxy Statement, Ratification of Independent Auditor

https://www.sec.gov/Archives/edgar/data/40545/000120677417000738/ge3179831-def14a.htm

**BENEFITS OF A LONG-TENURED AUDITOR**

**HIGHER AUDIT QUALITY.** Through more than 100 years of experience with GE and over 1,350 statutory GE audits annually in more than 80 countries, [Audit Firm] has gained institutional knowledge of and deep expertise regarding GE’s global operations and businesses, accounting policies and practices, and internal control over financial reporting.

**EFFICIENT FEE STRUCTURE.** [Audit Firm]’s aggregate fees are competitive with peer companies because of [Audit Firm]’s familiarity with our business.

**NO ONBOARDING OR EDUCATING NEW AUDITOR.** Bringing on a new auditor requires a significant time commitment that could distract from management’s focus on financial reporting and internal controls.

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6 A new auditing standard, AS 3101, The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, was approved by the SEC on October 23, 2017. The requirement to disclose auditor tenure applies to public companies, including brokers and dealers, Form 11-K filers, investment companies, and emerging growth companies.
EXAMPLE 3 – AUDIT FIRM SELECTION/RATIFICATION

Source: GameStop Corp. (S&P MidCap), 2017 Proxy Statement, Ratification of Independent Registered Accounting Firm

https://www.sec.gov/Archives/edgar/data/1326380/000132638017000068/gme_def14a2017.htm

In support of its reappointment of [Audit Firm] as GameStop’s independent registered public accounting firm, the Audit Committee took the following actions:

<table>
<thead>
<tr>
<th>AREAS OF FOCUS</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm qualifications</td>
<td>The Audit Committee reviews [Audit Firm]’s global reach, capability and expertise to perform an audit of a company with the breadth and complexity of GameStop’s business and its global footprint.</td>
</tr>
<tr>
<td>Firm objectivity and independence</td>
<td>The Audit Committee reviews relationships between [Audit Firm] and GameStop that may reasonably be thought to bear on independence and reviews [Audit Firm]’s annual affirmation of independence. Recognizing that independence and objectivity can be impacted by an auditor’s provision of non-audit services, the Audit Committee reviews the nature and amount of non-audit services provided by [Audit Firm]. In order to assure continuing auditor independence, the Audit Committee also considers whether it is appropriate to adopt a policy of rotating the independent registered public accountants on a regular basis. At this time, after reviewing the independence of [Audit Firm], the Audit Committee does not believe that it is necessary to rotate the independent registered public accountants to assure continuing auditor independence.</td>
</tr>
<tr>
<td>Quality of auditing practices and [Audit Firm]’s commitment to quality</td>
<td>The Audit Committee reviews issues raised by the Public Company Accounting Oversight Board (“PCAOB”) in its reports on [Audit Firm], [Audit Firm]’s internal quality control procedures and results of [Audit Firm]’s most recent quality control review. The Audit Committee also discusses [Audit Firm]’s quality initiatives and steps [Audit Firm] is taking to enhance the quality of its audits with the lead engagement partner and with [Audit Firm]’s senior advisory partner assigned to GameStop.</td>
</tr>
<tr>
<td>Performance as auditor</td>
<td>The Audit Committee reviews and discusses [Audit Firm]’s audit strategy and plan, including the overall scope of the audit. The Audit Committee receives periodic updates from the lead engagement partner on the status of the audit and on areas of focus for [Audit Firm]. The Audit Committee annually reviews [Audit Firm]’s performance in the conduct of their work and considers feedback provided by GameStop management regarding [Audit Firm]’s performance.</td>
</tr>
<tr>
<td>Performance and qualifications of lead engagement partner</td>
<td>The Audit Committee Chair is directly involved in selecting the lead engagement partner to ensure that the lead engagement partner is appropriately qualified to lead the GameStop audit. Throughout the year, the Audit Committee Chair meets one on one with the lead engagement partner to promote a candid and thorough dialogue. The Audit Committee also meets with the lead engagement partner in executive sessions of certain of the Audit Committee’s meetings to discuss the audit and any other relevant matters.</td>
</tr>
<tr>
<td>Communications with the Audit Committee</td>
<td>The Audit Committee evaluates the lead engagement partner’s communications with the Audit Committee for thoroughness, candor, clarity and timeliness.</td>
</tr>
<tr>
<td>Terms of the engagement and audit fees</td>
<td>The Audit Committee reviews the audit engagement letter and approves fees for audit and non-audit services.</td>
</tr>
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</table>
Audit Firm Compensation

As in past years, we reviewed disclosures to determine whether audit committees are explicitly stating the role they play in determining the audit firm’s compensation. This review shows that disclosure regarding audit committee involvement in audit firm fee negotiations among S&P 500 companies continued to trend upward with 20% disclosing in 2017 compared with only 8% in 2014 (Figure 3). These disclosures continue to be limited among S&P MidCap and S&P SmallCap.

The disclosure of the audit committee oversight related to audit firm compensation is enhanced when the proxy includes insight as to why a change in fees paid to the audit firm occurred (Figure 4). In 2017, there was a decrease of 3% among S&P 500 companies in disclosing a reason for changes in fees. Among S&P MidCap the number of disclosures remained flat, while there was a slight decrease of 1% among S&P SmallCap. There has not been a consistent trend in reporting related to changes in fees, most likely, we suspect, since disclosed fee changes often correspond with an acquisition or other nonrecurring business transaction.

![Figure 3](image-url)

**Percentage of S&P 1500 Disclosing Audit Committee Responsibility for Fee Negotiations**

![Figure 4](image-url)

**Percentage of S&P 1500 Providing Explanation of a Change in Fees Paid to the Audit Firm**
EXAMPLE 1 – AUDIT FIRM COMPENSATION

Source: Lockheed Martin Corp. (S&P 500), 2017 Proxy Statement, Ratification of Appointment of Independent Auditors

https://www.sec.gov/Archives/edgar/data/936468/000120677417000884/lockheed3174651-def14a.htm

The Audit Committee is directly responsible for the appointment, compensation, retention, oversight and termination of the Corporation’s independent auditors in accordance with the NYSE listing standards. The Audit Committee also is responsible for the audit fee negotiations associated with the retention of [Audit Firm].

The increase in fees from prior years is the result of audit and audit-related services provided in connection with:

► the purchase accounting and internal controls review related to the acquisition of Sikorsky Aircraft Corporation;
► the divestiture of the IS&GS business; and
► preparation for the new revenue recognition accounting standard.

Note: While Lockheed Martin’s 2016 proxy discloses changes in fees paid, the 2017 proxy is tailored and discloses an increase in fees due in part to the preparation for the new revenue recognition accounting standard.

EXAMPLE 2 – AUDIT FIRM COMPENSATION

Source: Arthur J. Gallagher & Co. (S&P 500), 2017 Proxy Statement, Ratification of Appointment of Independent Auditor

https://www.sec.gov/Archives/edgar/data/354190/000119312517095733/d285494dde14a.htm

Fees for audit services… were lower in 2016 due in part to a reduction in statutory audits required internationally from the elimination of some legal entities… Audit-related fees were lower in 2016 due in part to the lesser amount of due diligence performed in 2016 in connection with our international acquisitions and a reduction in fees for our SOC 2 related work… Tax advisory fees… were higher in 2016 due in part to the greater amount of international tax planning work required in 2016 because of our international operations.
Audit Firm Evaluation/Supervision

Like other metrics in the 2017 Barometer, disclosure of the evaluation and/or supervision of the audit firm has increased modestly in 2017 among the S&P 1500 (Figure 5). This discussion was typically included within the section of the proxy that proposes to ratify the auditor or the audit committee report and was often connected to the discussion of the appointment of the auditor.
EXAMPLE 1 – AUDIT FIRM EVALUATION/SUPERVISION

Source: Microsoft Corporation (S&P 500), 2016 Proxy Statement, Audit Committee Matters
https://www.sec.gov/Archives/edgar/data/789019/000119312516740758/d243670ddef14a.htm

As provided in its charter, in addition to evaluating [Audit Firm]'s independence, the Audit Committee assessed [Audit Firm]'s performance as independent auditor during fiscal year 2016, consistent with the approach described in “Audit Committee Annual Evaluation of the External Auditor” published by the Center for Audit Quality. The Audit Committee assessed the performance of the [Audit Firm] lead audit engagement partner and the audit team. The Audit Committee reviewed a variety of indicators of audit quality including:

► The quality and candor of [Audit Firm]'s communications with the Audit Committee and management

► How effectively [Audit Firm] maintained its independence and employed its independent judgment, objectivity, and professional skepticism

► The level of engagement and value provided by the [Audit Firm] national office

► The depth and expertise of the global [Audit Firm] audit team

► The quality of insight demonstrated in [Audit Firm]'s review of the Company’s assessment of internal control over financial reporting and remediation of control deficiencies

► Available external data about quality and performance including reports of the Public Company Accounting Oversight Board on [Audit Firm] and its peer firms and [Audit Firm]'s response to those reports

► The appropriateness of [Audit Firm]'s fees, taking into account the size and complexity of the Company and the resources necessary to perform the audit

► [Audit Firm]'s tenure as our independent auditor and their knowledge of our global operations, accounting policies and practices, and internal control over financial reporting

As a result of its evaluation, the Audit Committee concluded that the selection of [Audit Firm] as the independent registered public accounting firm for fiscal year 2017 is in the best interest of the Company and its shareholders. The Board recommends that shareholders ratify this selection at the Annual Meeting.
EXAMPLE 2 – AUDIT FIRM EVALUATION/SUPERVISION

Source: Korn/Ferry International (S&P SmallCap), 2017 Proxy Statement, Audit Committee Matters
https://www.sec.gov/Archives/edgar/data/56679/000130817917000219/lkfy2017_def14a.htm

As with previous years, the Audit Committee undertook a review of [Audit Firm] in determining whether to select [Audit Firm] as the Company’s independent registered public accounting firm for fiscal year 2018 and to recommend ratification of its selection to the Company’s stockholders. In that review, the Audit Committee utilized a tailored external auditor assessment questionnaire and considered a number of factors including:

- continued independence of [Audit Firm],
- length of time [Audit Firm] has been engaged by the Company,
- Senior Management’s assessment of [Audit Firm]’s performance,
- audit and non-audit fees,
- capacity to appropriately staff the audit,
- geographic and subject matter coverage,
- lead Audit Engagement Partner performance,
- overall performance,
- qualifications and quality control procedures, and
- whether retaining [Audit Firm] is in the best interests of the Company.

Based upon this review, the Audit Committee believes that [Audit Firm] is independent and that it is in the best interests of the Company and our stockholders to retain [Audit Firm] to serve as our independent registered public accounting firm for fiscal year 2018.

EXAMPLE 3 – AUDIT FIRM EVALUATION/SUPERVISION

Source: Healthcare Realty Trust Inc. (S&P MidCap), 2017 Proxy Statement, Corporate Governance
https://www.sec.gov/Archives/edgar/data/899749/000089974917000052/hr2017proxystatement1.htm

Audit Committee

Performs an annual evaluation of the independent auditors’ qualifications, assessing the firm’s quality of service; the firm’s sufficiency of resources; the quality of the communication and interaction with the firm; and the firm’s independence, objectivity, and professional skepticism. The Audit Committee also considers the advisability and considers the impact of selecting a different independent auditor.
An Opportunity for Audit Committees

This year we are highlighting a new data point and one we see as an opportunity for audit committees to enhance transparency: the number of companies disclosing whether the evaluation of the external auditor is at least an annual event. While we have observed continual increases in disclosures by S&P 500 and S&P MidCap companies, we suspect that the percentage of companies disclosing this information is low relative to the percentage of companies that are actually performing annual evaluations of the external auditor.

We believe providing constructive feedback to the external auditor can improve audit quality and enhance the relationship between the audit committee and the external auditor, therefore disclosing that this is occurring can be an important point of transparency for investors and other stakeholders. In 2017, the CAQ updated its External Auditor Assessment Tool designed to assist audit committees in their evaluation of the external auditor.

EXAMPLE 4 – AUDIT FIRM EVALUATION/SUPERVISION

Source: The Coca-Cola Company (S&P 500), 2017 Proxy Statement, Ratification of Appointment of Independent Auditors

https://www.sec.gov/Archives/edgar/data/21344/000130817917000027/lko2017_def14a.htm#pg79

The Audit Committee annually evaluates the performance of the Company’s Independent Auditors, including the senior audit engagement team, and determines whether to reengage the current Independent Auditors or consider other audit firms. Factors considered by the Audit Committee in deciding whether to retain include:

- [Audit Firm]’s global capabilities;
- [Audit Firm]’s technical expertise and knowledge of the Company’s global operations and industry;
- the quality and candor of [Audit Firm]’s communications with the Audit Committee and management;
- [Audit Firm]’s independence;
- the quality and efficiency of the services provided by [Audit Firm], including input from management on [Audit Firm]’s performance and how effectively [Audit Firm] demonstrated its independent judgment, objectivity and professional skepticism;
- external data on audit quality and performance, including recent PCAOB reports on [Audit Firm] and its peer firms; and
- the appropriateness of [Audit Firm]’s fees, [Audit Firm]’s tenure as Independent Auditors, including the benefits of a longer tenure, and the controls and processes in place that help ensure [Audit Firm]’s continued independence.

Note: Some of the factors considered by the audit committee in deciding whether to retain the external auditor are consistent with audit quality indicators. To learn more about AQIs, see the CAQ’s Audit Quality Indicators: Journey and Path Ahead (January 2016), the PCAOB’s Concept Release on Audit Quality Indicators (July 2015), and The CAQ Approach to Audit Quality Indicators (April 2014).
Audit Engagement Partner Selection

We again saw more robust discussion around the role the audit committee plays in audit partner selection this year (Figure 7), as well as a statement that the audit partner rotates every five years (Figure 8), which is required by SEC rules. This was particularly evident among the S&P 500 proxy statements. The examples provided below do more than state that the audit committee is involved in the selection of the audit engagement partner by describing how the audit committee is involved. One example (Example 2) discloses the date the audit partner was appointed, helping the reader understand when an audit partner transition will occur.

7 In accordance with SEC Independence rule 17 CFR 210.2-01 (6)(ii)(A)(1), the lead partner, as defined in paragraph (f)(7)(ii)(A) of this section, or concurring partner, as defined in paragraph (f)(7)(ii)(B) of this section are required to rotate after five consecutive years of service.
EXAMPLE 1 – AUDIT ENGAGEMENT PARTNER SELECTION

**Source:** Synovus Financial Corp. (S&P MidCap), 2017 Proxy Statement, Ratification of Appointment of the Independent Auditor

https://www.sec.gov/Archives/edgar/data/18349/000119312517077708/d305551ddef14a.htm

Synovus’ Audit Committee oversees the process for, and ultimately approves, the selection of the independent auditor’s lead engagement partner at the five-year mandatory rotation period. At the Audit Committee’s instruction, [Audit Firm] selects candidates to be considered for the lead engagement partner role, who are then interviewed by members of Synovus’ senior management. After discussing the results of senior management’s interviews, the members of the Audit Committee, as a group, interview the candidates. The Audit Committee then considers the appointment and votes on the selection.

EXAMPLE 2 – AUDIT ENGAGEMENT PARTNER SELECTION

**Source:** World Wrestling Entertainment, Inc. (S&P SmallCap), 2017 Proxy Statement, Ratification of Selection of Independent Registered Public Accounting Firm

https://www.sec.gov/Archives/edgar/data/1091907/000120677417000775/wwe3183351-def14a.htm

In recommending to the Board of Directors the reappointment of [Audit Firm], the Audit Committee took into consideration a number of factors including the length of time [Audit Firm] has been engaged, the quality of the Audit Committee’s discussions with representatives of [Audit Firm], reports of the Public Company Accounting Oversight Board (“PCAOB”) on [Audit Firm], [Audit Firm]’s fees and the performance of the lead audit and consulting partners. Under SEC rules and [Audit Firm]’s practice, the lead engagement audit partner, as well as consulting partner, are each required to change every five years, and a new lead audit partner has been appointed beginning 2017. The consulting partner will change in 2018. The Committee interviewed and approved the incoming audit partner, and will do so for the consulting partner as well.

A table summarizing the results of these findings and the other data related to auditor oversight disclosures can be found on pages 16-17.

**Conclusion**

The 2017 Barometer illustrates the continuing positive trend of audit committees voluntarily providing enhanced disclosure around the audit committee’s role in overseeing the external auditor. These efforts by audit committees provide additional transparency to investors and other key stakeholders. The CAQ and Audit Analytics will continue to analyze trends in this important area and will present our findings in future editions of the *Audit Committee Transparency Barometer*. 
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>DISCLOSURE QUESTION</th>
<th>YEAR</th>
<th>S&amp;P 500</th>
<th>S&amp;P MIDCAP</th>
<th>S&amp;P SMALLCAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Firm Selection/Ratification</td>
<td>Is there a discussion of audit committee considerations in appointing the external auditor?</td>
<td>2017</td>
<td>37%</td>
<td>24%</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2016</td>
<td>31%</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015</td>
<td>25%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014</td>
<td>13%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>Does the audit committee [or the company] disclose the length of time the auditor has been engaged?</td>
<td>2017</td>
<td>63%</td>
<td>47%</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2016</td>
<td>59%</td>
<td>45%</td>
<td>48%</td>
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<tr>
<td></td>
<td></td>
<td>2015</td>
<td>54%</td>
<td>44%</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>2014</td>
<td>47%</td>
<td>42%</td>
<td>50%</td>
</tr>
<tr>
<td>Audit Firm Compensation</td>
<td>Is there a discussion of audit fees and its connection to audit quality?</td>
<td>2017</td>
<td>5%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2016</td>
<td>9%</td>
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<tr>
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<td>Is there a discussion of how the audit committee considers auditor compensation?</td>
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<td>Is there a discussion of how non-audit services may impact independence?</td>
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<td>Is there a statement that the audit committee is responsible for fee negotiations?</td>
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<td>Is there an explanation provided for a change in fees paid to the external auditor?</td>
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<td>Audit Firm Evaluation/Supervision</td>
<td>Is there a discussion of criteria considered when evaluating the audit firm?</td>
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<td>Is the evaluation of the external auditor at least an annual event?</td>
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<td>Is there a disclosure of significant areas addressed with the auditor?</td>
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## Auditor Oversight Proxy Statement Disclosures Among S&P 1500

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<th>CATEGORY</th>
<th>DISCLOSURE QUESTION</th>
<th>YEAR</th>
<th>S&amp;P 500</th>
<th>S&amp;P MIDCAP</th>
<th>S&amp;P SMALLCAP</th>
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<tr>
<td>Audit Engagement Partner Selection</td>
<td>Is it stated that the engagement partner rotates every five years?</td>
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<td>Is it explicitly stated that the audit committee is involved in selection of audit engagement partner?</td>
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