



# 2021 Audit Committee Transparency Barometer

November 2021

**CAQ**

**AUDIT  
ANALYTICS®**

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# Overview

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In the 8th year of analyzing disclosures of audit committee oversight in proxy statements of companies in the S&P Composite 1500 (S&P 1500), the CAQ observed slight increases with some stagnation among disclosures that have been tracked over the years.

One exception is cybersecurity – these disclosures continue to be the biggest mover year-over-year increasing by 5 to 7 percentage points among S&P 500 companies each year since 2016. COVID-19 has changed how we work, with some companies

opting to go permanently remote, resulting in an increased dependence on technology. Audit committees have reacted positively by increasing disclosure of how they oversee the company's cybersecurity risks.

For details, see:

- + Appendix I – Summary Table of Disclosure Rates (by year and company size)
- + Appendix II – Examples of Effective Disclosure

# Why does disclosure matter?

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The oversight role of independent audit committees is vital to investor protection. Independent audit committees are directly responsible for the oversight of the work of external auditors, including their appointment and compensation. This model – as required by the Sarbanes-Oxley Act – enhances audit quality.<sup>1</sup> Greater transparency into the audit committee's activities through disclosure provides investors with information about how the audit committee's oversight role contributes to investor protection.

A 2021 study found that disclosure around the audit partner selection process is positively associated with audit quality.<sup>2</sup> Specifically, the study found:

- + The engagement partner is a critical component of audit quality.
- + The oversight by the audit committee of the **selection of the engagement partner** is therefore critical to audit quality.
- + Audit committees more involved in the engagement partner-selection process help ensure the selection of a more rigorous engagement partner.<sup>3</sup>

**Voluntary disclosure of audit committee oversight signals higher levels of involvement.**

**Effective audit committee oversight enhances audit quality.**

- + Those audit committees who disclose their involvement in the engagement partner selection tend to be more engaged in the process.

Similarly, we believe that a focus on disclosure of the multiple additional ways audit committees oversee the external auditor contributes to audit quality. Transparency and disclosure are key elements of trust in the financial reporting system. In line with this, the CAQ continues to encourage robust audit committee disclosures in proxy statements to promote high-quality performance by public company auditors and investor trust in the audit committee's oversight role. •

<sup>1</sup> Section 301 of the Sarbanes-Oxley Act 2002 (SOX) requires that each audit committee of a listed company be "directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm..."

<sup>2</sup> *Does Audit Committee Disclosure of Partner-Selection Involvement Signal Greater Audit Quality?* Jimmy F. Downes; Michelle A. Draeger; Abbie E. Sadler (February 2021)

<sup>3</sup> Ibid.

# Highlights of the 2021 Barometer

## MOST COMMON DISCLOSURE

In 2021, the highest rates of disclosure (50% or more among S&P 500 proxy statements) continue to be related to non-audit services and potential impact to independence, auditor tenure, criteria considered to evaluate the audit firm and involvement in audit partner selection:

		S&P 500	S&P MidCap	S&P SmallCap
Q5	Is there a discussion of how non-audit services may impact independence?	83%	80%	76%
Q2	Do they disclose the length of time the auditor has been engaged?	70%	59%	54%
Q8	Is there a discussion of criteria considered when evaluating the audit firm?	52%	39%	35%
Q12	Is it explicitly stated that the audit committee is involved in selection of audit engagement partner?	50%	22%	12%

## Why Does It Matter?

**+ Non-audit services (Q5)** – Stakeholders may not be aware that while the external auditor is prohibited from providing certain services to its audit clients, there are certain permissible services that may be provided. Pursuant to strict independence rules set by the SEC and PCAOB, the audit committee is responsible for overseeing these services to ensure they do not impact auditor independence. Disclosure describing the

oversight by the audit committee in reviewing any permitted non-audit services provided by the independent auditor to the company helps stakeholders understand how non-audit services are reviewed and factors considered by the audit committee. Such disclosure reinforces the oversight of the auditor's independence, a foundation of audit quality.

- + **Auditor tenure** (Q2) - The audit committee can explain any concerns regarding tenure for new firms and firms with long tenure. What are the benefits? What are the risks? The S&P Global Inc. (Example 8) disclosures related to these considerations offer a good standard.
- + **Audit firm evaluation** (Q8) - This disclosure can provide robust insight into the audit committee's oversight of the audit firm. Avoid boilerplate language here and include specific details of the evaluation. What are the unique skills needed for the audit (e.g., industry, geographic reach, complex accounting expertise)? Is a formal evaluation performed? If yes, how often (e.g., see Q9 – is the evaluation at least annual)?
- + **Audit partner selection** (Q12) – As referenced above, this is an opportunity not only to explicitly state involvement in the selection of the audit engagement partner, but to also describe **how** the audit committee is involved. Does the full audit committee or the chair interview all potential candidates? Only the final candidate? If the final candidate, was that candidate vetted by management? Recommended by the audit firm? Why was a new engagement partner selected? Due to the 5-year rotation requirement? Some other reason?

## MODERATE RATES OF DISCLOSURE

In 2021, moderate rates of disclosure (26-49% among S&P 500 proxy statements) continue to be related to engagement partner rotation, considerations when appointing the external auditor, and stating the evaluation of the external auditor occurs at least annually. Disclosure of oversight of cybersecurity risk has jumped by 5-7 percentage points since 2020 (more on cybersecurity later).

		S&P 500	S&P MidCap	S&P SmallCap
Q11	Is it stated that the engagement partner rotates every five years?	49%	24%	16%
Q13	Is the Audit Committee responsible for cybersecurity risk oversight?	46%	34%	24%
Q1	Is there a discussion of audit committee considerations in appointing the external auditor?	44%	31%	24%
Q14	Does the Board of Directors have a cybersecurity expert?	34%	22%	13%
Q15	On what Board Committee does the cybersecurity expert serve?	32%	22%	12%
Q9	Is it stated that the evaluation of the external auditor at least an annual event?	32%	20%	17%

## Why Does It Matter?

- + **Audit partner rotation** (Q11) – The mandatory 5-year rotation requirement for the audit engagement partner is an important element of the auditor independence framework established by SOX. Audit committee disclosure in this area dovetails with auditor tenure disclosures (i.e., may mitigate concerns if an audit firm has a long tenure) and the audit committee's role in engagement partner selection disclosures.

**+ Oversight of cybersecurity (Q13-15)** – Who is best suited to oversee cybersecurity risk? It often falls to the audit committee. Stakeholders want to understand which committee is responsible, along with the “why” and “how.” The biggest uptick in disclosure year-over-year was related to cybersecurity. See the trend analysis on cybersecurity disclosures below for more details.

**+ Appointing and evaluating the external auditor (Q1, Q9)** – Does the audit committee *evaluate* the external auditor and if yes, how often? Explaining the rigor and substance and frequency of the evaluation process gives stakeholders a true sense of audit committee engagement and oversight.

## LOWER RATES OF DISCLOSURE

This year, there are not high levels of disclosure among the following areas and this has been the case for some time. We believe these areas present the greatest opportunity for increased transparency by the audit committee.

		S&P 500	S&P MidCap	S&P SmallCap
Q6	Is there a statement that the audit committee is responsible for fee negotiations?	18%	8%	5%
Q7	Is there an explanation provided for a change in fees paid to the external auditor?	17%	20%	24%
Q3	Is there a discussion of audit fees and its connection to audit quality?	5%	3%	1%
Q4	Is there a discussion of how the audit committee considers auditor compensation?	3%	1%	1%
Q10	Is there a disclosure of significant areas addressed with the auditor?	0%	0%	0%

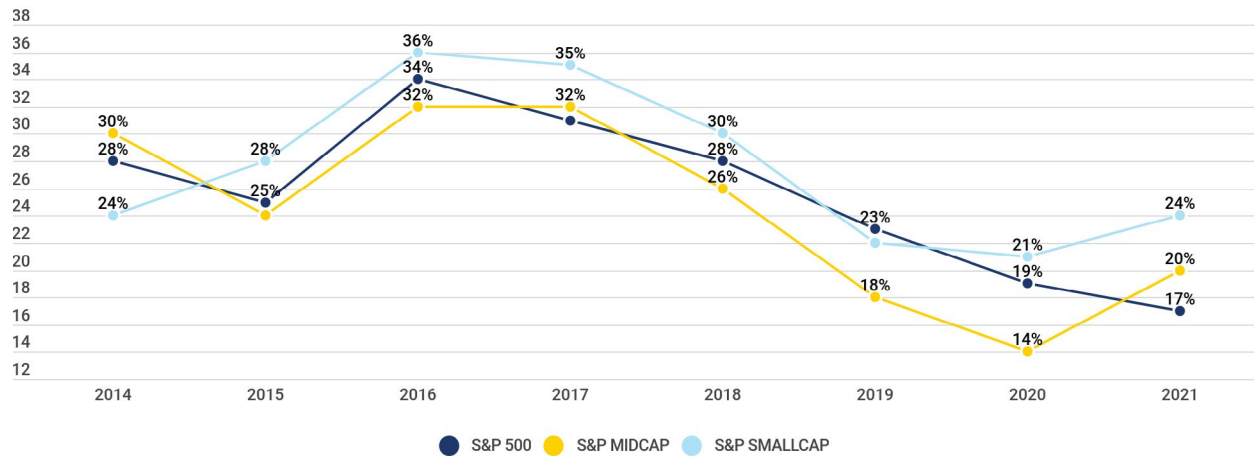
## Why Does It Matter?

### *An Opportunity for Audit Committees*

**+ Responsible for fee negotiation; audit fee connection to audit quality; consideration of auditor compensation (Q6, Q3, Q4)** – This is a distinction between simply stating the audit committee’s statutory responsibility to compensate the external auditor and providing insight into how fees are negotiated and considered with audit quality in mind. The audit committee of Edison’s explanation (see Example 7) provides a good example on how to accomplish this. How involved is the audit committee? How are hours (scope) and rate/price considered? How does the audit committee drive efficiencies but ensure audit quality? Critics may assert that while the audit committee has the statutory responsibility to oversee auditor fees, in reality it is company management that determines the fees with the auditor, which can exacerbate conflict of interest concerns and implies the audit committee is not fulfilling its responsibility. While the audit committee may consult with management on auditor fees, more fulsome disclosure of the audit committee’s role and process in fee negotiations can dispel these assertions.

**+ Explanation for a change in audit fees (Q7)** – Continuing on the theme mentioned above, full disclosure of specific reasons for changes in fees paid to the external auditor increases transparency. While stakeholders may be concerned that audit fees are too high and the audit is not efficient, audit fees that are too *low* could also be a concern that audit quality is compromised. In reality, the change in fee is often due to a unique transaction or circumstance. Disclosure of why there are significant changes in fees paid to the external auditor further illustrates the audit committee’s effective oversight of auditor compensation.

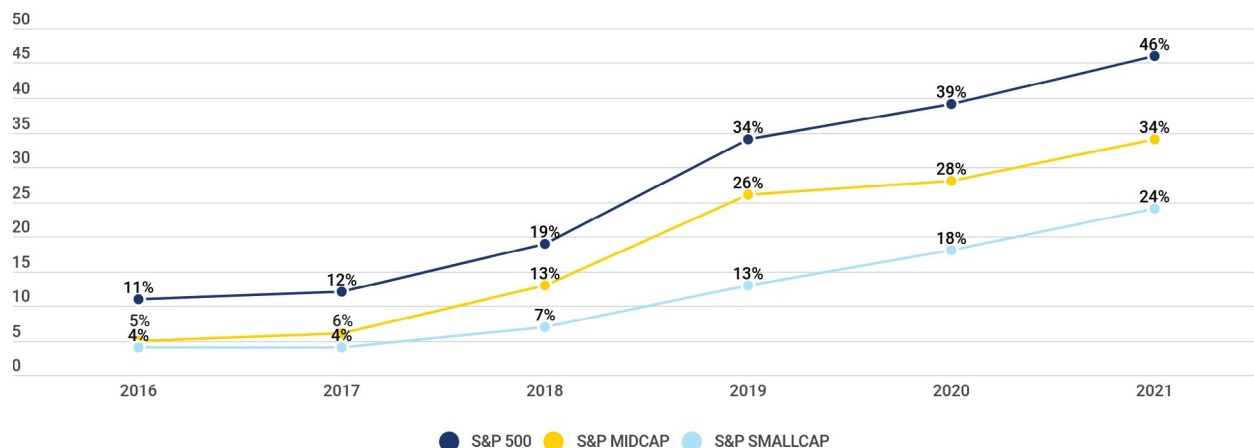


**Q7 | Disclosure of explanation for change in audit fees paid**

**+ Significant areas addressed (Q10)** – It's true that critical audit matters (CAMs) provide information about the audit from the auditor's point of view and there are plenty of required disclosures that provide transparency from management's perspective. But what areas did the audit committee focus on and spend time addressing with the auditor? What were the audit committee's areas of concern? How did the audit committee address these areas with the auditor? This is an opportunity for the audit committee to better explain its oversight role of the audit and the gatekeeper function it performs on behalf of investors and other stakeholders. We believe audit committees and their members take this role seriously; disclosure of how they do so can only bolster investor trust.

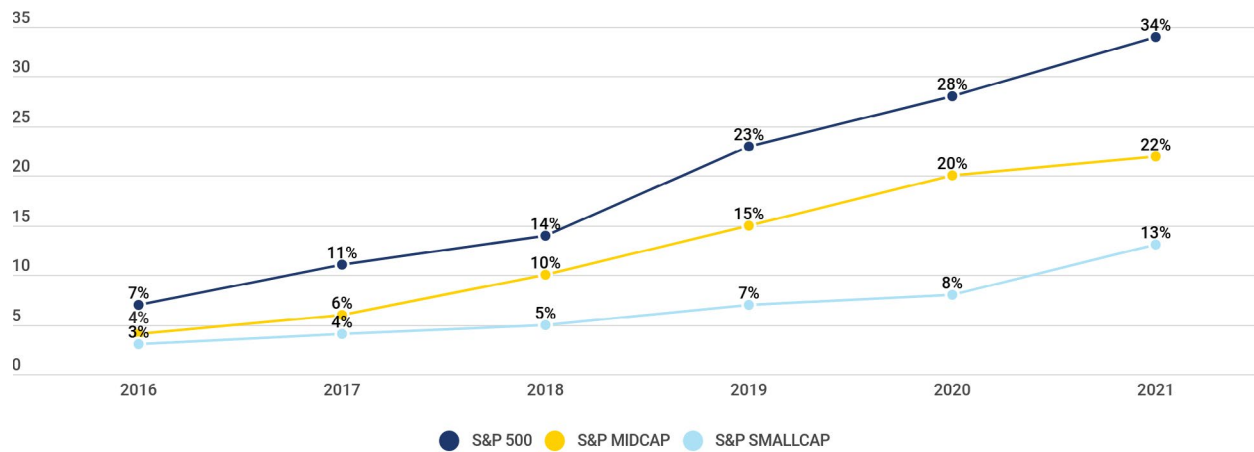
**CYBERSECURITY**

Cybersecurity disclosures increased dramatically since tracking began over six years ago and for good reason. According to [PwC's 2020 Global Economic Crime and Fraud Survey](#), cybercrime made up 34 percent of all fraud events outpacing accounting/financial statement frauds, asset misappropriation, and tax fraud. Cybersecurity oversight responsibilities are being delegated to the audit committee for many public companies and the trend towards remote work has exposed new vulnerabilities to address. As investor and other stakeholder interest in cybersecurity vulnerabilities increases, the CAQ expects that boards and audit committees will continue this upward disclosure trend.

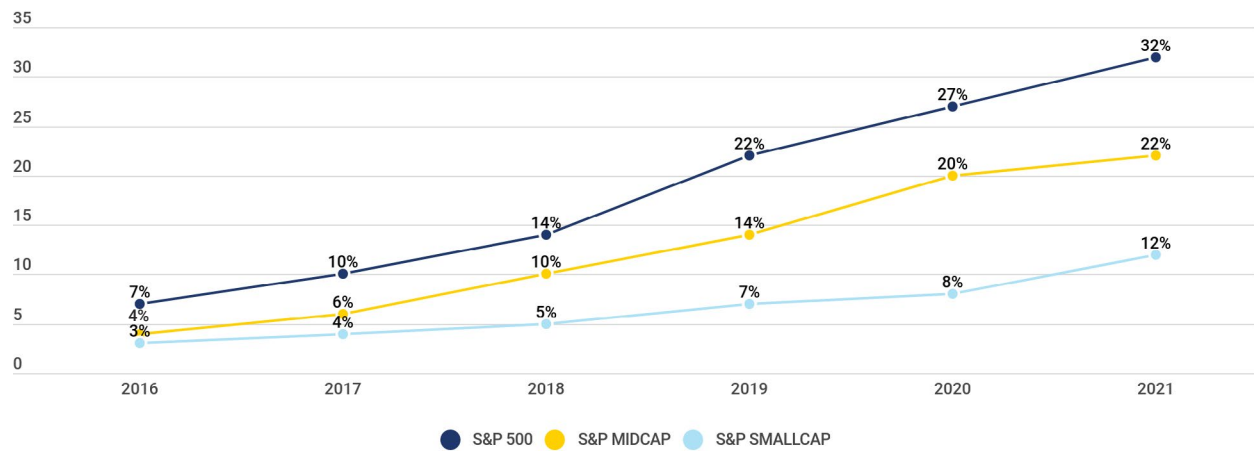
**Chart 1 | Is Audit Committee Responsible for Cybersecurity Risk Oversight? (% disclosed)**



**Chart 2 | Does the Board of Directors Have A Cybersecurity Expert? (% disclosed)**



**Chart 3 | On What Board Committee Does the Cybersecurity Expert Serve? (% disclosed)**



## CONCLUSION

Disclosure is a powerful tool that can be used by audit committees to shine a light on the important oversight activities they perform day in and day out on behalf of investors. Such disclosure can dispel skeptics' concerns that the audit committee oversight is ceremonial in nature and not serving the role as intended by SOX. The CAQ sees opportunities for audit committees to enhance transparency of the critical work they do and role they fill, and we encourage audit committees to seize the opportunities identified in this report.

# Appendix I

## Summary table of disclosure rates

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT FIRM SELECTION	1. Is there a discussion of audit committee considerations in appointing the external auditor?	2021	44%	31%	24%
		2020	43%	30%	23%
		2019	42%	30%	22%
		2018	40%	27%	19%
		2017	37%	24%	17%
		2016	31%	22%	17%
		2015	25%	16%	11%
		2014	13%	10%	8%
	2. Do they disclose the length of time the auditor has been engaged?	2021	70%	59%	54%
		2020	69%	56%	54%
		2019	71%	54%	55%
		2018	70%	52%	51%
		2017	63%	47%	46%
		2016	59%	45%	48%
		2015	54%	44%	46%
		2014	47%	42%	50%

# 2021 Audit Committee Transparency Barometer

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT FIRM COMPENSATION	3. Is there a discussion of audit fees and its connection to audit quality?	2021	5%	3%	1%
		2020	4%	2%	1%
		2019	4%	3%	1%
		2018	5%	3%	1%
		2017	5%	4%	2%
		2016	9%	3%	1%
		2015	10%	2%	2%
		2014	13%	4%	1%
	4. Is there a discussion of how the audit committee considers auditor compensation?	2021	3%	1%	1%
		2020	3%	1%	1%
		2019	2%	1%	1%
		2018	2%	1%	0%
		2017	2%	1%	0%
		2016	1%	1%	1%
		2015	0%	0%	0%
		2014	1%	1%	0%
	5. Is there a discussion of how non-audit services may impact independence?	2021	83%	80%	76%
		2020	84%	80%	76%
		2019	84%	79%	77%
		2018	83%	78%	75%
		2017	80%	75%	72%
		2016	81%	73%	69%
		2015	78%	67%	63%
		2014	83%	69%	58%
	6. Is there a statement that the audit committee is responsible for fee negotiations?	2021	18%	8%	5%
		2020	18%	7%	4%
		2019	19%	6%	4%
		2018	20%	5%	4%
		2017	20%	4%	4%
		2016	17%	3%	5%
		2015	16%	3%	5%
		2014	8%	1%	1%

## 2021 Audit Committee Transparency Barometer

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT FIRM COMPENSATION (cont.)	7. Is there an explanation provided for a change in fees paid to the external auditor?	2021	17%	20%	24%
		2020	19%	14%	21%
		2019	23%	18%	22%
		2018	28%	26%	30%
		2017	31%	32%	35%
		2016	34%	32%	36%
		2015	25%	24%	28%
		2014	28%	30%	24%
AUDIT FIRM EVALUATION / SUPERVISION	8. Is there a discussion of criteria considered when evaluating the audit firm?	2021	52%	39%	35%
		2020	51%	37%	36%
		2019	50%	39%	33%
		2018	46%	36%	32%
		2017	38%	28%	27%
		2016	34%	26%	25%
		2015	24%	25%	22%
		2014	8%	7%	15%
	9. Is it stated that the evaluation of the external auditor at least an annual event?	2021	32%	20%	17%
		2020	31%	19%	16%
		2019	29%	19%	14%
		2018	26%	17%	12%
		2017	21%	11%	8%
		2016	19%	10%	9%
		2015	15%	7%	7%
		2014	4%	3%	4%
	10. Is there a disclosure of significant areas addressed with the auditor?	2021	0%	0%	0%
		2020	0%	0%	1%
		2019	0%	1%	2%
		2018	0%	1%	2%
		2017	0%	1%	2%
		2016	0%	1%	2%
		2015	1%	0%	1%
		2014	3%	2%	1%

# 2021 Audit Committee Transparency Barometer

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT PARTNER SELECTION	11. Is it stated that the engagement partner rotates every five years?	2021	49%	24%	16%
		2020	49%	23%	15%
		2019	49%	23%	13%
		2018	49%	20%	12%
		2017	46%	14%	10%
		2016	39%	10%	8%
		2015	26%	5%	5%
		2014	16%	3%	4%
	12. Is it explicitly stated that the audit committee is involved in selection of audit engagement partner?	2021	50%	22%	12%
		2020	50%	23%	12%
		2019	50%	22%	10%
		2018	52%	20%	10%
		2017	49%	14%	7%
		2016	43%	10%	6%
		2015	31%	5%	3%
		2014	13%	1%	1%
CYBERSECURITY	13. Is the Audit Committee responsible for cybersecurity risk oversight?	2021	46%	34%	24%
		2020	39%	28%	18%
		2019	34%	26%	13%
		2018	19%	13%	7%
		2017	12%	6%	4%
		2016	11%	5%	4%
	14. Does the Board of Directors have a cybersecurity expert?	2021	34%	22%	13%
		2020	28%	20%	8%
		2019	23%	15%	7%
		2018	14%	10%	5%
		2017	11%	6%	4%
		2016	7%	4%	3%
	15. On what Board Committee does the cybersecurity expert serve?	2021	32%	22%	12%
		2020	27%	20%	8%
		2019	22%	14%	7%
		2018	14%	10%	5%
		2017	10%	6%	4%
		2016	7%	4%	3%

# Appendix II

## Examples of effective disclosure

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### A. AUDIT FIRM SELECTION

Q1. Is there a discussion of audit committee considerations in appointing the external auditor?

Q2. Do they disclose the length of time the auditor has been engaged?

#### EXAMPLE 1

Source: MetLife, Inc. (S&P 500), 2021 Proxy Statement, Proposal 2 – Ratification of Appointment of the Independent Auditor

In considering [Audit Firm]’s appointment and [Audit Firm]’s compensation for audit and permitted non-audit services, the Audit Committee considered a number of factors, including:

- + [Audit Firm]’s status as a registered public accounting firm with the Public Company Accounting Oversight Board (United States) (PCAOB) as required by the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and the Rules of the PCAOB;
- + [Audit Firm]’s independence and its processes for monitoring and maintaining its independence;

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- + [Audit Firm]’s report describing the firm’s internal quality control procedures and the results of recent reviews of the firm’s quality control system including any independent review;
- + the professional qualifications and experience of key members of the engagement team, including the lead audit partner, for the audit of the Company’s consolidated financial statements;
- + [Audit Firm]’s depth of understanding of MetLife’s global businesses, accounting policies and practices and internal control over financial reporting;
- + [Audit Firm]’s global footprint and its alignment with MetLife’s worldwide business activities;
- + [Audit Firm]’s performance during its engagement for the fiscal year ended December 31, 2020;
- + the quality of [Audit Firm]’s communications with the Audit Committee regarding the conduct of the audit, and with management with respect to issues identified in the audit, and the consistency of such communications with applicable auditing standards;
- + [Audit Firm]’s approach to resolving significant accounting and auditing matters, including consultation with the firm’s national office;
- + [Audit Firm]’s reputation for integrity and competence in the fields of accounting and auditing; and
- + the appropriateness of [Audit Firm]’s fees for audit and non-audit services.

[Audit Firm] has served as independent auditor of the Company since 1999, and as auditor of affiliates of the Company since at least 1968. Under current legal requirements, the lead or concurring audit partner for the Company may not serve in that role for more than five consecutive fiscal years, and the Audit Committee ensures the regular rotation of the audit engagement team partners as required by law. The Chair of the Audit Committee is actively involved in the selection process for the lead and concurring partners.

**EXAMPLE 2**

Source: Realogy Holdings Corp (S&P SmallCap), 2021 Proxy Statement, Proposal 3: Ratification of the Appointment of the Independent Registered Public Accounting Firm

The Audit Committee has selected [Audit Firm], or [Audit Firm], as our independent registered public accounting firm to conduct an integrated audit of our consolidated financial statements and internal control over financial reporting for fiscal year 2021.

[Audit Firm] served as our independent registered public accounting firm for 2020 for both Realogy Holdings and Realogy Group and has served as our independent registered public accounting firm since May 2009.

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The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm retained to audit the Company's financial statements. The Audit Committee annually reviews [Audit Firm]'s independence and performance in deciding whether to retain [Audit Firm] as the Company's independent registered public accounting firm.

As part of its determination to retain [Audit Firm] as the Company's independent registered public accounting firm for fiscal year 2021, the Audit Committee took into account multiple factors, including:

- + **Depth of Institutional and Industry Knowledge.** [Audit Firm] possesses significant institutional knowledge of the Company, including its segments, business and operations, accounting policies and practices, and internal control over financial reporting. Likewise, [Audit Firm] has substantial experience auditing other companies providing real estate services and business processing services.
- + **Quality of Services.** The quality of [Audit Firm]'s historical and recent performance on the Company's audits has demonstrated the capability and expertise of its audit team in handling the breadth and complexity of our operations. The Audit Committee also considered available external data relating to audit quality, including recent Public Company Accounting Oversight Board (PCAOB) reports on [Audit Firm] and related industry information.
- + **Appropriateness of Fee Structure.** [Audit Firm]'s fees have been considered appropriate, taking into account both the size and complexity of the Company's business in particular and generally as compared to other firms.
- + **Potential for Business Disruption.** The Audit Committee took into account the potential disruption of operational efficiencies and diversion of management time that could result in the engagement of a new independent registered public accounting firm that was not as knowledgeable about our business.

The Audit Committee also considered the Company's auditor independence controls, including the Audit Committee's pre-approval policy of all audit and non-audit services by [Audit Firm], the Audit Committee's frequent meetings with [Audit Firm] in executive session and [Audit Firm]'s own independence process.

As an additional independence safeguard, [Audit Firm] rotates its lead audit engagement partner every five years. The Audit Committee oversees the selection process for each new lead engagement partner, which was last done in 2020 and is effective for [Audit Firm]'s audit of the Company's consolidated financial statements for fiscal year 2021.

In anticipation of the lead audit engagement partner rotation, the Audit Committee began planning discussions in 2019 with the Company's then-current lead audit engagement partner and, in 2020, considered potential candidates and approved the hiring of the person to act as lead audit engagement partner commencing with the Company's 2021 audit.

The Audit Committee's selection process included a review of candidate qualifications, candidate interviews and discussions with management.

The Audit Committee and the Board believe that the continued retention of [Audit Firm] as our independent registered public accounting firm is in the best interest of the Company and our stockholders, and we are asking our stockholders to ratify the selection of [Audit Firm] as our independent registered public accounting firm for 2021.

### EXAMPLE 3

Source: American Campus Communities, Inc. (S&P MidCap), 2021 Proxy Statement, Report of the Audit Committee

In evaluating the appropriateness of engaging [Audit Firm] as the Company's independent auditors, the Audit Committee considers a number of factors including, but not limited to: (i) [Audit Firm]'s relevant technical expertise and its significant institutional knowledge of the Company's operations and industry; (ii) the quality and candor of [Audit Firm]'s communications with the Audit Committee and management; (iii) [Audit Firm]'s independence, including the consideration of any non-audit services provided by [Audit Firm] and their impact on independence; (iv) the quality and efficiency of the services provided by [Audit Firm], including input from management on [Audit Firm]'s performance, objectivity and professional skepticism; (v) external data on audit quality and performance, including recent PCAOB reports on [Audit Firm] and its peer firms; (vi) the appropriateness of [Audit Firm]'s fees; and (vii) [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. [Audit Firm] has served as the Company's independent auditors since 2004. Based on this evaluation, the Audit Committee and the Board believe that retaining [Audit Firm]

See also Example 7 for good disclosures related to considerations of auditor tenure.

## B. AUDIT FIRM COMPENSATION

Q3. Is there a discussion of audit fees and its connection to audit quality?

Q4. Is there a discussion of how the audit committee considers auditor compensation?

Q5. Is there a discussion of how non-audit services may impact independence?

Q6. Is there a statement that the audit committee is responsible for fee negotiations?

Q7. Is there an explanation provided for a change in fees paid to the external auditor?

### EXAMPLE 4

Source: Darden Restaurants, Inc. (S&P 500), 2021 Proxy Statement, Proposal 3 – Ratification of Appointment of Independent Registered Public Accounting Firm/Independent Registered Public Accounting Firm Fees and Services

Proposal 3 – Ratification of Appointment of Independent Registered Public Accounting Firm

...

In order to assure continuing auditor independence, in conjunction with the assessment above and the

**(continues on next page)**

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mandated rotation of the audit firm's lead engagement partner, the Audit Committee and its chairperson are involved when the selection of a new lead engagement partner is required. In addition, the Audit Committee is responsible for the audit fee negotiations with [Audit Firm].

...

**Fees**

Audit Fees consisted of fees paid to [Audit Firm] for the audit of our annual consolidated financial statements included in the Annual Report on Form 10-K, review of our interim consolidated financial statements included in our Quarterly Reports on Form 10-Q, and services normally provided by our accountants in connection with statutory and regulatory filings or engagements. Fiscal 2020 audit fees were higher than the prior year primarily due to audit fees associated with equity offering and registration statement comfort letters, as well as COVID-19 environment impacts.

...

Tax Fees consisted of fees for tax compliance services. Fiscal 2020 tax fees were higher than the prior year primarily due to additional services related to growth in required filings as new restaurants are opened as well as compliance with new federal and state tax laws.

**EXAMPLE 5**

Source: KeyCorp (S&P 500), 2021 Proxy Statement, Audit Committee/[Audit Firm's] Fees

**Primary Responsibilities**

...

[The Audit Committee] is directly responsible for the appointment, compensation, retention, and oversight of our independent auditor, oversees the audit fees negotiations with our independent auditor, and has sole authority to approve audit fees

...

**[Audit Firm]'s Fees**

(1) Aggregate fees billed for professional services in connection with the integrated audit of KeyCorp's annual financial statements for fiscal years 2020 and 2019, reviews of financial statements included in KeyCorp's Forms 10-Q for 2020 and 2019, and audits of KeyCorp subsidiaries for fiscal years 2020 and 2019. The decrease in fees year over year related to additional procedures in 2019 related to the implementation of the accounting standard regarding Current Expected Credit Losses.

...

(4) Aggregate fees billed for products and services other than those described above. These products and services consisted of permissible advisory services. These services included support for KeyCorp's LIBOR transition and regulatory reporting quality assurance program in 2020.

### EXAMPLE 6

Source: Lydall, Inc. (S&P SmallCap), 2021 Proxy Statement, Principal Fees and Services

The slight decrease in the 2020 audit fees compared to 2019 relates primarily to lower fees for domestic and foreign statutory audits, partially offset by higher fees for the interim goodwill and long-lived asset impairment assessment completed during the first quarter of 2020.

...

The Audit Review Committee is responsible for fee negotiations with the independent auditor. All of the services described above were approved by the Audit Review Committee pursuant to policies and established to comply with the SEC rules that require audit committee pre-approval of audit and non-audit services. On an ongoing basis, management communicates specific projects and categories of services for which advance approval of the Audit Review Committee is required. The Audit Review Committee reviews these requests and advises management and the independent auditor if the Audit Review Committee pre-approves the engagement of the independent auditor for such projects and services. On a periodic basis, the independent auditor reports to the Audit Review Committee the actual spending for such projects and services as compared with the approved amounts. The Audit Review Committee may delegate the ability to pre-approve audit and permitted non-audit services to a sub-committee or the Chair of the Audit Review Committee, provided that any such pre-approvals are reported at the next Audit Review Committee meeting.

The Audit Review Committee has considered whether the services provided by [Audit Firm], other than audit services, are compatible with maintaining that firm's independence and has concluded that [Audit Firm] is independent.

### EXAMPLE 7

Source: Edison International (S&P 500), 2021 Proxy Statement, Ratification of the Independent Registered Public Accounting Firm

The slight decrease in the 2020 audit fees compared to 2019 relates primarily to lower fees for domestic and foreign statutory audits, partially offset by higher fees for the interim goodwill and long-lived asset impairment assessment completed during the first quarter of 2020.

...

The Audit Review Committee is responsible for fee negotiations with the independent auditor. All of the services described above were approved by the Audit Review Committee pursuant to policies and established to comply with the SEC rules that require audit committee pre-approval of audit and non-audit services. On an ongoing basis, management communicates specific projects and categories of services for which advance approval of the Audit Review Committee is required. The Audit Review Committee reviews these requests and advises management and the independent auditor if the Audit Review Committee pre-approves the engagement of the independent auditor for such projects and services. On a periodic basis, the independent auditor reports to the Audit Review Committee the actual spending for such projects and services as compared with the approved amounts. The Audit Review Committee may delegate the ability to pre-approve audit and permitted non-audit services to a sub-committee or the

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Chair of the Audit Review Committee, provided that any such pre-approvals are reported at the next Audit Review Committee meeting.

The Audit Review Committee has considered whether the services provided by [Audit Firm], other than audit services, are compatible with maintaining that firm's independence and has concluded that [Audit Firm] is independent.

**AUDIT FIRM EVALUATION / SUPERVISION**

Q8. Is there a discussion of criteria considered when evaluating the audit firm?

Q9. Is it stated that the evaluation of the external auditor at least an annual event?

Q10. Is there a disclosure of significant areas addressed with the auditor?

**EXAMPLE 8**

Source: S&P Global Inc. (S&P 500), 2021 Proxy Statement, Annual Evaluation of the Independent Auditor

In executing its responsibilities with regard to the performance evaluation of the independent auditor, the [Audit] Committee considers various factors, including the following:

- + global reach relative to the Company's business;
- + how effectively it demonstrated its independent judgment, and objectivity throughout its audit;
- + the quality and clarity of its communications with the Audit Committee;
- + external data relating to audit quality and performance, including recent Public Company Accounting Oversight Board reports of [Audit Firm] and its peer firms;
- + familiarity with our operations and businesses, accounting policies and practices and internal controls over financial reporting;
- + management's perception of expertise and past performance;
- + the performance of the lead audit partner;
- + appropriateness of fees; and
- + tenure as our independent auditor.

[Audit Firm] has served as the Company's independent auditors since 1969. In considering the tenure of [Audit Firm] as our independent auditor, the Committee considers the benefits of a long tenure in light of the robust controls in place to safeguard independence.

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**Benefits of Tenure:**

**Enhanced Audit Quality** — [Audit Firm] has gained institutional knowledge and expertise regarding our global operations and business, accounting policies and practices, and internal controls over financial reporting. Their institutional knowledge and experience is balanced by the fresh perspective delivered by changes in the audit team resulting from mandatory audit partner rotation.

**Continuity Mitigates Disruption Risk** — Bringing on a new auditor, without reasonable cause, would require management to devote significant resources and time to educating a new auditor to reach a comparable level familiarity with our business and control framework, potentially distracting from management's focus on financial reporting and internal controls.

**Effective Audit Plans and Efficient Fee Structures** — [Audit Firm]'s knowledge of our business and control framework allows it to design effective audit plans that cover key risk areas while capturing cost efficiencies, resulting in aggregate fees competitive with those of other independent accounting firms.

**Independence Controls:**

**Audit Committee Oversight** — the Committee and Chair hold regular private sessions with the independent auditor; the Committee regularly discusses with independent auditor the scope of their audit; the Committee reviews with the independent auditor any problems or difficulties they may have encountered, and any management letter provided by the independent auditors and the Company's response to such letter; the Committee's annual review and evaluation of the lead audit partner's performance; and the Committee's involvement in selection of a new lead auditor and the Chair's direct involvement in interviewing candidates.

**[Audit Firm]'s Independence Procedures** — [Audit Firm] on at least an annual basis provides the Committee reports regarding independence; conducts periodic internal reviews of its audit and other work, assesses the adequacy of partners and other staff serving the Company's account, and rotates engagement partners consistent with independence requirements. The lead audit partner's rotation commenced with the 2019 audit and will end following the 2022 audit.

**Limits on non-audit services** — the Committee's exclusive authority to pre-approve non-audit services and to determine whether such services are consistent with auditor independence.

**Regulatory Framework** — the current strong regulatory framework requires periodic rotation of audit partners, PCAOB inspections, peer reviews as well as PCAOB and SEC oversight.

## AUDIT PARTNER SELECTION

Q11. Is it stated that the engagement partner rotates every five years?

Q12. Is it explicitly stated that the audit committee is involved in selection of audit engagement partner?

### EXAMPLE 9

Source: Mesa Laboratories, Inc. (S&P SmallCap), 2021 Proxy Statement, Item 3: Ratification of the Appointment of [Audit Firm] as Independent Auditors

...

The Audit Committee also oversees the process for, and ultimately approves, the selection of our independent registered public accounting firm's lead engagement partner at the five-year mandatory rotation period. Prior to the mandatory rotation period, at the committee's instruction, [Audit Firm] will select candidates to be considered for the lead engagement partner role, who are then interviewed by members of our management. After considering the candidates recommended by [Audit Firm], management makes a recommendation to the committee regarding the new lead engagement partner. After discussing the qualifications of the proposed lead engagement partner with the current lead engagement partner, the members of the committee, individually and/or as a group, will interview the leading candidate, and the committee then considers the appointment and approves the selection as a committee. A new lead engagement partner was appointed for the 2018 audit; the next change in lead engagement partner after the current five-year rotation period is expected to occur for the 2023 audit.

## CYBERSECURITY

Q13. Is the Audit Committee responsible for cybersecurity risk oversight?

Q14. Does the Board of Directors have a cybersecurity expert?

Q15. On what Board Committee does the cybersecurity expert serve?

### EXAMPLE 10

Source: Trane Technologies plc (S&P 500), 2021 Proxy Statement, Audit Committee/Spotlight: Risk Oversight

Audit Committee

...

Oversees the Company's cybersecurity programs and risks, including board level oversight for management's actions with respect to:

- ✦ the practices, procedures, and controls to identify, assess, and manage its key cybersecurity programs and risks;

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- + the protection, confidentiality, integrity, and availability of the Company's digital information, intellectual property, and compliance-protected data through the associated networks as it relates to connected networks, suppliers, employees, and channel partners; and
- + the protection and privacy of data related to our customers.

**SPOTLIGHT: RISK OVERSIGHT**

**Cybersecurity**

Our Cybersecurity strategy is overseen by the Audit Committee of our Board of Directors (comprised of all independent directors) and directed by our Chief Information Officer. Our cybersecurity strategy, programs and policies are designed to protect the company's most important information and technology assets from an ever-evolving landscape of threats. Our Audit Committee:

- + Maintains appropriate oversight of the Company's IT Cybersecurity Governance, Strategy, and Compliance
- + Oversees Management's implementation of cybersecurity programs and risk policies and procedures and oversee management's actions to ensure their effectiveness in maintaining the integrity of the Company's electronic systems and facilities.
- + Oversees the Company's efforts to comply with regulatory requirements relating to the matters, including but not limited to the implementation of any remediation or other measures in response to regulatory findings.

Senior management briefs the Audit Committee regarding cybersecurity at least three times per year, and reports to the Board on a regular basis. We have cybersecurity insurance and we regularly review our policy and levels of coverage based on current risks. All salaried employees complete an annual cybersecurity training program, where specific threats and scenarios are highlighted, based on our analysis of current risks to the organization.

**EXAMPLE 11**

Source: Callon Petroleum Company (S&P SmallCap), 2021 Proxy Statement, Audit Committee

**RESPONSIBILITIES**

Pursuant to its charter, our Audit Committee functions in an oversight role and has the following purposes:

...

- + Overseeing matters related to cybersecurity and the security of information technology systems, including management's plans, programs and policies designed to mitigate cybersecurity risks and third party reports on the information technology control environment;

## EXAMPLE 12

[Source](#): ChampionX Corporation (S&P MidCap), 2021 Proxy Statement, Risk Oversight/Audit Committee

### **Risk Oversight**

...

The Audit Committee also performs an oversight role with respect to financial, legal, cybersecurity, enterprise and compliance risks, and reports on its findings and assessments at each regularly scheduled Board meeting.

*Cybersecurity.* The Audit Committee oversees the Company's global cybersecurity risk environment, reviewing with the Company's Chief Information Officer, at least annually, the Company's global information technology structure and strategic efforts to protect, optimize and support the growth of the Company, and an assessment of the Company's cybersecurity risk management capabilities, including providing oversight of the Company's cybersecurity strategy and priorities. The Company utilizes the National Institute of Standards & Technology Framework for Improving Critical Infrastructure Cybersecurity (NIST Framework), a toolkit for organizations to manage cybersecurity risk, in its assessment of cybersecurity capabilities and in developing cybersecurity priorities.

# About the Center for Audit Quality

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

## 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, email [info@auditanalytics.com](mailto:info@auditanalytics.com) or call 508-476-7007.

## Methodology

Consistent with the methodology used in prior years, we reviewed S&P 1500 proxy statements filed in the period from July 1, 2020 through June 30, 2021. This index comprises 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). Each edition of the annual Audit Committee Transparency Barometer tracks the companies that are included in the S&P indices at the end of the filing period. For purposes of presenting our findings, we analyzed disclosures located in the audit committee report or elsewhere in the proxy. In certain instances, the disclosure was duplicated in other sections of the proxy statement.

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