



# 2022 Audit Committee Transparency Barometer

November 2022

**CAQ**

**AUDIT ANALYTICS<sup>®</sup>**  
an Ideagen solution

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# Overview

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In 2014, the Center for Audit Quality (CAQ), together with Audit Analytics - an Ideagen solution, 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 Standard & Poor's (S&P) Composite 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 9th year of analyzing disclosures of audit committee oversight in proxy statements we continue to observe an overall uptick in key areas of disclosure. Going beyond our initial scope set out in 2014, we explore a bit more into the quality of disclosures with some additional questions, new in 2022. •

# New in 2022

In 2022, the CAQ added four new questions. Two focus on digging deeper into how audit committees execute their oversight responsibilities. We believe there is room for improvement for audit committees to provide more tailored disclosures to provide transparency about how and what the audit committee does to execute their oversight responsibilities. These questions build on existing questions:

<b>Q2</b>	Is there disclosure of the length of time the auditor has been engaged?	<b>NEW Q2.1</b>	Is there disclosure related to a discussion about how the audit committee considers length of auditor tenure?
<b>Q8</b>	Is it explicitly stated that the audit committee is involved in the selection of the audit engagement partner?	<b>NEW Q8.1</b>	Is there disclosure related to a discussion of how the audit committee is involved in the selection of the audit engagement partner?

Two other new questions relate to disclosure of ESG oversight, similar to our existing questions on cybersecurity expertise. Audit committees are continually facing emerging risks and are frequently evaluating the requisite expertise and composition of the committee. These new questions are:

<b>Q11</b>	Is it disclosed that the Board of Directors has an ESG or sustainability expert?
<b>Q12</b>	Is there disclosure that the Audit Committee is responsible for ESG oversight?

We also examined the utility of the questions explored in the report and removed those that were redundant or failed to capture relevant data.<sup>1</sup>

In addition, we're excited to highlight 4 steps to enhancing disclosures as excerpted from a new report, [Audit Committee: The Kitchen Sink of the Board, How Audit Committees Can Manage Their Evolving Responsibilities and Polish Their Proxy Disclosures](#).

Further, we pulled together the various example disclosures where audit committees provided robust disclosure into a new appendix, Appendix III, *Sample: Leading Practices Audit Matters and Report*. This is illustrative of the comprehensive disclosure that pulls in the robust disclosure related to strong audit committee oversight.

Lastly, in another new appendix, Appendix IV, *Questions to Consider When Preparing Audit Committee Disclosures*, we include questions for audit committees to consider when thinking about how to enhance existing disclosures. •

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<sup>1</sup> In 2022, we did not survey Q4, Q8, Q10, Q11, Q15 that were included in the 2021 report: Q4, Is there a discussion of how the audit committee considers auditor compensation? Q8, Is there a discussion of criteria considered when evaluating the audit firm? Q10, Is there a disclosure of significant areas addressed with the auditor? Q11, Is it stated that the engagement partner rotates every five years? Q15, On what Board Committee does the cybersecurity expert serve?

# Highlights of the 2022 Barometer

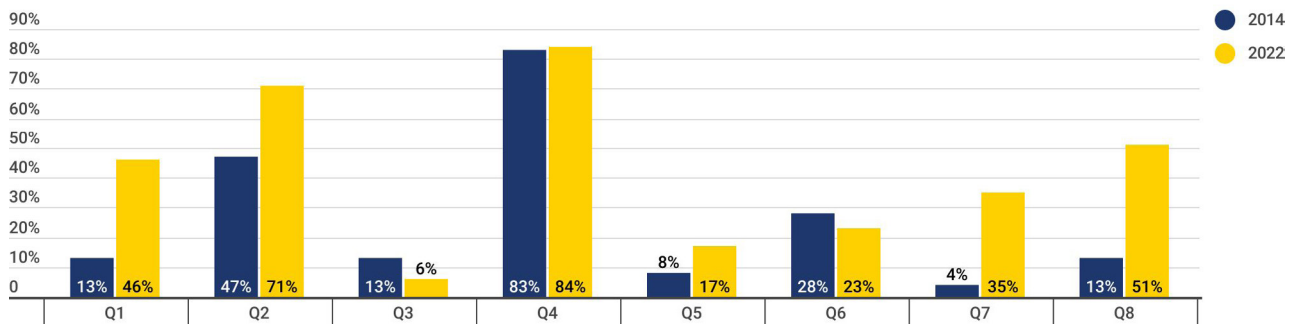
## OVERSIGHT OF THE EXTERNAL AUDITOR

Over the past nine years, the CAQ and Ideagen's Audit Analytics have tracked disclosure of several key areas of audit committee oversight within the proxy statements of companies in the S&P Composite 1500 (S&P 1500). The 2022 Barometer continues to reflect positive long-term disclosure trends. Here are the results for 2022:

Disclosure Question		S&P 500	S&P MidCap	S&P SmallCap
Q1	Is there disclosure related to a discussion of audit committee considerations in appointing or (re)appointing the external auditor?	46%	32%	24%
Q2	Is there disclosure of the length of time the auditor has been engaged?	71%	59%	55%
Q2.1	Is there disclosure related to a discussion about how the audit committee considers length of auditor tenure?	9%	5%	2%
Q3	Is there a disclosure related to a discussion of audit fees and its connection to audit quality?	6%	2%	2%
Q4	Is there disclosure related to a discussion of how non-audit services may impact independence?	84%	82%	76%

Disclosure Question	S&P 500	S&P MidCap	S&P SmallCap
<b>Q5</b> Is there a statement that the audit committee is responsible for fee negotiations?	17%	8%	6%
<b>Q6</b> Is there an explanation provided for a change in fees paid to the external auditor?	23%	23%	26%
<b>Q7</b> Is it stated that the evaluation of the external auditor at least an annual event?	35%	20%	19%
<b>Q8</b> Is it explicitly stated that the audit committee is involved in the selection of the audit engagement partner?	51%	24%	12%
<b>Q8.1</b> Is there disclosure related to a discussion of how the audit committee is involved in the selection of the audit engagement partner?	15%	9%	3%

### Disclosure Trends S&P 500 (2014, 2022)

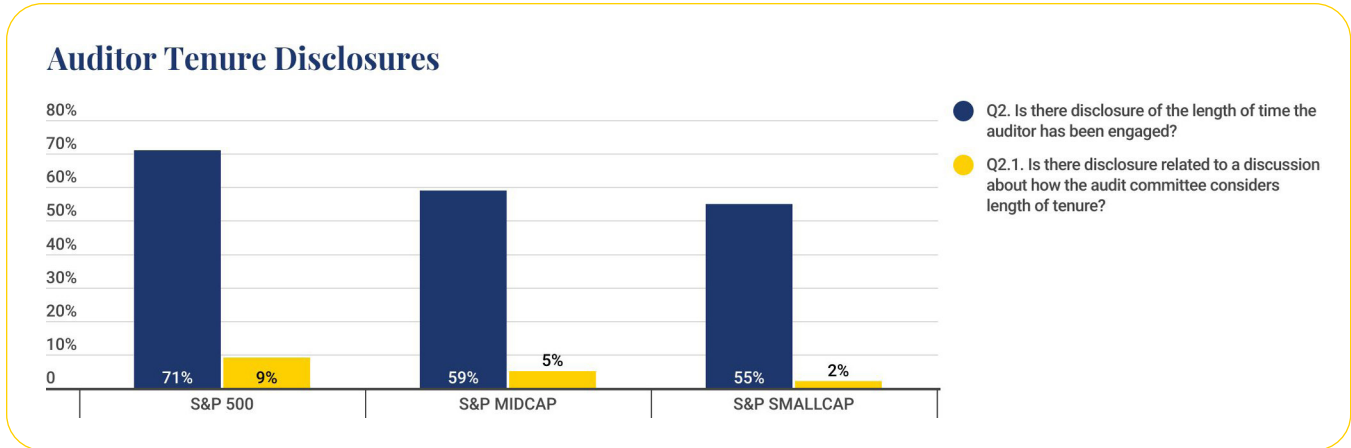


Many audit committees do not want to be at the front of the pack with their disclosures but failing to stay in line with peers could be a red flag to investors, forcing them to make assumptions to fill in the blanks of information not disclosed.

Excerpt from *Audit Committee: The Kitchen Sink of the Board* report

## AUDITOR TENURE

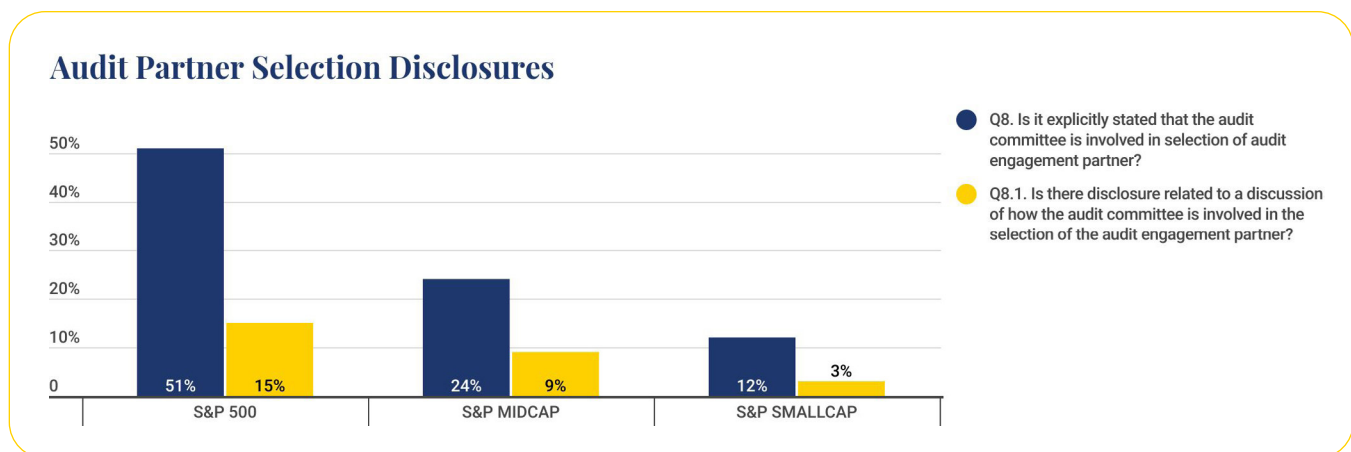
The majority of audit committees (71% for S&P 500) disclose the length of time the auditor has been engaged, however, very few audit committees (9% for S&P 500) disclose how the audit committee considers length of auditor tenure when re-appointing the external auditor.



The relationship between auditor tenure, auditor independence and audit quality has long been debated and researched, and since 2018 auditor tenure has been required to be disclosed in the auditor’s report. What’s important for stakeholders to understand is what does the audit committee think about the tenure of the audit firm in relationship to auditor independence and audit quality? Is it and how is it considered when re-appointing the audit firm? For example, the audit committee may disclose the benefits and potential risks of the auditor’s tenure that were considered. See examples 1 and 2 in Appendix II for disclosures about how the audit committee evaluated auditor tenure.

## AUDIT PARTNER SELECTION

Similarly, many audit committees (51% of S&P 500) disclose that they are involved in the selection of the audit engagement partner, but few disclose what their involvement entails.





A study highlighted in the [2021 Transparency Barometer](#) found that the audit partner selection process is positively associated with audit quality.<sup>2</sup> Specifically, the study found that:

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

Through tailored disclosures, the audit committee can explain their role in the engagement partner selection process. For example, did the full audit committee or the chair interview all potential candidates or only the final candidate? If the final candidate, was that candidate vetted by management? Recommended by the audit firm? Even if a new engagement partner was not selected in the current year, there is an opportunity for the audit committee to describe the selection process policy, as well as disclose the year that the current engagement partner was selected. See examples 5 and 6 in Appendix II for disclosures regarding the audit committee's oversight when selecting the engagement partner.

Providing detailed disclosures about how the audit committee executes its oversight responsibility, instead of relying on boilerplate language, provides investors with useful information into the processes, considerations, and decisions made by the audit committee to support audit quality. As shown in the examples in Appendix II, each audit committee has a unique story tell. The detailed disclosures relay the extent of engagement of the audit committee, which contributes to audit quality.

Investors want to see clearly defined roles and responsibilities assigned to the audit committee, an explanation for why audit committee members are appropriate for the specific company, examples of continuing education for audit committee members, more explanation for how audit committees address key risks, and details that reflect broader audit committee responsibilities.

**Excerpt from *Audit Committee: The Kitchen Sink of the Board* report**

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

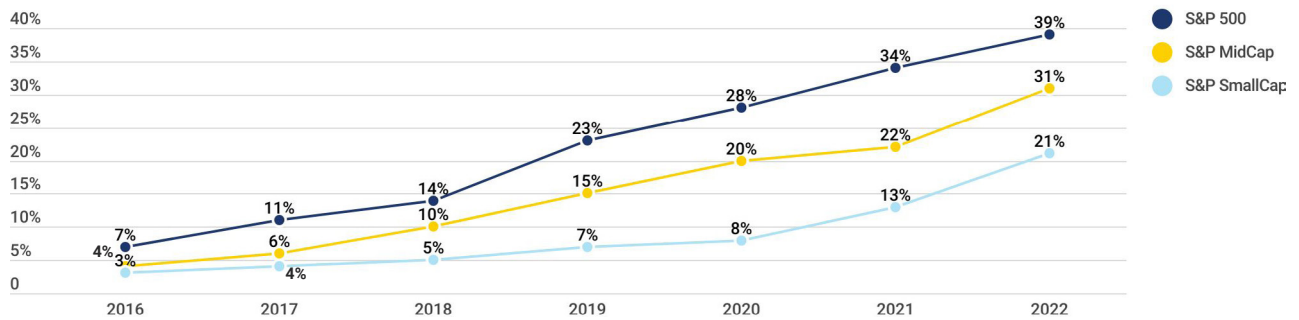
## CYBERSECURITY

DISCLOSURE QUESTION	S&P 500	S&P MIDCAP	S&P SMALLCAP
Q9 Is it disclosed that the Board of Directors has a cybersecurity expert?	39%	31%	21%
Q10 Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?	54%	41%	32%

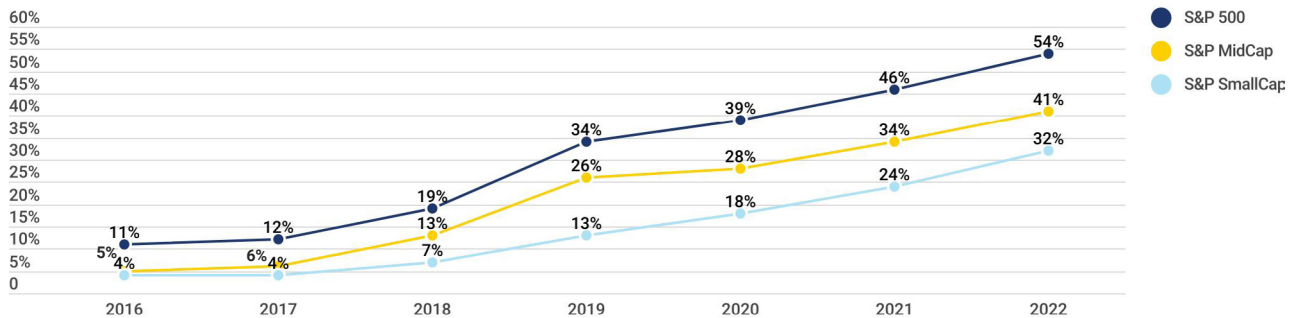
Cybersecurity disclosures continue to increase year-over-year, consistent with expectations of audit partners who expect voluntary company disclosure about cybersecurity to increase.<sup>3</sup> As cyber threats continue and investor and other stakeholder interest in cybersecurity vulnerabilities increases, the CAQ expects that boards and audit committees will continue this upward disclosure trend.

Additionally, consistent with prior years, there is an increase in disclosure of cybersecurity experts on the Board of Directors. As the risk environment evolves, it's important for boards to monitor the skillset composition of committee members. We also continue to see cybersecurity oversight responsibilities are delegated to the audit committee for many public companies.

### Is it Disclosed That the Board of Directors Has A Cybersecurity Expert?



### Is it Disclosed that the Audit Committee is Responsible for Cybersecurity Risk Oversight?



<sup>3</sup> [https://thecaqprod.wpenginepowered.com/wp-content/uploads/2022/06/caq\\_audit-partner-pulse-survey-q2-2022\\_2022-07.pdf](https://thecaqprod.wpenginepowered.com/wp-content/uploads/2022/06/caq_audit-partner-pulse-survey-q2-2022_2022-07.pdf)

## ESG

DISCLOSURE QUESTION	S&P 500	S&P MIDCAP	S&P SMALLCAP
Q11 Is it disclosed that the Board of Directors has an ESG or sustainability expert?	39%	26%	18%
Q12 Is it disclosed that the Audit Committee is responsible for ESG oversight?	18%	10%	7%

The CAQ and Ideagen's Audit Analytics began tracking disclosure of audit committee oversight related to ESG in the current year. We found that for S&P 500 companies, 39% of audit committees disclose having an ESG or sustainability expert (this is equal to the percentage of audit committees who disclose having a cybersecurity expert (Q9)). The percentage of audit committees that disclose having responsibility for ESG oversight is significantly lower. For S&P 500 companies, 54% and 18% of audit committees, respectively, disclose responsibility of oversight of cybersecurity and ESG. Similar to cybersecurity, ESG is a multi-faceted emerging risk. How the Board considers oversight of this risk among its committees is helpful information for stakeholders.

Audit committees will likely continue to have an increased role in ESG oversight given their expertise and experience in oversight of internal controls and financial reporting. A CAQ analysis, published in 2022, of ESG reporting in the Form 10-K of the S&P 500 found that 453 companies (or 91%) mention some sort of climate-related information in the Form 10-K.<sup>4</sup> As ESG information continues to make its way into SEC filings, audit committee disclosures around this topic will become increasingly important.

<sup>4</sup> <https://www.thecaq.org/sp-500-10k/>

# The Benefits of Audit Committee Disclosures

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Audit committees play a vital role in investor protection, particularly through their oversight of the external auditor and emerging risks, such as cybersecurity and ESG. Robust disclosures about the audit committee's oversight responsibilities and how the audit committee executes on those responsibilities provide investors with important information and promote trust.

**When audit committees report exerting strong oversight, they have higher audit quality.**

Using various sources and types of data, a 2020 study examined the correlation between audit committee oversight, audit committee disclosure, and audit quality.<sup>5</sup> Notably, the study found that increased audit committee oversight as communicated through audit committee disclosures in the proxy statement was correlated with higher audit quality.

The study found positive and significant correlation between audit committee oversight disclosures and stock market reaction, suggesting that investors perceive that new and more information about audit committee oversight not only provides investors with more information but more importantly is a way to signal higher audit quality.

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<sup>5</sup> Bratten, B., Causholli, M., & Sulcaj, V. (2020). Overseeing the External Audit Function: Evidence from Audit Committees' Reported Activities. <https://dx.doi.org/10.2139/ssrn.3314334>. This study examined the correlation between audit committee oversight, evidenced by disclosures about auditor/partner selection, auditor compensation, and auditor evaluation, and audit quality, evidenced by audit fees, discretionary accruals, incidences of meeting or beating earnings benchmarks, restatements, and three-day cumulative abnormal returns around the audit committee report release date.

A 2022 study of audit committee disclosures at U.S. bank holding companies also found that increased audit committee disclosures about auditor oversight led to higher audit quality, as reflected by fewer restatements.<sup>6</sup>

**Increased transparency through disclosure improves investor confidence.**

Not only is there a positive correlation between transparent disclosure and high audit quality, it provides investors with information about the audit committee's oversight of the auditor and financial reporting broadly. 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.

## FOUR STEPS TO ENHANCING YOUR DISCLOSURES

You're interested in enhancing, maybe revamping, your proxy disclosures related to audit committee oversight, but where to start? Your general counsel (GC) tells you "no" or you can't find the time. A new report has surprising and practical insights from audit committee members and GCs alike to help.

Researchers from the University of Tennessee-Knoxville and the Pamplin College of Business, Virginia Tech interviewed audit committee members, members of the investor community, and those charged with preparing proxy disclosures and compiled leading practices for audit committees related to oversight, workload, and disclosure. The report, *Audit Committee: The Kitchen Sink of the Board, How Audit Committees Can Manage Their Evolving Responsibilities and Polish Their Proxy Disclosures*, identifies four steps to take a fresh look at your audit committee disclosures.

### STEP 1: DEFINE YOUR GOALS

When determining what disclosures are appropriate or useful to stakeholders, a key first step is to define the goal of these disclosures. Investors communicated two consistent themes that indicate disclosures can provide value: (1) be transparent about audit committees' duties and actions and (2) provide confidence that the audit committee is fulfilling its fiduciary duty.

Disclosures are used based on type of investor:

- + Institutional investors that conduct individual analysis and engage regularly with companies would prefer to see companies "tell a story" with their governance disclosures (qualitative).
- + Governance rating agencies and institutional investors managing large portfolios need systematic disclosure norms to machine-code key governance information (quantitative).

Audit committees can meet the differing needs of diverse stakeholders by using clearly labeled and defined sections of the proxy statement to communicate quantitatively relevant data and then add additional language to enhance qualitative analysis.

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<sup>6</sup> O'Shaughnessy, D., Sahyoun, N., & Tervo, W. (2022). Audit committee voluntary disclosure describing external auditor oversight: Does it reflect higher audit quality? *Journal of Corporate Accounting & Finance*, 1–17. <https://doi.org/10.1002/jcaf.22560>

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## **STEP 2: ACTIVELY SEEK OUT DISCLOSURE EXAMPLES**

It is important for audit committees to refer to peer disclosures to understand what stakeholders are seeing from peer organizations. Many audit committees do not want to be at the front of the pack with their disclosures but failing to stay in line with peers could be a red flag to investors, forcing them to make assumptions to fill in the blanks of information not disclosed.

## **STEP 3: ADVOCATE FOR YOUR DISCLOSURES**

Many audit committee participants in the study were concerned that enhanced disclosures would introduce litigation risk, either for them personally or the full board of directors. However, interviews with GCs revealed less concern about litigation risk. As one GC participant replied:

*"We think the benefit of enhanced disclosure outweighs the risk because we don't know what the risk really is."*

The extent to which GCs could see actual risk of litigation is when the company makes false statements about the scope and breadth of AC oversight. Thus, in order to provide expanded audit committee disclosures, audit committees have to be performing substantive oversight activities worth disclosing. GCs recommend that if an audit committee wants to enhance their disclosures, all they have to do is ask. The GC is well positioned to work with management to find a solution that meets the company's risk profile and also allows the audit committee to enhance its disclosures about governance processes.

## **STEP 4: REGULARLY REVISIT DISCLOSURES**

Given the ever-evolving set of business risks that companies face each year, governance disclosures will likely need to change year-over-year to reflect current circumstances. Investors are interested in understanding how governance operated in that specific year, including major risks faced by the audit committee and how they were addressed by the audit committee.

The research reveals a potential opportunity for disclosure regulation, perhaps through XBRL tagging or systematic classification. This approach could allow companies to individualize their disclosure choices while also providing governance rating agencies and institutional investors with a method for systematically capturing quantitative and qualitative data across large samples. However, several audit committee participants expressed concern about XBRL tagging proxy statements if it led investors to overly rely on tagged data without the additional context that the qualitative disclosures or engagement opportunities provide. Thus, to move forward in enhancing proxy disclosures, discussions between investors and issuers need to occur to meaningfully disclose governance information in a way that is also useful to shareholders.

Appendix III, *Sample: Leading Practice Audit Committee Matters and Report*, provides a sample for audit committees of leading practice robust disclosures and Appendix IV, *Questions to Consider When Preparing Audit Committee Disclosures*, includes example questions for consideration as the audit committee prepares their disclosures.

# Conclusion

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Since the CAQ and Ideagen's Audit Analytics began tracking audit committee disclosures nine years ago, we have seen positive long-term disclosure trends across most questions measured. In the current year, we found that opportunities continue to exist for audit committees to provide tailored, more robust disclosures about how they execute on their responsibilities. Disclosure is a powerful tool to inform investors of the important oversight work the audit committee performs to not only support audit quality, but further heighten it. The CAQ encourages audit committees to continue to improve disclosures and enhance transparency of the critical oversight work they perform. •

# Appendix I

## Summary Table Of Disclosure Rates

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT FIRM SELECTION	Q1. Is there disclosure related to a discussion of audit committee considerations in appointing or (re) appointing the external auditor?	2022	46%	32%	24%
		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%
	Q2. Is there disclosure of the length of time the auditor has been engaged?	2022	71%	59%	55%
		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%



2022 Audit Committee Transparency Barometer

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT FIRM SELECTION	Q2.1. Is there disclosure related to a discussion about how the audit committee considers length of auditor tenure?	<b>2022</b>	<b>9%</b>	<b>5%</b>	<b>2%</b>
		2021	5%	3%	1%
AUDIT FIRM COMPENSATION	Q3. Is there disclosure related to a discussion of audit fees and its connection to audit quality?	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%
		2022	<b>84%</b>	<b>82%</b>	<b>76%</b>
		2021	83%	80%	76%
		2020	84%	80%	76%
	Q4. Is there disclosure related to a discussion of how non-audit services may impact independence?	2019	84%	79%	77%
		2018	83%	78%	75%
		2017	80%	75%	72%
		2016	81%	73%	69%
		2015	78%	67%	63%
		2014	83%	69%	58%
		2022	<b>17%</b>	<b>8%</b>	<b>6%</b>
		2021	18%	8%	5%
	2020	18%	7%	4%	
	Q5. Is there a statement that the audit committee is responsible for fee negotiations?	2019	19%	6%	4%
2018		20%	5%	4%	
2017		20%	4%	4%	
2016		17%	3%	5%	
2015		16%	3%	5%	
2014		8%	1%	1%	

2022 Audit Committee Transparency Barometer

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT FIRM COMPENSATION	Q6. Is there an explanation provided for a change in fees paid to the external auditor?	<b>2022</b>	<b>23%</b>	<b>23%</b>	<b>26%</b>
		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	Q7. Is it stated that the evaluation of the external auditor at least an annual event?	<b>2022</b>	<b>35%</b>	<b>20%</b>	<b>19%</b>
		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%
AUDIT PARTNER SELECTION	Q8. Is it explicitly stated that the audit committee is involved in the selection of the audit engagement partner?	<b>2022</b>	<b>51%</b>	<b>24%</b>	<b>12%</b>
		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%
		Q8.1. Is there disclosure related to a discussion of how the audit committee is involved in the selection of the audit engagement partner?	<b>2022</b>	<b>15%</b>	<b>9%</b>

2022 Audit Committee Transparency Barometer

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
CYBERSECURITY	Q9. Is it disclosed that the Board of Directors has a cybersecurity expert?	<b>2022</b>	<b>39%</b>	<b>31%</b>	<b>21%</b>
		2021	34%	22%	13%
		2020	28%	20%	8%
		2019	23%	15%	7%
		2018	14%	10%	5%
		2017	11%	6%	4%
		2016	7%	4%	3%
	Q10. Is there disclosure that the Audit Committee is responsible for cybersecurity risk oversight?	<b>2022</b>	<b>54%</b>	<b>41%</b>	<b>32%</b>
		2021	46%	34%	24%
		2020	39%	28%	18%
		2019	34%	26%	13%
		2018	19%	13%	7%
		2017	12%	6%	4%
		2016	11%	5%	4%
ESG	Q11. Is it disclosed that the Board of Directors has an ESG or sustainability expert?	<b>2022</b>	<b>39%</b>	<b>26%</b>	<b>18%</b>
	Q12. Is there disclosure that the Audit Committee is responsible for ESG oversight?	<b>2022</b>	<b>18%</b>	<b>10%</b>	<b>7%</b>

# Appendix II

## Examples Of Effective Disclosure

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### A. AUDIT FIRM SELECTION

- Q1. Is there disclosure related to a discussion of audit committee considerations in appointing or (re)appointing the external auditor?
- Q2. Is there disclosure of the length of time the auditor has been engaged?
- Q2.1. Is there disclosure related to a discussion about how the audit committee considers length of auditor tenure?

#### EXAMPLE 1

**Source:** Intel Corporation (S&P 500), Proposal 2: Ratification of the Appointment of the Independent Registered Public Accounting Firm

The Audit & Finance Committee evaluates the selection of independent auditors each year and has selected [Audit Firm] as our independent registered public accounting firm for the current year. [Audit Firm] has served in this role since Intel was incorporated in 1968. Representatives of [Audit Firm] attended all meetings of the Audit & Finance Committee in 2021 except those meetings subject to attorney-client privilege.

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Independence of [Audit Firm]

In order to ensure continued auditor independence, the Audit & Finance Committee periodically considers whether there should be a regular rotation of our independent registered public accounting firm. The Audit & Finance Committee concluded that many factors contribute to the continued support of [Audit Firm]'s independence, such as oversight by the Public Company Accounting Oversight Board (PCAOB) through the establishment of audit, quality, ethics, and independence standards in addition to conducting audit inspections; the mandating of reports on internal control over financial reporting; PCAOB requirements for audit partner rotation; and limitations imposed by regulation and by the Audit & Finance Committee on non-audit services provided by [Audit Firm]. The Audit & Finance Committee has established, and monitors, limits on the amount of non-audit services that Intel may obtain from [Audit Firm]. Under the auditor independence rules, [Audit Firm] reviews its independence each year and delivers to the Audit & Finance Committee a letter addressing matters prescribed under those rules.

Regular Rotation of Primary Engagement Partner

In accordance with applicable rules on partner rotation, [Audit Firm]'s lead partner for our audit was changed in 2020, while [Audit Firm]'s engagement quality review partner for our audit was most recently changed in 2019. The Audit & Finance Committee is involved in considering the selection of [Audit Firm]'s primary engagement partner when there is a rotation, which is typically every five years.

Pre-Approval Policies

The Audit & Finance Committee pre-approves and reviews audit and non-audit services performed by [Audit Firm], as well as the fees charged by [Audit Firm] for such services. In its pre-approval and review of non-audit service fees, the Audit & Finance Committee considers, among other factors, the possible effect of the performance of such services on the auditors' independence.

Factors Considered in Deciding to Re-Engage [Audit Firm]

The Audit & Finance Committee considers a number of factors in deciding whether to re-engage [Audit Firm] as the independent registered public accounting firm, including the following:

- Close alignment of [Audit Firm]'s global footprint and resources with our geographies and worldwide business activities
  - presence and depth and expertise of [Audit Firm] staffing both across the 150 countries in which there are required reviews and in the geographies with the greatest accounting/finance focus
- [Audit Firm]'s high audit quality, performance, and results
  - evaluations of the nature and quality of the communications and engagement with [Audit Firm]
  - quality reviews, including PCAOB inspections, "Big 4" peer reviews, and bi-annual two-way surveys (aligned to Center for Audit Quality's external assessment survey questions)

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- [Audit Firm]’s positive reputation
  - integrity and competence in the fields of accounting and auditing
  - nature of legal or disciplinary actions affecting the firm
  - commitment to diversity and inclusion
- Robust independence controls and objectivity
  - annual evaluations of independence, partner rotations, and pre-approval policies and controls
  - [Audit Firm]’s rigorous internal process for monitoring and maintaining independence, such as internal reviews of its audit and other work; assessments of the adequacy of personnel on Intel’s account; and rotations of key partners on the engagement consistent with PCAOB and SEC independence and rotation requirements
  - Audit & Finance Committee involvement in and oversight of [Audit Firm] independence
  - [Audit Firm]’s professional skepticism and objectivity displayed in reports/ presentations
- Benefits of longer-tenured auditor:
  - **Enhanced audit quality:** deeper institutional knowledge and expertise, better geographic overlap + limited other options due to Intel’s size, complexity, and geography
  - **Continuity and avoidance of switching costs:** management time to bring new auditors up to speed generally, but also with respect to the hundreds of countries that require review
  - **No disruption of non-audit workflows:** conflicts from consulting contracts on other matters
  - **Competitive fees:** due to efficiencies and familiarity
- [Audit Firm]’s deep institutional company-industry knowledge, experience, and expertise
  - [Audit Firm]’s and key engagement team members’ extensive professional qualifications, experience, and expertise
  - [Audit Firm]’s depth and breadth of understanding of the technology and semiconductor industries, and Intel’s unique business model (global integrated device manufacturer and foundry service provider), and complex accounting policies and practices
- Length of [Audit Firm]’s service
  - potential positive and negative impact on independence and objectivity

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- more effective audit plans and better audit service quality and productivity offered by [Audit Firm] due to greater familiarity with the industry, business, segments, and policies and procedures
- Impact of engaging a new auditor
  - significant costs, time commitments, disruption to continuity, and distraction of management associated with bringing on and extensively educating a new auditor
- Appropriateness of [Audit Firm]'s fees
  - [Audit Firm]'s longer tenure offers us an efficient fee structure and more competitive fees relative to our peers as supported by benchmarking and reviews
- Non-audit service projects performed by other multinational public accounting and auditing firms
  - nature, scope, length, complexity, required knowledge and cost of non-audit services provided by the other public accounting firms
  - impact (e.g., significant disruption, lost cumulative knowledge, time to properly onboard, and higher fees) of any needed changes to such service providers from a change in our independent auditor

Based on the factors listed above, the Audit & Finance Committee and Board believe that the continued retention of [Audit Firm] as our independent registered public accounting firm is in the best interests of the company and our stockholders.

**EXAMPLE 2**

**Source:** Eastgroup Properties, Inc. (S&P MidCap), Proposal 2 Ratification of Appointment of the Independent Auditor

The Audit Committee is responsible for the appointment of the independent registered public accounting firm engaged by the Company. During 2020, the Audit Committee conducted an audit proposal process and selected [Audit Firm] to continue serving as the Company's independent registered public accounting firm. The Audit Committee has appointed [Audit Firm] as independent auditors for the fiscal year ending December 31, 2022.

The following section of this Proxy Statement contains additional information regarding the independent auditors, including a description of the Audit Committee's Policy for Pre-Approval of Audit and Permitted Non-Audit Services and a summary of Auditor Fees and Services.

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Evaluation and Selection of Independent Auditors

On an annual basis, the Audit Committee evaluates the performance of the Company's independent registered public accounting firm and from time to time will conduct a formal audit proposal process with several audit firms. Factors considered by the Audit Committee when retaining its auditors include:

- the firm's technical expertise and knowledge of the Company's business and industry;
- the availability and quality of the firm's educational resources;
- the firm's independence;
- the quality of the firm's communications with the Audit Committee and management; and
- the efficiency and effectiveness of the firm's audit services and capabilities;
- the appropriateness of the firm's fees.

BENEFITS OF LONGER TENURE

- Institutional knowledge of the Company's business operations, accounting policies and practices, personnel and internal control over financial reporting enhance the efficiency and quality of the audit process.
- A competitive fee structure is achieved due to [Audit Firm]'s deep knowledge and familiarity with the Company. There would be additional fees required in changing audit firms.

Based on these and other factors, the Audit Committee determined that, as of the most recent audit proposal process conducted by the committee, continuing to engage [Audit Firm] as the Company's independent registered public accounting firm is in the best interests of the Company and shareholders.



## B. AUDIT FIRM COMPENSATION

- Q3. Is there disclosure related to a discussion of audit fees and its connection to audit quality?
- Q4. Is there disclosure related to a discussion of how non-audit services may impact independence?
- Q5. Is there a statement that the audit committee is responsible for fee negotiations?
- Q6. Is there an explanation provided for a change in fees paid to the external auditor?

### EXAMPLE 3

Source: Huntington Bancshares Incorporated (S&P 500), Audit Matters

#### Audit Fees, Audit-Related Fees, Tax Fees, and All Other Fees

(1) Audit fees are fees for professional services rendered for the integrated audits of our annual consolidated financial statements, including the audit of the effectiveness of our internal control over financial reporting, quarterly reviews of the condensed consolidated financial statements included in Form 10-Q filings, and services that are normally provided by [Audit Firm] in connection with statutory/subsidiary financial statement audits, attestation reports required by statute or regulation, and comfort letters and consents related to SEC filings. Increases in audit fees for 2021 primarily related to the TCF Merger.

#### Pre-Approval Policies and Procedures

The Audit Committee is responsible for the audit fee negotiations associated with the retention of the independent registered public accounting firm. The Audit Committee has a policy that it will pre-approve all audit and non-audit services provided by the independent registered public accounting firm and will not engage the independent registered public accounting firm to perform any specific non-audit services prohibited by law or regulation. The Audit Committee has given general pre-approval for specified audit, audit-related, and tax services. The term of any general pre-approval is 12 months from the date of pre-approval unless the Audit Committee specifically provides for a different term. The Audit Committee will annually review the services for which general pre-approval is given. The Audit Committee may revise the list of general pre-approved services from time to time, based upon subsequent determinations. Unless a type of service to be provided by the independent registered public accounting firm has received general pre-approval, it will require specific pre-approval by the Audit Committee. Pre-approval fee levels for all services to be provided by the independent registered public accounting firm are established annually by the Audit Committee. Any proposed services exceeding these levels will require specific pre-approval by the Audit Committee.

#### EXAMPLE 4

Source: AutoNation, Inc. (S&P MidCap), Proposal 2: Ratification of the Selection of our Independent Registered Public Accounting Firm

##### Auditor Fees and Services

The Audit Committee is responsible for the compensation of the Company's independent registered public accounting firm and oversees the audit fee negotiations associated with the Company's retention of [Audit Firm]. The following table shows the fees for audit and other services provided by [Audit Firm] for fiscal years 2020 and 2021.

...

Audit Fees. This category includes fees billed for professional services rendered by [Audit Firm] for the audit of our consolidated financial statements, audit of our internal control over financial reporting, review of the consolidated financial statements included in our Form 10-Q quarterly reports, and services that are normally provided by the independent registered public accounting firm in connection with acquisitions, new accounting or audit standards, and statutory or regulatory filings or engagements, including comfort letters and consents issued in connection with SEC filings. [Audit Firm]'s audit fees increased year-over-year primarily due to an increase in acquisition activity in 2021 as compared to 2020.

### C. AUDIT FIRM EVALUATION / SUPERVISION

Q7. Is it stated that the evaluation of the external auditor at least an annual event?

See examples 1 and 2 above.

## D. AUDIT PARTNER SELECTION

- Q8. Is it explicitly stated that the audit committee is involved in the selection of the audit engagement partner?
- Q8.1. Is there disclosure related to a discussion of how the audit committee is involved in the selection of the audit engagement partner?

### EXAMPLE 5

**Source:** iRobot Corporation (S&P SmallCap), Proposal 2 Ratification of Appointment of Independent Registered Public Accounting Firm

#### Independence and Quality

The audit committee is also responsible for selecting the lead engagement partner. The rules of the SEC and [Audit Firm]’s policies require mandatory rotation of the lead engagement partner every five years. In 2020, the audit committee selected a new lead engagement partner to begin in the 2021 fiscal year. During 2020, the audit committee, including the chair of the audit committee, were directly involved in the selection of the new lead engagement partner. The process for selecting a new lead engagement partner was fulsome and allowed for thoughtful consideration of multiple candidates, each of whom met a list of specified criteria. The process included discussions between the chair of the audit committee and [Audit Firm] as to all of the final candidates under consideration for the position, meetings with the full audit committee and management, and robust interviews with the final candidates.

### EXAMPLE 6

**Source:** Xylem, Inc. (S&P 500), Proposal 2 - Ratification of Appointment of the Independent Registered Public Accounting Firm

In conjunction with the mandated rotation every five years of the independent auditor’s lead engagement partner, the Audit Committee oversees and participates in the selection of our lead engagement partner. The selection process starts with management interviews of candidates who meet professional, industry and personal criteria, including diversity of thought and background, experience with complex global clients, and industry-specific experience, among others. Management recommends a finalist candidate to the Committee. The Committee Chair then interviews the finalist and, in consultation with the Committee, considers management’s recommendation and approves appointment of the new lead audit engagement partner, most recently for 2021. This individual is expected to serve in this capacity through the end of the 2025 audit.

## E. CYBERSECURITY

Q9. Is it disclosed that the Board of Directors has a cybersecurity expert?

Q10. Is there disclosure that the Audit Committee is responsible for cybersecurity risk oversight?

### EXAMPLE 7

Source: SVB Financial Group (S&P 500), Board Oversight of Strategy and Risk

#### Cybersecurity

Like other financial institutions, we are susceptible to information security breaches and cybersecurity-related incidents. We are committed to protecting and continually enhancing the security of our systems, networks and general technology environment. We have established a Security Program, which includes appropriate security risk assessments, security monitoring, incident response, policies, operating standards, global regulatory compliance and employee training. All employees are required to complete annual training on the following topics: information security, privacy, cybersecurity best practices (e.g., social engineering, incident reporting, managing third-party relationships), identity and access management, physical security and remote work best practices (e.g., mobile security).

We continually invest in enhancing our preventive and defensive capabilities in line with globally recognized information security standards, maintaining appropriate information security risk insurance policies, and implementing other measures to mitigate potential threats and losses, where possible. For example, we have invested in additional precautionary measures to mitigate cybersecurity risks resulting from our remote work environment in response to COVID-19. The Board is actively engaged in oversight of our cybersecurity practices, with the Audit Committee having primary oversight responsibility. The Audit Committee reviews and approves the Security Program on an annual basis, as well as receives management updates about information security matters on at least a quarterly basis. These management updates cover: external cybersecurity hot topics and notable events, current and emerging threats, cybersecurity program achievements and progress of key initiatives, key performance indicators, key risk indicators and notable internal events. In addition, the Audit Committee receives prompt reporting and updates on significant cybersecurity-related incidents.

### EXAMPLE 8

Source: CACI International Inc. (S&P MidCap), Board of Directors and Executive Officers

Debora A. Plunkett, 62  
Director since: 2018  
Independent

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**Ms. Plunkett has served in senior leadership positions in the National Security Agency (NSA) and brings CACI's Board more than 30 years of national security experience in such critical mission areas as cyber security and information assurance.**

Ms. Plunkett's extensive experience in cyber and national security will further CACI's information assurance mission in addressing serious economic and security challenges faced by the United States in the 21st century. Her previous NSA positions include Director of Information Assurance from April 2010 to November 2014 and Deputy Director of Information Assurance from August 2008 to April 2010, where she led the agency's information assurance/cyber defense mission and directed thousands of NSA professionals worldwide. She also conceived and established the National Cyber Security Assistance Program to qualify commercial organizations for accreditation in performing cyber security services for national security systems, and advised Executive Branch decision-makers, including the National Security Council, on cyber issues. Ms. Plunkett was the first person to serve in the newly established position of Senior Advisor to the NSA Director, from November 2014 to January 2016, with a focus on enhancing equality, diversity, and inclusion for the agency's highly technical workforce. A highly credentialed professional, Ms. Plunkett received the Distinguished Service Medal and Exceptional Civilian Service Award from the NSA Director. She was awarded the Rank of Distinguished Executive by President Barack Obama, and the Rank of Meritorious Executive by President George W. Bush. As a recognized expert in national security, she has appeared on CBS/60 Minutes and Federal News Radio, been interviewed in the Washington Post, and given keynote addresses at high-profile cyber security and defense conferences. She currently serves on the Nationwide Insurance, BlueVoyant and Mercury Systems Board of Directors, is a Senior Fellow at Harvard University's Belfer Center, and a professor in the cybersecurity graduate program at the University of Maryland.

## F. ESG

Q11. Is it disclosed that the Board of Directors has an ESG or sustainability expert?

Q12. Is there disclosure that the Audit Committee is responsible for ESG oversight?

### EXAMPLE 9

Source: Haverty Furniture Companies, Inc. (S&P SmallCap), Board of Directors Oversight Roles

Oversight of ESG. Havertys' board of directors believes the company's business strategy and ESG strategy should be in alignment and focus on material risks and business drivers. The board has delegated oversight of certain ESG matters to its committees.

Audit Committee: Consistent with its oversight of financial and other metrics, the Audit Committee is tasked with reviewing our ESG disclosures.

NCG Committee: ESG oversight related to compensation and human capital management is delegated to the NCG Committee. This includes reviewing Havertys' culture and organization and the execution of ESG-related initiatives. The NCG Committee is also tasked with evaluating whether there is sufficient diversity on the board, including gender, racial and ethnic diversity, and overseeing our diversity and inclusion initiatives.

Management: The ESG Working Group is comprised of cross-functional leaders that are responsible for strategy and executional buildout of all ESG activities and reports to the ESG Steering Committee. The ESG Steering Committee is responsible for providing oversight and approving the recommendations set forth by the Working Group and informing the board.

We issued our first corporate report on environmental, social, and governance in December 2021. We look forward to updating and sharing important information and metrics related to our journey to reduce our environmental impact, strengthen our team and communities, and enhance our long-term, value-creating focus on sustainability.

### EXAMPLE 10

Source: United Therapeutics Corporation (S&P MidCap), Board of Directors and Nominees

Nilda Mesa, J.D.  
Age 62  
Director Since: 2018  
Committees: Compensation, Nominating and Governance

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### **Background**

Professor Mesa has had a long and innovative career in environment, energy, and sustainability at the city, state, national, and global levels, and now writes and presents extensively on climate, energy, equity, and urban systems relating to them. From 2014 to 2016, Professor Mesa served as Director of the New York City Mayor’s Office of Sustainability, where she led the pathbreaking OneNYC long-term sustainability plan for the city. As chief sustainability officer for New York City, she oversaw programs in climate, energy, sustainability, air quality and public health, waste, green buildings, transportation, public education, and other initiatives. In 2016, she returned to Columbia University as an adjunct professor at the School of International and Public Affairs, as well as Director of the Urban Sustainability and Equity Planning Program with Columbia’s Center for Sustainable Urban Development at the Earth Institute. She is currently Adjunct Professor in the Graduate School of Architecture, Planning, and Preservation. In 2006, she founded Columbia’s Office of Environmental Stewardship, one of the first in the United States for a university. She also served as Chief Administrative Officer at the Columbia Journalism School from 2012 to 2014. Before joining Columbia, Professor Mesa served in environmental leadership roles at the White House Council on Environmental Quality, the U.S. Air Force, the U.S. Environmental Protection Agency, and the California Attorney General’s office, and practiced law in both the public and private sectors. Her work has involved extensive international experience, including most recently a 2018 to 2021 appointment as a visiting professor and lecturer at the Paris School of International Affairs at SciencesPo (Paris Institute of Political Studies), an international research university in France. She is the co-author of *Collaborating for Climate Resilience* (Routledge, 2021), and a contributor to *Smarter New York City: How City Agencies Innovate* (Columbia University Press, 2019). She is a graduate of Harvard Law School and Northwestern University.

### **Director Qualifications**

Professor Mesa brings to our Board extensive executive leadership experience, particularly in the area of environmental stewardship, energy, and sustainability. As we continue to operate and grow our business in an environmentally sustainable fashion, we expect Professor Mesa’s insights to be extremely valuable. In addition, our Board benefits from her experience working in a variety of scientific, academic, government, legal, and international settings.

# Appendix III

## Sample: Leading Practice Audit Committee Matters and Report

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### AUDIT COMMITTEE MATTERS

The Audit Committee (or “Committee”) is composed entirely of independent directors, each of whom meets the independence and experience requirements set forth by the SEC.

#### Audit Committee Charter, Responsibilities, and Qualifications

The Audit Committee operates pursuant to a written charter, which may be accessed through our website at [\[add link to website\]](#). The Committee reviews the charter annually and works with the Board of Directors (or “Board”) to amend the charter as appropriate to reflect the evolving role of the Committee.

The Board has the ultimate authority for effective corporate governance, including oversight of the management of the Company. The Audit Committee assists the Board of Directors in overseeing matters relating to the accounting and reporting practices of the Company, the adequacy of the Company’s disclosure controls and internal controls, the quality and integrity of the quarterly and annual financial statements of the Company, the performance of the Company’s internal audit function, and the review and pre-approval of the current year audit and non-audit services. In addition, the Audit Committee oversees the Company’s compliance programs relating to legal and regulatory requirements and technology and information risk and security (including cybersecurity).

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 and internal controls over financial reporting. (See “Proposal No. X –Ratification of Appointment of Independent Registered Public Accounting Firm—Principal Audit Fees and Services” for more information about the Audit Committee’s oversight of [Audit Firm]’s audit and permissible non-audit fees.)



## Responsibilities of Management, Independent Auditor, and Internal Audit

Management has the primary responsibility for the financial statements and the reporting process, including the system of internal accounting controls. [Audit Firm], the Company’s independent registered public accounting firm, is responsible for expressing opinions on the conformity of the Company’s audited financial statements with generally accepted accounting principles and on the Company’s internal control over financial reporting.

The Chief Internal Auditor reports directly to the Audit Committee. Under his direction, our Internal Audit function is responsible for preparing an annual audit plan and conducting internal audits intended to evaluate the Company’s internal control structure and compliance with applicable regulatory requirements.

To promote independence of the audit, the Audit Committee consults separately and jointly with the Company’s independent registered public accounting firm, the internal auditors, and management.

## Allocation of Risk Oversight / Addressing Key Risks

### Board Oversight of Risk

The Company operates in a complex market and regulatory environment. The Board has broad responsibility to provide oversight of significant risks primarily through direct engagement with management and through delegation of ongoing risk oversight responsibilities to the Committees. Any risk oversight area not allocated to a Committee remains with the Board. Each Committee reports regularly to the Board on discussions of enterprise risks for which it is responsible. Furthermore, the Board regularly discusses enterprise risks in connection with the evaluation of capital investments, other business opportunities and strategies as well as emerging trends or developments. Reports provided by senior leadership, as well as third-party experts, support oversight of the key risks delegated to each Committee and the full Board.

COMMITTEES			FULL BOARD
<b>AUDIT AND RISK</b> <ul style="list-style-type: none"> <li>✓ Review internal audit risk assessment and oversee risks associated with financial reporting</li> <li>✓ Oversee tax strategy and assessment of tax risks</li> <li>✓ Review conflicts of interest, ethics, and compliance issues</li> <li>✓ Oversight of compliance with policies governing interactions with public officials</li> </ul>	<b>COMPENSATION</b> <ul style="list-style-type: none"> <li>✓ Evaluate risks related to compensation policies and practices</li> <li>✓ Oversee leadership development and succession planning (other than for CEO)</li> <li>✓ Oversees matters related to corporate culture and human capital</li> </ul>	<b>CORPORATE GOVERNANCE</b> <ul style="list-style-type: none"> <li>✓ Oversee succession planning for CEO</li> <li>✓ Review risks related to governance and shareholder activism</li> <li>✓ Sustainability and climate change strategies and efforts to protect and improve the environment</li> <li>✓ Oversight of political contributions</li> </ul>	<ul style="list-style-type: none"> <li>✓ Oversight of enterprise risk and risk management strategies, policies, procedures, and mitigation efforts</li> <li>✓ Cybersecurity</li> <li>✓ Utility operations, strategy, and safety</li> <li>✓ DEI initiatives and diverse business spending</li> <li>✓ Capital allocation related to environmental and climate risks</li> </ul>
<b>REPORTS FROM</b> <ul style="list-style-type: none"> <li>• CFO</li> <li>• Controller</li> <li>• Audit Services</li> <li>• Independent Auditor</li> <li>• Tax</li> <li>• General Counsel</li> <li>• Compliance &amp; Audit</li> </ul>	<b>REPORTS FROM</b> <ul style="list-style-type: none"> <li>• Chief HR Officer</li> <li>• CFO</li> <li>• Executive Compensation</li> <li>• Corporate Governance</li> <li>• Independent Compensation Consultant</li> </ul>	<b>REPORTS FROM</b> <ul style="list-style-type: none"> <li>• Corporate Governance</li> <li>• Chief Sustainability Officer</li> <li>• Environmental Strategy</li> <li>• Chief HR Officer</li> <li>• Independent Compensation Consultant</li> </ul>	<b>REPORTS FROM</b> <ul style="list-style-type: none"> <li>• CFO</li> <li>• Compliance &amp; Audit</li> <li>• General Counsel</li> <li>• Chief Information Officer</li> <li>• Chief Security Officer</li> <li>• Government Affairs</li> <li>• Utility CEOs</li> </ul>

Source: <https://www.sec.gov/Archives/edgar/data/1109357/000120677422000727/esc3973661-def14a.htm>

## Evaluation and Compensation of the Independent Auditor

The Audit Committee regularly considers the independence, qualifications, compensation, and performance of its independent auditor. In 202X, the Committee approved an evaluation framework to assist with the Committee's annual assessment of the independent audit firm. While the framework was initially developed by management, the framework approved by the Committee reflected feedback from members of the Audit Committee. Results of the full assessment were considered by the Committee for its annual review and determination of whether to retain [Audit Firm] as the Company's independent auditor for [next year]. Using the framework, the Audit Committee assessed the following [x number] areas in addition to a consideration of the audit firm's independence.

### *Quality of the independent audit firm and audit process*

- + The number of restatements, material weaknesses and significant deficiencies to determine if any items should have been reasonably identified by the independent audit firm.
- + Results of the [most recent] PCAOB Inspection report issued in [date], which was provided to and discussed by the Audit Committee and audit firm.
- + The risk associated with the independent audit firm based on their financial stability, compliance with applicable laws and professional standards, pending litigation or judgments against the independent audit firm, and results of applicable independent audit firm inspections, including internal inspections.

### *DEI alignment with [company's] core values*

- + Whether the independent audit firm's onsite team demonstrates a commitment to diversity, equity, and inclusion (DEI) aligned with [company's] core values.
- + Annual DEI assessment of third-party finance vendors by management led to [Audit Firm's] appointment to the DEI honor roll for the tenth consecutive year.

### *Level of service provided by the independent audit firm*

- + Results of annual satisfaction surveys distributed to the Committee and management with high interactions with the independent audit firm.
- + Open access and engagement with [Audit Firm] subject matter experts providing valuable insights on matters important to [company].

### *Good faith negotiation of fees*

- + Robust [biennial] fee negotiations process.
- + Review of fees incurred for reasonableness against the annually approved fees and reported current fee estimates provided to the Committee quarterly.

## Independent Auditor Tenure and Rotation

### *Pre-Approval Policies*

The Audit Committee pre-approves and reviews audit and non-audit services performed by [Audit Firm], as well as the fees charged by [Audit Firm] for such services. For 202X, non-audit services provided by [Audit Firm], based on

fee categories provided by SEC rules, were \$XXX, or X% of total fees paid to [Audit Firm] in 202X. (See “Proposal No. X –Ratification of Appointment of Independent Registered Public Accounting Firm–Principal Audit Fees and Services” for more information about the Audit Committee’s oversight of [Audit Firm]’s audit and permissible non-audit fees.)

In its pre-approval and review of non-audit service fees, the Audit Committee considers, among other factors, the possible effect of the performance of such services on the auditors’ independence.

+ Benefits of longer-tenured auditor (if applicable):

- **Enhanced audit quality:** deeper institutional knowledge and expertise, better geographic overlap + limited other options due to Intel’s size, complexity, and geography
- **Continuity and avoidance of switching costs:** management time to bring new auditors up to speed generally, but also with respect to the hundreds of countries that require review
- **No disruption of non-audit workflows:** conflicts from consulting contracts on other matters
- **Competitive fees:** due to efficiencies and familiarity

+ [Audit Firm]’s deep institutional company-industry knowledge, experience, and expertise

- [Audit Firm]’s and key engagement team members’ extensive professional qualifications, experience, and expertise
- [Audit Firm]’s depth and breadth of understanding of the technology and semiconductor industries, and Intel’s unique business model (global integrated device manufacturer and foundry service provider), and complex accounting policies and practices

+ Length of [Audit Firm]’s service

- potential positive and negative impact on independence and objectivity
- more effective audit plans and better audit service quality and productivity offered by [Audit Firm] due to greater familiarity with the industry, business, segments, and policies and procedures

+ Impact of engaging a new auditor

- significant costs, time commitments, disruption to continuity, and distraction of management associated with bringing on and extensively educating a new auditor

+ Appropriateness of [Audit Firm]’s fees

- [Audit Firm]’s longer tenure offers us an efficient fee structure and more competitive fees relative to our peers as supported by benchmarking and reviews
- Portion of fees paid to [Audit Firm] that consisted of non-audit service fees in 202X

+ Non-audit service projects performed by other multinational public accounting and auditing firms

- nature, scope, length, complexity, required knowledge and cost of non-audit services provided by the other public accounting firms

- impact (e.g., significant disruption, lost cumulative knowledge, time to properly onboard, and higher fees) of any needed changes to such service providers from a change in our independent auditor
- + In conjunction with the mandated five-year rotation, the Audit Committee leads the selection of the lead engagement partner. During [202X], the audit committee, including the chair of the audit committee, were directly involved in the selection of the new lead engagement partner. The process for selecting a new lead engagement partner was fulsome and allowed for thoughtful consideration of multiple candidates, each of whom met a list of specified industry and personal criteria, including diversity of thought and background and experience with complex global clients, [if applicable]. The process included discussions between the chair of the audit committee and [Audit Firm] as to all of the final candidates under consideration for the position, meetings with the full audit committee and management, and robust interviews with the final candidates. The Committee chair, in consultation with the Committee, approves the appointment of the new lead audit engagement partner, most recently for 202X. This individual is expected to service in this capacity through the end of the 202X audit.

## **AUDIT COMMITTEE REPORT**

### **Fiscal Year 202X Activity**

During fiscal year 202X, as part of the Audit Committee's oversight function, the Audit Committee:

- + Reviewed related matters and disclosure items, including the Company's earnings press releases, and the processes by which the Company's Chief Executive Officer and Chief Financial Officer certify the information contained in its quarterly and annual filings;
- + Reviewed related matters and disclosure items, including the Company's earnings press releases and the processes by which the Company's Chief Executive Officer and Chief Financial Officer certify the information contained in its quarterly and annual filings;
- + Reviewed and discussed with management, the internal auditor, and the independent auditor, as appropriate, the audit scopes and plans of both the internal auditor and the independent auditor;
- + Inquired about significant business and financial reporting risks, including cybersecurity risk, reviewed the Company's policies for risk assessment and risk management, and assessed the steps management is taking to control these risks;
- + Met in periodic executive sessions with each of management, the internal auditor, and the independent auditor to discuss the results of the examinations by the independent and internal auditors, their evaluations of internal controls, and the overall quality of the Company's financial reporting, and any other matters as appropriate;
- + Met with the Chief Executive Officer and Chief Financial Officer to discuss the processes they have undertaken to evaluate the accuracy and fair presentation of the Company's consolidated financial statements and the effectiveness of the Company's systems of disclosure controls and procedures and internal control over financial reporting;
- + Reviewed with management and the independent auditor the Company's critical accounting policies, significant changes in the selection or application of accounting principles, the effect of regulatory and accounting initiatives on the Company's consolidated financial statements;
- + Reviewed existing, new or changing critical audit matters addressed during the audit, evaluating the auditor's assessment and identification of such matters;

- + Reviewed the Company's related party transactions and Policy for Related Party Transactions;
- + Received reports about the receipt, retention, and treatment of financial reporting and other compliance concerns;
- + Reviewed and assessed the qualitative aspects of the Company's ethics and compliance programs;
- + Reviewed with the Chief Compliance Officer, legal and regulatory matters that may have a material impact on the consolidated financial statements or internal control over financial reporting;
- + Discussed with [Audit Firm] the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board and the SEC; and
- + Received the written disclosures and letter from [Audit Firm] required by applicable requirements of the Public Company Accounting Oversight Board regarding [Audit Firm]'s communications with the Audit Committee concerning independence and discussed with [Audit Firm] their independence and related matters. Based on this review and discussion, and a review of the non-audit services provided by [Audit Firm] during 202X, the Audit Committee believes that the services provided by [Audit Firm] in 202X are compatible with, and do not impair, [Audit Firm]'s independence.

#### **Fiscal Year 202X Financial Statements**

In reliance upon its reviews and discussions as outlined above, the Audit Committee recommended to the Board of Directors the inclusion of the Company's audited financial statements in its Annual Report on Form 10-K for the fiscal year ended December 31, 202X for filing with the SEC.

This report is provided by the following independent directors, who compose the Audit Committee:

#### **The Audit Committee**

Member 1, Chair  
Member 2, Financial Expert  
Member 3, [Cybersecurity] Expert  
Member 4

*(See "Proposal No. X – Election of Directors" for the biography of each Audit Committee member, including areas of specific expertise.)*

# Appendix IV

## Questions to Consider When Preparing Audit Committee Disclosures

---

**Q1. Is there disclosure related to a discussion of audit committee considerations in appointing or (re)appointing the external auditor?**

- + What factors does the audit committee consider when determining to appoint or (re)appoint the external auditor?
- + Does the audit committee consider periodically putting the audit out for bid?
- + Does the audit firm size, geographic reach, and industry expertise continue to meet the company's needs?
- + How did the audit committee consider the audit firm's performance on prior engagements?

**Q2. Is there disclosure of the length of time the auditor has been engaged?**

**Q2.1. Is there a discussion about how the audit committee considers length of auditor tenure?**

- + Does the audit committee have concerns regarding auditor tenure as it relates to auditor independence?

- + Have the benefits been disclosed?

- + Have the risks and/or mitigants been disclosed?

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

- + How has the audit committee considered audit quality when negotiating fees with the external auditor?
- + How are hours (scope) and rate/price considered?
- + How does the audit committee drive efficiencies but ensure audit quality?

**Q4. Is there a discussion of how non-audit services may impact independence?**

- + How did the audit committee consider and evaluate non-audit services provided by the external auditor to determine if they impact independence?
- + Are the non-audit services provided by the external auditor quantified clearly as part of the audit committee report?

- + What are the audit committee's pre-approval policies?

**Q5. Is there a statement that the audit committee is responsible for fee negotiations?**

- + Are disclosures clear that the audit committee is responsible and actively engaged in fee negotiations?

**Q6. Is there an explanation provided for a change in fees paid to the external auditor?**

- + Do disclosures explain why audit fees changed year-over-year?
- + Was there a transaction that required significant additional work by the audit team?
- + Were efficiencies achieved? 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.

**Q7. Is it stated that the evaluation of the external auditor is at least an annual event?**

- + Is it disclosed whether the audit committee evaluates the external auditor and if yes, how often?
- + Is the rigor, substance and frequency of the evaluation process disclosed?

**Q8. Is it explicitly stated that the audit committee is involved in the selection of the audit engagement partner?**

**Q8.1. Is there disclosure related to a discussion of how the audit committee is involved in the selection of the audit engagement partner?**

- + Do disclosures state whether the full audit committee or the chair interview all potential candidates or only the final candidate?
- + If the final candidate, was that candidate vetted by management or recommended by the audit firm?

- + When was the engagement partner last selected and when will the engagement partner rotate off the engagement?

- + Why was a new engagement partner selected? Due to the 5-year rotation requirement or some other reason?

**Q9. Is it disclosed that the Board of Directors has a cybersecurity expert (or obtains cybersecurity expertise in another way)?**

- + How has the Board assessed its need for cybersecurity expertise?
- + Is there a specific director with cybersecurity expertise?
- + Does the Board meet with specialists related to cybersecurity?

**Q10. Is there disclosure that the Audit Committee is responsible for cybersecurity risk oversight?**

- + If multiple committees address different elements of cybersecurity, what are the committees' responsibilities and how do they collaborate?

**Q11. Is it disclosed that the Board of Directors has an ESG or sustainability expert?**

- + How has the Board assessed its need for ESG or sustainability expertise?
- + Is there a specific director with ESG or sustainability expertise?
- + Does the Board meet with specialists related to ESG or sustainability?

**Q12. Is there disclosure that the Audit Committee is responsible for ESG oversight?**

- + If multiple committees address different elements of ESG, what are the committees' responsibilities and how do they collaborate?

# 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 - an Ideagen solution

Audit Analytics - an Ideagen solution 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, 2021 through June 30, 2022. 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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