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ANNIVERSARY
EDITION

2023 Audit Committee Transparency Barometer

November 2023

Ideagen  Audit Analytics

CAQ

Contents

3	Overview
4	10 Years of Examining Audit Committee Disclosures
5	2023 Barometer Highlights
11	Appendix I: Summary Table of Disclosure Rates
15	Appendix II: Examples of Effective Disclosure
25	Appendix III: Sample: Leading Practice Audit Committee Matters and Report
30	Appendix IV: Questions to Consider When Preparing Audit Committee Disclosures

Overview



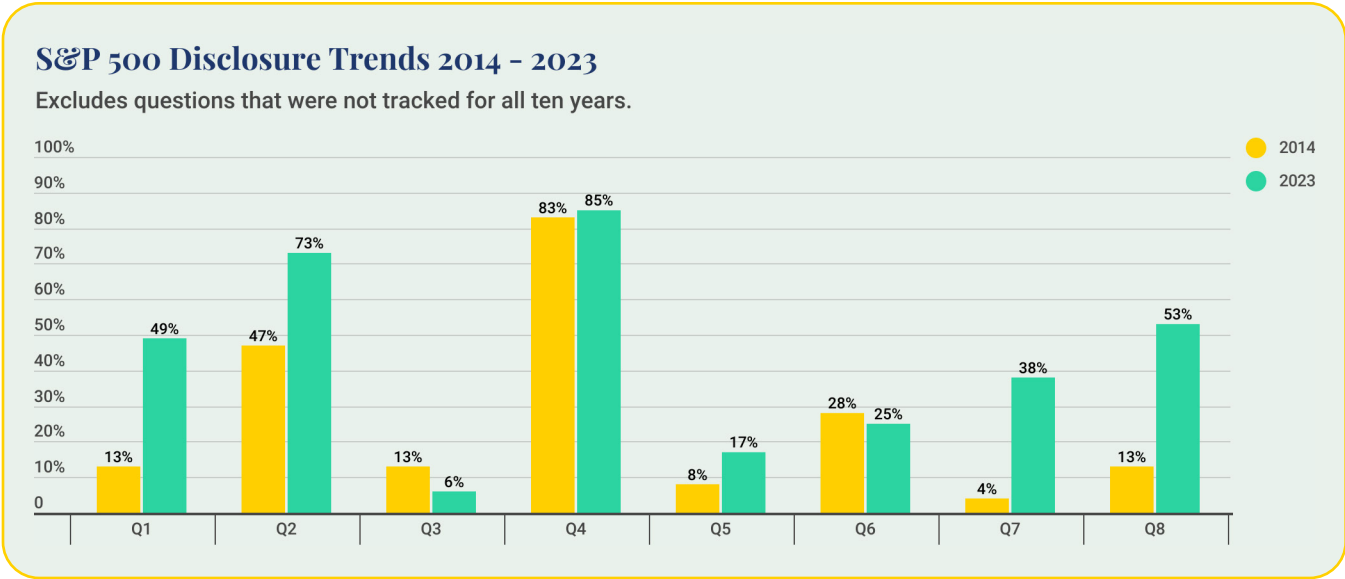
Since 2014, the Center for Audit Quality (CAQ), together with Ideagen Audit Analytics, has analyzed audit committee disclosures of companies in the Standard & Poor's (S&P) Composite 1500 (S&P 1500), which is composed of the S&P 500 large-cap companies (S&P 500), the S&P MidCap 400 (S&P MidCap), and the S&P SmallCap 600 (S&P SmallCap).

Over the past 10 years, we have observed increases in disclosure rates related to key areas of audit committee oversight, including oversight of the external auditor, which continues to be a core component of the audit committee's responsibility. In recent years, we have also seen audit committees respond to evolving areas such as cybersecurity risk and ESG. As these topics continue to gain attention, we see significant increases in corresponding audit committee disclosures.

10 Years of Examining Audit Committee Disclosures

After a decade of analyzing audit committee disclosures, we have seen disclosure rates increase across the majority of the questions and topics being tracked. In the current environment of economic uncertainty, geopolitical crises, and new ways of working, it remains as important as ever for audit committees to tell their story through tailored disclosures in the proxy statement. Investors and other stakeholders use these disclosures to understand how the audit committee is exercising oversight to navigate the challenges of this current environment.

This environment provides an opportunity for audit committees to revisit their disclosures to ensure that they are up to date and tailored to the specific events and circumstances that the audit committee currently faces. Providing detailed and relevant disclosures, instead of relying on boilerplate language, provides investors with useful information about the processes, considerations, and decisions made by the audit committee. Every year, each audit committee has a unique story to tell, and detailed disclosures in the proxy statement relay the extent of engagement of the audit committee, which contributes to audit quality.



The audit committee’s role has evolved over the 10 years we have tracked these disclosures. As audit committees take on new areas of responsibility, further opportunities exist to disclose the allocation of responsibilities among the board committees and the specialized knowledge of committee members. As audit committees think about revamping disclosures, we provide leading disclosure examples and questions for consideration in the appendices.

2023 Barometer Highlights

The 2023 Barometer continues to reflect positive long-term disclosure trends with the opportunity to enhance disclosures on certain topics. Here are the results for 2023:

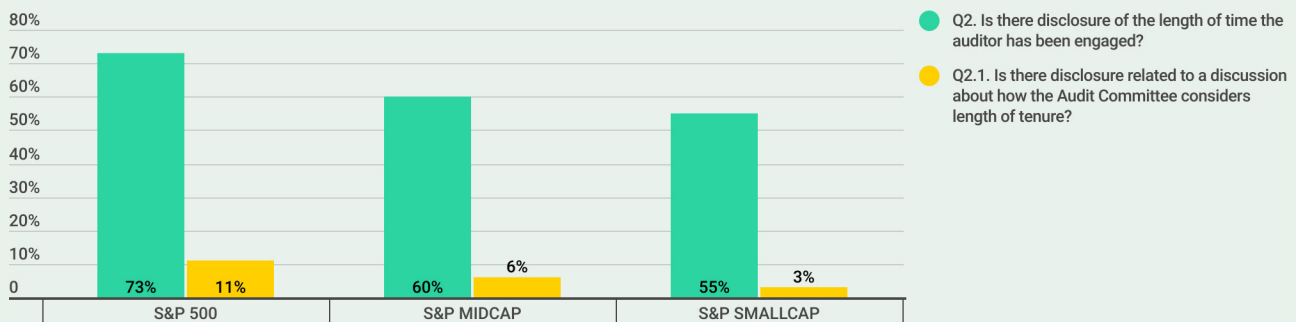
Disclosure Question		S&P 500	S&P MidCap	S&P SmallCap
Q1	Is there disclosure related to a discussion of Audit Committee considerations in appointing or (re)appointing the external auditor?	49%	36%	26%
Q2	Is there disclosure of the length of time the auditor has been engaged?	73%	60%	55%
Q2.1	Is there disclosure related to a discussion about how the Audit Committee considers length of auditor tenure?	11%	6%	3%
Q3	Is there a disclosure related to a discussion of audit fees and its connection to audit quality?	6%	3%	1%
Q4	Is there disclosure related to a discussion of how non-audit services may impact independence?	85%	82%	75%
Q5	Is there a statement that the Audit Committee is responsible for fee negotiations?	17%	7%	6%
Q6	Is there an explanation provided for a change in fees paid to the external auditor?	25%	25%	28%
Q7	Is it stated that the evaluation of the external auditor is at least an annual event?	38%	24%	19%
Q8	Is it explicitly stated that the Audit Committee is involved in selection of the audit engagement partner?	53%	24%	12%
Q8.1	Is there disclosure related to a discussion of how the Audit Committee is involved in the selection of the audit engagement partner?	16%	9%	5%
Q9	Is it disclosed that the board of directors has a cybersecurity expert?	51%	36%	28%
Q10	Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?	59%	50%	40%
Q11	Is it disclosed that the board of directors has an ESG or sustainability expert?	54%	41%	29%
Q12	Is it disclosed that the Audit Committee is responsible for ESG oversight?	29%	17%	12%

AUDIT COMMITTEE'S CORE RESPONSIBILITIES

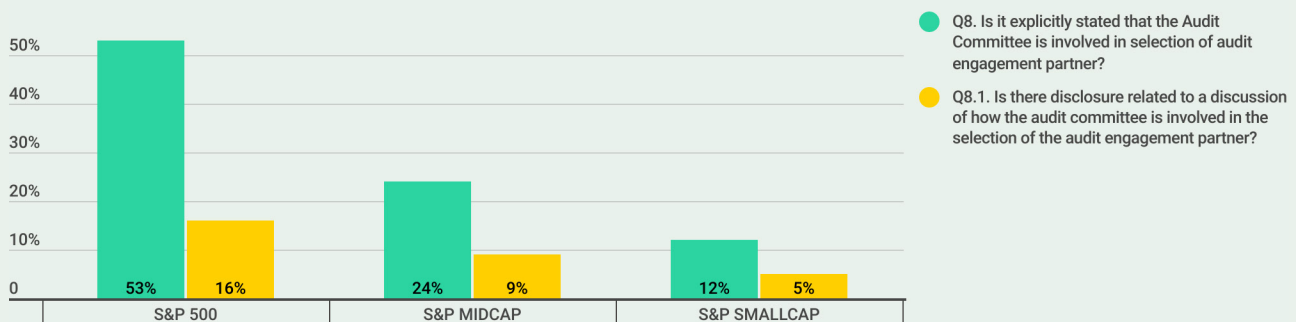
Oversight of the external auditor continues to be at the core of the audit committee's responsibilities. The audit committee's oversight of the external auditor directly contributes to audit quality; therefore, it is important for audit committees to effectively tell their story to demonstrate how they exercise this oversight. As highlighted in prior Barometers, numerous studies have identified a positive correlation between increased communication of audit committee oversight through disclosures in the proxy statement and increased audit quality.^{1,2} Further, in research commissioned by the CAQ, institutional investors expressed interest in learning more about certain matters related to the audit committee's oversight of the external auditor including, audit strategy, discussions between the auditor and audit committee regarding significant risks identified in the auditor's risk assessment procedures, and the audit committee's awareness of certain matters relevant to the audit, such as material violations of laws regulations.³ For audit committees to enhance their disclosures, they should provide further discussion not just of what they do in their oversight of the external auditor but also how they do it.

For example, as it relates to reappointing the external auditor, it can be helpful for stakeholders to understand how the audit committee considered both positive and negative factors associated with the auditor's tenure. Similarly, stakeholders will likely be interested in the audit committee's process and key considerations in selecting a new audit engagement partner (as applicable, based on mandatory audit partner rotation requirements). Auditor tenure and the audit partner leading the engagement impact audit quality. Disclosing how the audit committee carefully considered such matters provides useful information to stakeholders and demonstrates the audit committee's commitment to promoting audit quality. As the following figures show, audit committees have an opportunity to increase the robustness of their disclosures on these topics.

S&P 500 Auditor Tenure Disclosures



S&P 500 Audit Partner Selection Disclosures



1 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>. This study found that increased audit committee disclosures about auditor oversight led to higher audit quality, as reflected by fewer restatements.

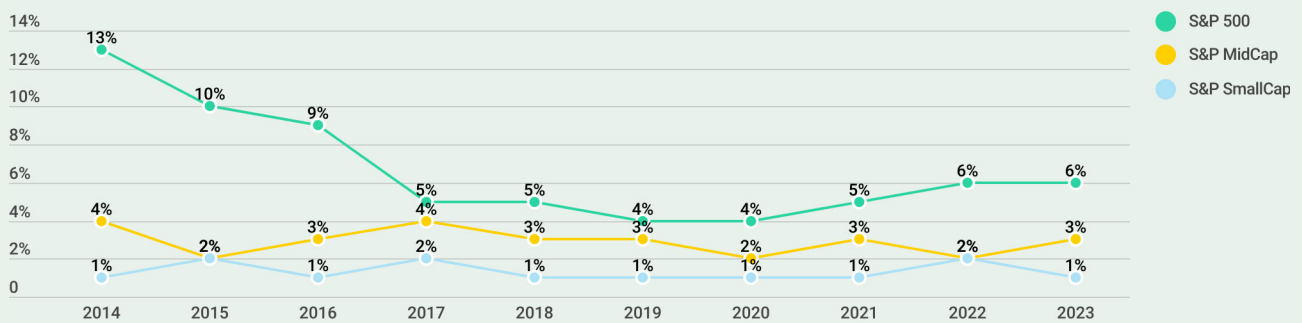
2 Bratten, B., Causholli, M., & Sulcaj, V. (2020). Overseeing the External Audit Function: Evidence from Audit Committees' Reported Activities. <https://dx.doi.org/10.2139/ssrn.3314334>. This study examined the correlation between audit committee oversight, evidenced by disclosures about auditor/partner 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.

3 *Perspectives on Corporate Reporting, the Audit, and Regulatory Environment: Institutional Investor Research Findings*

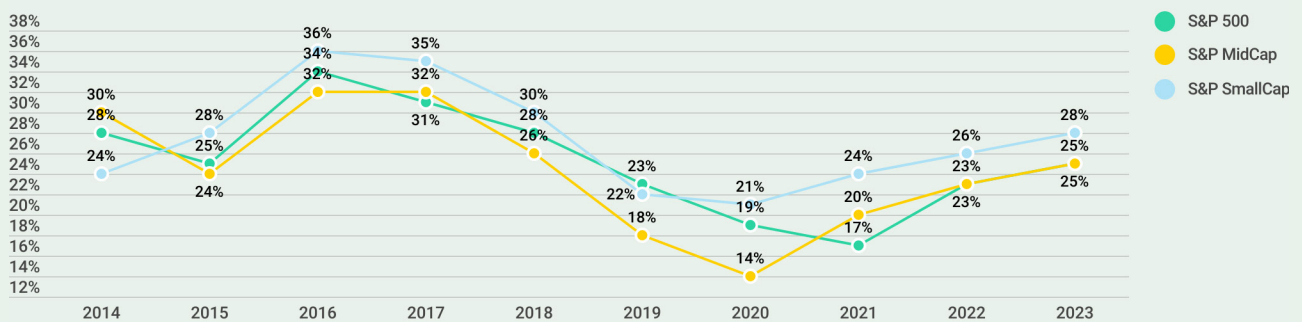
Another area where we continue to see lower rates of disclosure is the discussion around audit fees, particularly disclosures about the connection between audit fees and audit quality (Q3) and explanation for a change in fees paid to the external auditor (Q6). For audit committees to enhance their disclosures, they should provide more robust disclosures about how the audit committee considers the appropriateness of the audit fee, including key factors affecting changes to the audit fee year over year. For example, it may be helpful for stakeholders to understand efficiencies achieved, such as the auditor’s use of new technologies, or changes in the scope, such as a major transaction during the year, that could lead to changes in the audit fee.

Audit fees can be an indicator of audit quality for stakeholders because abnormally low fees may indicate that not enough time or resources are spent on the audit engagement, which could contribute to low audit quality. On the other hand, abnormally high audit fees could indicate inefficiencies, which may also be a red flag for stakeholders. In selecting, retaining, and evaluating the independent auditor, the audit committee should always be focused, in the first instance, on audit quality.⁴ Describing the audit committee’s views on the audit fee’s appropriateness can help stakeholders understand what contributes to the audit fee and can provide stakeholders further insights into how the audit committee considers audit quality throughout its engagement with the external auditor.

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



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



⁴ See statement from Paul Munter, then Acting Chief Accountant, SEC, *The Importance of High Quality Independent Audits and Effective Audit Committee Oversight to High Quality Financial Reporting to Investors* (October 2021).

AUDIT COMMITTEE COMPOSITION

In recent years, the audit committee's role has expanded beyond typical areas, such as oversight of financial reporting and related controls and oversight of the external auditor, to include emerging risks. Many audit committees are now responsible for oversight of emerging areas like cybersecurity and ESG, and in 2023, we have seen increased disclosures about the audit committee's responsibility for oversight of these areas. The percentage of S&P 500 companies disclosing that the audit committee is responsible for oversight of cybersecurity risk increased from 54% in 2022 to 59% in 2023 (Q10). Similarly, the percentage of S&P 500 companies disclosing that the audit committee is responsible for oversight of ESG increased from 18% in 2022 to 29% in 2023 (Q12).

These new responsibilities require expanded skill sets from audit committee members. Notably, we have seen changes in the audit committee's composition, in terms of members and expertise, and responsibilities. For example, more than half of S&P 500 companies disclose that the board of directors has a cybersecurity expert (Q9, 51%) and an ESG or sustainability expert (Q11, 54%). As the audit committee's role continues to expand, it is increasingly important for boards to monitor the skill set and composition of committee members to ensure that audit committee members have appropriate expertise to exercise their oversight. Beyond disclosing the expertise of certain committee members, audit committees may also consider disclosing how all members of the committee stay abreast of emerging areas. In the 2022 *Audit Committee: The Kitchen Sink of the Board* report, researchers interviewed audit committee members and found that more than half of them consider their continuing education to be a critical part of their ability to manage evolving responsibilities, and they often strategically select continuing education that focuses on emerging risk areas, such as cybersecurity, ESG, and risk management.⁵ Telling this story to stakeholders demonstrates the audit committee's commitment to the oversight role.

The same study also found that investors want to understand the roles and responsibilities assigned to the audit committee, why audit committee members are appropriate for the specific company, examples of continuing education for audit committee members, how audit committees address key risks, and details that reflect broader audit committee responsibilities.⁶

As the SEC has recently adopted its [Cybersecurity Disclosure rule](#) and is continuing to work on its [Climate Disclosure rule](#), we expect that these topics will continue to be relevant for audit committees, particularly as this information is included in SEC filings.⁷ Audit committees play an important role in the oversight of these areas given their expertise and experience in oversight of financial reporting and internal controls. Further, research by Spencer Stuart on the Board committees of S&P 500 companies found that only 15% of Boards have a specific cyber committee.⁸ For the remaining 85% of Boards, the responsibility for cybersecurity risk oversight has fallen to existing committees of the Board. Understanding how the Board determines which committee has appropriate expertise and will be responsible for oversight of these multifaceted and evolving topics is useful information for stakeholders.

CYBERSECURITY GOVERNANCE AND BOARD OVERSIGHT⁹

The new SEC Cybersecurity Disclosure rule includes disclosure requirements about the board's oversight of cybersecurity risk. As part of their oversight, the board may evaluate whether the company's cybersecurity risk management program is sufficiently robust, or if there are gaps that should be filled. Specifically, the rule requires disclosure in the Form 10-K:

- Description of the board's oversight of risks from cybersecurity threats and:
 - Identification of any board committee or subcommittee responsible for such oversight (if applicable); and
 - Description of the process by which the board (or committee) is informed about such risks.

⁵ <https://www.thecaq.org/ac-kitchen-sink>

⁶ <https://www.thecaq.org/ac-kitchen-sink>

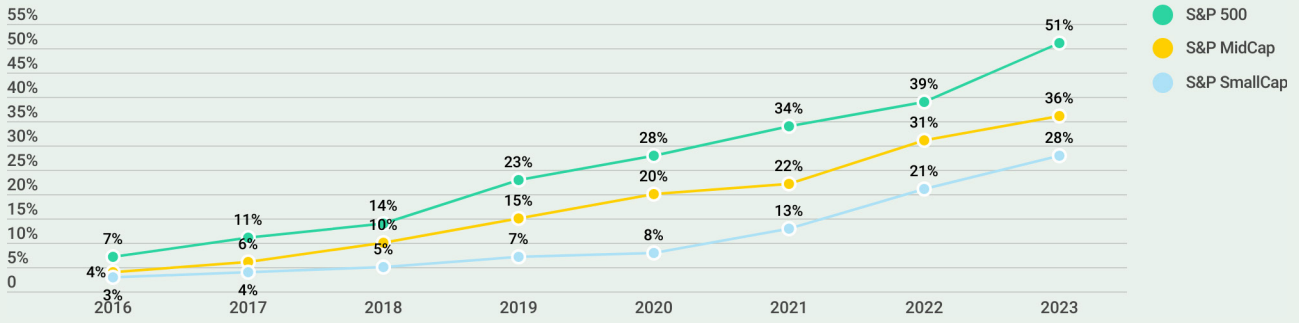
⁷ For further information regarding the Cybersecurity Disclosure rule, see:

- CAQ and AICPA: [What Management Needs to Know About the New SEC Cybersecurity Disclosure Rules](#)
- Deloitte: [Understanding SEC requirements for cybersecurity disclosures](#)
- EY: [A closer look at the SEC's new rules on cybersecurity disclosures](#)
- KPMG: [SEC finalizes cybersecurity rules](#)
- PwC: [SEC's new cyber disclosure rule: How to prepare for disclosures in a new era of transparency](#)

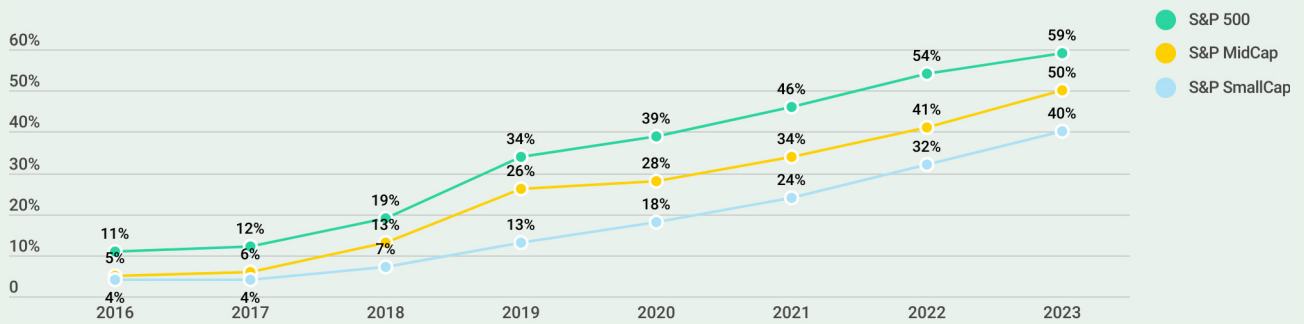
⁸ 2023 U.S. Spencer Stuart Board Index

⁹ [What Management Needs to Know About the New SEC Cybersecurity Disclosure Rules](#)

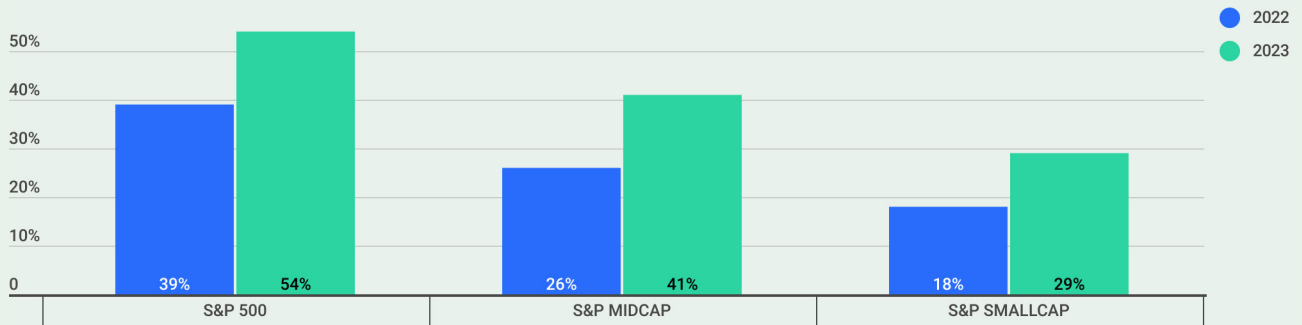
Q9. Is it disclosed that the board of directors has a cybersecurity expert?



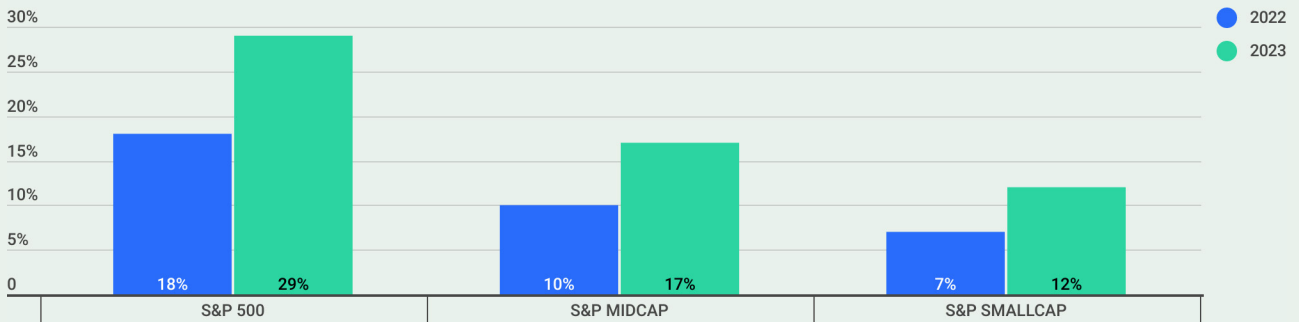
Q10. Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?



Q11. Is it disclosed that the board of directors has an ESG or sustainability expert?



Q12. Is it disclosed that the Audit Committee is responsible for ESG oversight?



CONCLUSION

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. They are instrumental in setting the tone at the top for the quality of financial reporting to investors. Robust disclosures provide important information to investors about how the audit committee fulfills its responsibility to investors and promotes trust. This year, we identified an opportunity for audit committees to enhance disclosures regarding audit fees, particularly the audit committee's responsibility for fee negotiations and importantly, how the audit committee considers audit fees in connection with audit quality and changes in fees paid to the external auditor. We applaud audit committees for their efforts to increase disclosures over the past 10 years and continue to encourage audit committees to consider how their disclosures can be enhanced to provide further transparency for investors regarding the critical oversight work that audit committees perform. In the appendices that follow, we include resources audit committees may find useful when drafting their disclosures, including examples of effective disclosure in Appendix II, a sample leading practice audit committee matters and report in Appendix III, and questions to consider when preparing disclosures in Appendix IV.

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?	2023	49%	36%	26%
		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%
AUDIT FIRM SELECTION	Q2. Is there disclosure of the length of time the auditor has been engaged?	2023	73%	60%	55%
		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%
AUDIT FIRM SELECTION	Q2.1. Is there disclosure related to a discussion about how the Audit Committee considers length of auditor tenure?	2023	11%	6%	3%
		2022	9%	5%	2%

DISCLOSURE QUESTION		YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT FIRM COMPENSATION	Q3. Is there disclosure related to a discussion of audit fees and its connection to audit quality?	2023	6%	3%	1%
		2022	6%	2%	2%
		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%
	Q4. Is there disclosure related to a discussion of how non-audit services may impact independence?	2023	85%	82%	75%
		2022	84%	82%	76%
		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%
	Q5. Is there a statement that the Audit Committee is responsible for fee negotiations?	2023	17%	7%	6%
		2022	17%	8%	6%
		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%

	DISCLOSURE QUESTION	YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
AUDIT FIRM COMPENSATION (CONT.)	Q6. Is there an explanation provided for a change in fees paid to the external auditor?	2023	25%	25%	28%
		2022	23%	23%	26%
		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 is at least an annual event?	2023	38%	24%	19%
		2022	35%	20%	19%
		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 selection of the audit engagement partner?	2023	53%	24%	12%
		2022	51%	24%	12%
		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?	2023	16%	9%	5%
		2022	15%	9%	3%

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?	2023	51%	36%	28%
		2022	39%	31%	21%
		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 it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?	2023	59%	50%	40%
		2022	54%	41%	32%
		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?	2023	54%	41%	29%
		2022	39%	26%	18%
	Q12. Is it disclosed that the Audit Committee is responsible for ESG oversight?	2023	29%	17%	12%
		2022	18%	10%	7%

Appendix II:

Examples of Effective Disclosure

A. AUDIT FIRM SELECTION

- Q.1 Is there disclosure related to a discussion of Audit Committee considerations in appointing or (re) appointing the external auditor?
- Q.2 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: Activision Blizzard, Inc. (S&P 500), Proposal 4: Ratification of Appointment of Independent Registered Public Accounting Firm

The Audit Committee of our Board has appointed PwC to serve as the Company's independent registered public accounting firm for the current fiscal year ending December 31, 2023. Please see "Audit-Related Matters—Independent Registered Public Accounting Firm Fees" above for a description of the services provided to us by PwC during the years ended December 31, 2022, and 2021.

The Company has engaged PwC as our independent registered public accounting firm since 2008.

The Audit Committee meets annually without PwC present to evaluate PwC's independence and performance in deciding whether to retain PwC or engage a different independent registered public accounting firm. During these reviews, the Committee may consider, among other things:

- the quality and efficiency of the services PwC provides, including input from management on PwC's performance, including its effectiveness at demonstrating independent judgment, objectivity, and professional skepticism;
- PwC's judgments on critical accounting matters;
- the quality and candor of PwC's communications with the Audit Committee and management;
- external data on PwC's audit quality and performance, including recent PCAOB reports on PwC and its peer firms;
- PwC's independence and its processes for maintaining its independence;
- PwC's technical expertise and knowledge of the Company's global operations and industry;

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- PwC’s global capabilities;
- the appropriateness of PwC’s fees; and
- PwC’s tenure as our independent registered public accounting firm, including the benefits of a longer tenure.

Benefits of Long Tenure

- Enhanced audit quality—PwC has significant institutional knowledge and deep expertise regarding the Company’s global business, accounting policies and practices, and internal control over financial reporting, and this enhances audit quality.
- Competitive fees—In part because of PwC’s familiarity with the Company, we believe the fees we pay PwC are competitive with those of other independent registered public accounting firms.
- Avoid costs and onboarding associated with new auditor— Bringing on a new auditor requires expenses related to educating the new auditor and a significant time commitment that could distract from management’s focus on financial reporting and internal controls.

Independence Controls

- Audit Committee oversight—Oversight includes regular private sessions with PwC, discussion with PwC about the scope of its audit, and a comprehensive annual evaluation when determining whether to continue to engage PwC.
- Selection of Lead Engagement Partner—The Audit Committee and its Chair are actively involved in the selection of the new lead engagement partner in connection with the mandated rotation of that position every five years.
- Rigorous limits on non-audit services—We require Audit Committee pre-approval of non-audit services, prohibit certain types of non-audit services that would otherwise be permissible under SEC rules, and only engage PwC when it is best suited for the job.
- PwC’s strong internal independence process—PwC conducts periodic internal reviews of its audit and other work, assesses the adequacy of partners and other personnel working on the Company’s account, and rotates the lead engagement partner consistent with independence requirements.
- Strong regulatory framework—PwC, as an independent registered public accounting firm, is subject to PCAOB inspections, “Big 4” peer reviews, and PCAOB and SEC oversight.
- Restrictions on hiring—The Audit Committee has adopted restrictions on our hiring of current or former partners and employees of the Company’s independent registered public accounting firm.

Based on the most recent evaluation and consideration of the tenure and independence matters described above, the Audit Committee and the Board believe that retaining PwC to serve as the Company’s independent registered public accounting firm for the year ending December 31, 2023 is in the best interests of the Company and our shareholders. Although our Audit Committee is responsible for selecting our auditors, and shareholder approval is not required for the appointment of PwC as our independent registered public accounting firm, we believe our shareholders should have the opportunity to ratify such appointment, and we are requesting they do so at the Annual Meeting.

EXAMPLE 2

Source: Healthpeak Properties, Inc. (S&P 500), Proposal 5 Ratification of Appointment of Independent Registered Accounting Firm

Auditor Evaluation and Appointment

Our Audit Committee is responsible for the appointment, compensation, retention and oversight of the Company's independent registered public accounting firm that audits the Company's financial statements and internal control over financial reporting. The Audit Committee has appointed Deloitte & Touche LLP, or Deloitte, to continue to serve as Healthpeak's independent registered public accounting firm for the year ending December 31, 2023. Deloitte has served as Healthpeak's independent registered public accounting firm since March 3, 2010.

The Audit Committee annually reviews Deloitte's performance and independence in deciding whether to engage a different independent registered public accounting firm. In the course of these reviews, the Audit Committee considers, among other things:

- Deloitte's independence from the Company and management, including any factors that may impact Deloitte's objectivity
- Deloitte's qualifications and capability in handling all aspects of the Company's operations
- The desired balance of Deloitte's experience and fresh perspective occasioned by mandatory audit partner rotation
- The experience, qualifications and performance of our existing audit engagement team
- Any issues raised by the Public Company Accounting Oversight Board's ("PCAOB") most recent quality control review of Deloitte
- The quality and candor of Deloitte's communications with the Audit Committee and management
- Deloitte's quality control procedures
- The quality and effectiveness of Deloitte's historical and recent audit plans and performance on our audit
- The advisability and potential impact of appointing a different independent public accounting firm

Voting Standard and Board Recommendation

Following its review, the Audit Committee believes that Deloitte's continued engagement as our independent registered public accounting firm is in the best interests of the Company for the following reasons:

EXPERIENCE AND EFFECTIVENESS

Enhanced audit quality. Through years of experience, Deloitte has gained significant institutional knowledge of our business and operations, accounting policies and practices, and internal control over financial reporting.

Effective audit plans and efficient fee structures. Deloitte's knowledge of our business and control

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framework enables it to design effective audit plans that cover key risk areas while capturing cost efficiencies in audit scope and internal control testing.

Maintaining continuity avoids disruption. Bringing on a new auditor, without reasonable cause, would require extensive education and a significant period of time for the new auditor to reach a comparable level of knowledge and familiarity with our business and control framework.

STRONG INDEPENDENCE CONTROLS

Thorough Audit Committee oversight. The Audit Committee believes that any concerns with Deloitte's tenure are mitigated by the Audit Committee's oversight, which includes ongoing engagement with Deloitte and a comprehensive annual review process.

Robust pre-approval policies and limits on non-audit services. The Audit Committee must pre-approve all audit and non-audit services performed by Deloitte, including the types of services to be provided and the estimated fees relating to those services.

Deloitte's strong internal independence procedures and regulatory framework. Deloitte conducts periodic internal quality reviews of its audit work and rotates lead partners every five years. Deloitte is also subject to PCAOB inspections, peer reviews, and PCAOB and SEC oversight.

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: Unum Group (S&P MidCap), Ratification of Appointment of Independent Registered Public Accounting Firm

Independent Auditor Fees

The Audit Committee is responsible for the audit fee negotiations associated with the company's retention of Ernst & Young LLP. Aggregate fees billed for audit and other services rendered by Ernst & Young LLP for our fiscal years ended December 31, 2022 and 2021 are presented in the table below.

...

(1)The year-over-year increase in Audit Fees was primarily due to increased efforts related to the company's

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ongoing adoption of ASC 944 accounting and disclosure requirements for long-duration insurance contracts.

(2) The year-over-year increase in Audit-Related Fees was primarily due to increased efforts related to the company's SSAE 18 (Service Organization Control) Reports in 2022.

(3) The year-over-year decrease in Tax Fees was primarily due to tax compliance work performed in 2021.

Policy for Pre-Approval of Audit and Non-Audit Services

The Audit Committee has a policy requiring advance approval of all audit and permissible non-audit services performed by the independent auditor. Under this policy, the Audit Committee sets pre-approved limits for specifically defined audit and non-audit services. The Committee considers whether such services are consistent with SEC rules on auditor independence. Specific approval by the Committee is required if fees for any particular service or aggregate fees for services of a similar nature exceed the pre-approved limits. The Committee has delegated to its chair the authority to approve permitted services, and the chair must report any such decisions to the Committee at its next scheduled meeting. All of the fees described above were approved by the Audit Committee under its policy.

EXAMPLE 4

Source: Tenet Healthcare Corp (S&P MidCap), Independent Registered Public Accounting Firm Fees & Proposal 4, Ratification of the Selection of Independent Registered Public Accountants

Independent Registered Public Accounting Firm Fees

(1) Audit fees include professional fees for the audit of our annual consolidated financial statements and the review of our quarterly financial statements. These amounts also include fees related to the audit of internal control over financial reporting performed pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Audit-related fees include fees for assurance and related services reasonably related to audits and reviews. These consisted principally of fees for audits of certain of our subsidiaries and partnerships, financial statements of employee benefit plans, and fees related to comfort letters, consents and reviews of filings with the SEC.

(3) Tax fees in 2022 and 2021 consisted of professional fees for tax compliance and tax planning services.

(4) No fees were incurred in 2022 or 2021 for services other than audit, audit related and tax.

* The increase in audit fees and corresponding decrease in audit-related fees in 2022 is due to the reclassification of fees resulting from an increase in our voting ownership interest in our USPI business to 100%.

How We Control and Oversee the Non-Audit Services Provided by Deloitte

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The Audit Committee has retained Deloitte (along with other accounting firms) to provide non-audit services. We understand the need for Deloitte to maintain objectivity and independence as the auditor of our financial statements and our internal control over financial reporting. Accordingly, the Audit Committee has established the following processes and procedures related to non-audit services:

- **We Restrict the Non-Audit Services That Deloitte Can Provide.** To minimize relationships that could appear to impair the objectivity of Deloitte, the Audit Committee has restricted the types of non-audit services that Deloitte may provide to us.
- **We Have Pre-Approval Processes for Non-Audit Services.** The Audit Committee has adopted policies and procedures to pre-approve all audit and non-audit services provided to us by our independent registered public accountants, in accordance with any applicable law, rules or regulations. The Audit Committee pre-approved all fees presented in the table above.

The Audit Committee has adopted policies and procedures for pre-approving all non-audit services that Deloitte performs for us. Specifically, the Audit Committee has pre-approved the use of Deloitte for: detailed, specific types of services related to tax compliance, planning and consultations; acquisition/disposition services, including due diligence; attestation and agreed upon procedures; consultations regarding accounting and reporting matters; and reviews and consultations on internal control and other related services. The Audit Committee has set a specific annual limit on the amount of non-audit services (tax services and all other) that the Company can obtain from Deloitte (for 2022, this limit was approximately \$7.7 million). The chair of the Audit Committee is authorized to pre-approve any audit or non-audit service on behalf of the Audit Committee, provided these decisions are presented to the full Audit Committee at its next regularly scheduled meeting.

C. AUDIT FIRM EVALUATION / SUPERVISION

Q7. Is it stated that the evaluation of the external auditor is 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 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: Foot Locker, Inc. (S&P MidCap), Proposal 5 Ratification of Appointment of Our Independent Registered Public Accounting Firm

The Audit Committee ensures the regular rotation of the lead audit partner, as required by law, as it did in 2022 to commence in Fiscal 2023. The Audit Committee is also involved in reviewing, evaluating, and selecting the new lead audit partner, based on their qualifications, when the previous lead audit partner is required to rotate off the audit engagement. In evaluating and selecting a lead audit partner, the Audit Committee provides selection criteria to KPMG LLP to which KPMG LLP responds with a roster of qualified candidates. The Audit Committee Chair and the Non-Executive Chair interview the candidates. The Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer also interview the candidates. The Audit Committee Chair and proposed lead audit partner meet in executive session. The Audit Committee Chair then recommends a candidate to the Audit Committee for its consideration and approval.

EXAMPLE 6

Source: Pacira Biosciences, Inc. (S&P SmallCap), Proposal 2 - Ratification of the Appointment of Independent Auditors

The audit committee also oversees the process for, and ultimately approves, the appointment 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 audit committee's instruction, KPMG will select candidates and provide qualifications to be considered for the lead engagement partner role, who will then be interviewed by members of the audit committee and senior management. After considering the candidates and their qualifications recommended by KPMG, senior management and the audit committee will discuss the candidates and their relative qualifications. The audit committee will then discuss the candidates with the current lead engagement partner, interview the leading candidate, and ultimately approve the individual. The current KPMG lead engagement partner commenced service on our Company's audit in 2021.

E. CYBERSECURITY

- Q9. Is it disclosed that the board of directors has a cybersecurity expert?
- Q10. Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?

EXAMPLE 7

Source: Valaris Ltd (S&P MidCap), Oversight by Our Board

Cybersecurity Oversight

With the Audit Committee’s oversight, the Company engages third party experts to support the Company’s cybersecurity program, including incident response services. The Company’s employees also undertake an annual cybersecurity training program, which is augmented by additional training and communications on information technology and cybersecurity matters throughout the year. On a quarterly basis, the Company’s information technology department leads tabletop exercises on a variety of cybersecurity-related scenarios. The Audit Committee is actively engaged in the oversight of our information technology and cybersecurity program. The Company has a dedicated CIO whose team is responsible for leading enterprise-wide information security strategy, policy, standards, architecture and processes. The Audit Committee, at least quarterly, receives reports from the CIO on, among other things, the Company’s cybersecurity risks and measures, training and organizational readiness.

All members of our Audit Committee have prior work experience relating to cybersecurity or have obtained a certification or degree in cybersecurity: Dick Fagerstal, Chair of our Audit Committee, obtained a National Association of Corporate Directors (NACD) Cybersecurity Certification in 2021 and completed the Harvard University course “Cybersecurity: The Intersection of Policy and Technology” in 2020. Elizabeth D. Leykum completed the Massachusetts Institute of Technology’s course on “Cybersecurity Leadership for Non-Technical Executives” in 2023. James W. Swent, III was directly responsible for the Information Technology department of Ensco plc for over a decade and oversaw various cybersecurity issues during this time period.

EXAMPLE 8

Source: NexTier Oilfield Solutions, Inc. (S&P SmallCap), Corporate Governance

Cybersecurity Risks

The Audit Committee oversees the Company’s cybersecurity risk environment and the Company’s cybersecurity strategy and priorities. The Company’s Vice President - Information Technology, together with other senior leadership, regularly reviews with the committee the Company’s information technology matters, including technology and cybersecurity structure and strategic efforts to protect, optimize and support the growth of the Company, as well as the Company’s internal assessment of cybersecurity risk management capabilities. To guard against the threat of security breaches and cyber-attacks, the head of the Company’s IT department manages our cybersecurity initiative, which is focused on protecting and preserving the confidentiality, integrity and continued availability of all information owned by, or in the care of, the Company.

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The Audit Committee receives regular reports related to cybersecurity, privacy and controls. As part of this, the Audit Committee will review the results of periodic exercises and response readiness assessments led by outside advisors who provide a third-party independent assessment of our internal preparedness. In 2022, the Company conducted an independent National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) maturity assessment of NexTier’s cyber security posture and program. The Company also did a Business Impact Analysis (BIA) on its operations. In 2022, the Company also implemented a mandatory training program for all employees to educate them about cyber threats. In addition, our internal audit team will periodically review and report to the Audit Committee on aspects of cybersecurity as part of its audits.

F. ESG

Q11. Is it disclosed that the board of directors has an ESG or sustainability expert?

Q12. Is it disclosed that the Audit Committee is responsible for ESG oversight?

EXAMPLE 9

Source: PG&E Corp (S&P 500), Proposal 1: Election of Directors of PG&E Corporation and Pacific Gas and Electric Company

[Director name]

Director Since

July 2020

Current Board Committees

- Audit
- Sustainability and Governance

Current Position: Managing Partner, AHC

Skills Matrix

- Innovation and Technology in Clean Energy
- Climate Change and Climate Resilience
- Renewable Energy and Related Engineering Experience

Background:

- Managing Partner, AHC (Clean energy and transportation consulting) (2015 to present)
- Chief Executive Officer, Alta Motors (Electric motorcycle manufacturer) (2017 to 2018)
- Founder and Chief Executive Officer, Recurrent Energy, LLC (Utility-scale solar project developer) (2006 to 2015)

Experience, Skills, and Expertise

[Director name] brings 25 years of experience in clean technology and renewable energy through his work

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on climate change through the intersection of technology, business, and public policy. His understanding of energy, sustainability, and commercial operations within California’s regulatory environment contributes to the Boards’ effective oversight of environmental, social, and governance (ESG) and climate change issues. [Director name] is also a longtime California resident and PG&E customer who has demonstrated a commitment to the community through his work supporting Tipping Point Community, a non-profit focused on alleviating poverty.

Other Board Service

- Gator Holdings, LLC (2022 to present)

Past Public Company Board Service

- ArcLight Clean Transition II (2021 to 2022)
- Azure Power Global Limited (2016 to 2022) (Chair of Audit Committee; Chair of Capital Committee)
- ArcLight Clean Transition Corp. (2020 to 2021)

EXAMPLE 10

Source: Hanesbrands Inc. (S&P SmallCap), ESG and Sustainability Highlights

ESG OVERSIGHT AND GOVERNANCE

The Board of Directors and its committees oversee the development and execution of our Environmental, Social and Governance (ESG) strategy, including oversight of our policies, programs and initiatives related to environmental sustainability, health and safety, and diversity, equity and inclusion. In 2022, the Board of Directors reviewed and assessed its Committee Charters and approved modifications to further strengthen its oversight of the Company’s ongoing ESG initiatives. Our Governance and Nominating Committee coordinates the Board’s ESG oversight responsibilities, with support from the Audit Committee and the Talent and Compensation Committee. These oversight responsibilities include assessing and reviewing the relevant ESG risks, opportunities and disclosure obligations as set forth in greater detail below.

- Our Governance and Nominating Committee coordinates oversight of our ESG strategy and communications, as well as our corporate governance policies and practices. The Governance and Nominating Committee also assesses whether relevant ESG risks, opportunities and disclosure obligations are regularly reviewed and considered by the appropriate Board committees.
- The Talent and Compensation Committee, which was renamed in 2022, is primarily responsible for the “People” pillar of our ESG strategy, which includes oversight of diversity, equity and inclusion, talent development, labor management supply chain labor standards, and health and safety.
- The Audit Committee has primary responsibility for the Planet and Product pillars of our ESG strategy, including the aspects of our ESG strategy designed to address risks and strategies related to climate change, water usage, waste management, greenhouse gas emissions, chemical management, raw material sourcing product, packaging, and product liability.

Appendix III:

Sample: Leading Practice Audit Committee Matters and Report

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

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. Although 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 on [date], which was provided to and discussed by the Audit Committee and audit firm.
- ✦ The risk associated with the independent audit firm based on its 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.

Good faith negotiation of fees in connection with audit quality

- + Robust [frequency] fee negotiations process to ensure effectiveness and efficiency of the audit. Assessment includes adequacy of the scope and hours to ensure audit quality.
- + Review of fees incurred for reasonableness against the annually approved fees and reported current fee estimates provided to the Committee [quarterly].

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 [x number of years].

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 who provide valuable insights on matters important to [company].

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 auditor's independence.

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

- **Enhanced audit quality:** deeper institutional knowledge and expertise, better geographic overlap plus limited other options due to [the Company'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, [the Company'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, 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 members, including the audit committee chair, 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. The process included discussions between the audit committee chair and [Audit Firm] about 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 serve 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 and discussed the Company's annual audited financial statements, assessment of the effectiveness of internal control over financial reporting, and quarterly financial statements with management and with [Audit Firm];
- ✦ 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, and 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 and evaluated 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 constitute 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 reappoint the external auditor?
 - + Does the audit committee consider periodically putting the audit out for bid?
 - + Do the audit firm's 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 disclosure related to 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 disclosure related to 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 disclosure related to 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 affect 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 for 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?
 - + Did a transaction require significant additional work by the audit team?
 - + Were efficiencies achieved? Although 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?
 - + Are the rigor, substance, and frequency of the evaluation process disclosed?
- Q8. Is it explicitly stated that the Audit Committee is involved in 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 will 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? Because of the five-year rotation requirement or some other reason?
- Q9. Is it disclosed that the board of directors has a cybersecurity expert?
- + How has the Board assessed its need for cybersecurity expertise?
 - + Does a specific director have cybersecurity expertise?
 - + Does the Board meet with specialists related to cybersecurity?
- Q10. Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?
- 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?
 - + Does a specific director have ESG or sustainability expertise?
 - + Does the Board meet with specialists related to ESG or sustainability?
 - + If multiple committees address different elements of ESG, what are the committees' responsibilities, and how do they collaborate?
- Q12. Is it disclosed that the Audit Committee is responsible for ESG oversight?

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 Ideagen Audit Analytics

Ideagen Audit Analytics independently provides research 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 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, 2022 through June 30, 2023. 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.

Please note that this publication is intended as general information and should not be relied on as being definitive or all-inclusive. As with all other CAQ resources, this publication is not authoritative, and readers are urged to refer to relevant rules and standards. If legal advice or other expert assistance is required, the services of a competent professional should be sought. The CAQ makes no representations, warranties, or guarantees about, and assumes no responsibility for, the content or application of the material contained herein. The CAQ expressly disclaims all liability for any damages arising out of the use of, reference to, or reliance on this material. This publication does not represent an official position of the CAQ, its board, or its members.

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your feedback!**

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