



**CAQ**  
CENTER FOR  
AUDIT QUALITY

# 2020 Audit Committee Transparency Barometer

October 2020

# About the Center for Audit Quality

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs. For more information, visit [www.thecaq.org](http://www.thecaq.org).

## About Audit Analytics

Audit Analytics is an independent research provider that enables the accounting, legal, and investment communities to analyze auditor market intelligence, public company disclosure trends, and risk indicators. For more information, 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, 2019, through June 30, 2020. 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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# Overview

In our seventh year of analyzing disclosures of audit committee oversight in proxy statements of companies in the S&P Composite 1500 (S&P 1500), the 2020 Barometer shows encouraging long-term trends across topics such as Audit Firm Evaluation and Supervision. We also see positive trends in disclosure of risk oversight in emerging areas such as Cybersecurity, COVID-19 and the discussion of Critical Audit Matters (CAMs). We are pleased to highlight numerous examples from this year's population of proxy statements.

Increasing disclosures build investor confidence in capital markets, and companies can take action to accelerate the trend. The information in disclosures is particularly helpful to investors now as they seek additional information about audit committee oversight of public company financials during the uncertainty of the pandemic.

Our [2019 Audit Committee Transparency Barometer](#) identified certain areas of concern and opportunities to enhance transparency. In particular, discussion of audit fees and its connection to audit quality (Question 3), how the audit committee considers auditor compensation (Question 4), and disclosure of significant areas of discussion with the auditor (Question 10) remain low in 2020 and we call on audit committees to consider ways to increase such disclosure.



# Highlights of the 2020 Barometer

## **S&P 1500 LONG-TERM TRENDS**

Since the inception of the annual *Audit Committee Transparency Barometer* in 2014, the CAQ and Audit Analytics have tracked 12 key disclosure areas. It is encouraging to see the progress that has been made in transparency of audit committee oversight over the past seven years.

Across the S&P 1500, many disclosures have increased significantly over time; however, one area that is stagnant relates to auditor compensation (Questions 3-7). For example, disclosure of explanations for changes in fees paid to the external auditor (Question 7) have dipped in recent years. Unlike many of the disclosures tracked within the annual *Audit Committee Transparency Barometer*, changes in audit fees may be dependent on the occurrence of specific events or transactions.

See Appendix I for a summary of results organized by large, mid, and small cap companies by year and examples of disclosures in each category.

## **COVID-19**

The COVID-19 pandemic and the related market conditions created many new uncertainties for public companies, auditors, investors and audit committees. As SEC Chair Jay Clayton recognized, the continuing operation of the US capital markets is an essential component of our national response to, and recovery from, COVID-19.

With the global pandemic reaching the US in earnest in March 2020, some companies provided transparency into the Board's approach to navigating the virus and its impact.

### COVID-19 EXAMPLE 1

**SOURCE:** ELECTRONIC ARTS INC. (S&P 500), 2020 PROXY STATEMENT, OVERSIGHT OF RISK ISSUES

#### Board of Directors

Our Board of Directors oversees our risk management. The Board of Directors exercises this oversight responsibility directly and through its committees. The oversight responsibility of the Board of Directors and its committees is informed by reports from our management team that are designed to provide visibility into our key risks and our risk mitigation strategies. Material business and strategic risks are reviewed by the full Board of Directors. While the Board of Directors has ultimate risk oversight with respect to risks related to privacy and cybersecurity and receives periodic updates on these risks and mitigation strategies, the Audit Committee also receives quarterly updates from EA's information security team that review the steps taken by management to monitor and control these risks. In addition, the Board of Directors has oversight with respect to risks related to the COVID-19 pandemic. While its committees are addressing COVID-19 risks specific to their delegated duties, the Board of Directors has reviewed, overseen and continues to monitor the identification of COVID-19 risks and mitigation strategies related to the Company's return-to-work procedures, business strategy, business continuity, and the impact on the Company's financial planning.

#### Committees

Risks related to financial reporting, internal controls and procedures, investments, tax and treasury matters and compliance issues are reviewed regularly by the Audit Committee, which oversees the financial reporting, global audit and legal compliance functions. The Audit Committee has overseen risks from the COVID-19 pandemic to the Company's internal controls over financial reporting, disclosure controls and procedures and independent audit, as well as the way in which business risks related to COVID-19 are communicated in the Company's SEC filings. The Audit Committee also oversees our enterprise risk management program, which identifies and prioritizes material risks for the Company, including, if material, risks related to corporate responsibility matters, and the mitigation steps needed to address them. The Nominating and Governance Committee reviews risks related to director and CEO succession and monitors the effectiveness of our corporate governance policies. The Compensation Committee oversees risks related to our people practices, including employee engagement, retention and pay equity. It also reviews compensation-related risks with members of management that are responsible for structuring the Company's compensation programs, including compensation-related risks resulting from the short-term and long-term uncertainties to the Company's financial planning as a result of the COVID-19 pandemic. Each of the committees regularly report to the full Board of Directors on matters relating to the specific areas of risk that each committee oversees.

## COVID-19 EXAMPLE 2

**SOURCE:** MOMENTA PHARMACEUTICALS, INC. (S&P SMALLCAP), 2020 PROXY STATEMENT, OVERSIGHT OF RISK ISSUES

The audit committee's role in the risk oversight process includes receiving regular reports from our compliance officer, who oversees our compliance program, members of senior management on our compliance committee who have functional compliance responsibility, and other members of senior management on areas of material risk to us, including operational, financial, legal, regulatory, strategic, cyber and reputational risks, as well as, more recently, the risk exposures related to the coronavirus (COVID-19) pandemic. The audit committee receives these reports from the appropriate compliance "risk owner" within the Company to enable the audit committee to understand our risk identification, risk management and risk mitigation strategies. The chair of the audit committee reports on these discussions to the full board during each regularly-scheduled board meeting. Management is actively assessing the impact of the COVID-19 pandemic and reporting to the board on an as needed basis.

## CRITICAL AUDIT MATTERS

In 2019, a major change occurred in certain auditor's reports.<sup>1</sup> As a result, auditors of public companies are now required to communicate CAMs in their auditor's reports.<sup>2</sup> The Public Company Accounting Oversight Board (PCAOB) defines a CAM as: any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee, *and* that (1) relates to accounts or disclosures that are material to the financial statements, *and* (2) involved especially challenging, subjective, or complex auditor judgment.<sup>3</sup> With these new PCAOB requirements, auditors communicate directly to users of the auditor's report information about those areas of the audit that involved especially challenging, subjective, or complex auditor judgment.

The implementation of the requirements to determine and communicate CAMs has resulted in auditor's reports that provide more information about the audit. In parallel with increased auditor transparency, the CAQ and Audit Analytics have observed CAM-specific proxy disclosures in the S&P 1500 population tracked for the annual *Audit Committee Transparency Barometer*.

Over 6% of companies mention CAMs within their audit committee disclosures, stating that the audit committee has discussed CAMs with the auditor. As more auditor reports include CAMs, more audit committee disclosures related to CAMs may begin to appear in proxy statements.

<sup>1</sup> Provisions related to critical audit matters took effect for audits for fiscal years ending on or after June 30, 2019, for Large Accelerated Filers; and will take effect for fiscal years ending on or after December 15, 2020, for all other companies to which the requirements apply.

<sup>2</sup> For more information on how CAMs are determined please see PCAOB AS 3101: *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion (As Amended for FYE 12/15/2020 and After)*.

<sup>3</sup> See PCAOB Auditing Standard 3101.11.

### **CAMs EXAMPLE 1**

**SOURCE:** UNITED AIRLINES HOLDINGS, INC. (S&P 500), AUDIT COMMITTEE REPORT

During the last year, and earlier this year in preparation for the filing with the SEC of the 2019 Form 10-K, the Audit Committee, among other matters:

- ✦ reviewed and discussed with the independent auditors: (1) their judgments as to the quality of the accounting principles applied in the Company's financial reporting; (2) the critical audit matters ("CAMs") addressed in the audit and the relevant financial statement accounts or disclosures that relate to each CAM; (3) the written disclosures and the letter received from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board (the "PCAOB") regarding the independent auditors' communications with the Audit Committee concerning independence, and the independence of the independent auditors; and (4) the matters required to be discussed with the Audit Committee under the applicable requirements of the PCAOB and the SEC.

### **CAMs EXAMPLE 2**

**SOURCE:** EXELON CORPORATION (S&P 500), 2020 PROXY STATEMENT, AUDIT COMMITTEE MATTERS

#### Critical Audit Matters

In conformance with Public Company Accounting Oversight Board rules, the Committee reviewed and discussed with [Audit Firm] four critical audit matters arising from the current period audit of Exelon's financial statements. Critical audit matters (or CAMs) are defined to be any matter arising from the audit of the financial statements that was communicated or required to be communicated to the Audit Committee and that 1) relate to accounts or disclosures that are material to the financial statements and 2) involve especially challenging, subjective, or complex audit judgment. The Committee concurred with [Audit Firm]'s assessment and identification of the CAMs contained in its Audit Report included within Exelon's 2019 Annual Report on Form 10-K.



## CYBERSECURITY

Cybersecurity disclosures have increased dramatically over the last five years. Companies are facing not only increasing cyber threats but also new laws and regulations for managing and reporting on data security and cybersecurity risks. Boards of directors face an enormous challenge: to oversee how their companies manage cybersecurity risk.<sup>4</sup> Depending on the discretion of the board and company, this responsibility may be delegated to the Audit Committee.

DISCLOSURE QUESTION	YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
Is the Audit Committee responsible for cybersecurity risk oversight?	<b>2020</b>	<b>39%</b>	<b>28%</b>	<b>18%</b>
	2019	34%	26%	13%
	2018	19%	13%	7%
	2017	12%	6%	4%
	2016	11%	5%	4%
Does the Board of Directors have a cybersecurity expert?	<b>2020</b>	<b>28%</b>	<b>20%</b>	<b>8%</b>
	2019	23%	15%	7%
	2018	14%	10%	5%
	2017	11%	6%	4%
	2016	7%	4%	3%
On what Board Committee does the cybersecurity expert serve?	<b>2020</b>	<b>27%</b>	<b>20%</b>	<b>8%</b>
	2019	22%	14%	7%
	2018	14%	10%	5%
	2017	10%	6%	4%
	2016	7%	4%	3%

<sup>4</sup> See [CAQ's Cybersecurity Risk Management Oversight: A Tool for Board Members](#).

### **CYBERSECURITY EXAMPLE 1**

**SOURCE:** MDU RESOURCES GROUP INC (S&P MIDCAP), 2020 PROXY STATEMENT, BOARD'S ROLE IN RISK OVERSIGHT/BOARD MEETINGS AND COMMITTEES/OTHER

#### **Board's Role in Risk Oversight**

While the board is ultimately responsible for risk oversight at our company, our standing board committees assist the board in fulfilling its oversight responsibilities in certain areas of risk.

- + The audit committee assists the board in fulfilling its oversight responsibilities with respect to risk management in a general manner and specifically in the areas of financial reporting, internal controls, cybersecurity, and compliance with legal and regulatory requirements, and, in accordance with NYSE requirements, discusses with the board policies with respect to risk assessment and risk management and their adequacy and effectiveness. The audit committee receives regular reports on the company's compliance program, including reports received through our anonymous reporting hot line. It also receives reports and regularly meets with the company's external and internal auditors. During its quarterly meetings in 2019, the audit committee received presentations or reports from management on cybersecurity and the company's mitigation of cybersecurity risks. The entire board was present for the presentations and had access to the reports. Risk assessment and mitigation reports are regularly provided by management to the audit committee or the full board. This opens the opportunity for discussions about areas where the company may have material risk exposure, steps taken to manage such exposure, and the company's risk tolerance in relation to company strategy. The audit committee reports regularly to the board of directors on the company's management of risks in the audit committee's areas of responsibility.

#### **Board Meetings and Committees**

##### **Audit Committee**

The audit committee also:

- + assists the board's oversight of
  - management of risk in the audit committee's areas of responsibility, including cybersecurity, financial reporting, legal and regulatory compliance, and internal controls;

##### **Cybersecurity Oversight**

The audit committee receives periodic briefings concerning cybersecurity, information security, technology risks, and risk mitigation programs.

## **CYBERSECURITY EXAMPLE 2**

**SOURCE:** PITNEY BOWES INC (S&P SMALLCAP), 2020 PROXY STATEMENT, BOARD COMMITTEES AND MEETING ATTENDANCE/ROLE OF THE BOARD OF DIRECTORS IN RISK OVERSIGHT

### **Audit Committee**

The Audit Committee also has oversight over the information technology function, cybersecurity risks as well as compliance generally. The Audit Committee regularly discusses cybersecurity with leaders of the technology, information security, privacy and audit functions.

### **Role of the Board of Directors in Risk Oversight**

With respect to cybersecurity, management, (comprised of members from multiple disciplines in the company, including Information Technology, Research and Development, Legal, Privacy, and Internal Audit) provides a detailed overview first to the Audit Committee and then again to the full board of the company's cybersecurity efforts and management of that risk. Under its Charter, the Audit Committee has oversight of the enterprise risks relating to Information Technology function generally, and cybersecurity in particular.

Each enterprise risk and its related mitigation plan is reviewed by either the board of directors or the designated board committee on an annual basis. On an annual basis, the board of directors receives a report on the status of all enterprise risks and their related mitigation plans.

# Appendix I: Additional tables and examples of effective disclosure

## AUDIT FIRM SELECTION

DISCLOSURE QUESTION	YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
1. Is there a discussion of audit committee considerations in appointing the external auditor?	<b>2020</b>	<b>43%</b>	<b>30%</b>	<b>23%</b>
	2019	42%	30%	22%
	2018	40%	27%	19%
	2017	37%	24%	17%
	2016	31%	22%	17%
	2015	25%	16%	11%
	2014	13%	10%	8%
2. Do they disclose the length of time the auditor has been engaged?	<b>2020</b>	<b>69%</b>	<b>56%</b>	<b>54%</b>
	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 EXAMPLE

### SOURCE: GATX CORP (S&P MIDCAP), 2020 PROXY STATEMENT, PROPOSAL 3: RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed [Audit Firm] as our independent registered public accounting firm for fiscal year 2020, and our Board is seeking shareholder ratification of the appointment. [Audit Firm] and its predecessor firms have served as our independent registered public accounting firm since 1916.

Shareholder ratification of this appointment is not required by our By-Laws or applicable laws and regulations. However, our Board annually submits this appointment for shareholder ratification as an element of our strong governance program. While this vote cannot be binding, if shareholders do not ratify the appointment of [Audit Firm], the Audit Committee will take the vote into account in making future appointments.

Representatives of [Audit Firm] are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they so desire and will be available to respond to appropriate questions by shareholders.

#### Audit Committee Evaluation

In determining whether to reappoint [Audit Firm], the Audit Committee considered the qualifications, performance, and independence of the firm and the audit engagement team, the quality of its discussions with [Audit Firm], and the fees charged by [Audit Firm] for the breadth of services provided. In connection with the 2020 appointment, the Audit Committee considered, among other things, the following:

- + Audit Quality – The quality of [Audit Firm]’s audit and non-audit work, based on its oversight of the firm’s work product, as well as its discussions with management in executive session without [Audit Firm] present and its discussions with [Audit Firm] in executive session without management present
- + Performance – [Audit Firm]’s reports on its quality controls and its performance during our 2019 and prior-year audits
- + Qualitative Review – [Audit Firm]’s (i) expertise and resources, (ii) audit planning, (iii) communication and interaction, (iv) independence, objectivity and professional skepticism and (v) value for fees
- + Self-Assessment – [Audit Firm]’s annual self-assessment of its accomplishments in connection with its audit, its satisfaction of the service needs and expectations of the Audit Committee and management, and areas of continued focus and improvement opportunities
- + Regulatory Reviews – External data on the firm’s audit quality and performance, including recent Public Company Accounting Oversight Board (“PCAOB”) reports on [Audit Firm] and its peer firms
- + Reasonableness of Fees – The appropriateness of [Audit Firm]’s fees for audit and non-audit services, both on an absolute basis and relative to comparable firms
- + Independence – Written disclosures from the firm and the independence letter required by the PCAOB
- + Tenure – [Audit Firm]’s tenure as our independent auditor, including the benefits of having a long-tenured auditor and the institutional knowledge gained from prior years of engagement

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The Audit Committee determined that the appointment of [Audit Firm] is in the best interest of GATX and our shareholders. The Audit Committee has appointed, subject to stockholder ratification, [Audit Firm] as our independent registered public accounting firm for fiscal year 2020 and recommends that shareholders ratify the appointment at the Annual Meeting.

The Board of Directors recommends that you vote FOR the proposal to ratify [Audit Firm] as our independent registered public accounting firm for 2020.

**AUDIT FIRM COMPENSATION**

DISCLOSURE QUESTION	YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
3. Is there a discussion of audit fees and its connection to audit quality?	<b>2020</b>	<b>4%</b>	<b>2%</b>	<b>1%</b>
	2019	4%	3%	1%
	2018	5%	3%	1%
	2017	5%	4%	2%
	2016	9%	3%	1%
	2015	10%	2%	2%
	2014	13%	4%	1%
4. Is there a discussion of how the audit committee considers auditor compensation?	<b>2020</b>	<b>3%</b>	<b>1%</b>	<b>1%</b>
	2019	2%	1%	1%
	2018	2%	1%	0%
	2017	2%	1%	0%
	2016	1%	1%	1%
	2015	0%	0%	0%
	2014	1%	1%	0%
5. Is there a discussion of how non-audit services may impact independence?	<b>2020</b>	<b>84%</b>	<b>80%</b>	<b>76%</b>
	2019	84%	79%	77%
	2018	83%	78%	75%
	2017	80%	75%	72%
	2016	81%	73%	69%
	2015	78%	67%	63%
	2014	83%	69%	58%

DISCLOSURE QUESTION	YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
6. Is there a statement that the audit committee is responsible for fee negotiations?	<b>2020</b>	<b>18%</b>	<b>7%</b>	<b>4%</b>
	2019	19%	6%	4%
	2018	20%	5%	4%
	2017	20%	4%	4%
	2016	17%	3%	5%
	2015	16%	3%	5%
	2014	8%	1%	1%
7. Is there an explanation provided for a change in fees paid to the external auditor?	<b>2020</b>	<b>19%</b>	<b>14%</b>	<b>21%</b>
	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 COMPENSATION EXAMPLE

SOURCE: SPIRE INC. (S&P MIDCAP), 2020 PROXY STATEMENT, AUDIT COMMITTEE'S REVIEW OF INDEPENDENT AUDITOR/FEEES OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT

#### Audit committee's review of independent auditor

The audit committee is directly responsible for the appointment, oversight, qualification, independence, performance, compensation and retention of the Company's independent registered public accounting firm, including audit fee negotiations and approval.

#### Fees of independent registered public accountant

The total fees for fiscal year 2019 were slightly higher than 2018. The increase in the audit-related fees is the result of increased fees for comfort letters and consents related to the at-the-market and preferred offerings. The increase in the tax fees is related to the review of a tax accounting method change related to overhead costs.

## AUDIT FIRM EVALUATION / SUPERVISION

DISCLOSURE QUESTION	YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
8. Is there a discussion of criteria considered when evaluating the audit firm?	<b>2020</b>	<b>51%</b>	<b>37%</b>	<b>36%</b>
	2019	50%	39%	33%
	2018	46%	36%	32%
	2017	38%	28%	27%
	2016	34%	26%	25%
	2015	24%	25%	22%
	2014	8%	7%	15%
9. Is it stated that the evaluation of the external auditor at least an annual event?	<b>2020</b>	<b>31%</b>	<b>19%</b>	<b>16%</b>
	2019	29%	19%	14%
	2018	26%	17%	12%
	2017	21%	11%	8%
	2016	19%	10%	9%
	2015	15%	7%	7%
	2014	4%	3%	4%
10. Is there a disclosure of significant areas addressed with the auditor?	<b>2020</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>
	2019	0%	1%	2%
	2018	0%	1%	2%
	2017	0%	1%	2%
	2016	0%	1%	2%
	2015	1%	0%	1%
	2014	3%	2%	1%



**AUDIT FIRM EVALUATION / SUPERVISION EXAMPLE**

**SOURCE:** OWENS & MINOR, INC. (S&P SMALLCAP), 2020 PROXY STATEMENT, PROPOSAL 4: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Prior to selecting [Audit Firm] for fiscal 2020, the Audit Committee evaluated [Audit Firm]’s performance with respect to fiscal 2019. In conducting this annual evaluation, the Audit Committee considered management’s assessment of [Audit Firm]’s performance in areas such as (i) independence, (ii) the quality and the efficiency of the services provided, including audit planning and coordination, (iii) industry knowledge and (iv) the quality of communications, including [Audit Firm]’s staff accessibility and keeping management apprised of issues. The Audit Committee also considered [Audit Firm]’s tenure, the impact on the Company of changing auditors and the reasonableness of [Audit Firm]’s billable rates. The Audit Committee is responsible for the audit fee negotiations associated with the retention of [Audit Firm]. In order to assure continuing auditor independence, the Audit Committee periodically considers whether there should be a regular rotation of the independent registered accounting firm. Further, in conjunction with the rotation of the auditing firm’s lead engagement partner every five years, the Audit Committee and its chairperson will continue to be directly involved in the selection of [Audit Firm]’s new lead engagement partner. The members of the Audit Committee and the Board believe that the continued retention of [Audit Firm] to serve as our independent external auditor is in the best interests of us and our shareholders.

**AUDIT PARTNER SELECTION**

DISCLOSURE QUESTION	YEAR	S&P 500	S&P MIDCAP	S&P SMALLCAP
11. Is it stated that the engagement partner rotates every five years?	<b>2020</b>	<b>49%</b>	<b>23%</b>	<b>15%</b>
	2019	49%	23%	13%
	2018	49%	20%	12%
	2017	46%	14%	10%
	2016	39%	10%	8%
	2015	26%	5%	5%
	2014	16%	3%	4%
12. Is it explicitly stated that the audit committee is involved in selection of audit engagement partner?	<b>2020</b>	<b>50%</b>	<b>23%</b>	<b>12%</b>
	2019	50%	22%	10%
	2018	52%	20%	10%
	2017	49%	14%	7%
	2016	43%	10%	6%
	2015	31%	5%	3%
	2014	13%	1%	1%

## AUDIT PARTNER SELECTION EXAMPLE

**SOURCE:** CITIGROUP, INC. (S&P 500), 2020 PROXY STATEMENT, APPROVAL OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM SERVICES AND FEES

### Approval of Independent Registered Public Accounting Firm Services and Fees

Citi's Audit Committee has reviewed and approved all fees earned in 2019 and 2018 by Citi's independent registered public accounting firm and actively monitored the relationship between audit and non-audit services provided. The Audit Committee has concluded that the fees earned by [Audit Firm] were consistent with the maintenance of the external auditors' independence in the conduct of its auditing functions.

The Audit Committee must pre-approve all services provided and fees earned by Citi's independent registered public accounting firm. The Audit Committee annually considers the provision of audit services and, if appropriate, pre-approves certain defined audit fees, audit-related fees, and tax-compliance fees with specific dollar-value limits for each category of service. The Audit Committee also considers on a case-by-case basis specific engagements that are not otherwise pre-approved (e.g., internal control and certain tax compliance engagements) or that exceed pre-approved fee amounts. On an interim basis, any proposed engagement that does not fit within the definition of a pre-approved service may be presented to the Chair of the Audit Committee for approval and to the full Audit Committee at its next regular meeting.

The Accounting Firm Engagement Standard is the primary basis upon which management ensures the independence of its independent registered public accounting firm. Administration of the Standard is centralized in, and monitored by, Citi senior corporate financial management, which reports the engagements earned by [Audit Firm] throughout the year to the Audit Committee. The Standard also includes limitations on the hiring of [Audit Firm] partners and other professionals to ensure that Citi satisfies applicable auditor independence rules.

[Audit Firm] has served as the independent registered public accounting firm of Citi and its predecessors since 1969. As in prior years, Citi and its Audit Committee have engaged in a review of [Audit Firm] in connection with the Audit Committee's consideration of whether to recommend that stockholders ratify the selection of [Audit Firm] as Citi's independent auditor for the following year. In that review, the Audit Committee considers both the continued independence of [Audit Firm] and whether retaining [Audit Firm] is in the best interests of Citi and its stockholders. Citi's management prepares an annual assessment of [Audit Firm] for the Audit Committee that includes (i) the results of a management survey of [Audit Firm]'s overall performance; (ii) an analysis of [Audit Firm]'s known legal risks and significant proceedings that may impair [Audit Firm]'s ability to perform Citi's annual audit; and (iii) [Audit Firm]'s fees and services provided to Citi both on an absolute basis, noting, of course, that [Audit Firm] does not provide any non-audit services, other than those described in the Proxy Statement, to Citi, and compared to services provided by other auditing firms to peer institutions. In addition, [Audit Firm] reviews with the Audit Committee its analysis of its independence in accordance with the Accounting Firm Engagement Standard and PCAOB Rule 3526. In performing its analysis, the Audit Committee considered the length of time [Audit Firm] has been Citi's independent auditor, the breadth and complexity of Citi's business and its global footprint and the resulting demands placed on its auditing firm in terms of expertise in Citi's businesses, the quantity and quality of staff, and global reach. The Audit Committee recognized the ability of [Audit Firm] to provide both the necessary expertise to audit Citi's business and the matching global footprint to audit Citi worldwide and other factors, including the policies that [Audit Firm] follows with respect to rotation of the key audit personnel, so that there is a new partner-in-charge at least every five years. Citi's Audit Committee oversees the process for, and ultimately approves, the selection of the independent auditor's lead engagement

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partner at the five-year mandatory rotation period. At the Audit Committee's instruction, [Audit Firm] selects candidates to be considered for the lead engagement partner role, who are then interviewed by members of Citi's senior management. After considering the candidates recommended by [Audit Firm], senior management makes a recommendation to the Audit Committee regarding the new lead engagement partner. After discussing the qualifications of the proposed lead engagement partner with the current lead engagement partner and senior leadership of [Audit Firm], the members of the Audit Committee, individually and/ or as a group, interview the leading candidate. The Audit Committee then considers the appointment and votes as an Audit Committee on the selection. The Audit Committee also reviewed external data on audit quality and performance, including recent PCAOB reports on [Audit Firm] and its peer firms. Based on the results of its review this year, the Audit Committee concluded that [Audit Firm] is independent and that it is in the best interests of Citi and its investors to appoint [Audit Firm] to serve as Citi's independent registered accounting firm for 2020.

# Appendix II: Summary Table of Disclosure Rates

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

2020 AUDIT COMMITTEE TRANSPARENCY BAROMETER

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

2020 AUDIT COMMITTEE TRANSPARENCY BAROMETER

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

2020 AUDIT COMMITTEE TRANSPARENCY BAROMETER

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

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**WE WELCOME YOUR FEEDBACK**

Please send comments or questions to [info@thecaq.org](mailto:info@thecaq.org)