

September 8, 2015

Office of the Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

By e-mail: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

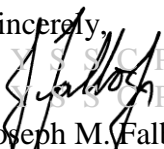
**Re: Possible Revisions to Audit Committee Disclosures**

**(Release No. 33-9862; 34-75344 File No. S7-13-15)**

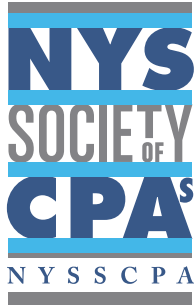
Dear Mr. Secretary:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned concept release.

The NYSSCPA's SEC Committee deliberated the concept release and prepared the attached comments. If you would like additional discussion with us, please contact Charles Abraham, Chair of the SEC Committee at [REDACTED], or Ernest J. Markezin, NYSSCPA staff, at ([REDACTED]).

Sincerely,  
  
Joseph M. Falbo, Jr.  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON  
POSSIBLE REVISIONS TO AUDIT COMMITTEE DISCLOSURES  
(RELEASE NO. 33-9862; 34-75344 FILE NO. S7-13-15)**

**September 8, 2015**

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**NYSSCPA Staff**

Ernest J. Markezin

## **New York State Society of Certified Public Accountants**

### **Comments on SEC Concept Release on**

### **Possible Revisions to Audit Committee Disclosures**

The New York State Society of Certified Public Accountants (“NYSSCPA”) appreciates the opportunity to comment on the Securities and Exchange Commission’s (“SEC” or the “Commission”) Concept Release, *Possible Revisions to Audit Committee Disclosures*, (the “Concept Release”).

On balance, we are supportive of the Concept Release regarding the need for audit committees to provide meaningful disclosure on the procedures conducted in discharging their oversight responsibilities. We believe that by including additional relevant information, such communications can be more useful to stakeholders. As a general comment, we believe that current audit committee disclosures have become “boilerplate” and do not provide stakeholders with additional insight regarding the audit committees’ responsibilities and their interaction with their auditor.

We support additional disclosure about whether or not certain audit committee activities have occurred as well as additional discussion surrounding how the audit committee oversees the performance of the audit and the external auditor. Investors and other stakeholders would find it useful to understand what procedures have been conducted by audit committees to discharge their oversight responsibilities. We believe the current disclosure requirements can be expanded so that audit committees are required to describe (a) the approach taken to evaluate the qualifications, objectivity, and independence of the auditor; (b) key procedures performed as part of their oversight responsibility; and (c) evaluation of the quality of the company’s financial reporting process, the financial statement audit and the audit process. Disclosure by audit committees regarding what activities took place would provide an overall level of assurance to investors, potential investors and the general public. To encourage compliance and avoid unnecessary “boilerplate” language, we support the need for principles-based and scalable reporting by audit committees to allow for flexibility in their disclosures.

While audit committees should assess the experience and qualification of the key members of the engagement team (including the number of years the members have been assigned to the audit) in selecting or retaining the auditor, we do not believe that audit committees should be involved in the actual selection of the engagement partner. In addition, we do not believe that disclosure of the name of the engagement partner would be useful or meaningful to stakeholders. As we have previously stated in our comment responses to the Public Company Accounting Oversight Board (“PCAOB”), the perceived value to be obtained by investors from the information provided by such disclosure is overestimated and has the potential to mislead the public by providing it with the misconception that the engagement partner is responsible for the audit rather than the public accounting firm. We also believe that auditor tenure should not be required to be disclosed as it might imply that there is a correlation between auditor tenure and audit quality or auditor independence. However, if the tenure of the

external auditor is to be disclosed, it would be prudent for the audit committee report to discuss how the reappointment of the auditor was determined to be appropriate.

We also believe that while more specific and relevant disclosures are needed, audit committees should not be required to disclose subjective deliberations regarding risks and “weighting” placed on various factors in making their decisions. While the discussion in the Concept Release that audit committees should disclose the specifics of their decision-making deliberations has good intentions, we are doubtful that it would be decision-useful to stakeholders. There are significant disincentives for such specific disclosures due to legal exposure (as the legal environment in the U.S. is unique), unintended negative publicity and the public forum “second guessing” as to why certain measures were given more weight than others, which might occur. If enacted, we believe that audit committees would, again, gravitate toward “boilerplate” terminology which would not provide stakeholders with significant useful information.

While additional disclosures can be meaningful to stakeholders, there needs to be further modification related to the composition of audit committees and qualifications of its members in order to promote change. Audit committees in small to medium-sized companies (defined as up to \$750 million in revenues) may not function as anticipated or in the same way as in larger companies, for various reasons. Under Rule 407(d)(5)(i) of Regulation S-K, the definition of a “financial expert” is broad, and most people in business believe that they can meet the definition’s requirements based upon their experience. Many small and medium-sized company audit committees or boards of directors (because many of the smaller companies do not have audit committees) are comprised of associates of the company’s senior management who believe that they meet the requirements of a financial expert. In practice, this leads to audit committees/boards of directors asking few questions and not challenging the auditor because they might not fully understand generally accepted accounting principles or PCAOB auditing standards. We believe that in the small and medium-sized public companies, the functioning of audit committees is more critical because these companies are more often understaffed, function as closely held entities, and may require additional resources in managing and growing their businesses and assistance with internal control and proper financial reporting.

It would be a positive step if there were certain changes in audit committees and the definition of the “financial expert.” For example, consideration should be given to replacing the term “financial expert” with “audit and accounting expert” (the “Expert”). The Expert, in the context of small to medium size companies, would be defined as an individual that is or has been involved in the audits of public companies (preferably small or medium-sized companies) and is familiar with accounting and auditing principles and auditing standards. This Expert should be a CPA (certified public accountant) with considerable experience in or knowledge of auditing, or a similarly qualified individual. We understand that it would not be easy to find these individuals, but believe audit committees must be more involved with overseeing the audit process, and that individuals such as these would challenge the auditors. Audit committees would be involved with hiring the auditor, being informed of his or her planning as it relates to the determination of risk and materiality and challenging the auditor in his or her audit results and the financial statement presentation. Should these companies not be able to find and retain such an Expert, audit committees should be required to retain an outside firm or individual with the required experience. Many small to medium-sized companies cannot attract “financial experts” due to the

lack of adequate directors' and officers' liability insurance, and retaining an outside firm or individual with the requisite skills would be a good alternative.

In summary, we are generally supportive of the Concept Release with regard to additional meaningful disclosure that would provide stakeholders with a deeper understanding of how audit committees discharge their responsibilities. We do not believe that information related to the audit partner or auditor tenure should be publicly disclosed because it overstates the significance of those metrics. We also believe that the disclosures should be limited to the procedures conducted by audit committees because any discussion surrounding specific risks identified or approaches undertaken would be very subjective and be subject to scrutiny and misunderstanding without additional context. The Commission should consider additional changes regarding the qualifications of audit committee members to further enhance the quality of the audit committee process.