THE UNIVERSITY OF TEXAS AT SAN ANTONIO, COLLEGE OF BUSINESS

Working Paper SERIES

Date January 18, 2018

WP # 0001ACC-474-2018

CONSEQUENCES OF VOLUNTARY DISCLOSURES IN THE AUDIT COMMITTEE REPORT

Zhongxia (Shelly) Ye
The University of Texas at San Antonio
Zhongxia.Ye@utsa.edu

ONE UTSA CIRCLE
SAN ANTONIO, TEXAS 78249-0631
210 458-4317 | BUSINESS.UTSA.EDU

CONSEQUENCES OF
VOLUNTARY DISCLOSURES IN THE AUDIT COMMITTEE REPORT

Zhongxia (Shelly) Ye
The University of Texas at San Antonio
Zhongxia.Ye@utsa.edu

January 2018

Acknowledgements: This paper was funded in-part by the University of Texas at San Antonio, Office of the Vice President for Research. I also appreciate assistance from Jean Bradley, Alexis Cook, Sue Cooper, Alexandra Fuentes, Michael Turner, and Qiao Xu.

CONSEQUENCES OF
VOLUNTARY DISCLOSURES IN THE AUDIT COMMITTEE REPORT

ABSTRACT

In recent years a variety of stakeholders request more disclosures of audit committees' activities. As a response, audit committees in many large companies have voluntarily enhanced the depth and scope of their disclosures in the proxy statements. However, controversy arises surrounding whether more disclosures of audit committees' activities are beneficial to investors. In 2015 the SEC started to seek comments on this issue. In this study I find that larger companies with diligent, longer-tenure, younger and more diversified audit committee members in companies with longer auditor tenure and higher total auditor fees are likely to provide more voluntary disclosures of audit committees' activities. I also find that audit committee voluntary disclosures are useful to shareholders when they vote on audit committee director elections. However, the significance and directions of the usefulness vary with the content of the disclosures. Moreover, I provide moderate evidence that shareholders are less likely to vote against auditor ratification when the audit committee provides an explanation for a change in fees paid to the independent auditor. Overall, this study provides implications for policy makers such as the SEC as they are deliberating on the revisions of audit committee reporting requirements.

Key Words: Audit committees, voluntary disclosures, director elections, auditor ratification.

JEL Classification Code: M42

CONSEQUENCES OF

VOLUNTARY DISCLOSURES IN THE AUDIT COMMITTEE REPORT

I. INTRODUCTION

The goal of this paper is to provide empirical evidence on audit committee voluntary disclosures. The basic question is, "Can voluntary disclosures of audit committee activities be useful to shareholders"? I seek to add to our standing of the benefits of audit committee voluntary disclosures in the context of shareholders' voting decisions in the elections of audit committee director nominees and auditor ratification.

The motivation for examining audit committee voluntary disclosures comes from the recent heated debate on audit committee voluntary disclosures and the SEC's need of empirical evidence as they deliberate on whether the audit committees should be required to provide more disclosures on their activities. Sarbanes-Oxley Act of 2002 ("SOX"; U.S. House of Representatives 2002) gives the audit committee of publicly held companies more responsibilities for overseeing the accounting and financial reporting processes and audits of the financial statements. Given the important role of audit committees, it is critical for investors and other stakeholders to be informed of how the audit committee fulfill their duties. However, the audit committee reporting requirements have not changed significantly since 1999. The need to enhance transparency about audit committee activities is receiving much attention from a variety of stakeholders. Recently a variety of stakeholders including domestic and international regulators, standard setters, governance organizations and investors request more disclosures of audit committees' activities (SEC 2015). Noticeably, in 2012 several well-known U.S. governance organizations formed the Audit Committee Collaboration (hereafter "ACC") and joined efforts on projects aimed to strengthen the transparency about audit committee activities

(ACC 2013). Also, in September 2012, the UK Financial Reporting Council (hereafter "FRC") amended the UK Corporate Governance Code (FRC 2012a) to include new requirements on audit committee disclosures. As a response to the powerful force in improving audit committees transparency, in recent years many large companies have voluntarily enhanced the depth and scope of their disclosures in the proxy statements.

On July 1, 2015, the SEC published a Concept Release and sought comments from the public concerning possible revisions to the audit committee's reporting requirements. The SEC received comments from both proponents and opponents. Some proponents believe that more transparency into the activities of audit committees is consistent with additional responsibilities delegated by SOX and should boost investors' confidence (CalPERS 2015; Deloitte 2015). On the contrary, some opponents are concerned about possible information overload, the lack of empirical evidence suggesting the usefulness of more audit committee disclosures, or the absence of requests from investors for more information about audit committees (Belden Inc. 2015; BR 2015; CCMC 2015; Corelogic Inc. 2015). Some opponents cited potential litigation risks and costs as consequences of more transparency into audit committees' performance (CNO Financial Group Inc. 2015).

The SEC suspects that the "reporting of additional information by the audit committee with respect to its oversight of the auditor may provide useful information to investors as they evaluate the audit committee's performance in connection with, among other things, their vote for or against directors who are members of the audit committee, the ratification of the auditor, or their investment decisions" (SEC 2015, 6). The SEC calls for research on why some audit committees provide voluntary disclosures regarding their activities, as well as research on whether and how additional audit committee disclosures influence investors' investment decisions and voting decisions regarding auditor ratification and the elections of audit committee members (SEC 2015). As a response to this call, I examine three research questions related to audit committee voluntary disclosures: (1) What factors are associated with the extent of audit committee voluntary disclosures? (b) Are audit committee voluntary disclosures associated with shareholders' voting decisions regarding the elections of audit committee members? and (c) Are audit committee voluntary disclosures associated with shareholders' voting decisions regarding auditor ratification?

My analysis is based on audit committee voluntary disclosures in proxy statements filed by a sample of S&P 500 companies before shareholder annual meetings in fiscal year 2015. The proxy statements provide information for shareholders to vote on director elections, auditor ratification and other proposals at shareholder annual meetings. In its Audit Committee Disclosure Database Audit Analytics provides yes/no answer (with 1 or 0 as the score) to 15 audit committee voluntary disclosure questions. All companies has YES as the answer to one of the disclosure questions, so I use the sum of the scores for all the other 14 audit committee voluntary disclosure questions as the measure of the overall extent of audit committee voluntary disclosures. I also analyze each of the audit committee voluntary disclosure items separately.

For the first research question, I find that audit committees in larger companies are more likely to provide more voluntary disclosures. In terms of audit committee variables, the extent of audit committee voluntary disclosures is positively associated with director tenure, the proportion of female audit committee members, and the number of audit committee meetings, and negatively associated with audit committee size, audit committee member ages, and the proportion of audit committee nominees who attended less than 75 percent of board and committee meetings in fiscal year 2014. Therefore, diligent, longer-tenured, younger and female audit committee members are more transparent about their activities. Interestingly, audit committee voluntary disclosures are more likely if a company has established a majority vote requirement for director elections, but less likely if all of the director nominees are elected to serve for the ensuing year. Also, the extent of audit committee voluntary disclosures is positively related to auditor tenure and total auditor fees, suggesting that audit committees try to mitigate shareholders' negative impression about longer auditor tenure and higher total auditor fees through more voluntary disclosures.

Second, I find that the extent of audit committee voluntary disclosures is negatively associated with votes withheld from incumbent audit committee director nominees. However, the significance and directions of the effect of audit committee voluntary disclosures vary with the content of the disclosures. Specifically, shareholders are less likely to withhold votes from incumbent audit committee director nominees if the audit committee discloses or states: (1) that the audit committee has two financial experts; (2) auditor tenure; (3) audit committee considerations in appointing the external auditor; (4) that the engagement partner rotates every five years; (5) that the audit committee is responsible for fee negotiations; or (6) significant areas addressed with the auditor. However, shareholders are more likely to withhold votes from incumbent audit committee director nominees if the audit committee discloses that audit committee have shared responsibility for risk oversight. It could be because shareholders view risk oversight as a distraction from audit committees' core responsibility. Finally, I provide moderate evidence that shareholders are less likely to vote against auditor ratification when the audit committee provides an explanation for a change in fees paid to the independent auditor. In summary, audit committee voluntary disclosures are useful to shareholders' decision making in the elections of audit committee members and auditor ratification.

This study makes several significant contributions. First, this study adds to audit committee literature. There has been a lot of research on other activities or characteristics of audit committees, but research on audit committee voluntary disclosures is very limited. Second, this paper adds to the growing literature on shareholder voting in auditor ratification and director elections. Previous studies have examined the effect of factors such as audit committee characteristics, auditor fees and auditor tenure on shareholder voting results in director elections and auditor ratification. However, to the best of my knowledge, this is the first study on how the voluntary disclosures of audit committee activities are related to shareholder voting results in director elections and auditor ratification. Third, this study is very timely and help regulators and policy-makers such as the SEC and the PCAOB make the best decisions about possible revisions to on audit committee disclosure requirements.

Sections II discusses the background and related research and Section III describes sample and Data. They are followed by results related to the three research questions xamined in this study: the determinants of audit committee voluntary disclosures in Section IV, director elections in Section V, and auditor ratification in Section VI. Section VII concludes with a summary and discussion.

II. BACKGROUND AND RELATED RESEARCH

Audit Committee Disclosures

Audit committees are delegated to overseeing the accounting and financial reporting processes and audits of the financial statements. Therefore, it is very important for investors and other stakeholders to understand and have confidence in how the audit committees execute their responsibilities. In 1999 the SEC adopted new rules aimed to enhance disclosures on the independence, governance and functioning of audit committees in public companies, in the belief that such a rule will “promote investor confidence in the integrity of the financial reporting process” (SEC 1999). Effective on January 31, 2000, the SEC (1999) requires that public companies include audit committee reports in their proxy statements. In the report, audit committee must state whether it: (a) has reviewed and discussed the audited financial statements with management; (b) has discussed with the independent auditors the matters required by AU sec. 380, *Communication with Audit Committees*; (c) has received from the auditors disclosures regarding the auditors' independence required by Independence Standards Board Standard No. 1, as may be modified or supplemented, and discussed with the auditors the auditors' independence; and (d) recommends to the Board of Directors that the audited financial statements be included in the company's Annual Report on Form 10-K or 10-KSB (as applicable) for the last fiscal year for filing with the SEC (SEC 1999). SEC (1999) also requires public companies to disclose in their proxy statements whether their Board of Directors has adopted a written charter for the audit committee, and if so, include a copy of the charter as an appendix to the company's proxy statements at least once every three years. Moreover, SEC (1999) requires public companies to disclose in their proxy statements whether the audit committee members are “independent”, and certain information regarding any director on the audit committee who is not “independent”.

Since 1999, the roles and responsibilities of audit committees of publicly held companies have been strengthened and expanded significantly as a result of, among other things, SOX. Specifically, Section 202 of SOX requires that the audit committee preapprove all audit services and most non-audit services, and discuss such preapproval to investors in periodic reports. Section 204 of SOX mandates that each public company auditor timely report to the audit committee all critical accounting policies and practices used by the company, all alternative accounting treatments that have been discussed with management as well as the potential ramifications of the use of those alternatives, and other material written communications between the auditor and the management.

Section 301 of SOX mandates that:

(1) the audit committee shall be directly responsible for the appointment, compensation, and oversight of the work of the external auditor (including resolution of disagreements between management and the auditor regarding financial reporting), and each external auditor shall report directly to the audit committee;

(2) each audit committee member shall be independent according to specific criteria;

(3) the audit committee shall establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, including procedures for the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters;

(4) each audit committee shall have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties; and

(5) each company shall provide appropriate funding for the audit committee.

Section 407 of SOX mandates that the SEC issue rules to require each public company to disclose whether or not, and if not, the reasons therefor, its audit committee is comprised of at least one member who is a financial expert as defined by the SEC.

Subsequently, each public company is required by the SEC to disclose, in its proxy statement or information statement, the names of each committee member, the number of committee meetings held by the audit committee during the last fiscal year and the functions performed by the committee (SEC 2003b).

Given enhanced responsibilities of the audit committees, investors expect more disclosures by audit committees in order to know more about how audit committees discharge their fiduciary responsibilities. However, the audit committee reporting requirements have not changed substantially since the issuance of SEC (1999). Currently audit committees are required to disclose their roles with respect to their oversight of the external auditors, but the disclosures regarding how the audit committees carry out their duties are not mandatory. The need to enhance transparency about audit committee activities is receiving significant attention from a variety of stakeholders. Many parties request more disclosures of audit committees' activities (SEC 2015). In 2012, several well-known U.S. governance organizations, including the National Association of Corporate Directors, Corporate Board Member/NYSE Euronext, Tapestry Networks, the Directors' Council, the Association of Audit Committee Members, Inc., and the Center for Audit Quality, formed the Audit Committee Collaboration and joined efforts on projects aimed to strengthen the transparency about audit committee activities (ACC 2013). ACC (2013, 2) believes "that greater transparency about the audit committee's roles and responsibilities is one way of increasing investor confidence, and an opportunity to communicate more clearly to shareholders about audit committee-related activities". Also, ACC specifically calls for more effective disclosures on the audit committee's composition, the scope of the audit committee's duties, and the audit committee's oversight of the external auditor including: (a) Factors considered when selecting or reappointing an audit firm, (b) Selection of the lead audit engagement partner, (c) Factors considered when determining auditor compensation, (d) How the committee oversees the external auditor, and (e) The evaluation of the external auditor (ACC 2013). However, ACC does not advocate a prescriptive approach, but recommends more voluntary disclosures determined by each company' audit committee.

Domestic and international regulators and standard setters, such as the U.S. PCAOB, the International Auditing and Assurance Standards Board (IAASB), and the Canadian Public Accountability Board (CPAB) also agree on the merits of enhanced audit committee disclosures (ACC 2013). Also, in September 2012, the UK Financial Reporting Council amended the UK Corporate Governance Code (FRC 2012a) to include new requirements on audit committee disclosures. To be specific, C.3.8. of the UK Corporate Governance Code states,

"A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:

- the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;
- an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted; and
- if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded. " (FRC 2012b, 20)

Investors also have formed a powerful force in improving audit committees transparency. They focus on enhancing audit quality through the audit committees' oversight of the external auditor. For example, in its Corporate Governance Policies updated on September 30, 2016, the Council for Institutional Investors (hereafter "CII") states in Section 2.13a, "The audit committee report should provide meaningful information to investors about how the committee carries out its responsibilities. The report should include an explanation of how the committee carries out its auditor compensation responsibilities in consideration of audit quality objectives. The report should include a fact specific explanation for not changing the company's auditor if the committee chooses to renew the engagement of an auditor with more than 10 consecutive years of service, or if the auditor is retained despite knowledge of substantive deficiencies identified during the committee's review of the considerations described above" (CII 2016). Moreover, since 2012 United Brotherhood of Carpenters Pension Funds (hereafter "UBCPF") has sent letters to a number of companies requesting additional six elements of audit committee disclosures in the proxy statements regarding the Audit Committee's efforts to protect audit firm independence. As a result, many companies have responded positively to UBCPF's request.[1]

As a response, many audit committees in large companies have voluntarily enhanced the depth and scope of their disclosures in the proxy statements (CAQ and AA 2016). However, some audit committee members regard additional audit committee reporting as possibly an unnecessary burden, and are skeptical about whether additional reporting would be useful to stakeholders (SEC 2015).

On July 1, 2015, the SEC published a Concept Release and sought comments from the public concerning the audit committee's reporting requirements, with an emphasis on the audit committee's reporting of its responsibilities and activities regarding its oversight of the external auditor (SEC 2015). Specifically, the SEC is interested in receiving comments on audit committee disclosures categorized into three groups: (1) the audit committee's oversight of the auditor, (2) the audit committee's process for selecting the auditor, and (3) the audit committee's consideration of the qualifications of the audit firm and certain members of the engagement team when selecting the audit firm. The SEC suspects that the "reporting of additional information by the audit committee with respect to its oversight of the auditor may provide useful information to

[1] I thank Corporate Affairs Department of UBCPF for providing this inside information.

investors as they evaluate the audit committee's performance in connection with, among other things, their vote for or against directors who are members of the audit committee, the ratification of the auditor, or their investment decisions" (SEC 2015, 6).

Although the majority of commenters prefer a voluntary, principles-based approach to a mandatory, prescriptive audit committee disclosures (CAQ 2015, Deloitte 2015), the comments received by the SEC vary greatly. Some commenters, mainly investors, strongly support the SEC increasing audit committee disclosure requirements to be consistent with expanded audit committee responsibilities after SOX (CalPERS 2015). Some proponents believe that "transparency into the audit committee's performance of these oversight duties can increase investors' confidence in the audit committee's performance as well as the independent audit process" (Deloitte 2015, P1).

On the contrary, some opponents cited the lack of empirical evidence to "suggest that additional disclosures would 'help investors understand and evaluate audit committee performance' or 'inform those investors' investment or voting decisions.'" (BR 2015, P2). Moreover, the Center for Capital Markets Competitiveness (CCMC) of the U.S. Chamber of Commerce is concerned about information overload: "This expansion and increased complexity of disclosure has contributed to the phenomenon of 'disclosure overload', whereby investors are so inundated with information it becomes difficult for them to determine the most salient factors they need to make informed voting and investment decisions" (CCMC 2015, P3). Some company commenters reported that no investors had ever requested additional information about the audit committee's activities (Belden Inc. 2015; Corelogic Inc. 2015). Still some audit committee members are concerned about litigation risks and costs brought by additional disclosures (CNO Financial Group Inc. 2015).

Given the need of empirical evidence, the SEC calls for research on why some audit committees provide voluntary disclosures regarding their activities, as well as research on whether and how additional audit committee disclosures influence investors' investment decisions and voting decisions regarding auditor ratification and the elections of audit committee members (SEC 2015). This study is an answer to this call.

Related Research

Several studies examine audit committee disclosures. Carcello et al. (2002) examine both mandatory and voluntary disclosures in audit committee charters and reports, based on a random sample of 150 companies that had a December 31, 2000 year end and filed proxy statements by early May of 2001. They document that (1) what audit committees say they are doing in their committee reports depart from what their charters say the committees should be doing; (2) A very high proportion of the companies comply with the regulations regarding mandated audit committee disclosures; (3) Voluntary disclosures show more diversity than mandated disclosures, and the extent of voluntary disclosures is positively related to company size, audit committee independence, whether the company is a depository institution, and whether the company is listed on NYSE; and (4) Improvement is needed on the frequency of audit committee meetings, and audit committee oversight of interim reports as well as internal audit. The authors caution that the audit committees may report their activities outside of their charters or committee reports, their scope of this study.

Rezaee et al. (2003) analyze the proxy statements and audit committee reports of 94 *Fortune* 100 companies. The majority of their sample companies complied with the requirements in SEC (1999) and those of related stock exchanges with respect to audit committee composition, qualifications, structure, and meetings. They also find that audit committee reports emphasized audit committee structures and duties instead of how the audit committees fulfil their oversight responsibilities. Moreover, all of their sample companies published audit committee chapters at least once every three years, and include their audit committee report in their proxy statements or annual reports.

Pandit et al. (2006) examine the audit committee reports from 2004 proxy statements by a random sample of 100 firms listed on NYSE. They document that the audit committee reports vary significantly in form and content. All of the audit committee reports in the sample companies included the four disclosures required in SEC (1999). However, some audit committee reports contain voluntary disclosures while others provide only the information to meet the regulatory requirements of SOX, the SEC and NYSE. Note that their analysis is restricted to audit committee reports and ignore audit committee information disclosed elsewhere in the proxy statements.

However, these studies examine the time periods when audit committee voluntary disclosures were limited. More importantly, they do not examine the benefits of audit committee voluntary disclosures and whether the audit committee voluntary disclosures are helpful to shareholders' voting decision making. This study aims to fill in this gap.

A less relevant study, Laksmana (2008) uses S&P 500 companies as of the end of 1992 as the sample and investigates how the extent of board of directors' disclosure of compensation practices in proxy statements is associated with board and compensation committee Characteristics. The extent of board of directors' disclosure of compensation practices is measured by a disclosure index composed of 23 compensation-related disclosure items selected partly based on the SEC rules for the Board Compensation Committee Report. Laksmana (2008) used two separate samples: 218 firms in 1993 proxy season and 232 firms in 2002 proxy season.

Based on the 1993 sample, Laksmana (2008) finds that the extent of disclosure is positively related to board (compensation committee) independence, and board (compensation committee) size, whether the CEO is overpaid, and negatively related to CEO power in director nomination process, whether the board (compensation committee) is busy, the proportion of CEO stock options to total CEO compensation, and institutional ownership. On the basis of the 2002 sample, Laksmana (2008) finds that the extent of disclosure is positively associated with the number of board meetings, whether the board used subjective performance evaluation in determining CEO compensation, firm performance, and propriety costs.

III. SAMPLE AND DATA

I purchased data about audit committee disclosures from Audit Analytics. Audit Analytics Audit Committee Report database has 21 taxonomy items/questions related to audit committee disclosures in proxy statements filed by S&P 1500 companies between July 1, 2014 and June 30, 2016. The questions are classified into six categories: (1) audit committee composition (2) scope of duties (3) audit firm selection (4) selection of audit engagement partner (5) auditor compensation and (6) auditor evaluation/supervision. These data were used for analysis in Audit Committee Transparency Barometer issued by Center for Audit Quality and Audit Analytics (CAQ and AA 2015; CAQ and AA 2016). Among the 21 questions, six are SEC required disclosures and 15 are voluntary disclosure items derived from Audit Committee Collaboration's call in 2013 (ACC 2013). The Appendix has the details of the 15 voluntary disclosure items. In its Audit Committee Disclosure Database Audit Analytics provides yes/no answer (with 1 or 0 as the score) to each of the disclosure questions. All companies in my sample has 1 as the score for one of the 15 voluntary disclosure question: Is there a (direct/indirect) link to the audit committee charter? Therefore, my analysis is based on the other 14 voluntary disclosure items.

Audit Analytics obtained the Audit Committee disclosure data from proxy statements, which are the main medium through which audit committees report to the public about their activities. Audit Analytics separates the data obtained from the audit committee reports and those from elsewhere in the proxy statements.

(Insert Appendix Here)

My sample selection starts from S&P 500 firms in fiscal year 2015. I chose S&P 500 firms instead of S&P 1500 firms because data to construct some variables need to be manually collected. Also, the audit committee voluntary disclosures in my sample appear in the proxy statements before shareholder annual meetings in fiscal year 2015 after the filing of annual reports for fiscal year 2014. In my sample, the proxy statements where the audit committee disclosure data ultimately came from were filed between August 29, 2014 and September 25, 2015.

Companies need to meet the following conditions in order to be included my samples: (1) proxy statements are available; (2) Data are available in Audit Analytics Audit Committee Report database; (3) Do not have more than one class of stock whose holders have different voting rights; (4) Data needed for the models are available. My final sample has 411 companies for examining the first two questions and 412 companies for the last question.

(Insert Table 1 Here)

IV. DETERMINANTS OF AUDIT COMMITTEE VOLUNTARY DISCLOSURES

The first research question I examine is: What factors are associated with the extent of audit committee voluntary disclosures? I use the following OLS regression model to address the above research question:

$$DSCORE = \alpha + \beta_1 * LOGTA + \beta_2 * ACTEN + \beta_3 * ACSIZE + \beta_4 * ACAGE + \beta_5 * FEMALE + \beta_6 * ACEXP + \beta_7 * OTHDIR + \beta_8 * MISMEET + \beta_9 * ACMEET + \beta_{10} * DTERM + \beta_{11} * MAJVOTE + \beta_{12} * AUTEN + \beta_{13} * TOTFEE + \beta_{14} * NASR + \beta_{15} * MDROA + \beta_{16} * MDRET + \beta_{17} * BLCKIN + \beta_{18} * INOWN + \beta_{19} * LITI + \beta_{20} * RS + \beta_{21} * MW + \varepsilon \quad (1)$$

The variables are defined as follows:

DSCORE = The total audit committee voluntary disclosure score. It is the sum of the 14 dummy variables corresponding to the 14 audit committee voluntary disclosure questions in the Audit Analytics Audit Committee Disclosure Database (See Appendix for details). Each of the 14 dummy variables is coded as 1 if the audit committee provides the corresponding disclosure and 0 otherwise.

LOGTA = Natural logarithm of total assets (in millions) at the end of fiscal year 2014.

ACTEN = Average years the audit committee nominees have served on the board.

ACSIZE = Audit committee size (total number of directors on the audit committee).

ACAGE = Average audit committee member ages.

FEMALE = Proportion of audit committee nominees who are female.

ACEXP = Proportion of audit committee director nominees with financial expertise.

OTHDIR = The average number of other major company boards (IRRC boards) that the audit committee nominees serves on at the time of the meeting.

MISMEET = Proportion of audit committee nominees who attended less than 75 percent of board and committee meetings in fiscal year 2014.

ACMEET = Number of audit committee meetings held in fiscal year 2014.

DTERM = 1 if all of the director nominees are elected to serve for the ensuing year, and 0 otherwise.

MAJVOTE = 1 if a company has established a requirement that directors are elected by majority vote, rather than a plurality vote, and 0 otherwise.

AUTEN = Natural logarithm of the tenure of the auditor hired by a company at the time of the annual shareholders' meeting (capped at fifteen years).

TOTFEE = Total fees paid to the independent auditor in fiscal year 2014 (in millions) deflated by square root of total assets (in millions) in the same year.

NASR = The sum of tax fees and other fees scaled by the sum of audit fees and audit-related fees in fiscal year 2014.

MDROA = Two-digit SIC industry median adjusted one-year return on assets (in percentage) in fiscal year 2014.

MDRET = Two-digit SIC industry median adjusted one-year common stock returns (in percentage) in fiscal year 2014.

BLCKIN = Percentage of shares held by institutional shareholders who own five percent or more of the company's stock around the end of fiscal year 2014.

INOWN = Natural logarithm of percentage of shares held by insiders including officers and directors around the end of fiscal year 2014.

LITI = if a company is in an industry with high litigation risk, and 0 otherwise.

RS = 1 if there is at least one nontechnical restatement disclosure in fiscal year 2014 or between the end of fiscal year 2014 and the current shareholder annual meeting date, and 0 otherwise.

MW = 1 if a company received an adverse opinion on the effectiveness of internal control (indicating the existence of material weaknesses) for fiscal year 2014, and 0 otherwise.

Carcello et al. (2002) document that audit committee in larger companies are more like to provide more voluntary disclosures. Therefore, I include firm size (*LOGTA)* and predict a positive sign for it.

The next group of variables are measures of audit committee characteristics and activities: director tenure (*ACTEN*), committee size (*ACSIZE*), director age (*ACAGE*), proportion of female committee members (*FEMALE*), financial expertise (ACEXP), other directorships (OTHDIR), diligence (MISMEET) and meeting frequency (ACMEET). I do not predict a sign for audit committee tenure (*ACTEN*) because results regarding the association between tenure of audit committee members and accruals quality are mixed (Dhaliwal et al. 2010; Ghosh et al. 2010). Also, Laksmana (2008) finds that the extent of board of directors' disclosure of compensation practices in proxy statements is positively related to compensation committee size, so I predict a positive sign for committee size (*ACSIZE*). Senior directors are more experienced, but may have less incentive and energy to oversee management (Core et al. 1999; Grove et al. 2011), so I predict a negative sign for director age. Previous studies show that female directors are better monitors of financial reporting (Srinidhi et al. 2011; Lai et al. 2017). Hence, I predict a positive sign for proportion of female committee members (*FEMALE*). Give the well-documented association between financial expertise and financial reporting quality (Carcello et al. 2011), I expect that audit committees with more financial experts (*ACEXP*) are more likely to provide more disclosures. I predict a negative sign for both *OTHDIR* and *MISMEET* since busy or lazy committees are less likely to provide more disclosures (Laksmana 2008). In addition, I predict a positive sign for *ACMEET* since audit committee that meet more frequently may have more activities to disclose.

I also include two corporate governance variables related to director elections (*DTERM* and *MAJVOTE*) as audit committees may care about how their election results are affected by voluntary disclosures. I predict the coefficients of both variables to be positive since generally companies with good corporate governance provide more disclosures (Laksmana 2008). Moreover, since audit committees are responsible for appointing and compensating the auditors, I expect audit committees to provide more explanations or disclosures when the auditor tenure is longer (*AUTEN*), the magnitude of total auditor fees is higher (*TOTFEE*) and auditor independence is more likely to be impaired by non-audit services (*NASR*). I expect firms that perform well (*MDROA* and *MDRET*) to provide more disclosures since they have more resources. I predict a negative sign for *BLCKIN* because Laksmana (2008) finds that companies with higher institutional ownership are less likely to provide disclosures on compensation practices. In companies with higher agency costs, audit committees may find it more necessary to provide more disclosures. Therefore, the coefficient of insider ownership (*INOWN*), a measure of agency cost, is expected to be negative. With high litigation risk, audit committees may avoid more transparency into their activities, so I predict *LITI* to be negative. Audit committees in companies with earnings restatements (*RS*) and internal control material weaknesses (*MW*) may need to provide more explanations, so I expect *RS* and *MW* to be positive.

Data

My data come from these sources: (1) Audit Analytics for data about audit committee disclosures, auditor tenure, auditor fees, and earnings restatements; (2) Compustat and CRSP for *LOGTA*, *MDROA*, *MDRET,* and *LITI*; (3) ISS database and proxy statements before the shareholder annual meetings in fiscal year 2015 for the variables related to audit committee characteristics and activities, *DTERM*, *MAJVOTE*, and *INOWN*; and (4) Thomson-Reuters Institutional Holdings (13F) Database for *BLCKIN*.

Table 2 provides descriptive statistics about the samples used to examine the factors associated with the extent of audit committee variables. *DSCORE* has a mean (median) of 4.9 (5). Also, the mean (median) of *ACAGE* is around 64. An average of 2.27% of audit committee members are female. Only a mean of 0.3% of audit committee members attended less than 75 percent of board and committee meetings in fiscal year 2014. In 91% of companies the director nominees are elected to serve for the ensuing year and 90.5% of companies have adopted the majority voting policy for director elections.

(Insert Table 2 Here)

Regression Results

Table 3 presents the regression results to address the first research question. The regression is significant and the adjusted R-squared is 16.15%. The highest VIF among the independent variables in this model and other models discussed later in this paper are all below 10, suggesting that multicollinearity is not a problem. Consistent with Carcello et al. (2002), the coefficient of *LOGTA* is positive and significant. *ACTEN* is positive and significant ($p < 0.05$), suggesting that audit committee members with longer tenure provide more voluntary disclosures. Coefficients of *ACSIZE* and *ACAGE* are both marginally significant, but *ACSIZE* has an unexpected sign. *FEMALE* has a positive and significant coefficient ($p < 0.05$), consistent with findings from previous studies that female audit committee members are better overseer of financial reporting. While *OTHDIR* is not significant, *MISMEET* and *ACMEET* are significant (both $p < 0.05$) and have the expected signs. Hence, diligent audit committee members and more active audit committees are more likely to provide more disclosures. *DTERM* and *MAJVOTE* are both significant ($p < 0.1$ and $p < 0.01$, respectively), but *DTERM* has an unexpected sign. Consistent with my predictions, *AUTEN* and *TOTFEE* are significant ($p < 0.01$ and $p < 0.05$, respectively) and positive, while *NASR* is not significant. Hence, it appears that audit committees use voluntary disclosures as a channel to mitigate shareholders' negative impression about auditor tenure and total auditor fees. *MDROA, MDRET, BLCKIN, INOWN, LITI, RS* and *MW* are not significant.

(Insert Table 3 Here)

V. AUDIT COMMITTEE DIRECTOR ELECTIONS

The second research question I examine is: Are audit committee voluntary disclosures associated with shareholders' voting decisions regarding the elections of audit committee members? I use the following regression model to address the above research question:

$$\begin{aligned} ACWA \quad = {} & \alpha + \beta_1 * DSCORE + \beta_2 * LOGTA + \beta_3 * ACTEN + \beta_4 * ACSIZE + \beta_5 * ACAGE + \beta_6 * \\ & FEMALE + \beta_7 * OTHDIR + \beta_8 * MISMEET + \beta_9 * ACMEET + \beta_{10} * DTERM + \beta_{11} * \\ & MAJVOTE + \beta_{12} * AUTEN + \beta_{13} * TOTFEE + \beta_{14} * NASR + \beta_{15} * MDROA + \beta_{16} * \\ & MDRET + \beta_{17} * BICKIN + \beta_{18} * INOWN + \beta_{19} * LITI + \beta_{20} * RS + \beta_{21} * MW + \varepsilon \qquad (2) \end{aligned}$$

The dependent variable ACWA is defined as average arcsine square root transformation of the proportion of votes withheld from or against the elections of all incumbent audit committee director nominees in a company. Companies name negative votes for director elections as votes withheld or votes against. To simplify the situation and be consistent with previous studies (e.g. Ye et al. 2013), in this paper I use the term votes withheld to include both votes against and votes withheld. To construct *ACWA*, first, for each incumbent audit committee nominee I compute the proportion of votes withheld or against by dividing votes withheld or against by votes cast (the sum of votes for and votes withheld or against). Second, I take the arcsine square root transformation of this proportion because it is highly skewed (Zhang 2008). Third, because providing voluntary disclosures is observed for the *company*, I use the average of the arcsine square root transformation of the proportion for all incumbent audit committee director nominees within a company as the dependent variable *ACWA*. I include only incumbent audit committee director nominees because new audit committee director nominees are not involved in the audit committee disclosure decision. I use the weighted least square (WLS) regressions, with each company observation weighted by the average votes cast in the company (Osborne 2002).

In addition to *DSCORE* (the total disclosure score), I also use each of the 14 dummy variables indicating whether the audit committee discloses a certain item as test variables (see Appendix for details). They are defined as follows:

A3	=	1 if there is a disclosure pertaining to requirement/existence of financial experts and there is disclosure of only one audit committee financial expert, and 0 otherwise.
A4	=	1 if there is a disclosure pertaining to requirement/existence of financial experts and there is disclosure of only two audit committee financial experts, and 0 otherwise.
A5	=	1 if there is a disclosure pertaining to requirement/existence of financial experts and there is disclosure of three or more audit committee financial experts, and 0 otherwise.
B1	=	1 if there is a disclosure that the audit committee have shared responsibility for risk oversight, and 0 otherwise.
C1	=	1 if there is a disclosure of the length of time the auditor has been engaged (auditor tenure), and 0 otherwise.
C2	=	1 if there a discussion of audit committee considerations in appointing the external auditor, and 0 otherwise.
D1	=	1 if it is explicitly stated that the audit committee is involved in selection of audit engagement partner, and 0 otherwise.
D2	=	1 if it is stated that the engagement partner rotates every five years, and 0 otherwise.
E1	=	1 if there a discussion of how non-audit services may impact independence, and 0 otherwise.
E2	=	1 if there is a statement that the audit committee is responsible for fee negotiations, and 0 otherwise.

E3	=	1 if there is an explanation provided for a change in fees paid to the external auditor, and 0 otherwise.
F1	=	1 if there is a disclosure of significant areas addressed with the auditor, and 0 otherwise.
F3	=	1 if the evaluation of the external auditor is at least an annual event, and 0 otherwise.
F4	=	1 if there is a discussion of criteria considered when evaluating the audit firm, and 0 otherwise.

Since generally investors would like to know more about audit committee's activities to evaluate their performance, I expect all of the test variables to be negatively related to votes withheld from the audit committee director nominees.

Other variables are defined in the last section. Shareholder activists are more likely to target larger companies, but these companies have more resources to get help from proxy solicitors to obtain votes for management-initiated proposals (Bethel and Gilllan 2002), so following Ye et al. (2013) I do not predict a sign for firm size (*LOGTA*). Ye et al. (2013) find that audit committee director tenure is positively related to votes withheld from audit committee director nominees, so I predict a positive sign for *ACTEN*. Previous studies document a positive association between audit committee size and corporate governance (DeFond et al. 2005; Goh 2009), so I predict a negative sign for the coefficient of *ACSIZE*. Given the lack of incentives of senior directors to monitor management (Core et al. 1999; Grove et al. 2011), I expect the coefficient of director age (*ACAGE*) to be positive. Since female directors have been documented to be better monitors of financial reporting (Srinidhi et al. 2011; Lai et al. 2017), I predict a negative sign for proportion of female committee members (*FEMALE*). Shareholders prefer directors who can have enough time to work diligently for them, so I expect positive coefficients for *OTHDIR* and *MISMEET*. In their sensitivity test, Ye et al. (2013) find that the number of audit committee meetings are positively associated with votes withheld from audit committee director nominees, possibly because of the existence of accounting or auditing issues. Therefore, I predict a positive coefficient for *ACMEET*. Based on the findings of Ye et al. (2013) and given that *DTERM* and *MAJVOTE* measure good practices of director elections, I expect the coefficients of both *DTERM* and *MAJVOTE* to be negative. I expect *AUTEN*, *TOTFEE* and *NASR* to have positive coefficients because previous studies document that shareholders are dissatisfied with longer tenure and lack of auditor independence as a result of the economic bond between the company and the external auditor (Raghunandan 2003; Dao et al. 2008; Hermanson et al. 2009; Ye et al. 2013). Ye et al. (2013) find that in well-performed companies shareholders are less dissatisfied with audit committees, so I expect the coefficients of *MDROA* and *MDRET* to be negative. I do not predict a sign for *BLCKIN* (Bethel and Gillan 2002; Ye et al. 2013), but predict a negative sign for *INOWN* (Bethel and Gillan 2002; Cai et al. 2009; Ye et al. 2013). Finally, I do not predict a sign for *LITI*, but predict a positive sign for both *RS* and *MW* (Hermanson et al. 2009; Liu et al. 2009; Ye et al. 2013).

Data

The voting results data to construct *ACWA* were obtained from 10-Qs and 8-Ks. Sources of other data were discussed in the last section.

Table 4 reports the descriptive data of the dependent variable and each dummy variable for the 14 disclosure items. Descriptive data of other variables are reported in Table 2. Raw *ACWA* (without the transformation) has a mean (median) of 2.3% (1.3%). Among the dummy variable, B1 (indicating whether the audit committee has shared responsibility for risk oversight) has the highest mean (0.939) and F1 (indicating whether there a disclosure of significant areas addressed with the auditor) has the lowest mean (0.012).

(Insert Table 4 Here)

Regression Results

Panel A of Table 5 presents results of the full regression to address the second research question, with *DSCORE* as the test variable. The regression is significant and the adjusted R-squared is 16.15%. *DSCORE* is significant ($p < 0.1$) and has the expected sign. Therefore, shareholders are less likely to withhold votes from audit committee director nominees in director elections if audit committee provides more voluntary disclosures. Among the audit committee related variables, *ACTEN*, *ACAGE*, *OTHERDIR*, and *ACMEET* are significant ($p < 0.05$, $p < 0.01$, $p < 0.01$ and $p < 0.01$, respectively) and have the expected positive sign, while *ACSIZE* and *FEMALE* are also significant ($p < 0.01$ and $p < 0.05$, respectively) but have the unexpected positive sign. This could be because shareholders believe that large committees are less efficient and that female directors' risk aversion hinders their wealth maximization (Carter et al. 2017). All other significant variables *DTERM*, *MAJVOTE*, *NASR*, *MDRET* and *INOWN* have the expected signs.

(Insert Table 5 Here)

To examine which of the 14 disclosure items are helpful to shareholders in their elections of audit committee director nominees, I replace *DSCORE* with each of the 14 dummy variables at a time in Model (2). Panel B of Table 5 summarize results for these 14 regressions. The test variables that are significant ($p < 0.05$ or $p < 0.01$) and have the expected negative sign are *A4*, *C1*, *C2*, *D2*, *E2* and *F1*. Therefore, shareholders are less dissatisfied if the audit committee discloses or states: (1) that the audit committee has two financial experts; (2) auditor tenure; (3) audit committee considerations in appointing the external auditor; (4) that the engagement partner rotates every five years; (5) that the audit committee is responsible for fee negotiations; or (6) significant areas addressed with the auditor. However, B1 is positively significant (p <

0.01), indicating that shareholders are more dissatisfied with the audit committee if the audit committee discloses that it has shared responsibility for risk oversight. It could be because shareholders view risk oversight as a distraction from audit committees' core responsibilities. Overall, the results suggest that audit committee voluntary disclosures are useful to shareholder decision making in the elections of audit committee nominees.

VI. AUDITOR RATIFICATION

The third research question I examine is: Are audit committee voluntary disclosures associated with shareholders' voting decisions regarding auditor ratification? The following OLS regression model is used to address the above research question:

$$AUDA = \alpha + \beta_1 * DSCORE + \beta_2 * LOGTA + \beta_3 * AUTEN + \beta_4 * TOTFEE + \beta_5 * NASR + \beta_6 * MDROA + \beta_7 * MDRET + \beta_8 * BLCKIN + \beta_9 * INOWN + \beta_{10} * RESTATE + \beta_{11} * MW + \beta_{12} * ACWA + \varepsilon \qquad (3)$$

The dependent variable *AUDA* is arcsine square root transformation of the proportion of votes against the auditor ratification (votes against divided by the sum of votes for and votes against). Again, the arcsine square root transformation is to normalize the highly skewed proportion of votes against the auditor ratification (Zhang 2008). Here, *RESTATE* is equal 1 if there is at least one nontechnical restatement disclosure in fiscal year 2014 or between the end of fiscal year 2014 and the shareholder annual meeting date in fiscal year 2015, and the auditor in the restated period is the same as the auditor being voted on, and 0 otherwise. *RESTATE* is different from *RS* in Model (2) since shareholders hold the auditor being voted on responsible for earnings restatements only if it is the same auditor in the restated period. Other variables are defined as above. I choose the control variables based on previous studies on auditor ratification (Raghunandan 2003; Dao et al. 2008; Hermanson et al. 2009; Liu et al. 2009).

Similar to Model (2), the coefficient of *DSCORE* is expected to be negative. Also, I do not predict a sign for firm size (*LOGTA*) (Bethel and Gilllan 2002; Ye et al. 2013). *AUTEN*, *TOTFEE*, and *NASR* are expected to have positive coefficients (Raghunandan 2003; Dao et al. 2008; Hermanson et al. 2009). Next, I predict negative coefficients for *MDROA* and *MDRET* (Ye et al. 2013). I do not predict a sign for the coefficient of *BLCKIN* (Bethel and Gillan 2002; Ye et al. 2013), but predict a negative sign for the coefficient of *INOWN* (Bethel and Gillan 2002; Cai et al. 2009; Ye et al. 2013). Finally, I expect a positive coefficient for *RESTATE*, *MW* and *ACWA* (Hermanson et al. 2009; Liu et al. 2009).

Data

Voting results data to construct *AUDA* were obtained from 10-Qs and 8-Ks. Data sources for other variables were discussed in previous sections. In addition, Table 6 reports the descriptive data of some of the variables in Model (3). Note that *Raw AUDA* has a mean (median) of 1.3% (0.6%).

(Insert Table 6 Here)

Regression Results

The analysis indicates that *DSCORE* is not significant in Model (3). Then I replace *DSCORE* with each of the 14 dummy variables at a time in Model (3) and run the 14 regressions. The only test variable that is significant ($p < 0.1$) and has the expected sign is E3 (indicating whether there is an explanation provided for a change in fees paid to the external auditor). It can be because the auditor fee changes concern shareholders and thus an explanation is helpful. Therefore, I only present the results of the regression with E3 in Table 7. The model is significant and the adjusted R-squared is 29.18%. Among the control variables, *AUTEN*, *NASR*, *INOWN* and *ACWA* are significant and have the expected signs. Overall, I provide moderate evidence that shareholders are less likely to vote against auditor ratification when the audit committee provides an explanation for a change in fees paid to the independent auditor.

(Insert Table 7 Here)

VII. SUMMARY AND DISCUSSION

SOX gives the audit committee of publicly held companies more responsibilities, but the audit committee reporting requirements have not changed significantly since 1999. Recently a variety of stakeholders including domestic and international regulators, standard setters, governance organizations and investors request more disclosures of audit committees' activities (SEC 2015). As a response, many large companies have voluntarily enhanced the depth and scope of their disclosures in the proxy statements. On July 1, 2015, in the U. S. the SEC published a Concept Release and sought comments from the public concerning possible revisions to the audit committee's reporting requirements. The SEC calls for research on why some audit committees provide voluntary disclosures regarding their activities, as well as research on whether and how additional audit committee disclosures influence investors' investment decisions and voting decisions regarding auditor ratification and the elections of audit committee members (SEC 2015). This study is an answer to this call.

In terms of why some audit committees provide voluntary disclosures regarding their activities, I find that the extent of audit committee voluntary disclosures is positively associated with director tenure, the proportion of female audit committee members, number of audit committee meetings, and negatively associated with audit committee member ages and the proportion of audit committee nominees who attended less than 75 percent of board and committee meetings. Also, the extent of audit committee voluntary disclosures is positively related to auditor tenure and total auditor fees, suggesting that audit committees may try to mitigate shareholders' negative impression about longer auditor tenure and higher total auditor fees through more voluntary disclosures. Interestingly, audit committee voluntary disclosures are more likely if a company has established a majority vote requirement for director elections, but less likely if all of the director nominees are elected to serve for the ensuing year.

In terms of how additional audit committee disclosures influence investors' voting decisions regarding the elections of audit committee members, I find that the extent of audit committee voluntary disclosures is negatively associated with votes withheld from incumbent audit committee director nominees. However, the significance and directions of the effect of audit committee voluntary disclosures vary with the content of the disclosures. Specifically, shareholders are less likely to withhold votes from incumbent audit committee director nominees if the audit committee discloses or states: (1) that the audit committee has two financial experts; (2) auditor tenure; (3) audit committee considerations in appointing the external auditor; (4) that the engagement partner rotates every five years; (5) that the audit committee is responsible for fee negotiations; or (6) significant areas addressed with the auditor. However, shareholders are more likely to withhold votes from incumbent audit committee director nominees if the audit committee discloses that audit committee have shared responsibility for risk oversight. Finally, I provide moderate evidence that shareholders are less likely to vote against auditor ratification when the audit committee provides an explanation for a change in fees paid to the independent auditor.

This study sheds light on the debate regarding the usefulness of audit committee additional disclosures and provides policy implications to regulators such as the SEC. On July 12, 2017, Jay Clayton, who became Chairman of the SEC in May 2017, in his first major address after taking his position, said that the SEC staff was working on proposals to simplify disclosures prepared by publicly held companies and ease compliance burdens on public companies in order to attract growing companies to list on the stock market (Michaels 2017). My findings do not support the SEC's current plan to simplify disclosures by publicly held companies.

On the contrary, on October 23, 2017, the SEC approved a new auditor reporting standard, AS 3101, "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion", proposed by the PCAOB (Rapoport 2017). In addition to other improvements to the audit report, AS3101 requires the auditor to disclose auditor tenure and critical audit matters, including how the auditor addressed these matters, in the auditor report. Critical audit matters are defined as "matters 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) involved especially challenging, subjective, or complex auditor judgment" (SEC 2017, 2-3). As indicated above, I find that audit committee voluntary disclosures of auditor tenure and significant areas addressed with the auditor are useful to shareholders' voting decisions regarding the elections of audit committee members. Therefore, this study provides empirical evidence to support this new auditor reporting standard.

REFERENCES

Audit Committee Collaboration (ACC). 2013. Enhancing the Audit Committee Report: A Call to Action. Available at: http://www.thecaq.org/reports-and-publications/enhancing-the-audit-committee-report-a-call-to-action

Belden Inc. September 2, 2015. Comment Letter on SEC Concept release: Possible Revisions to Audit Committee Disclosures.

Bethel, J. E., and S. L. Gillan. 2002. The impact of institutional and regulatory environment on shareholder voting. *Financial Management* 31 (4), 29-54.

Business Roundtable (BR). September 8, 2015. Comment Letter on SEC Concept release: Possible Revisions to Audit Committee Disclosures.

Cai, J., J. L. Garner, and R.A. Walkling, 2009. Electing directors. *Journal of Finance* 64 (5), 2389-2421.

California Public Employees' Retirement System Investment Office (CalPERS). September 8, 2015. Comment Letter on SEC Concept release: Possible Revisions to Audit Committee Disclosures.

Carcello, J. V., D. R. Hermanson, and T. Neal. 2002. Disclosures in audit committee charters and Reports. *Accounting Horizons* 16 (4): 291-304.

Carcello, J. V., D. R. Hermanson, and Z. Ye. 2011. Corporate Governance Research in Accounting and Auditing: Insights, Practice Implications, and Future Research Directions. *Auditing: A Journal of Practice & Theory* 30 (3): 1-31.

Carter, M. E., F. Franco, and M. Gine. 2017. Executive gender pay gaps: The roles of female risk aversion and board representation. *Contemporary Accounting Research* 34 (2): 1232-1264.

The Center for Audit Quality (CAQ). September 8, 2015. Comment Letter on SEC Concept release: Possible Revisions to Audit Committee Disclosures.

Center for Audit Quality and Audit Analytics (CAQ and AA). 2015. 2015 Audit Committee Transparency Barometer. Available at: http://www.thecaq.org/2015-audit-committee-transparency-barometer

Center for Audit Quality and Audit Analytics (CAQ and AA). 2016. 2016 Audit Committee Transparency Barometer. Available at: http://thecaq.org/2016-audit-committee-transparency-barometer

The Center for Capital Markets Competitiveness (CCMC) of the U.S. Chamber of Commerce. September 8, 2015. Comment Letter on SEC Concept release: Possible Revisions to Audit Committee Disclosures.

CNO Financial Group Inc. September 7, 2015. Comment Letter on SEC Concept release: Possible Revisions to Audit Committee Disclosures.

Cohen, J., G. Krishnamoorthy, and A. Wright. 2010. Corporate governance in the post-Sarbanes-Oxley era: Auditors' experiences. *Contemporary Accounting Research* 27 (3): 751-786.

Core, J., Holthausen, R., & Larcker, D. 1999. Corporate governance, chief executive officer compensation, and firm performance. *Journal of Financial Economics* 51: 371 – 406.

Corelogic Inc. September 2, 2015. Comment Letter on SEC Concept release: Possible Revisions to Audit Committee Disclosures.

Council for Institutional Investors (CII). 2016. Corporate Governance Policies. Available at: http://www.cii.org/files/policies/09_30_16_corp_gov_policies.pdf

Dao, M., S. Mishra, and K. Raghunandan. 2008. Auditor tenure and shareholder ratification of the auditor. *Accounting Horizons* 22 (3): 297–314.

Dao, M., K. Raghunandan, and D. Rama. 2012. Shareholder voting on auditor selection, audit fees, and audit quality. *The Accounting Review* 87 (1): 149-172.

Deloitte & Touche LLP (Deloitte). September 2, 2015. Comment Letter on SEC Concept release: Possible Revisions to Audit Committee Disclosures.

DeFond, M. L., R. N. Hann, X. Hu 2005. Does the market value financial expertise on audit committees of boards of directors? *Journal of Accounting Research* 43 (2): 153-193.

DeZoort, F. T., D. R. Hermanson, D. S. Archambeault, and S. A Reed. 2002. Audit committee effectiveness: A synthesis of the empirical audit committee literature. *Journal of Accounting Literature* 21: 38-75.

Dhaliwal, D. S., V. Naiker, and F. Navissi. 2010. The association between accruals quality and the characteristics of accounting experts and mix of expertise on audit committees. *Contemporary Accounting Research* 27 (3): 787-827.

Eng, L. L., and Y. T. Mak. 2003. Corporate governance and voluntary disclosure. *Journal of Accounting and Public Policy* 22(4): 325-345.

Financial Reporting Council (FRC). 2012a. FRC publishes updates to UK Corporate Governance Code and Stewardship Code. Available at: https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2012/September/FRC-publishes-updates-to-UK-Corporate-Governance-C.aspx

Financial Reporting Council (FRC). 2012b. UK Corporate Governance Code. Available at: https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf

Ghosh, A., A. Marra, and D. Moon. 2010. Corporate boards, audit committees, and earnings management: Pre- and post-SOX evidence. *Journal of Business, Finance and Accounting* 37: 1145–1176.

Goh, B. W. 2009. Audit committees, boards of directors, and remediation of material weaknesses in internal control. *Contemporary Accounting Research* 26 (2): 549-579.

Grove, H., L. Patelli, L. M. Victoravich, P. T. Xu. 2011. Corporate governance and performance in the wake of the financial crisis: evidence from US commercial banks. *Corporate Governance: An International Review* 19 (5): 418–436.

Srinidhi, B., F. Gul, and J. Tsui. 2011. Female directors and earnings quality. *Contemporary Accounting Research* 28 (5): 1610–44.

Hermanson, D. R., J. Krishnan, and Z. Ye. 2009. Adverse section 404 opinions and shareholder dissatisfaction toward auditors. *Accounting Horizons* 23 (4): 391-409.

Krishnan, J., and Z. Ye. 2005. Why some companies seek shareholder ratification on auditor selection. *Accounting Horizons* 19 (4): 237-254.

Lai, K. M. Y., F. Gul, B. Srinidhi, and J. Tsui. 2017. Board gender diversity, auditor fees, and auditor choice. *Contemporary Accounting Research* 34 (3): 1681-1714.

Laksmana, I. 2008. Corporate board governance and voluntary disclosure of executive compensation practices. *Contemporary Accounting Research* 25 (4): 1147–1182.

Liu, L., K. Raghunandan, and D. Rama. 2009. Financial restatements and shareholder ratifications of the auditor. *Auditing: A Journal of Practice & Theory* 28 (1): 225–240.

Michaels, D. July 12, 2017. SEC's Clayton calls on agency to ease disclosure burdens on public companies. *The Wall Street Journal*.

Osborne, J. 2002. Notes on the use of data transformations. Practical Assessment, Research & Evaluation 8 (6). <http://PAREonline.net/getvn.asp?v=8&n=6>

Pandit, G. M., V. Subrahmanyam, and G. M. Conway. 2006. Are the audit committee reports disclosing enough after the Sarbanes-Oxley Act?: A study of NYSE companies. *Managerial Auditing Journal* 21(1): 34-45.

Raghunandan, K. 2003. Nonaudit services and shareholder ratification of auditors. *Auditing: A Journal of Practice & Theory* 22 (1): 155-163.

Raghunandan, K., and D. Rama. 2003. Audit committee composition and shareholder actions: Evidence from voting on auditor ratification. *Auditing: A Journal of Practice & Theory* 22 (2): 253–263.

Rapoport, M. October 23, 2017. SEC approves accounting rule despite business-group's objection. *The Wall Street Journal.*

Rezaee, Z., K. O. Olibe, and G. Minmier. 2003. Improving corporate governance: The role of audit committee disclosures. *Managerial Auditing Journal* 18(6/7): 530-537.

Sainty, B. J., G. K. Taylor, and D. D. Williams. 2002. Investor dissatisfaction toward auditors. *Journal of Accounting, Auditing & Finance* 17 (2): 111–136.

Smith, M. P. 1996. Shareholder activism by institutional investors: Evidence from CalPERS. *The Journal of Finance* 51 (1): 227-252.

U.S. House of Representatives. 2002. Sarbanes-Oxley Act of 2002. Public Law No. 107-204. Washington, D.C.: Government Printing Office.

Securities and Exchange Commission (SEC). 1992. Executive Compensation Disclosure. Release 33-6962. Washington, D.C.: SEC.

Securities and Exchange Commission (SEC). 1999. Final Rule: Audit Committee Disclosure. Release No. 34-42266. Washington, D.C.: SEC. Available at: www.sec.gov/rules/final/34-42266.htm

Securities and Exchange Commission (SEC). 2003a. Final rule: Strengthening the Commission's Requirements Regarding Auditor Independence. Release No. 33-8183; 34-47265; 35-27642. Washington, D.C.: SEC. Available at: https://www.sec.gov/rules/final/33-8183.htm

Securities and Exchange Commission (SEC). 2003b. Final Rule: Standards Relating to Listed Company Audit Committees. Release No. 33-8220; 34-47654. Washington, D.C.: SEC. Available at: https://www.sec.gov/rules/final/33-8220.htm#P486_149978

Securities and Exchange Commission (SEC), 2015. Concept release: Possible Revisions to Audit Committee Disclosures, Release No. 33-9862. Washington, D.C.: SEC. Available at: https://www.sec.gov/rules/concept/2015/33-9862.pdf

Securities and Exchange Commission (SEC), 2017. Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, and Departures from Unqualified Opinions and Other Reporting Circumstances, and Related Amendments to Auditing Standards, Release No. 34-81187. Washington, D.C.: SEC. Available at: https://www.sec.gov/rules/pcaob/2017/34-81187.pdf

Turner, L. 2005. Comment letter to SEC (April 12). Available at: http://www.sec.gov/spotlight/soxcomp/soxcomp-turner.pdf

Ye, Z., D. R. Hermanson, and J. Krishnan. 2013. Shareholder voting in director elections and initial SOX Section 404 reports. *Journal of Accounting, Auditing and Finance* 28 (2): 103-127.

Zhang, Y. 2008. The effects of perceived fairness and communication on honesty and collusion in a multi-agent setting. *The Accounting Review* 83 (4), 1125-1146.

Appendix: Audit Analytics Audit Committee Disclosure Database Taxonomy Items

Item	A. Audit Committee Composition
A3	Is there a disclosure pertaining to requirement/existence of financial experts? If so, then is there disclosure of only one audit committee financial expert?
A4	Is there a disclosure pertaining to requirement/existence of financial experts? If so, then is there disclosure of only two audit committee financial experts?
A5	Is there a disclosure pertaining to requirement/existence of financial experts? If so, then is there disclosure of three or more audit committee financial experts?
	B. Scope of Duties
B1	Does the audit committee have shared responsibility for risk oversight?
B3*	Is there a (direct/indirect) link to the audit committee charter?
	C. Audit Firm Selection
C1	Do they disclose the length of time the auditor has been engaged?
C2	Is there a discussion of audit committee considerations in appointing the external auditor?
	D. Selection of Audit Engagement Partner
D1	Is it explicitly stated that the audit committee is involved in selection of audit engagement partner?
D2	Is it stated that the engagement partner rotates every five years?
	E. Auditor Compensation
E1	Is there a discussion of how non-audit services may impact independence?
E2	Is there a statement that the audit committee is responsible for fee negotiations?
E3	Is there an explanation provided for a change in fees paid to the external auditor?
	F. Auditor Evaluation/Supervision
F1	Is there a disclosure of significant areas addressed with the auditor?
F3	Is the evaluation of the external auditor at least an annual event?
F4	Is there a discussion of criteria considered when evaluating the audit firm?

Note: A1, A2, A6, B2, C3, and F2 are required SEC disclosures, and thus are not listed here.

***: All companies in my sample have disclosure item B3.**

TABLE 1

I. Audit committee voluntary disclosure variables (all are based on disclosures from the proxy statements)

A3	=	1 if there is a disclosure pertaining to requirement/existence of financial experts and there is disclosure of only one audit committee financial expert, and 0 otherwise.
A4	=	1 if there is a disclosure pertaining to requirement/existence of financial experts and there is disclosure of only two audit committee financial experts, and 0 otherwise.
A5	=	1 if there is a disclosure pertaining to requirement/existence of financial experts and there is disclosure of three or more audit committee financial experts, and 0 otherwise.
B1	=	1 if there is a disclosure that the audit committee have shared responsibility for risk oversight, and 0 otherwise.
C1	=	1 if there is a disclosure of the length of time the auditor has been engaged (auditor tenure), and 0 otherwise.
C2	=	1 if there a discussion of audit committee considerations in appointing the external auditor, and 0 otherwise.
D1	=	1 if it is explicitly stated that the audit committee is involved in selection of audit engagement partner, and 0 otherwise.
D2	=	1 if it is stated that the engagement partner rotates every five years, and 0 otherwise.
E1	=	1 if there a discussion of how non-audit services may impact independence, and 0 otherwise.
E2	=	1 if there is a statement that the audit committee is responsible for fee negotiations, and 0 otherwise.
E3	=	1 if there is an explanation provided for a change in fees paid to the external auditor, and 0 otherwise.
F1	=	1 if there is a disclosure of significant areas addressed with the auditor, and 0 otherwise.
F3	=	1 if the evaluation of the external auditor is at least an annual event, and 0 otherwise.
F4	=	1 if there is a discussion of criteria considered when evaluating the audit firm, and 0 otherwise.
DSCORE	=	A3 + A4 + A5 + B1 + C1 + C2 + D1 + D2 + E1 + E2 + E3 + F1 + F3 + F4.

II. Voting results variables

ACWA	=	Average arcsine square root transformation of the proportion of votes withheld from or against the elections of all incumbent audit committee director nominees. The proportion of votes withheld or against is calculated as votes withheld from or against the elections of a director nominee divided by votes cast (the sum of votes for and votes withheld or against).

TABLE 1 (continued)

II. Voting results variables (continued)

Raw ACWA	=	Average proportion of votes withheld from or against the elections of all incumbent audit committee director nominees. The proportion of votes withheld or against is computed as votes withheld from or against the elections of a director nominee divided by votes cast (the sum of votes for and votes withheld or against).
AUDA	=	Arcsine square root transformation of the proportion of votes against the auditor ratification (votes against divided by the sum of votes for and votes against).
Raw AUDA	=	Proportion of votes against the auditor ratification (votes against divided by the sum of votes for and votes against).

III. Other variables (in the order they appear in the tables)

LOGTA	=	Natural logarithm of total assets (in millions) at the end of fiscal year 2014.
ACTEN	=	The average of years the audit committee nominees have served on the board (director tenure).
ACSIZE	=	Audit committee size (total number of directors on the audit committee).
ACAGE	=	The average of audit committee member ages.
FEMALE	=	Proportion of audit committee nominees who are female.
ACEXP	=	Proportion of audit committee director nominees with financial expertise.
OTHDIR	=	The average number of other major company boards (IRRC boards) that the audit committee nominees serves on at the time of the meeting.
MISMEET	=	Proportion of audit committee nominees who attended less than 75 percent of board and committee meetings in fiscal year 2014.
ACMEET	=	Number of audit committee meetings held in fiscal year 2014.
DTERM	=	1 if all of the director nominees are elected to serve for the ensuing year, and 0 otherwise.
MAJVOTE	=	1 if a company has established a requirement that directors are elected by majority vote, rather than a plurality vote, and 0 otherwise.
AUTEN	=	Natural logarithm of the tenure of the auditor hired by a company at the time of the 2015 shareholder annual meeting (capped at fifteen years).
TOTFEE	=	Total fees paid to the independent auditor in fiscal year 2014 (in millions) deflated by square root of total assets (in millions) in fiscal year 2014.
NASR	=	The sum of tax fees and other fees scaled by the sum of audit fees and audit-related fees in fiscal year 2014.
MDROA	=	Two-digit SIC industry median adjusted one-year return on assets (in percentage) in fiscal year 2014.
MDRET	=	Two-digit SIC industry median adjusted one-year common stock returns (in percentage) in fiscal year 2014.
BLCKIN	=	Percentage of shares held by institutional shareholders who own five percent or more of the company's stock around the end of fiscal year 2014.
INOWN	=	Natural logarithm of percentage of shares held by insiders including officers and directors around the end of fiscal year 2014.

TABLE 1 (continued)

III. Other variables (in the order they appear in the tables) (continued)

LITI	=	1 if a company is in an industry with high litigation risk, and 0 otherwise.
RS	=	1 if there is at least one nontechnical restatement disclosure in fiscal year 2014 or between the end of fiscal year 2014 and the 2015 shareholder annual meeting date, and 0 otherwise.
MW	=	1 if a company received an adverse opinion on the effectiveness of internal control (indicating the existence of material weaknesses) for fiscal year 2014, and 0 otherwise.
RESTATE	=	1 if there is at least one nontechnical restatement disclosure in fiscal year 2014 or between the end of fiscal year 2014 and the 2015 shareholder annual meeting date, and the auditor in the restated period is the same as the auditor being voted on, and 0 otherwise.

TABLE 2
Descriptive Data: Model Examining Extent of Audit Committee Voluntary Disclosures
(n=411)

Variable	Mean	Standard Deviation	25th Percentile	Median	75th Percentile
DSCORE	4.900	1.939	3.000	5.000	6.000
LOGTA	9.870	1.269	8.929	9.747	10.615
ACTEN	8.401	3.987	5.667	8.000	10.250
ACSIZE	4.436	1.138	4.000	4.000	5.000
ACAGE	64.181	4.458	61.250	64.000	67.000
FEMALE	0.227	0.216	0.000	0.250	0.333
ACEXP	0.578	0.333	0.250	0.571	1.000
OTHDIR	1.157	0.646	0.667	1.200	1.500
MISMEET	0.003	0.030	0.000	0.000	0.000
ACMEET	8.759	2.711	7.000	9.000	10.000
DTERM	0.910	0.287	1.000	1.000	1.000
MAJVOTE	0.905	0.293	1.000	1.000	1.000
AUTEN	2.585	0.401	2.639	2.773	2.773
TOTFEE	0.063	0.040	0.032	0.053	0.083
NASR	0.153	0.176	0.029	0.091	0.202
MDROA	7.298	10.496	0.541	3.991	9.528
MDRET	15.728	23.405	1.523	12.266	25.483
BLCKIN	15.620	8.220	8.448	14.129	20.693
INOWN	0.082	1.278	-0.724	0.000	0.867
LITI	0.234	0.424	0.000	0.000	0.000
RS	0.027	0.162	0.000	0.000	0.000
MW	0.005	0.070	0.000	0.000	0.000

TABLE 3
Regression Results: Model Examining Extent of Audit Committee Voluntary Disclosures
DV= DSCORE

Variable	Expected Sign	Coefficient	t-statistic
Intercept	?	-0.872	-0.47
LOGTA	+	0.493	5.47***
ACTEN	?	0.066	2.43**
ACSIZE	+	-0.111	-1.31*
ACAGE	-	-0.031	-1.31*
FEMALE	+	0.863	1.88**
ACEXP	+	0.151	0.55
OTHDIR	-	-0.153	-1.03
MISMEET	-	-5.824	-1.97**
ACMEET	+	0.066	1.84**
DTERM	+	-0.623	-1.89*
MAJVOTE	+	1.038	3.18***
AUTEN	+	0.573	2.52***
TOTFEE	+	4.456	1.83**
NASR	+	0.436	0.81
MDROA	+	-0.002	-0.19
MDRET	+	0.001	0.29
BLCKIN	-	-0.005	-0.45
INOWN	-	-0.042	-0.54
LITI	-	0.223	0.97
RS	+	0.453	0.80
MW	+	-0.308	-0.24
N		411	
Adjusted R^2		16.15%	
F Value		4.76***	

***, **, and * indicate significance at the 0.01, 0.05 and 0.10 levels, respectively; one-tailed where signs are predicted, two-tailed otherwise.

TABLE 4
Descriptive Data: Model Examining Audit Committee Director Elections
(n=411)

Variable	Mean	Standard Deviation	25th Percentile	Median	75th Percentile
ACWA	0.127	0.078	0.084	0.111	0.149
Raw ACWA	0.023	0.034	0.008	0.013	0.025
A3	0.314	0.465	0.000	0.000	1.000
A4	0.165	0.372	0.000	0.000	0.000
A5	0.526	0.500	0.000	1.000	1.000
B1	0.939	0.239	1.000	1.000	1.000
C1	0.523	0.500	0.000	1.000	1.000
C2	0.265	0.442	0.000	0.000	1.000
D1	0.307	0.462	0.000	0.000	1.000
D2	0.265	0.442	0.000	0.000	1.000
E1	0.781	0.414	1.000	1.000	1.000
E2	0.173	0.378	0.000	0.000	0.000
E3	0.253	0.435	0.000	0.000	1.000
F1	0.012	0.110	0.000	0.000	0.000
F3	0.148	0.356	0.000	0.000	0.000
F4	0.236	0.425	0.000	0.000	0.000

See Table 2 for descriptive data of other variables.

TABLE 5
Regression Results: Model Examining Audit Committee Director Elections
DV= ACWA

Panel A: Full Regression with DSCORE as the Test Variable

Variable	Expected Sign	Coefficient	t-statistic
Intercept	?	-0.053	-0.71
DSCORE	-	-0.003	-1.52*
LOGTA	?	-0.002	-0.78
ACTEN	+	0.002	1.86**
ACSIZE	-	0.008	2.76***
ACAGE	+	0.003	3.25***
FEMALE	-	0.032	1.96**
OTHDIR	+	0.023	4.05***
MISMEET	+	-0.090	-0.85
ACMEET	+	0.004	3.39***
DTERM	-	-0.071	-5.07***
MAJVOTE	-	-0.040	-3.19***
AUTEN	+	0.001	0.09
TOTFEE	+	0.003	0.04
NASR	+	0.042	2.24**
MDROA	-	0.000	-0.52
MDRET	-	0.000	-1.68**
BLCKIN	?	-0.001	-1.22
INOWN	-	-0.005	-1.78*
LITI	?	-0.002	-0.21
RS	+	-0.011	-0.47
MW	+	0.026	0.69
N		411	
Adjusted R^2		19.89%	
F Value		5.85***	

***, **, and * indicate significance at the 0.01, 0.05 and 0.10 levels, respectively; one-tailed where signs are predicted, two-tailed otherwise.

TABLE 5 (continued)
Regression Results: Model Examining Audit Committee Director Elections

Panel B: Analysis with Each Single Disclosure Item as the Test Variable

Variable	Expected Sign	Coefficient	t-statistic	N	Adjusted R^2	F Value
A3	-	0.007	1.00	411	19.62%	5.77***
A4	-	-0.016	-1.87**	411	20.13%	5.92***
A5	-	0.005	0.61	411	19.50%	5.73***
B1	-	0.037	2.66***	411	20.86%	6.15***
C1	-	-0.024	-3.47***	411	21.84%	6.46***
C2	-	-0.017	-2.45***	411	20.64%	6.08***
D1	-	-0.002	-0.31	411	19.44%	5.71***
D2	-	-0.022	-3.08***	411	21.33%	6.29***
E1	-	0.012	1.18	411	19.96%	5.87***
E2	-	-0.022	-2.14**	411	21.10%	6.22***
E3	-	-0.005	-0.60	411	19.49%	5.73***
F1	-	-0.042	-2.17**	411	19.72%	5.80***
F3	-	0.025	1.61	411	21.45%	6.33***
F4	-	0.004	0.60	411	19.49%	5.73***

***, **, and * indicate significance at the 0.01, 0.05 and 0.10 levels, respectively; one-tailed where signs are predicted, two-tailed otherwise.

TABLE 6
Descriptive Data: Model Examining Auditor Ratification
(n=412)

Variable	Mean	Standard Deviation	25th Percentile	Median	75th Percentile
AUDA	0.105	0.043	0.078	0.099	0.124
Raw AUDA	0.013	0.013	0.006	0.010	0.015
E3	0.252	0.435	0.000	0.000	1.000
LOGTA	9.875	1.263	8.937	9.753	10.614
AUTEN	2.543	0.387	2.639	2.708	2.708
TOTFEE	0.064	0.041	0.033	0.054	0.084
NASR	0.153	0.176	0.029	0.091	0.203
MDROA	7.416	10.691	0.538	3.993	9.447
MDRET	15.979	23.361	2.026	12.562	25.997
BLCKIN	15.592	8.236	8.328	14.096	20.731
INOWN	0.051	1.269	-0.751	-0.012	0.837
RESTATE	0.024	0.154	0.000	0.000	0.000
MW	0.005	0.070	0.000	0.000	0.000
ACWA	0.127	0.073	0.085	0.111	0.149

TABLE 7
Regression Results: Model Examining Auditor Ratification
DV= AUDA

Variable	Expected Sign	Coefficient	t-statistic
Intercept	?	0.022	0.93
E3	-	-0.006	-1.46*
LOGTA	?	-0.001	-0.38
AUTEN	+	0.027	5.81***
TOTFEE	+	0.020	0.43
NASR	+	0.118	10.96***
MDROA	-	0.000	-0.88
MDRET	-	0.000	-0.71
BLCKIN	?	0.000	-0.01
INOWN	-	-0.004	-2.64***
RESTATE	+	0.004	0.35
MW	+	0.007	0.26
ACWA	+	0.044	1.77**
N		412	
Adjusted R^2		29.18%	
F Value		15.11***	

***, **, and * indicate significance at the 0.01, 0.05 and 0.10 levels, respectively; one-tailed where signs are predicted, two-tailed otherwise.