

Carcello, J.V., Hermanson, D.R., and Neal, T.L. (2002). Disclosures in Audit Committee Charters and Reports. *Accounting Horizons* (December): 291-304.

SYNOPSIS

In response to recent criticisms of audit committee performance, new SEC and stock exchange rules require companies to prepare an audit committee charter and to publish the charter in their proxy statement at least once every three years. Audit committees also must disclose how they discharged their responsibilities during the year.

We study the disclosures in audit committee charters and reports by examining a random sample of 150 proxy statements filed in Spring 2001. The primary purposes of this analysis are to understand audit committee activities and to identify possible areas for further audit committee reform.

We find that what audit committees say they are doing in their reports differs from what their charters say the committee should be doing. There is a generally high level of compliance with mandated audit committee disclosures, such as disclosures related to reviewing and discussing the financial statements with management. However, voluntary disclosure of audit committee activities was more common for depository institutions, larger companies, NYSE-listed companies, and companies with more independent audit committees. These results indicate either more active audit committees in such companies, or a greater commitment to audit committee disclosure in such companies. In addition, some of the disclosure levels suggest the need for additional reforms regarding audit committee oversight of interim reports, number of audit committee meetings, and audit committee oversight of internal audit. We also suggest directions for future research.