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Mission of the CAQ: Enhance audit quality

Investors view auditors as allies, but expect them to find fraud. We're hearing that and lots more in our 'listening tour' on how to improve financial reporting. **By Cindy Fornelli**

Protecting the integrity of the capital markets is critical to our nation's economic well-being. Public company auditors have a central role in that effort, and the profession has taken its responsibilities to heart, in part through the creation of the Center for Audit Quality (CAQ).

The CAQ began operation in January 2007 as a member-based public policy organization. Its founding marks the first time public company auditors, as a group, have actively engaged with a variety of stakeholders — investors, issuers, regulators, and educators — and embarked on an ambitious effort: to bolster public confidence in the audit process and to aid investors and the markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty, and trust.

Our governing board is comprised of leaders from the public company auditing firms and the American Institute of Certified Public Accountants, as well as public board members who bring an outside perspective to the CAQ's agenda and activities.

Working through the CAQ, public company auditors have brought an essential perspective to the dialogue surrounding the many issues facing investors and the capital markets. By listening to those with the most at stake in quality audits and credible financial reporting, the CAQ is working to facilitate productive discussion and develop viable solutions to marketplace challenges. The ongoing effort has produced some interesting insights on the current state of financial reporting.

Cindy Fornelli is executive director of the Center for Audit Quality, an autonomous public policy organization serving investors, public company auditors, and the capital markets (www.thecaq.org). Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants.

An earful from audit committee members

Earlier this year, the CAQ commissioned a first-of-its-kind survey of audit committee members. Their views are critical because of the essential role they play in overseeing the production of corporate financial statements and the work of public company auditors. More than 250 audit committee members offered their views on the quality of corporate financial statements, the impact of the Sarbanes-Oxley Act (SOX), and the risk of fraud.

The results were encouraging, but they also highlighted some issues that need to be addressed.

The survey found that 82 percent of audit committee members believe the overall quality of audits of publicly traded companies has improved at least somewhat, if not significantly, in recent years. Further, two-thirds of the audit committee members are of the opinion that investors should have more confidence in markets today than prior to the enactment of SOX.

In addition, nearly 60 percent told us most changes mandated by SOX have had a positive impact. A large majority agreed that the risk that financial statements will be materially inaccurate has decreased, with close to 90 percent in agreement that the risk of material inaccuracies due to fraud is "not very high."

On the other hand, the audit committee members had mixed opinions about the efficacy of financial statements. More than 80 percent agreed that financial statements are easily accessible and relevant to investors, but 78 percent believe they are too complicated.

The respondents represent a broad cross-section of audit committee members from small, medium, and large companies. About 60 percent serve on two or more audit committees, and approximately half are audit committee chairs. Slightly more than half served on audit committees before SOX became law.

Emergent themes

The complexity of financial statements has been a frequent topic during the CAQ's Public Dialogue Tour — a major initiative exploring the future of business reporting. We launched the 10-city tour last year to hear what investors, corporate executives, regulators, and academics have to say about potential improvements to the quality, relevance and integrity of financial reporting. As we near the end of the tour this summer, several themes have emerged:

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- Investors don't want more information — they want more *useful* information.
- Financial information must serve a wide array of investors, from individuals to institutions.
- Technology must be harnessed so information is delivered in context. Vast amounts of data delivered in real-time can overwhelm even sophisticated investors.
- Investors view auditors as allies, but expect them to find fraud.

The CAQ will release the findings and recommendations after the tour's conclusion later in the year.

On a parallel track to the CAQ's collaboration with investors and other market stakeholders, a panel assembled by the U.S. Securities and Exchange Commission — the Advisory Committee on Improvements to Financial Reporting (CIFiR) — has been working to help make financial reports easier to read and prepare. CIFiR, whose 17 members include audit profession representatives, released an interim progress report in February with main themes including increasing emphasis on the investor perspective in the financial reporting system.

Overarching goals

While there is sure to be a continuing discussion and debate over specific approaches in the weeks and months to come, there is no disputing the overarching goals. Everyone involved in the capital markets — and a higher proportion of Americans fall into that category now than at any other time in our history — understands the importance of reliable financial information. Auditors are a vital link in the information chain. The CAQ welcomes the focus on the important role that auditors play, and we are dedicated to assisting their efforts.

Working together, market stakeholders can find new ways to improve financial reporting, enhance audit quality, and combat fraud. The integrity of our markets and, ultimately, our economy depend on it. ■

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