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October 15, 2012

Public Company Accounting Oversight Board
1666 K Street
Washington, DC

Re: CAQ Written Statement for October 18, 2012 PCAOB Public Meeting on Auditor Independence and Audit Firm Rotation

Dear Board Members:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants.

The CAQ welcomes the opportunity to participate in the PCAOB's public meeting on auditor independence and audit firm rotation on October 18, 2012. These remarks represent the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

Our views on the PCAOB's Concept Release, *Auditor Independence and Audit Firm Rotation* (Concept Release), are contained in our remarks[1] at the March 21-22, 2012 PCAOB Public meeting, as well as the CAQ's December 14, 2011 comment letter[2] on the Concept Release. The CAQ has carefully considered the comments of stakeholders on this important topic, and we believe many constructive ideas and actions have emerged from the public dialogue.

I would like to provide you with an update on several initiatives and developments that we believe are relevant for consideration of how to further enhance audit quality, building on many of the constructive ideas that have emerged from the ongoing public dialogue. Before turning to these developments, allow me to emphasize that the CAQ and its member firms remain wholly committed to the continuous improvement of audit quality. Auditor independence, objectivity and professional skepticism are key attributes of audit quality. Moreover, the CAQ shares with the PCAOB and others the commitment to enhancing investor confidence and public trust in the profession. We believe that addressing the critical topics of independence, objectivity and skepticism should be looked at in the broader context of audit quality. Consequently, in my update that follows, we focus not only on efforts to enhance independence, objectivity and skepticism, but also efforts and initiatives to enhance audit quality.

[1] http://pcaobus.org/Rules/Rulemaking/Docket037/ps_Fornelli.pdf
[2] http://pcaobus.org/Rules/Rulemaking/Docket037/519_CAQ.pdf

As we stated in our comment letter and March statement, we believe it is important to observe that the Sarbanes-Oxley Act and related reforms have contributed significantly to enhancing the quality and independence of public company financial statement audits. Without a doubt, the formation of the PCAOB to oversee the public company audit profession and the PCAOB's programs and activities are a key driver of these improvements. The profession has embraced these reforms, and believes that they have been highly effective in improving audit quality in general, including independence, objectivity and professional skepticism more specifically.

As a profession, we also believe that the improvements of the past decade should not be cause for complacency. Consequently, firms have continued to invest in ongoing efforts, described below, and in collaboration with the CAQ and others, are pursuing a number of important new profession-wide initiatives.

Profession Efforts to Support or Improve Audit Quality

The role of the audit profession in the capital markets is essential, and expectations of auditor performance are understandably very high. Firms continue to make significant investments in their audit practices to increase audit quality. While efforts at each firm vary, initiatives include improving audit methodologies, enhancing the firm's system of quality control, and supporting the audit committee's oversight of the auditor. For example:

- Consultation Process. Many firms have a consultation process, which typically includes a regional or national office to advise engagement teams on matters involving significant, unusual or complex accounting and auditing issues. Firms are making investments in additional quality-focused resources to consult with engagement teams on difficult and judgmental accounting and auditing matters, fostering consistency throughout the practice and enhancing the objectivity with which decisions are made.

- Performance Evaluations and Compensation Determinations that Support Audit Quality. Firms have policies and procedures in place for evaluating, compensating, and otherwise rewarding professionals for high quality audit execution. Firms also have disciplinary frameworks for noncompliance with professional standards that include outcomes ranging from financial consequences and other remedial actions, to termination of employment.

- Internal Inspection Programs. Firms monitor and evaluate their own practice through internal inspections and review programs. These internal inspections, along with PCAOB inspections and other reviews, help a firm to identify areas where audit quality can be improved. As part of their on-going commitment to enhance audit quality, firms are devoting additional resources to the internal inspection process, as well as the process of using inspection findings in an overall feedback loop to drive improvements in underlying audit performance.

- Remediation of Quality Concerns. Firms respond when quality control issues are identified — whether through internal or PCAOB inspections, peer reviews, or other quality inputs — and consider the causes for those issues and whether they are isolated instances or part of a trend. This enables firms to implement changes that enhance the quality of future audits. Thus, firms are engaged in a continuous process of assessing, improving and reassessing their quality control processes, to address changing circumstances and emerging issues.

- Continuing Training and Development of Professionals. As licensed professionals, auditors must continue their training to meet continuing professional education requirements set by state boards of accountancy on an ongoing basis. Firms also provide additional training for their professionals specific to the performance of high quality audits, including technical training and training on key attributes, such as professional judgment and professional skepticism. Firms have been supplementing their training and development programs to bolster auditor performance in areas most commonly identified for improvement through inspections and reviews.

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- Audit Policies, Procedures, Tools and Resources. Firms maintain policies and procedures governing their auditing practices, and those policies and procedures are regularly updated to address new professional developments, emerging audit issues and feedback from inspections and other quality reviews. Firms also often drive consistency in audit quality through an audit methodology that is developed centrally and supported by manuals, software tools, or other forms of standardized documentation, and industry or specific subject matter guidance materials. Some firms also have made or are making additional investments in tools, training and methodology improvements to enhance audit procedures that focus on audit areas that are proving to be the most challenging, such as auditing management estimates, exercising professional skepticism, and auditing internal controls.

This overview of key investments in audit quality by the firms serves to demonstrate the profession's significant, sincere and ongoing commitment to audit quality and the promotion of independence, objectivity and skepticism.

Given the important role of public company audits in the capital markets, investors and other stakeholders would benefit by knowing more about how firms manage and promote audit quality, and the extent to which they demand that their professionals show they promote the performance of audits in an independent, objective and skeptical manner. The CAQ supports transparency of information regarding the structure, governance and quality control systems firms have in place to support their work. Although their formats and precise elements may vary, a number of firms provide disclosure about their quality control systems beyond what is required in PCAOB registration and annual reports, or the transparency reports some firms are required to file in the European Union.[3] Additionally, extensive information on systems of audit quality control are provided to NYSE-listed audit engagements, pursuant to applicable NYSE rules.

Accordingly, as a leading practice, we encourage the largest firms to provide to all of their public audit engagements and to the public at large, information about their efforts to improve audit quality, including actions being taken to enhance their quality control systems. These disclosures could be made by disseminating an expanded transparency report, a separate audit quality report, or by other means. Over time, we hope more firms will adopt this practice.

Specific Efforts to Support or Enhance Audit Quality

In addition to the efforts of many individual firms summarized above, the profession, through the CAQ, has undertaken several specific initiatives to support or enhance audit quality since the PCAOB's public roundtable last March, in many instances working in close collaboration with other organizations that have a stake in audit quality and the attendant traits of independence, objectivity and professional skepticism. These recent initiatives are outlined below, and where applicable, we have appended the corresponding work product to this statement.

Supporting Audit Committees

The audit committee serves an essential role in the corporate governance framework by protecting investors through its oversight of a company's financial reporting process, including the hiring and oversight of the external auditor. As envisioned by the Sarbanes-Oxley Act, the independence of the audit committee from management is a crucial element of the audit quality framework that promotes auditor independence, objectivity and professional skepticism. We believe that open and effective two-way communication is important to the audit committee's oversight of the auditor, and improving this oversight fosters quality audits. To this end, the CAQ has undertaken the following initiatives to support auditor-audit committee communications:

[3] United States firms that audit entities that are listed on certain regulated markets in the European Union also must comply with the requirement in EU 8th Company Law Directive for the publication of an annual transparency report.

- Webcast on Communications with Audit Committees. On August 15, 2012, the PCAOB adopted Auditing Standard No. 16 (AS 16), which, once approved by the SEC, will require enhanced communications between auditors and audit committees regarding significant audit and financial statement matters. Throughout the comment process, the CAQ expressed strong support for the objective of the new standard, offered constructive suggestions, and urged its final adoption. The CAQ is hosting a public webcast on October 24, to help educate and inform auditors and audit committee members on the requirements of AS 16 and to discuss leading practices in the area of audit committee communications. (Appendix A)

- Auditor-Audit Committee Communications Practice Aid. In response to the PCAOB's August 1, 2012 Release on its Inspection Process aimed at audit committees, the CAQ developed a Practice Aid, issued earlier this month, which encourages firms to engage in proactive communications with audit committees on information related to PCAOB and internal inspection findings regarding the company's audit engagement, and the steps the firm is taking to improve its system of quality control. In alignment with the communication objectives of the PCAOB's Release, the profession supports engaging in open and candid conversations aimed at providing the information audit committees need to continuously enhance their oversight of the independent audit. This topic also will be discussed during the October 24 webcast. (Appendix B)

- Auditor Annual Assessment Tool. Audit committees hire, compensate and oversee the external auditor, and they must make a recommendation to the board of directors whether to retain the auditor each year. Performing an annual assessment of the auditor's performance obviously should be completed before making that recommendation. To assist audit committees in this independent oversight function, and foster greater consistency, six organizations[4] that provide educational and other support to the audit committee community developed an auditor assessment and communication tool for use by their audit committee membership. The CAQ supports this collaborative effort. (Appendix C)

Improving Professional Skepticism

As part of an ongoing effort to improve professional skepticism, the CAQ continues to engage constructively in a collaborative partnership we initiated in 2010[5] to promote the deterrence and detection of financial reporting fraud across the financial reporting supply chain. Projects are focused on advancing the understanding of conditions that lead to fraud and promoting additional efforts to develop and maintain an appropriately skeptical mindset by independent external auditors, internal auditors, preparers and audit committee members. The collaborative partners are developing educational programs, hosting forums for constructive discussion, and generally drawing attention and focus to this important topic. We also are in the process of developing a dedicated website to provide access to the tools and resources we develop, along with links to other resources aimed at deterring and detecting financial reporting fraud.

- Skepticism Webinars. In early October, the collaboration released the first in a series of five webinars focusing on skepticism. The series is designed to enhance the ability of members of the financial reporting supply chain to develop and maintain an environment and mindset that promotes professional skepticism. The remaining webinars will be released throughout October and November. (Appendix D)

- Case Studies and Teaching Tools. Deterrence and detection of financial reporting fraud across the financial reporting chain can be one of the more difficult challenges facing external auditors, internal auditors, financial executives, and audit committee members. This month, the collaborative partners

[4] Association of Audit Committee Members, Inc., Corporate Board Member/NYSE Euronext, Independent Directors Council, Mutual Fund Directors Forum, National Association of Corporate Directors (NACD), and Tapestry Networks.
[5] Our partners in this effort are the NACD, The Institute of Internal Auditors (The IIA), and Financial Executives International (FEI).

will release the first in a series of case studies – hypothetical fraud scenarios – that are designed to augment the understanding of conditions that contribute to fraud, and specifically demonstrate how appropriate professional skepticism in those circumstances can minimize the risk of fraud. The audiences for these case studies are internal and external auditors, audit committee members, and financial executives. We also expect the case studies to be used in undergraduate and graduate courses.

- Outreach and Education. In an effort to help build awareness and capability, the CAQ and our collaborative partners have led a number of discussions on fraud deterrence and detection to examine the importance of an ethical culture and setting the appropriate tone at the top, the need for auditors and other members of the financial reporting supply chain to have a skeptical mindset, and the importance of good communications between and across the supply chain. We have convened these discussions at annual conferences of the NACD, The IIA and FEI, as well as at the Association of Certified Fraud Examiners, the Ethics and Compliance Officers' Association, AICPA's Audit Committee Forum, and the American Accounting Association. (Appendix E)

Support for Academic Research

The CAQ is in its fourth year of providing research grants to academics around the world for work that will augment the available audit-related academic literature and have practical applications to the work of independent auditors. The requests for proposals solicit research on a variety of topics of interest to stakeholders in the financial reporting supply chain that aim to improve audit quality. Of particular relevance to the discussion on improving skepticism, we have awarded the following grants:

- "Training Auditors in Professional Skepticism," by David Plumlee and Brett Rixom, University of Utah, and Andrew Rosman, University of Connecticut
- "Enhancing Professional Skepticism," by Ken Trotman, University of New South Wales, Australia

The audit profession has sought to learn more about how auditors can enhance their professional skepticism in situations where they must audit in increasingly complex environments. The following grants have been funded to examine these issues:

- "Does Context Influence Auditors' Fair Value Judgments?" by Vicky Hoffman, University of Pittsburgh, Christine Earley, Providence College, and Jennifer Joe, Georgia State University
- "A Field Investigation of Auditing Fair Values" by Jean Bedard and Nate Cannon, Bentley University
- "Professional Skepticism and Auditing Fair Value: Effects of Task Structure, Time Pressure and Procedure Framing" by Mark Nelson and Eldar Maksymov, Cornell University
- "Learning More about Auditing Estimates Including Fair Value Measurements" by Mark Taylor and Yi-Jing Wu, Case Western Reserve University, and Steven M. Glover, Brigham Young University.

A full list of grants awarded is included in Appendix F.

Continued Engagement in the Dialogue: Mandatory Retendering

In addition to specific actions to promote audit quality and auditor independence, objectivity and skepticism, the CAQ has continued to engage actively and constructively in the dialogue regarding the issues raised in the context of the Concept Release. For example, on July 13, 2012, we submitted a comment letter to the United Kingdom's Financial Reporting Council (FRC) regarding proposed revisions to the UK Corporate Governance Code.[6] The letter outlines our concerns with the risks of mandatory audit firm retendering, which we believe carries with it most of the unintended consequences of mandatory audit firm rotation, including an

[6] http://thecaq.org/newsroom/pdfs/CAQCommentLetter-FRC.pdf

erosion of the authority and responsibility of the audit committee to hire, oversee and determine whether to retain the independent auditor. Mandatory retendering also would force auditors to continually market audit services, creating a "sales culture" at firms which, along with other negative consequences, would serve as a distraction for audit professionals, audit committees, and company management. These risks are especially concerning because there is no established benefit to audit quality of mandatory retendering.
Our letter to the FRC also explained that a "comply or explain" provision would do little to limit the negative effects of mandatory retendering in the United States and would undermine the authority and corporate governance function of audit committees. We anticipate that, in the United States, any determination not to retender under a "comply or explain" regime likely would be interpreted as non-compliance. As a result, should a "comply or explain" requirement become the standard in the United States, there would be unremitting pressure for an audit committee to retender the audit, regardless of whether it was satisfied with its existing auditor, effectively resulting in mandatory retendering, and leading to a standardization and commoditization of audits to the detriment of quality, expertise, motivation and innovation.

Conclusion

The CAQ appreciates the opportunity to be a part of the PCAOB's examination of ideas and actions to enhance auditor independence, objectivity and professional skepticism. We believe these professional traits are just as important as an auditor's technical competence, and strongly agree with the objective of maintaining and furthering these attributes. As illustrated by just some of the many efforts discussed above, the auditing profession is committed to working with the PCAOB and all other stakeholders to continually improve audit quality and enhance the confidence in audited financial statements.

We commend the PCAOB's broad outreach to financial statement users, audit committee members, preparers, auditors, academics, and others to further inform thinking around the ideas set forth in the Concept Release, as well as to identify other means to enhance audit quality and auditor independence, objectivity, and professional skepticism. We believe the responses received from a broad cross-section of stakeholders have demonstrated that mandatory audit firm rotation and mandatory tendering of audit engagements do not have support, and would present significant risks to audit quality. However, the public dialogue has surfaced numerous other ideas and prompted constructive actions that we believe will contribute directly to enhanced auditor independence, objectivity, and professional skepticism, and to overall audit quality. As the PCAOB continues to solicit feedback on its Concept Release, we encourage you to focus the ongoing global dialogue on consideration of these alternative ideas and actions that we believe have a direct and demonstrable nexus to audit quality.

Sincerely,

Cynthia M. Fornelli

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

Appendix A

CENTER FOR AUDIT QUALITY
Serving Investors, Public Company Auditors & the Markets

CAQ WEBCAST: COMMUNICATIONS WITH AUDIT COMMITTEES: REQUIREMENTS & LEADING PRACTICES

Date: Wednesday, October 24, 2012
Time: 2:30 to 4:00 p.m. (Eastern)

Effective two-way communication between the auditor and the audit committee assists the audit committee in overseeing the financial reporting process and external audit, and benefits the auditor in performing the audit. Designed with both auditors and audit committee members in mind, this CAQ Webcast includes panelists from the PCAOB, the audit committee community, and the audit profession.

Recently, the PCAOB adopted Auditing Standard 16, *Communications with Audit Committees* (AS 16). Pending SEC approval, AS 16 is intended to enhance the relevance, timeliness, and quality of the auditor's communications to the audit committee on significant audit and financial statement matters. The PCAOB also recently issued Release No. 2012-003, *Information for Audit Committees About the PCAOB Inspection Process* (Release). The Release is intended to inform audit committees about the PCAOB inspection process and the meaning of inspection findings; to better equip audit committees to engage audit firms in meaningful discussion on this topic.

Webcast panelists will provide an overview of required communications under AS 16, including enhancements from current requirements. Panelists will also share unique insights and perspectives on leading practices that can be employed by both auditors and audit committees to promote robust and candid dialogue on significant audit and financial statement matters as well as PCAOB inspections results and relevant quality control matters.

We encourage CAQ member firms and audit committees to register for this informative event. This Webcast is intended to benefit both the audit committee in overseeing the financial reporting process and external audit, and the auditor in conducting a high quality audit.

Panelists

- Jay Hanson – Board Member, PCAOB
- Michele Hooper – President and CEO, The Directors' Council; Audit Committee Chair, PPG Industries, Inc.; CAQ Governing Board Member
- Joe Ucuzoglu – National Managing Partner, Regulatory and Public Policy, Deloitte LLP

Moderator

- Cindy Fornelli – Executive Director, Center for Audit Quality

Webcast Registration Page Available At:

http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/AuditPreprationandPlanning/PRDOVR~PC-WBC12333I/PC-WBC12333I.jsp

CAQ Practice Aid
Discussions with Audit Committees About Inspection Findings and Quality Control Matters

(Note: This practice aid should not in any way be construed as legal advice.)

Background

The Center for Audit Quality (CAQ) believes that transparent, candid communication between an audit committee and its independent audit firm about the firm's internal quality control system, including information about the nature and impact of internal and PCAOB inspection results, supports the audit committee's role in overseeing the external auditor. Thus, the CAQ supports appropriate interactions and communications between auditors and audit committees consistent with the objectives of the Public Company Accounting Oversight Board's August 1, 2012, Release No. 2012-003, *Information for Audit Committees about the PCAOB Inspection Process* (the "Release"). The Release specifically identifies topics audit committees may wish to discuss with auditors in order to gain a better understanding of PCAOB inspections of audit firms.

Many audit firms engage in discussions with audit committees about inspections and quality control matters. As part of its commitment to share best practices across its member firms, the CAQ has developed a practice aid that encourages all firms to proactively communicate in a timely, forthright and robust manner[1] information about relevant quality control matters – including those related to inputs from internal firm reviews, peer reviews and PCAOB inspections – and improvements they are making to their systems of quality control.

Communications with an audit committee regarding audit deficiencies identified by a PCAOB or internal inspection of the issuer's audit engagement should explain the nature of the finding, including the audit procedures considered to be either omitted or insufficient, the audit firm's perspective on the issues identified, and the nature and extent of any additional audit procedures that were performed to address the deficiency. Also, where applicable, audit committees might also consider inquiring about the results of other publicly available foreign regulatory reviews that impact the audit of the issuer. Importantly, the audit committee should also be informed if the issuer's underlying accounting or management's assessment of internal control over financial reporting has been called into question.

The timing for discussing various aspects of inspections activity with audit committees should be considered. For example, the auditor should promptly notify the audit committee if that issuer's audit engagement is selected for PCAOB inspection, rather than wait for the subsequent issuance of the inspection report. The audit committee should remain appropriately informed of the progress of that inspection up to and through issuance of the final report.

In addition to information on inspections of an issuer's audit engagement, an audit committee would benefit from receiving information about the firm's overall system of quality control and improvements being made to it. The CAQ recognizes, as did the Release, that firms for many reasons may decide not to provide a copy

[1] The frequency of certain aspects of these communications may differ for firms that are on a three-year inspections cycle.

of Part II of their PCAOB inspection report[2], most significantly the potential waiver of the privilege created by the Sarbanes-Oxley Act[3] with respect to that information[4]. Regardless, the CAQ believes an audit committee can obtain useful information about a firm's commitment to quality through a discussion with the auditor about the changes the firm is making to address any issues identified in its system of quality control.

The form of these communications should be decided by each firm. Communications should accomplish the objective of candidly conveying the steps the firm is taking to improve its system of quality control based on all of its quality inputs (both internal and external sources of such information). Importantly, the process of summarizing issues raised from several different sources should in no way minimize or downplay the significance of the matters identified through each of the firm's quality control inputs, including the PCAOB's Part II observations.

Communicating Inspection and Quality Control Matters to the Audit Committee

To inform auditor and audit committee communications regarding internal and PCAOB inspections and quality control improvement, consideration should be given to the PCAOB's August 1, 2012 Release. Communications with an audit committee should be tailored to the needs of each audit committee. A firm should contemplate the following elements in developing its tailored communications plan:

A. *Whether the issuer's audit was selected for inspection by the PCAOB and, if so, the status of the progress of that inspection as deemed necessary*. A firm should notify the audit committee that the company's audit has been selected and the areas of focus of the inspection, and provide updates as appropriate. An important context for how the audit committee might view this information, as well as for how it might carry out its fiduciary responsibilities with respect to the issuer, is the audit committee's understanding of the PCAOB's risk-based approach for selecting engagements and areas of inspection focus – something the auditor should communicate to the audit committee. A firm should also communicate any findings identified by the PCAOB concerning the audit or the issuer's financial reporting. For example, a firm should inform the audit committee:

    i. if the PCAOB informs the audit firm that an audit opinion on the issuer's financial statements or internal control over financial reporting may not be sufficiently supported;

    ii. if the PCAOB informs the audit firm that the financial statements may contain a material misstatement or an inadequate disclosure;

    iii. if the PCAOB informs the audit firm of a concern with the adequacy and/or effectiveness of the issuer's internal control over financial reporting; or

    iv. if the PCAOB informs the audit firm that the audit firm's independence may have been impaired relative to the issuer.

[2] Part II is the non-public portion of the PCAOB inspection report. Sarbanes-Oxley Act Section 104(g) restricts the Board from making this section public unless the firm does not address the issues to the PCAOB's satisfaction within 12 months after the date of the inspection report.

[3] *See* Sarbanes-Oxley Act of 2002, Section 105(b)(5)(A).

[4] Prior to any discussion with the audit committee regarding issues related to Part II of the inspection report, the firm may wish to consult with legal counsel.

Audit committees should also be informed of audit deficiencies related to any of the matters in i – iv that are identified during a firm's internal inspections.

B. *Information about the firm's responses to the PCAOB findings with respect to the issuer's audit.* A firm should clearly communicate to the audit committee any PCAOB findings. In addition, if the auditor concludes, based on those findings, that certain additional audit procedures were necessary, the firm should communicate that information to the audit committee. If the firm concluded that no additional work was required, that fact and the reasons supporting that conclusion also should be communicated.

C. *Whether any of the matters described in the public portion of a PCAOB inspection report on the firm, including matters not involving the issuer's audit, involve issues and audit approaches similar to those that arose in the audit of the issuer's financial statements.* To the extent any common area of findings exists in the internal or PCAOB inspections results that would be relevant to the issuer, the auditor should explain how such issues were addressed in the planning or execution of the audit of the issuer's financial statements. For example, the firm might describe its implementation of policies or procedures to address the findings in the public portion of the PCAOB inspection report.

D. *What steps the firm is taking to address issues identified with respect to its system of quality control.* A firm should provide information about enhancements to its system of quality control based on all of its quality inputs, including internal inspections, peer reviews, and Part I and II of the PCAOB inspection report. Inspections of quality control systems typically review certain of a firm's practices, policies and procedures concerning audit performance, including in the following areas: (1) management structure and processes, including the tone at the top; (2) partner management; (3) engagement acceptance and continuance; (4) use of audit work performed by foreign affiliates; and (5) monitoring audit performance (including monitoring for deficiencies in audit performance, independence policies and procedures, and for responding to weaknesses in quality control).

E. *Whether issues described by the PCAOB in general reports summarizing inspection results across groups of firms (also known as '4010 Reports') relate to the audit of the issuer's financial statements and internal controls over financial reporting, and how the firm is addressing those issues*. For example, to the extent such matters relate to the issuer's audit, the firm might describe its implementation of policies or procedures to address such matters.

Association of Audit Committee Members, Inc.
Center for Audit Quality
Corporate Board Member/NYSE Euronext
Independent Directors Council
Mutual Fund Directors Forum
National Association of Corporate Directors
Tapestry Networks

OCTOBER 2012

Audit Committee Annual Evaluation of the External Auditor

INTRODUCTION

Audit committees of public companies and registered investment companies have direct responsibility to oversee the integrity of a company's financial statements and to hire, compensate and oversee the external auditor. Public focus on how audit committees discharge their responsibilities, including their oversight of the external auditor, has increased significantly.

Each year, audit committees should evaluate the external auditor in fulfilling their duty to make an informed recommendation to the Board whether to retain the auditor. The evaluation should encompass an assessment of the qualifications and performance of the auditor; the quality and candor of the auditor's communications with the audit committee and the company; and the auditor's independence, objectivity and professional skepticism.

To this end, this assessment questionnaire can be used by audit committees to inform their evaluation of the auditor (i.e., the audit firm, as well as the lead audit engagement partner, audit team, and engagement quality reviewer). **The sample questions highlight some of the more important areas for consideration and are not intended to cover all areas that might be relevant to a particular audit committee's evaluation of its auditor or suggest a "one size fits all" approach.** Moreover, this assessment tool is not meant to provide a summary of legal or regulatory requirements for audit committees or auditors. Sources of additional information on hiring and evaluating the auditor and an overview of portions of the relevant standards on required auditor communications with the audit committee are included at the end of this assessment.

ASSESSMENT PROCESS

The annual auditor assessment should draw upon the audit committee's experience with the auditor during the current engagement (presentations; reports; dialogue during formal, ad hoc and executive sessions), informed by prior year evaluations. It is appropriate to obtain observations on the auditor from others within the company, including management and internal audit, accompanied by discussions with key managers. A suggested survey for obtaining observations from others within the company follows the assessment questionnaire. In assessing information obtained from management, the audit committee should be sensitive to the need for the auditor to be objective and skeptical while still maintaining an effective and open relationship. Accordingly, audit committees should be alert to both a strong preference for and a strong opposition to the auditor by management and follow up as appropriate.

It makes good sense for audit committee members to continuously evaluate the auditor's performance throughout the audit process, for example, noting the auditor's skepticism in evaluating unusual transactions or responsiveness to issues. These contemporaneous assessments provide important input into the annual assessment. Audit committees may wish to consider those contemporaneous observations during a more formal assessment process, perhaps by using a questionnaire or guide that considers all relevant factors year-over-year. To ensure that all views are considered, audit committees may wish to finalize their assessment during group discussions (as opposed to collecting audit committee member comments separately) during formal committee meetings or conference calls.

Finally, audit committees should consider advising shareholders that they perform an annual evaluation of the auditor and explain their process and scope of the assessment.

QUALITY OF SERVICES AND SUFFICIENCY OF RESOURCES PROVIDED BY THE AUDITOR

The audit committee's evaluation of the auditor begins with an examination of the quality of the services provided by the engagement team during the audit and throughout the financial reporting year. Because audit quality largely depends on the individuals who conduct the audit, the audit committee should assess whether the primary members of the audit engagement team demonstrated the skills and experience necessary to address the company's areas of greatest financial reporting risk and had access to appropriate specialists and/or national office resources during the audit. The engagement team should have provided a sound risk assessment at the outset of the audit, including an assessment of fraud risk. During the engagement, the auditor should have demonstrated a good understanding of the company's business, industry, and the impact of the economic environment on the company. Moreover, the auditor should have identified and responded to any auditing and accounting issues that arose from changes in the company or its industry, or changes in applicable accounting and auditing requirements. Another consideration for the audit committee is the quality of the engagement teams that perform portions of the audit in various domestic locations, or abroad by the firm's global network or other audit firms.

SAMPLE QUESTIONS

Q1	Did the lead engagement partner and audit team have the necessary knowledge and skills (company-specific, industry, accounting, auditing) to meet the company's audit requirements? Were the right resources dedicated to the audit? Did the auditor seek feedback on the quality of the services provided? How did the auditor respond to feedback? Was the lead engagement partner accessible to the audit committee and company management? Did he/she devote sufficient attention and leadership to the audit?
Q2	Did the lead engagement partner discuss the audit plan and how it addressed company/industry-specific areas of accounting and audit risk (including fraud risk) with the audit committee? Did the lead engagement partner identify the appropriate risks in planning the audit? Did the lead engagement partner discuss any risks of fraud in the financial statement that were factored into the audit plan?
Q3	If portions of the audit were performed by other teams in various domestic locations, or abroad by the firm's global network or other audit firms, did the lead engagement partner provide information about the technical skills, experience and professional objectivity of those auditors? Did the lead engagement partner explain how he/she exercises quality control over those auditors?
Q4	During the audit, did the auditor meet the agreed upon performance criteria, such as the engagement letter and audit scope? Did the auditor adjust the audit plan to respond to changing risks and circumstances? Did the audit committee understand the changes and agree that they were appropriate?
Q5	Did the lead engagement partner advise the audit committee of the results of consultations with the firm's national professional practice office or other technical resources on accounting or auditing matters? Were such consultations executed in a timely and transparent manner?

QUALITY OF SERVICES AND SUFFICIENCY OF RESOURCES PROVIDED BY THE AUDITOR *continued*

A broader but important consideration is whether the audit firm has the relevant industry expertise, as well as the geographical reach necessary to continue to serve the company, and whether the engagement team effectively utilizes those resources. Other firm-wide questions include the results of the audit firm's most recent inspection report by the Public Company Accounting Oversight Board (PCAOB), including whether the company's audit had been inspected and, if so, whether the PCAOB made comments on the quality or results of the audit. The audit committee also may want to know how the firm plans to respond to PCAOB comments contained in the inspection report, more generally, and to any internal findings regarding its quality control program.

SAMPLE QUESTIONS

Q6	If the company's audit was subject to inspection by the PCAOB or other regulators, did the auditor advise the audit committee of the selection of the audit, findings, and the impact, if any, on the audit results in a timely manner? Did the auditor communicate the results of the firm's inspection more generally, such as findings regarding companies in similar industries with similar accounting/audit issues that may be pertinent to the company? Did the auditor explain how the firm planned to respond to the inspection findings and to internal findings regarding its quality control program?
Q7	Was the cost of the audit reasonable and sufficient for the size, complexity and risks of the company? Were the reasons for any changes to cost (e.g., change in scope of work) communicated to the audit committee? Did the audit committee agree with the reasons?
Q8	Does the audit firm have the necessary industry experience, specialized expertise in the company's critical accounting policies, and geographical reach required to continue to serve the company?
Q9	Did the audit engagement team have sufficient access to specialized expertise during the audit? Were additional resources dedicated to the audit as necessary to complete work in a timely manner?

COMMUNICATION AND INTERACTION WITH THE AUDITOR

Frequent and open communication between the audit committee and the auditor is essential for the audit committee to obtain the information it needs to fulfill its responsibilities to oversee the company's financial reporting processes. The quality of communications also provides opportunities to assess the auditor's performance. While the auditor should communicate with the audit committee as significant issues arise, the auditor ordinarily should meet with the audit committee on a frequent enough basis to ensure the audit committee has a complete understanding of the stages of the audit cycle (e.g., planning, completion of final procedures, and, if applicable, completion of interim procedures). Such communications should focus on the key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, as well as any questions or concerns of the audit committee.

PCAOB standards, SEC rules, and exchange listing requirements identify a number of matters the auditor must discuss with the audit committee. Audit committees should be familiar with those requirements and consider not only whether the auditor made all of the required communications, but, importantly, the level of openness and quality of these communications, whether held with management present or in executive session.

SAMPLE QUESTIONS

Q10	Did the audit engagement partner maintain a professional and open dialogue with the audit committee and audit committee chair? Were discussions frank and complete? Was the audit engagement partner able to explain accounting and auditing issues in an understandable manner?
Q11	Did the auditor adequately discuss the quality of the company's financial reporting, including the reasonableness of accounting estimates and judgments? Did the auditor discuss how the company's accounting policies compare with industry trends and leading practices?
Q12	In executive sessions, did the auditor discuss sensitive issues candidly and professionally (e.g., his/her views on, including any concerns about, management's reporting processes; internal control over financial reporting (e.g., internal whistle blower policy); the quality of the company's financial management team)? Did the audit engagement partner promptly alert the audit committee if he/she did not receive sufficient cooperation?
Q13	Did the auditor ensure that the audit committee was informed of current developments in accounting principles and auditing standards relevant to the company's financial statements and the potential impact on the audit?

AUDITOR INDEPENDENCE, OBJECTIVITY AND PROFESSIONAL SKEPTICISM

The auditor must be independent of the issuer and — in the case of mutual funds, independent of the investment company complex. Audit committees should be familiar with the statutory and regulatory independence requirements for auditors, including requirements that the auditor advise the audit committee of any services or relationships that reasonably can be thought to bear on the firm's independence.

The technical competence of the auditor alone is not sufficient to ensure a high-quality audit. The auditor also must exercise a high level of objectivity and professional skepticism. The audit committee's interactions with the auditor during the audit provide a number of opportunities to evaluate whether the auditor demonstrated integrity, objectivity and professional skepticism. For example, the use of estimates and judgments in the financial statements and related disclosures (e.g., fair value, impairment) continues to be an important component of financial reporting. The auditor must be able to evaluate the methods and assumptions used and challenge, where necessary, management's assumptions and application of accounting policies, including the completeness and transparency of the related disclosures.

An important part of evaluating the auditor's objectivity and professional skepticism is for the audit committee to gauge the frankness and informative nature of responses to open-ended questions put to the lead audit engagement partner (and members of the audit engagement team as appropriate). Examples of appropriate topics include: the financial reporting challenges posed by the company's business model; the quality of the financial management team; the robustness of the internal control environment; changes in accounting methods or key assumptions underlying critical estimates; and the range of accounting issues discussed with management during the audit (including alternative accounting treatments and the treatment preferred by the auditor). The auditor also should be able to clearly articulate the processes followed and summarize the evidence used to evaluate the significant estimates and judgments, and to form an opinion whether the financial statements, taken as a whole, were fairly presented in accordance with Generally Accepted Accounting Principles.

SAMPLE QUESTIONS

Q14	Did the audit firm report to the audit committee all matters that might reasonably be thought to bear on the firm's independence, including exceptions to its compliance with independence requirements? Did the audit firm discuss safeguards in place to detect independence issues?
Q15	Were there any significant differences in views between management and the auditor? If so, did the auditor present a clear point of view on accounting issues where management's initial perspective differed? Was the process of reconciling views achieved in a timely and professional manner?
Q16	If the auditor is placing reliance on management and internal audit testing, did the audit committee agree with the extent of such reliance? Were there any significant differences in views between the internal auditors and the auditor? If so, were they resolved in a professional manner?
Q17	In obtaining pre-approval from the audit committee for all non-audit services, did the lead engagement partner discuss safeguards in place to protect the independence, objectivity and professional skepticism of the auditor?

EXAMPLE FORM
OBTAINING INPUT ON THE EXTERNAL AUDITOR FROM COMPANY PERSONNEL

Because you have substantial contact with the external auditors throughout the year, the Audit Committee is interested in your views on the quality of service provided, and the independence, objectivity, and professional skepticism demonstrated throughout the engagement by the external audit team and firm.

Please rate the auditor's performance on each of the following attributes using a five-point scale, where 5 = Very High/Completely Satisfied and 1 = Very Low/Completely Dissatisfied.

	QUALITY OF SERVICES PROVIDED BY THE EXTERNAL AUDITOR	RATING
1	**Meets commitments** e.g., by meeting agreed upon performance delivery dates, being available and accessible to management and the audit committee.	
2	**Is responsive and communicative** e.g., by soliciting input relative to business risks or issues that might impact the audit plan, identifying and resolving issues in a timely fashion, and adapting to changing risks quickly.	
3	**Proactively identifies opportunities and risks** e.g., by anticipating and providing insights and approaches for potential business issues, bringing appropriate expertise to bear, and by identifying meaningful alternatives and discussing their impacts.	
4	**Delivers value for money** e.g., by charging fees that fairly reflect the cost of the services provided, and being thoughtful about ways to achieve a cost-effective quality audit.	

	SUFFICIENCY OF AUDIT FIRM RESOURCES	RATING
5	**Is technically competent and able to translate knowledge into practice** e.g., by delivering quality services within the scope of the engagement, using technical knowledge and independent judgment to provide realistic analysis of issues, and providing appropriate levels of competence across the team.	
6	**Understands our business and our industry** e.g., by demonstrating an understanding of our specific business risks, processes, systems and operations, by sharing relevant industry experience, and by providing access to firm experts on industry and technical matters.	
7	**Assigned sufficient resources to complete work in a timely manner** e.g., by providing access to specialized expertise during the audit and assigning additional resources to the audit as necessary to complete work in a timely manner.	

COMMUNICATION AND INTERACTION		RATING
8	**Communicates effectively** e.g., by maintaining appropriate levels of contact/dialogue throughout the year, effectively communicating verbally and in writing, being constructive and respectful in all interactions, and providing timely and informative communications about accounting and other relevant developments.	
9	**Communicates about matters affecting the firm or its reputation** e.g., by advising us on significant matters pertaining to the firm while respecting the confidentiality of other clients' information, and complying with professional standards and legal requirements, including informing us when the company's audit is subject to inspection by the PCAOB or other regulatory review and sharing the results of the review that are pertinent to the company's accounting or auditing issues.	

INDEPENDENCE, OBJECTIVITY AND PROFESSIONAL SKEPTICISM		RATING
10	**Demonstrates integrity and objectivity** e.g., by maintaining a respectful but questioning approach throughout the audit, proactively raising important issues to appropriate levels of the organization until resolution is reached, and articulating a point of view on issues.	
11	**Demonstrates independence** e.g., by proactively discussing independence matters and reporting exceptions to its compliance with independence requirements.	
12	**Is forthright in dealing with difficult situations** e.g., by proactively identifying, communicating and resolving technical issues, raising important issues to appropriate levels in the organization, and by handling sensitive issues constructively.	

RECOMMENDATIONS	
13	**Are there actions the external auditor should take to improve its delivery of a quality audit?**

Please sign, date and return the form to ________________________________ by _________.

Questions may be directed to ________________________________. Thank you.

Signed ____ Title____________________________________

Date ____________________

RELEVANT REQUIREMENTS AND STANDARDS

PROHIBITED NON-AUDIT SERVICES

There are nine statutory categories of non-audit services that may not be provided to companies by the external auditors (Section 10A (g) to the Securities Exchange Act of 1934). For investment companies, these non-audit services may not be provided to any company in the investment company complex (as defined in 210.2-01(f)(14)):

- Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker or dealer, investment adviser, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- Any other service that the PCAOB determines, by regulation, is impermissible.

Audit committees must pre-approve the provision of all other non-audit services by the auditor.

OVERVIEW OF AUDITOR COMMUNICATIONS WITH AUDIT COMMITTEES

SEC Rule 2-07 requires the auditor to communicate the following to the audit committee prior to the filing of the company's Form 10-K. For investment companies that file Form N-CSR, these communications must take place annually, except that if the annual communication takes place more than 90 days prior to the filing, the auditor must provide an update describing any changes to the previously reported information.

- Critical accounting policies and practices used by the issuer;
- Alternative accounting treatments within U.S. GAAP for accounting policies and practices related to material items that have been discussed with management during the current audit period, including the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor;
- Material written communications between the independent auditor and management of the issuer; and
- If the audit client is an investment company, all non-audit services provided to any entity in an investment company complex that were not pre-approved by the investment company's audit committee pursuant to 210.2-01(c)(7).

PCAOB Auditing Standard No. 16 (AS 16), Communications with Audit Committees, replaces AU 380 for audits of issuers for fiscal years ending on or after December 15, 2012.[1] The standard requires the following communication with the audit committee:

- The independent auditor's responsibilities in relation to the audit under the standards of the PCAOB; as part of establishing an understanding with the audit committee on the terms of the engagement; preferably through a written communication (i.e., engagement letter). Also requires communication of major issues discussed with management prior to the initial selection or retention as auditors;
- Whether the audit committee is aware of any matters relevant to the audit, particularly any violations of laws or regulations. Also requires the auditor to communicate the overall audit strategy, timing of the audit and significant risks; including the participation of others in the audit (i.e., specialists, firms beside the principal auditor, etc.); and

[1] Auditors of emerging growth companies and broker dealers are subject to AU 380 until the SEC determines to extend AS 16 to the former and adopts amendments to SEC Rule 17a-5 for the latter.

- The following with respect to the entity's accounting policies and practices, estimates and significant unusual transactions; and the auditor's evaluation of the quality of a company's financial reporting:
  - Significant accounting policies and practices – Management's initial selection of, or changes in the current period; the effect on financial statements or disclosures for policies that are considered controversial, there is a lack of guidance, or diversity in practice; and the auditor's qualitative assessment of such policies and practices. Specifically, the quality, not just the acceptability, of the company's accounting principles as applied in its financial reporting and disclosures, including situations in which the auditor identified bias in management's judgments and the auditor's evaluation of the differences between (i) estimates best supported by the audit evidence and (ii) estimates included in the financial statements which are individually reasonable, that indicate a possible bias on the part of company management;
  - Critical accounting policies and practices – The reasons such policies and practices are considered critical; how current and anticipated events could affect this determination; and the auditor's assessment of related management disclosures;
  - Critical accounting estimates – A description of the process used to develop such estimates; management's significant assumptions in the estimates that have a high degree of subjectivity; any significant changes in management's process to develop an estimate; and the auditor's conclusion as to the reasonableness of such estimates;
  - Significant unusual transactions – Significant transactions outside the normal course of business, or that are unusual due to timing, size or nature; and the auditor's understanding for the business rationale of such transactions;
  - Financial statement presentation – The evaluation of whether the financial statements and related disclosures are presented fairly in accordance with the applicable financial reporting framework;
  - New accounting pronouncements – Any concern identified by the auditor related to management's application of pronouncements that have been issued but are not yet effective in relation to future periods; and
  - Alternative accounting treatments – All alternative treatments permissible under the applicable financial reporting framework for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the auditor.

- Other communications from the auditor include:
  - Other information – The auditor's responsibility with respect to and results of audit procedures performed on other information accompanying the audited financial statements;
  - Difficult or contentious matters for which the auditor consulted;
  - Management consultation with other accountants;
  - Going concern – Whether the auditor believes there is: i) substantial doubt including related events or conditions; ii) substantial doubt has been alleviated due to management's plan; iii) substantial doubt remains despite management's plans; and iv) related effect on the financial statements;
  - Corrected and uncorrected misstatements and omitted disclosures – Requires the auditor to provide the audit committee with a written schedule of uncorrected misstatements that was provided to management. Also requires communication for the basis of whether: i) uncorrected misstatements were immaterial, including qualitative assessment; ii) uncorrected misstatements or underlying matters could potentially cause future-period financial statements to be materially misstated; and iii) corrected misstatements other than those deemed trivial, that might not have been detected other than through the audit procedures.
  - Disagreements with management, whether or not satisfactorily resolved that individually or in the aggregate could be significant to the entity's financial statements or the audit report; and
  - Significant difficulties encountered with management in performing the audit.

PCAOB standards require the independent auditor to communicate all material weaknesses and significant deficiencies identified during the audit to the audit committee. If the independent auditor concludes that the audit committee's oversight of the company's external financial reporting and internal control over financial reporting is ineffective, the auditor is required to inform the board of directors.

PCAOB rules also require at least an annual written statement delineating all relationships between the independent auditor and the company, including individuals in financial reporting oversight roles at the company that reasonably can be thought to bear on independence.

New York Stock Exchange Rule 303A.07(b), from its Listed Company Manual, requires audit committees to have a written charter that sets forth the committee's purpose, including, at a minimum, certain provisions of SEC rule 10A-3(b)(2), (3), (4), and (5), as well as other specific duties and responsibilities, to assist board oversight of the integrity of the company's financial statements, and the independent auditor's qualifications, independence and performance. Pertinent to auditor oversight, the rule includes the following audit committee requirements:

- Obtain and review at least annually a report by the independent auditor which describes the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the listed company;
- Meet to review and discuss the listed company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the listed company's i) specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and ii) policies with respect to risk assessment and risk management, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors;
- Review with the independent auditor any audit problems or difficulties and management's response;
- Set clear hiring policies for employees or former employees of the independent auditors; and
- Report regularly to the board of directors.

Commentary to the rule pertinent to the assessment of the independent auditor further provides that after reviewing the auditor's quality control report and the auditor's work throughout the year, the audit committee will be in a position to evaluate the auditor's qualifications, performance and independence (including a review and evaluation of the lead partner) taking into account the opinions of management and the company's internal auditors. The commentary further provides that, in addition to assuring the regular rotation of the lead audit partner as required by law, the audit committee should consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself. Finally, audit committees are instructed to present their conclusions to the full board of directors.

RECENT SOURCES AND SUGGESTED READINGS

New York Stock Exchange. *New York Stock Exchange Listed Company Manual.* 2012.

Public Company Accounting Oversight Board. *Information for Audit Committees about the PCAOB's Inspection Process.* August 2012.

KPMG Audit Committee Institute. "Is Governance Keeping Pace?" *2012 Audit Committee Issues Conference Highlights.* March 2012.

The Institute of Chartered Accountants in Australia, the Financial Reporting Council, and The Institute of Chartered Accountants of Scotland. *Walk the line: Discussions and insights with leading audit committee members.* February 2012.

Deloitte & Touche LLP. *Audit Committee Resource Guide*. December 2011.

PwC LLP. *Audit Committee Effectiveness: What Works Best, 4th Edition.* Catherine L. Bromilow and Donald P. Keller. June 2011.

National Association of Corporate Directors and the Center for Board Leadership, KPMG LLP and Alliance Partners. *Report of the NACD Blue Ribbon Commission on Audit Committees.* October 2010.

PwC LLP. *Working Guide for an Investment Company's Audit Committee.* 2010.

Accounting and Corporate Regulatory Authority and Singapore Exchange Limited. *Guidance to Audit Committees on Evaluation of Quality of Work Performed by External Auditors.* July 2010.

Grant Thornton LLP. *The Audit Committee Handbook, Fifth Edition.* Louis Braiotta, Jr., R. Trent Gazzaway, Robert H. Colson and Sridhar Ramamoorthi. April 2010.

BDO USA LLP. *Effective Audit Committees in the Ever Changing Marketplace.* 2010.

Ernst & Young LLP. *Audit Committee Member Toolkit.* June 2009.

NACD™ NATIONAL ASSOCIATION OF CORPORATE DIRECTORS

CORPORATE BOARD MEMBER® An NYSE Euronext Company

Tapestry Networks

IDC INDEPENDENT DIRECTORS COUNCIL

MFDF MUTUAL FUND DIRECTORS FORUM The FORUM for FUND INDEPENDENT DIRECTORS

AACM Inc. Association of Audit Committee Members, Inc.

CENTER FOR AUDIT QUALITY Serving Investors, Public Company Auditors & the Markets

CENTER FOR AUDIT QUALITY
Serving Investors, Public Company Auditors & the Markets

Skepticism

Webinars for the War on Fraud

Sponsored by: Center for Audit Quality, Financial Executives International,
The Institute of Internal Auditors, and National Association of Corporate Directors

Skepticism can help directors, auditors, financial executives, and internal auditors deter and detect financial reporting fraud. Learn how to exercise this skill via timely webinars sponsored by NACD as part of an anti-Fraud Collaboration with the Center for Audit Quality, Financial Executives International and The Institute of Internal Auditors.

Introduction

This series of webinars, moderated by experienced audit committee chair **Michele Hooper,** guides auditors, audit committee members, financial executives, and internal auditors in exercising skepticism effectively in their respective roles.

Episode 1 | The Etiquette and Ethics of Skepticism

If you doubt something you see or hear, how do you unearth the truth without destroying trust? Moderator **Michele Hooper** explores this vital topic with etiquette expert **Mary Mitchell** and corporate director **Bill White of Northwestern University.**

Episode 2 | Skepticism and the External Auditor

Auditors are required to exercise "professional skepticism." Learn what this really means from veteran auditor **Greg Weaver, chairman and CEO, Deloitte & Touche,** and **Cindy Fornelli,** executive director of the CAQ in dialogue with moderator **Michele Hooper**.

Episode 3 | Skepticism and the Audit Committee

Skepticism is a hallmark of audit committee independence. Hear how experienced audit committee members exercise it. Featuring moderator **Michele Hooper** with **Marty Coyne,** audit committee chair, Akima Technologies and **Ken Daly,** president and CEO of NACD.

Episode 4 | Skepticism and the Financial Executive

Financial executives may be treated with skepticism but they can also exercise this skill. Learn how from moderator **Michele Hooper** in conversation with FEI CEO **Marie Hollein** and **Gary Kubarek, vice president and chief accounting officer,** Xerox.

Episode 5 | Skepticism and the Internal Auditor

Internal auditors are on the front lines of the fight against financial reporting fraud. Hear how internal auditors use skepticism by listening in on from **Richard Chambers,** CEO of The IIA, and **Paul Sobel** vice president and chief audit executive, Georgia-Pacific, in dialogue with **Michele Hooper.**

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Anti-Fraud Collaboration[1] Outreach and Education
Building Awareness of the Risk of Financial Statement Fraud

Through CAQ's collaboration with stakeholders representing key links in the financial reporting supply chain, we continue to engage in discussions centered on mitigating the risk of financial statement fraud. The following is a list of formal conferences or forums where we have led discussions around tone at the top, professional skepticism and the importance of clear and robust communication:

- FEI Regional Sessions
  Spring/Fall 2011: Deterring and Detecting Financial Reporting Fraud (New York, San Francisco, Chicago, Boston, Denver, Dallas, Southern California, and Atlanta)
  October 11, 2012: Deterring and Detecting Financial Reporting Fraud (Tokyo)

- The IIA's Governance, Risk and Compliance Conference
  August 30, 2011: Assessing and Managing Fraud Risk: A Collaborative Effort

- The IIA's General Audit Management Conference
  March 14, 2011: Detecting and Deterring Financial Statement Fraud: What is Your Role?"

- NACD's Corporate Governance Conference:
  October 18, 2010: The Board's Oversight Role in Fraud Deterrence and Detection
  October 3, 2011: Prepare for Crisis: From Corporate to the Totally Unexpected

- AICPA's Audit Committee Forum;
  July 30, 2010: Auditors, Management and Boards: What They Need to Deter Fraud
  June 22, 2011: Reducing Fraud Risk Through Communication and Collaboration

- Association of Certified Fraud Examiners Annual Conference
  July 27, 2010: Role of Auditors, Corporate Management, Boards and Audit Committees in Deterring and Detecting Financial Statement Fraud

- Ethics and Compliance Officers' Association Annual Conference;
  September 22, 2011: Detecting Financial Reporting Fraud: A Collaborative Effort

- AAA Annual Conference
  August 2, 2010, Auditors, Management and Boards: What They Need to Deter Fraud

- NASBA Annual Conference
  October 25, 2010: Deterring and Detecting Financial Reporting Fraud: A Platform for Action

- Corporate Board Member Summit
  October 4, 2012: The Board's Role and Influence in Deterring Financial Reporting Fraud

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[1] CAQ's Anti-Fraud Collaboration includes the National Association of Corporate Directors (NACD), The Institute for Internal Auditors (The IIA), and the Financial Executives International (FEI).

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CAQ ACADEMIC RESEARCH GRANT AWARDS
2009 - 2012

2012

- "Field Evidence of Auditor's Views on Audit Quality and Earnings Quality" by Brant Christensen, Marjorie Shelley and Thomas C. Omer, Texas A&M University, and Steven M. Glover, Brigham Young University.
- "A Field Investigation of Coordination and Communications in Globally Dispersed Audit Teams" by Denise Hanes, Bentley University.
- "Field Study Examination of How Auditors Evaluate Internal Control over Financial Reporting: Implications for Practice and Research" by Jay Thibodeau, Bentley University, Jeffrey Cohen, Boston College, Jennifer Joe, Georgia State University, and Greg Tompeter, University of Central Florida.
- "Learning More about Auditing Estimates Including Fair Value Measurements" by Mark Taylor and Yi-Jing Wu, Case Western Reserve University, and Steven M. Glover, Brigham Young University.
- "Evaluating the Intentionality of Misstatements: How Auditors Can Better Differentiate Errors from Fraud" by Erin Hamilton, University of South Carolina.

2011

- "A Field Investigation of Auditing Fair Values" by Jean Bedard and Nate Cannon, Bentley University
- "Why and How do Mid-Level Accounting/Finance Managers Perpetrate Financial Reporting Fraud?" by Ikseon Suh, Marquette University, Kristina Linke, University of Groningen, and Joseph Wall, Carthage College
- "Confidence Matters: The Effect of Expressed Client Confidence on Auditor Judgment" by Sanaz Aghazadeh, University of Oklahoma
- "The Influence of Social Costs and Strategy on Auditor-Auditor Consultations" by Tammie Rech, University of South Carolina
- "Professional Skepticism and Auditing Fair Value: Effects of Task Structure, Time Pressure and Procedure Framing" by Mark Nelson and Eldar Maksymov, Cornell University

2010

- "Can Earnings Quality Research Tell Us Anything about Audit Quality?" by Jere Francis and Paul Michas, University of Missouri
- "The Impact of Engagement Quality Control Review Practices on Concurring Partner Objectivity," by Jennifer Mueller, James Long and Duane Brandon, Auburn University
- "The Effect of Prevention and Detection Interventions on Fraud Dynamics in Organizations," by Jon Davis and Heather Pesch, University of Wisconsin

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2009

- "The Collaboration Between Financial Statement Auditors and Fraud Experts in Fraud Risk Assessment," by Stephen Asare, University of Florida, and Arnie Wright, Northeastern University
- "A Review and Model of Auditor Judgments in Fraud-Related Planning Tasks," by Jacqueline Hammersley, University of Georgia
- "Does Context Influence Auditors' Fair Value Judgments?" by Vicky Hoffman, University of Pittsburgh, Christine Earley, Providence College, and Jennifer Joe, Georgia State University
- "Training Auditors in Professional Skepticism," by David Plumlee and Brett Rixom, University of Utah, and Andrew Rosman, University of Connecticut
- "Enhancing Professional Skepticism," by Ken Trotman, University of New South Wales, Australia