

**REMARKS OF CINDY FORNELLI  
AT THE AICPA NATIONAL CONFERENCE  
ON CURRENT SEC AND PCAOB DEVELOPMENTS**

**Marriott Wardman Park Hotel  
Washington, D.C.  
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8:45 – 9:00 a.m.**

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Good morning. It's a pleasure to be with you – either in person or via telecast.

I am always delighted to take part in this conference. It's one of the profession's most prestigious – and informative – events.

Let me take this opportunity to commend the AICPA's new chairman, Paul Stahlin, for his insightful remarks.

In addition to joining Paul in acknowledging the hard work of the SEC Regulations Committee, I also want to express my thanks to AICPA President & CEO Barry Melancon for his leadership of this organization, as well as for his contributions as co-vice chair of the Center for Audit Quality's governing board.

As we conclude our fourth year of operation, the CAQ remains firmly dedicated to enhancing investor confidence and public trust in the global capital markets through efforts that foster high quality performance by public company auditors.

As our vision statement suggests, we are increasingly playing a central role in convening and collaborating with other stakeholders to advance the discussion of critical issues.

I am pleased to have the opportunity to update you this morning on one of the most important collaborative initiatives that the CAQ has undertaken to date – our anti-fraud report and the activities that we will pursue in the coming months and years with our strategic partners. I'll also tell you about some of our research initiatives.

On October 6, we published a report on *Deterring and Detecting Financial Reporting Fraud – A Platform for Action*. Copies can be found at our display table.

The report was based on a series of roundtable discussions begun in 2009 with more than 100 individuals – including corporate management, audit committees, auditors, regulators, standard setters, investors, and even fraudsters themselves. Topics ranged from the motivators behind financial statement fraud to the consideration of education, research and resources to improve deterrence and detection.

The report takes the position that while company management has primary responsibility when it comes to detecting and deterring fraud, **all members of what we refer to as the financial reporting “supply chain” should work together** to leverage their complementary and interconnected responsibilities.

The financial reporting supply chain has 4 major players:

First is management. Management have the foremost role in the financial reporting process and are responsible for implementing controls to deter and detect financial reporting fraud.

Second are boards of directors and audit committees, who are responsible for oversight of the business and the control environment. The audit committee oversees the financial reporting process, the internal audit function, and the company’s external auditors.

Third are internal auditors who play a key role in a company’s internal control structure and have a professional responsibility to evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

And fourth, of course, are external auditors who, as you are well aware, provide a public report on a company’s annual financial statements, including – for all but the smallest U.S. public companies – an opinion on the effectiveness of the entity’s internal control over financial reporting.

Working together, all stakeholders have an opportunity to be more effective in reducing the risk of fraud, which – if undetected – can result in a loss of confidence in our financial markets, as well as losses in shareholder value and, in some cases, the bankruptcy of the company itself.

The CAQ report contains a number of suggestions as to how members of the supply chain can mitigate conditions leading to fraud.

The suggestions fall within three themes:

- (1) A strong, highly-ethical tone at the top that permeates the corporate culture;
- (2) Skepticism – a questioning mindset that strengthens professional objectivity; and
- (3) Strong communications among supply chain participants.

Let me take each of these themes in turn.

**“Tone at the top”** starts with a company’s most senior leaders and cascades through the entire organization. It creates an expectation to “do the right thing” and counteracts pressure and incentives to commit fraud.

An effective fraud risk management program is a key component of tone at the top. **External auditors have a key responsibility to assess fraud risk within the companies they audit.** We can never completely eliminate the human element in the conditions that can lead to fraud, but auditors must be aware of these conditions and embrace their roles and responsibilities in assessing the risk of fraud.

**The second theme is “skepticism.”** Accountants and auditors benefit from efforts to enhance their ability to think critically and skeptically about information presented to them. It is essential that auditors enhance their ability to validate information through a process of professional objectivity – without creating a hostile environment.

But management, internal auditors and even audit committee members should be prepared to exercise skepticism as they go about their work, knowing that skepticism is an enemy of fraud.

In fact, one of the features of our report is a list of 10 questions that was developed by the CAQ to advance the thinking of audit committees around the most likely sources of weakness, with a particular eye for business pressures that may influence accounting judgments or decisions.

**And the third theme is “communications.”** It is vital that external and internal auditors, as well as management, boards and audit committees communicate with each other. While supply chain participants work to deter and detect financial reporting fraud one company at a time, a collective sharing of ideas and resources will greatly advance our efforts.

**I know from my conversations with Paul Stahlin that he has a particular interest in enhancing communication between auditors and audit committees. That’s a good goal and one that is underscored in the chapter of our report that focuses on communications. The key, as discussion participants told us, is to share insights and concerns to enhance the collective efforts of supply chain participants and make the whole effort greater than the sum of its parts.**

The report is the first step in the CAQ’s ongoing collaboration with Financial Executives International, The Institute of Internal Auditors and the National Association of Corporate Directors – organizations that represent the key stakeholders in the financial reporting supply chain.

Our collaboration, **the first cross-function partnership in this area,** is important to anti-fraud efforts because it will leverage existing resources and facilitate the development of new ways to monitor and mitigate fraud risk.

Initially, our four groups will be addressing four areas:

**First, developing a better understanding of the pre-conditions and indicators of financial reporting fraud.**

Work in this area could lead to development of resources that operationalize behavioral research and auditor experience on the factors that lead an individual to succumb to the temptation to commit fraud.

**A second area of collaboration will be to explore ways to encourage all participants in the financial reporting supply chain to be appropriately skeptical.**

Our goal is to enhance their ability to validate information through a process that includes asking probing questions, making a critical assessment of evidence, and paying attention to inconsistencies.

**Third, we plan to explore ways to moderate the risks of short-termism** – which creates pressures that can lead to a greater risk of financial reporting fraud.

**And, fourth, we plan to discuss the role of technology in facilitating fraud deterrence and detection.**

We have already begun considering projects in these areas and plan to begin work during 2011. These efforts represent the beginning of a coordinated longer-term effort that will benefit investors and other users of financial reports.

We welcome other interested parties to provide input to these initiatives as they unfold. We will be transparent, inclusive and strive to communicate our activities broadly to key stakeholder groups.

Now let's turn to another component of the CAQ's vision – fostering high quality performance by public company auditors. One of the key ways we do this is through our research efforts. And our research efforts help support our anti-fraud initiatives.

**Perhaps the best known of our research activities is our yearly survey of investors.**

Our 4<sup>th</sup> annual individual investor survey, which we now call the Main Street Investor Survey, was released in September. We asked 1,001 individual investors about their confidence in the capital markets, U.S. public companies and audited financial statements.

One of the most significant findings is that **confidence in audited financial information** released by publicly-traded U.S. companies **held steady at 70 percent.**

The four years that we have surveyed investors have coincided with the economic crisis, yet investors remain confident in audited financial statements released by public companies.

This is powerful information. **It tells us investors have confidence in public company audits and auditors. It also serves as strong validation of the work that auditors do and makes us uniquely qualified to lead the collaborative anti-fraud effort.**

**I'll take a moment to describe some of the other significant findings from our survey.**

After dropping from 2007 to 2008 and then stabilizing in 2009, **confidence in U.S. capital markets dropped slightly, from 73 percent to 68 percent in 2010.**

**Confidence in publicly-traded U.S. companies remained steady at 75 percent – for a third consecutive year.**

**Confidence in capital markets outside the United States continued the slide that began in 2008**, when it stood at 64 percent. This year, only 47 percent of respondents indicated they have confidence in markets outside the United States.

Another component of the CAQ’s “research effort” focuses on the **funding of auditing-related scholarly research.**

In each of the last two years, **our Research Advisory Board has issued a request for proposals to fund academic research** projects on auditing-related topics, including audit quality, the value of the audit and professional judgment.

Five projects were funded in 2009. Another three projects were funded this year.

We will again seek research proposals in 2011. Not surprisingly, this year’s RFP – which will be issued and posted on our Web site this week – has a heavy emphasis on fraud, including a call to address topics such as audit committee effectiveness; revenue recognition issues; and professional skepticism.

**Another important prong of our research effort was our 2<sup>nd</sup> Annual Auditing Symposium**, held in conjunction with the American Accounting Association’s annual meeting in San Francisco in August. It brought together senior partner-level practitioners and leading academic researchers to discuss the issues and challenges auditors face in pursuit of quality audits.

The purpose of this annual symposium is to support academics and researchers in conducting auditing research that will have meaningful and practical application to the profession. This year’s program included panel discussions on professional skepticism and fraud deterrence and detection, thereby adding another dimension to our anti-fraud work.

I also want to note that four students who are part of the Accounting Doctoral Scholars Program were on hand for the symposium. If you’re not already familiar with ADS, it was created by accounting firms in conjunction with the AICPA Foundation in response to the shortage of university accounting faculty. To date, over 70 firms and more than 45 state CPA societies have committed \$17 million in funding to the program.

Before I make way for Mary Schapiro, I have a few words about communications.

Frequent and robust communications among supply chain participants is one of the key themes of our anti-fraud initiative.

And we recognize the importance of communicating the profession's role and value to investors and others.

Like the AICPA, the CAQ recognizes the importance of social media in complementing our traditional media outreach, publications and Web site.

So I want to take this opportunity to invite all of you to become followers of “@theCAQ,” our Twitter site.

In closing, I want to commend the many public company auditors in the audience for their diligence and professionalism. You know all too well the challenges associated with auditing companies' financial statements in an unsettled economic environment.

Independent audits – along with corporate governance and governmental oversight of markets – are the key elements necessary to sustain investor confidence.

I'll leave you with another data point from the CAQ's Main Street Investor Survey:

**When asked who does the best job of protecting their interests (other than investors themselves), external auditors are investors' first or second choice.**

Take pride in that statistic. It speaks well of **your work** and **our collective commitment** to enhancing investor confidence and public trust. And it underscores the critical importance of public company auditing...today and tomorrow, here and around the world.

It is an honor to yield the stage to SEC Chairman Mary Schapiro, who has done much during her tenure to increase the public's trust in investing in our capital markets. We at the CAQ also strive to increase the public's trust in public company auditing, a critical component to our capital markets.

Thank you!

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