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FOR AUDIT
QUALITY**

Serving Investors, Public Company Auditors & the Markets

August 28, 2014

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Via email to paul.moxey@accaglobal.com

Re: Creating Value Through Governance

Dear Mr. Moxey:

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, DC, the CAQ is affiliated with the American Institute of CPAs.

The CAQ applauds the Association of Chartered Certified Accountants (ACCA) for its consultation paper, *Creating Value Through Governance—Towards a New Accountability*, and welcomes the opportunity to provide comments.¹

The consultation paper poses the question, "Is lack of trust a problem? What should policymakers, businesses, and investors do to restore trust?"²

The CAQ supports ACCA's undertaking of this line of inquiry. Trust and investor confidence, of course, are indispensable elements of sound and vibrant capital markets.

¹ The consultation paper ("consultation paper") is available at <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/corporate-governance/tech-tp-cvtg.pdf>

² See consultation paper Q9.1, page 50.

Recently, investor confidence in capital markets has shown signs of improvement. Since 2007, the CAQ has commissioned our annual "Main Street Investor Survey" of American investors on four key confidence measures pertaining to capital markets. To qualify for this survey, an individual must have at least \$10,000 dollars U.S. invested in stocks, bonds, mutual funds, or a retirement account.

In recent years, this survey has indicated a rebound in confidence in U.S. capital markets. Following the 2008–2009 financial crisis, confidence dropped to 61 percent in 2011. A year later, American confidence in markets outside the United States fell to 35 percent.

For our 2013 survey, however, investor confidence moved up to 69 percent, with confidence in non-U.S. capital markets also showing improvements.³

Maintaining and increasing investor confidence and trust will require steadfast efforts in many areas. Among them is enhancing transparency throughout the financial supply chain. We are encouraged to see that, through several key initiatives, policymakers, businesses, and investors are all taking important steps with the potential to improve transparency and—ultimately—to build investor confidence.

One such initiative addresses audit committee disclosure. In November 2013, the Audit Committee Collaboration published *Enhancing the Audit Committee Report: A Call to Action*.⁴ The Audit Committee Collaboration consists of, among others the National Association of Corporate Directors; the Association of Audit Committee Members, Inc.; The Directors' Council; Tapestry Networks; NYSE Governance Services, Corporate Board Member; and the Center for Audit Quality. These organizations came together in 2012 to collaborate on projects intended to leverage their individual efforts to expand audit committee member access to useful tools and materials across the spectrum of public companies in order to strengthen audit committee performance and transparency.

The *Call to Action* urges audit committees to provide insights to investors and others about their critical work. Thus it responds to growing interest among investors in the work of audit committees. Investors are calling for more interaction with audit committees, in part because they want more evidence that audit committees are performing their duties.

To this end, the *Call to Action* highlights leading disclosure practices from audit committee reports at public companies like McDonald's, Pfizer, and Citigroup. Highlighting these reporting practices is not meant to be prescriptive, or part of any mandate. Rather, the examples are intended to provide a clear path of action that other audit committees can look to as they voluntarily strengthen their own disclosures.

Another noteworthy initiative related to transparency is the global exploration of ways to update what is disclosed in the auditor's report. In the United States, for example, the Public Company

³ See press release dated October 9, 2013, "CAQ Survey: Investor Confidence in U.S. Publicly Traded Companies Peaked Prior to Shutdown," available at <http://www.thecaq.org/newsroom/press-releases/2013/10/10/caq-survey-investor-confidence-in-u.s.-publicly-traded-companies-peaked-prior-to-shutdown> The CAQ plans to release the next edition of its survey in October 2014.

⁴ The *Call to Action* report is available at <http://auditcommitteecollaboration.org/EnhancingtheAuditCommitteeReport-ACalltoAction.pdf>

Accounting Oversight Board (PCAOB) has issued a proposal calling for sweeping changes to the auditor's reporting model.

For its part, the public company auditing profession has been broadly supportive of efforts by the PCAOB and others on this issue. The CAQ has worked closely with its members to identify potential improvements to the auditor's reporting model reflecting additional transparency related to the role of the auditor. The results of these efforts have been articulated in several different public communications.⁵

In developing the potential improvements presented in our December 2013 letter to the PCAOB, the CAQ was guided by a set of principles that we believe are most relevant to the proposal, including:

- Auditors should avoid providing information about the company's financial statements and other financial information or its system of internal control over financial reporting that is the responsibility of the company's management to consider for disclosure.
- Changes to the auditor's reporting model should enhance, or at least maintain, audit quality.
- Changes to the auditor's reporting model should narrow, or at least not expand, the expectation gap.
- Changes to the reporting model should add value and not create investor misunderstanding.

Among the CAQ potential improvements is streamlining the auditor's process for determining critical audit matters (CAMs), in part, through leveraging the auditor's required communications with the audit committee, and focusing the auditor's communication of CAMs on the most relevant factors. This approach is consistent with the results of field testing performed in early 2014.⁶

These and other suggested improvements to the proposal could provide users with a better understanding of the auditor's responsibilities, while creating less incremental litigation risk, thereby enhancing transparency to users of the financial statements.

The CAQ appreciates the opportunity to provide our perspective and looks forward to engaging further with ACCA as it explores the issues raised in the consultation paper. We would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

⁵ The CAQ's December 11, 2013 letter to the PCAOB is available at <http://www.thecaq.org/resources/comment-letters/caq-comment-letter-on-pcaob-rulemaking-docket-matter-no.-034-proposed-auditing-standards-on-the-auditor-s-report>.

⁶ See the press release dated June 20, 2014: <http://www.thecaq.org/newsroom/press-releases/2014/06/20/caq-provides-auditor-reporting-field-testing-findings-to-pcaob>