



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets



YEAR IN REVIEW 2012

2012

Our Vision

The Center for Audit Quality (CAQ) is dedicated to enhancing investor confidence and public trust in the global capital markets by:



- Fostering high quality performance by public company auditors;
- Convening and collaborating with other stakeholders to advance the discussion of critical issues requiring action and intervention; and
- Advocating policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions.

The CAQ Governing Board at work

Our Structure

The CAQ is an autonomous, nonpartisan, nonprofit organization based in Washington, D.C., and is affiliated with the American Institute of Certified Public Accountants (AICPA). We are self-supporting and funded entirely by member dues.

Membership in the CAQ is open to U.S. accounting firms registered with the Public Company Accounting Oversight Board (PCAOB). Associate membership is available for U.S. accounting firms not registered with the PCAOB. We also offer international firm subscriptions.

Our Leadership

The CAQ receives strategic guidance from a 12-person Governing Board that includes three members independent from the public company auditing profession.



Executive Director Cindy Fornelli with members of the CAQ Governing Board (Harvey Goldschmid not pictured)

2012 Letter from the Executive Director



January 2013

Dear Friend of the CAQ:

2012 marked the 10th anniversary of the passage of the Sarbanes-Oxley Act of 2002, a law that helped to transform financial reporting and governance at public companies and established an independent oversight regime for public company auditors. 2012 also marked the 5th anniversary of the Center for Audit Quality (CAQ), an organization that seeks to provide thought leadership on audit quality and the enhancement of investor confidence in our capital markets. As you read through the CAQ's *2012 Year in Review*, you will learn about the many positive developments that are occurring within the public company auditing profession and the financial reporting system generally.

The CAQ and the public company auditing profession share with regulators, investors, preparers and audit committees the same goal: robust and healthy capital markets supported by audited financial statements that promote investor confidence. To that end, in 2012 the CAQ commenced several initiatives designed to increase audit quality and strengthen auditor independence, objectivity and skepticism. We also participated in an ongoing collaboration aimed at enhancing audit committee effectiveness across public companies, including strengthening audit committee oversight of the auditor and improving transparency into audit committee activities.

This also has been a very productive year for our anti-fraud efforts. We developed a number of new tools and resources to promote the deterrence and detection of financial reporting fraud in collaboration with Financial Executives International, The Institute of Internal Auditors and the National Association of Corporate Directors, with more to come.

The CAQ has continued efforts to build consensus around the evolving role of the auditor and the auditor's reporting model, as well as other policy initiatives. In addition, we continue to expand on our investor education campaign, with a *Guide to PCAOB Inspections* and two popular new videos that spotlight the financial statement audit and the role of the audit committee.

As with any anniversary, it is natural to look back to gauge our progress. At the same time, the CAQ and the profession remain focused on the road ahead. Rest assured that the CAQ will continue to turn today's challenges into opportunities for further improvements to audit quality with the goal of promoting investor confidence in financial reporting and the capital markets.

Sincerely,

Cynthia M. Fornelli

Policy

The CAQ engages in public policy issues affecting investors, public company auditors and the capital markets. As part of our commitment to enhancing investor confidence, the CAQ frequently acts to convene and foster collaboration with other stakeholders to advance the discussion of critical issues.

Response to PCAOB Concept Release on Auditor Independence and Audit Firm Rotation

In 2011, the Public Company Accounting Oversight Board (PCAOB) issued a concept release seeking input on ways that auditor independence, objectivity and professional skepticism could be enhanced, including mandatory firm rotation as a possible approach. The PCAOB received almost 700 comment letters that were overwhelmingly opposed to such an approach. Many of the comment letters were submitted by audit committee members, who argued that their statutory responsibility to oversee the external auditor would be significantly undermined by mandatory firm rotation.

The CAQ issued a comment letter supporting the goal of enhancing auditor independence, objectivity and skepticism as a productive way to improve audit quality, but opposing mandatory firm rotation because it would undermine the statutory role of audit committees and there is no evidence linking firm tenure to audit quality. The PCAOB held three public meetings, in Washington, D.C. (March 21–22), San Francisco, CA (June 28), and Houston, TX (October 18), on their concept release.

CAQ Executive Director Cindy Fornelli, audit profession chief executives and senior audit partners of several CAQ member firms addressed the PCAOB Board at the Washington, D.C., meeting. During her testimony, Fornelli observed that current checks and balances on auditor independence seem to be operating as intended but identified areas for additional focus by the profession, audit committees and regulators that would engender further improvements. Fornelli urged the PCAOB to consider the numerous alternatives to mandatory firm rotation identified by commenters that would be more likely to enhance auditor independence and audit quality.

Fornelli also was invited to participate in the PCAOB's public meeting in Houston, TX. Consistent with her Washington remarks, she reiterated the CAQ's support for efforts to enhance auditor independence, objectivity

and skepticism, but opposed mandatory firm rotation as an effective way to achieve those goals. She summarized a number of ongoing efforts within the audit profession to further improve independence, objectivity, skepticism, and audit quality, more generally. Fornelli again urged the PCAOB to focus on the numerous positive ideas identified by commenters and panelists that would have a direct and demonstrable nexus to audit quality.

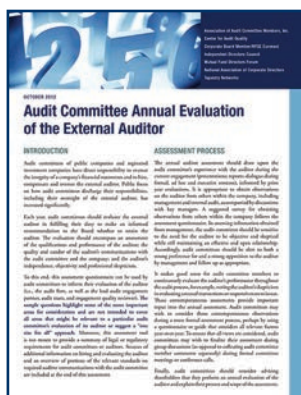
Audit Committee Initiatives

The CAQ recognizes that strong and effective audit committees are a key driver of audit quality. In January, the CAQ joined with several leading governance organizations on an initiative to develop tools and educational resources to help audit committees meet their obligations, particularly their responsibility to hire and oversee the external auditor.

In October, the Association of Audit Committee Members, Inc., Corporate Board Member (an NYSE Euronext Company), Independent Directors Council, Mutual Fund Directors Forum, National Association of Corporate Directors (NACD), and Tapestry Networks joined with the CAQ to release a new tool, *Audit Committee Annual Evaluation of the External Auditor*. The tool is designed for audit committees to use in determining whether to recommend that the Board retain the auditor. It provides a brief, scalable approach, including sample questions, to help audit committees objectively evaluate the auditor's performance and the quality of services provided during the audit.

The organizations that developed the tool made significant efforts to raise awareness of the new auditor assessment tool. During the PCAOB's Houston public meeting, NACD President and CEO Ken Daly pointed to the tool as an example of ongoing efforts to support audit committee effectiveness. Cindy Fornelli discussed the tool with Corporate Board Member President TK Kerstetter during an appearance on Corporate Board Member's "This Week in the Boardroom." The Independent Directors Council and the Mutual Fund Directors Forum received positive feedback from their members about the tool, which helps address a need for resources that support audit committees of registered investment companies. At year end, the tool was the most downloaded corporate governance resource on Tapestry Network's website.

The CAQ also developed new resources to promote meaningful communications between audit committees and the independent auditor. In



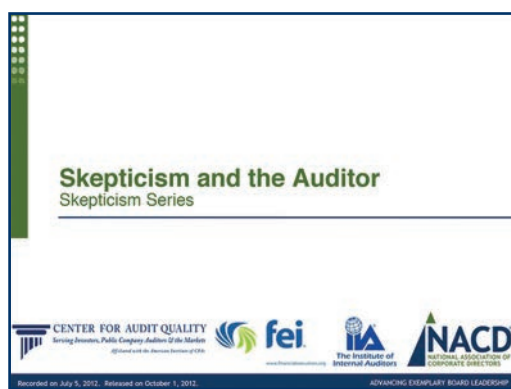
October, the CAQ released a Practice Aid for “Discussions with Audit Committees About Inspection Findings and Quality Control Matters.” Also in October, the CAQ held a webcast on “Communications with Audit Committees: Requirements and Leading Practices,” which provided an overview of the PCAOB’s newly adopted Auditing Standard No. 16 (AS 16) on auditor communications with audit committees. In November, Fornelli moderated a webinar hosted by the Auditing Section of the American Accounting Association (AAA) on academic considerations related to AS 16.

Efforts to Deter and Detect Financial Reporting Fraud

The Anti-Fraud Collaboration, a partnership among the CAQ, Financial Executives International (FEI), The Institute of Internal Auditors (The IIA) and NACD, is a cornerstone of the CAQ’s ongoing effort to deter and detect financial reporting fraud. The four organizations represent the members of the financial reporting supply chain (audit committees, company management, internal audit and the external auditors). Launched in October 2010, the Anti-Fraud Collaboration develops thought leadership, awareness programs, educational opportunities, and other related resources to help supply chain members mitigate the conditions that can lead to fraud.

In 2012, the Anti-Fraud Collaboration released a series of webinars on skepticism aimed at enhancing the capabilities of those in the financial reporting supply chain. Developed by NACD, the webinar series highlights the importance of skepticism as a tool to deter and detect financial statement fraud. The webinar series was moderated by CAQ Governing Board member Michele Hooper, a member of the NACD Board and a corporate governance expert.

The webinars covered the “Etiquette and Ethics of Skepticism,” “Skepticism and the External Auditor,” “Skepticism and the Audit Committee,” “Skepticism and the Financial Executive” and “Skepticism and the Internal Auditor.” Each of the webinars features executives from members of the Anti-Fraud Collaboration, as well as other subject matter experts. The Skepticism Webinar Series has



attracted more than 7,500 visitors to NACD’s website as of the publication date.

The CAQ and FEI also held an October roundtable on deterring and detecting financial statement fraud hosted by FEI’s Japan chapter. FEI chapter members learned about the Anti-Fraud Collaboration’s efforts to advance the discussion in the United States and heard from an expert panel on efforts in Japan to mitigate the conditions that can lead to fraud. The FEI Japan chapter event was a follow-on to a series of CAQ-FEI roundtable discussions held in 2011 at FEI chapters throughout the United States.

Additional Anti-Fraud Collaboration projects under way include case studies featuring hypothetical fraud scenarios to stimulate a discussion on what could have been done to deter a fraud, and a website featuring tools produced by the Collaboration and other important fraud related resources.

Disclosure Effectiveness

In October, the Financial Accounting Standards Board (FASB) and the CAQ co-sponsored Forums on Financial Statement Disclosure Effectiveness, at Columbia University’s Center for Excellence in Accounting and Security Analysis (October 4) and Stanford University’s Graduate School of Business (October 8). The forums were held to encourage stakeholder discussion on the FASB’s Disclosure Framework project, which outlines possible approaches to improving the effectiveness of disclosures in notes to financial statements.

Stakeholder groups represented at the forums included investors, financial statement preparers, board and audit committee members, external auditors, attorneys, regulators, standard setters, and academics. In November, the CAQ and the FASB jointly released *Financial Statement Disclosure Effectiveness: Forum Observations Summary*, which highlighted key findings from the forums. In December, PwC released a video in which Cindy Fornelli and FASB Board Member Marc Siegel discussed the Disclosure Framework project and shared feedback from participants in the Disclosure Effectiveness Forums.





CAQ Governing Board Chair Bob Moritz welcomes Workshop on the Evolving Role of the Auditor participants

Role of the Auditor

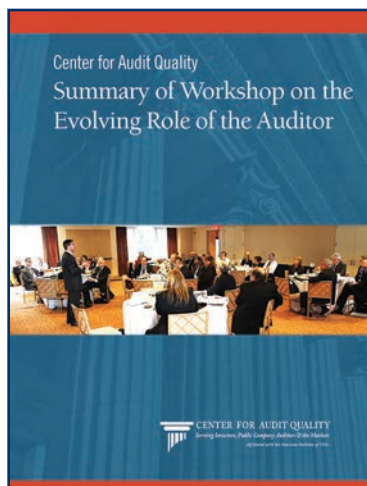
In March, the CAQ held a workshop on the evolving role of the public company auditor. The workshop explored the feasibility of various disclosures raised during a 2011 series of CAQ roundtables on the evolving role of the auditor.

More than 30 individuals participated in the workshop to consider how the public company auditor's role might change to meet the evolving needs of investors. More than half of the workshop participants were investors and buy-side analysts. Other participants included a mix of audit committee members, preparers and external auditors.

Workshop participants explored key areas that had been identified at the roundtables, including the benefits of auditor involvement with financial information disclosed by management outside of the audited financial statements; specifically, Management's Discussion and Analysis (MD&A), earnings releases, and key performance indicators (KPIs).

In May, the CAQ published *Summary of Workshop on the Evolving Role of the Auditor*, a report of key observations from the workshop, including:

- Non-GAAP disclosures are important to investors' decision making processes, although audited financial statements provide a baseline;
- More consistency and comparability is warranted in the use of KPIs in MD&A and earnings releases;
- Investors want management to be the primary source of original information; and
- Some investors would like to see a requirement that the auditor read and discuss the earnings release with the audit committee or perform a limited review prior to publication.



Auditor's Reporting Model

The CAQ continued to contribute to the dialogue regarding potential changes to the auditor's reporting model that are under consideration by the PCAOB. The CAQ and member firms worked to further develop an approach that would utilize emphasis of matter paragraphs to highlight disclosures in the financial statements that the auditor judges will be most important in the context of a user's understanding of the financial statements taken as a whole.

In addition, in October, the CAQ submitted a comment letter to the International Auditing and Assurance Standards Board (IAASB) on its invitation to comment on improving the auditor's report, expressing support for an emphasis of matter approach.

International Financial Reporting Standards

In July, the U.S. Securities and Exchange Commission (SEC) issued an SEC staff report that shared conclusions on key issues related to the SEC's Work Plan for consideration of incorporating international financial reporting standards (IFRS) into the U.S. financial reporting system. The report summarized the staff's findings associated with six areas that could inform the SEC's determination of whether IFRS might be incorporated into the financial reporting system.

The staff report did not provide any conclusions or recommendations for actions by the SEC, noting that additional analysis and consideration would be needed before the SEC can make any decision and the SEC staff will be developing recommendations. The CAQ issued a statement that reaffirmed its support for the adoption and universal application of a single set of high-quality global accounting standards, and that IFRS is best positioned to be that set of standards.

In October, Corporate Board Member published "IFRS & the SEC: Status Update," a CAQ guest article that provided an update on the current status of IFRS adoption in the United States. The article summarized the SEC staff report and discussed short and longer term issues related to the incorporation of IFRS into U.S. GAAP.

Professional Practice & Member Relations

The CAQ provides a range of resources to member firms to support their professional practices with the goal of continually enhancing audit quality. The CAQ engages regulators on issues critical to the public company auditing profession and provides a forum for member firms to discuss those issues and exchange information.

Interaction with Regulators

In 2012, the CAQ submitted to the SEC and PCAOB the following comment letters on a number of critical policy and professional proposals:

- *Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Auditing Standard No. 16, Communications with Audit Committees and Related and Transitional Amendments to PCAOB Standards*, SEC Release No. 34-67807 (October 9)
- *Proposed Auditing Standard – Related Parties, Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Proposed Amendments to PCAOB Auditing Standards*, PCAOB Rulemaking Docket Matter No. 38 (May 25)
- *Proposed Amendments to Conform the Board's Rules and Forms to the Dodd-Frank Act and Make Certain Updates and Clarifications*, PCAOB Rulemaking Docket Matter No. 39 (April 30)
- *Proposed Auditing Standard – Communications with Audit Committees, Related Amendments to PCAOB Standards, and Transitional Amendments to AU sec. 380*, PCAOB Rulemaking Docket Matter No. 30 (February 29)
- *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Rulemaking Docket Matter No. 29 (January 9)

The CAQ also submitted the following comment letters to overseas and global regulatory organizations:

- International Auditing and Assurance Standards Board's *Invitation to Comment, Improving the Auditor's Report* (October 8)
- The Federation of European Accountants' *Discussion Paper on the Functioning of Audit Committees* (September 28)
- The Financial Reporting Council's (UK) *Proposed Revisions to the UK Corporate Governance Code and Accompanying Guidance on Audit Committees* (July 13)

- Committee of Sponsoring Organizations of the Treadway Commission's *Exposure Draft of the Internal Control – Integrated Framework* (March 30)

Several CAQ committees and task forces play a valuable role in evaluating regulatory and policy issues. In 2012, the CAQ's Professional Practice Executive Committee (PPEC) continued efforts to enhance the quality of practice across the public company auditing profession through the dissemination of technical resources, communication of regulatory and standard-setting developments, and sharing of best practices among CAQ member firms. PPEC Chair Michael J. Gallagher of PwC testified on behalf of the CAQ during a July hearing on "The 10th Anniversary of the Sarbanes-Oxley Act" held by the U.S. House Financial Services Committee Subcommittee on Capital Markets and Government Sponsored Enterprises.

The CAQ's SEC Regulations Committee held meetings with SEC staff in 2012 to discuss emerging technical accounting and reporting issues related to SEC rules and regulations. The SEC Regulations Committee also prepares the program for the annual AICPA Conference on Current SEC and PCAOB Developments. The International Practices Task Force, a task force of the SEC Regulations Committee, also met with SEC staff on several occasions to discuss emerging international accounting matters.

Webcasts

The CAQ sponsored or participated in a number of webcasts on professional practice issues in 2012. As referenced in the Policy section, the CAQ sponsored an October webcast on the PCAOB's new Auditing Standard 16 (AS 16), entitled "Communications with Audit Committees: Requirements and Leading Practices." Moderated by Cindy Fornelli, the webcast featured PCAOB Board Member Jay Hanson; Joe Ucuzoglu, the National Managing Partner of Regulatory and Public Policy with Deloitte LLP; and Michele Hooper, President and CEO of the Director's Council, member of the CAQ Governing Board and audit committee chair.



Cindy Fornelli (left) is joined by AS 16 webcast panelists Joe Ucuzoglu, Michele Hooper and Jay Hanson

Discussants explored ways to promote effective two-way communication between the auditor and the audit committee, and the resulting benefits to audit committees in overseeing the financial reporting process and external audit as well as the auditor in performing the audit. The panelists also provided an overview of practical applications of the new standard in communicating around significant audit and financial statement matters. They shared insights on leading practices that can be employed by both auditors and audit committees to promote robust and candid dialogue on PCAOB inspection results and other quality control matters.

In addition to the CAQ webcast, Fornelli participated in videos and webinars on important policy developments, including a November webinar hosted by the AAA Auditing Section on academic considerations related to AS 16 (refer to page 3 — Policy); a PwC video in December on the FASB's Disclosure Framework project and the Disclosure Effectiveness Forums co-sponsored by the CAQ and the FASB (refer to page 3 — Policy); and multiple appearances on Corporate Board Member's "This Week in the Boardroom."



Cindy Fornelli and FASB Board Member Marc Siegel discuss the FASB's Disclosure Framework project with PwC Partner Jan Hauser

auditors may tailor such communications to the needs of each issuer's audit committee, including:

- Whether the issuer's audit was selected for inspection by the PCAOB and, if so, the status of the progress of that inspection;
- Information about the firm's responses to the PCAOB's findings with respect to the issuer's audit;
- 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;
- What steps the firm is taking to address issues identified with respect to its system of quality control; and
- Whether issues described by the PCAOB in general reports summarizing inspection results across groups of firms relate to the audit of the issuer's financial statements and internal controls over financial reporting, and how the firm is addressing those issues.

The CAQ also issues alerts to member firms on important regulatory and standard-setting developments. In 2012, the CAQ issued 20 alerts on such topics as changes to auditing and accounting standards and summaries of hearings and open meetings. CAQ staff also responded to more than 350 member inquiries concerning technical and administrative matters and directed members to relevant professional and regulatory resources.

In addition, CAQ member firms receive the *CAQ Public Policy Monitor*, published twice monthly, which summarizes significant policy and regulatory developments of interest to the profession.

Member Communications

The CAQ regularly provides information to its nearly 600 member firms on a variety of issues of interest to public company auditors.

In October, the CAQ issued a Practice Aid on "Discussions with Audit Committees About Inspection Findings and Quality Control Matters." The Practice Aid, previously referenced in the Policy section, is intended to encourage audit firms to proactively communicate with audit committees about internal and PCAOB inspection findings and resulting changes to quality control programs. The Practice Aid offers insights on several topics so that

Research

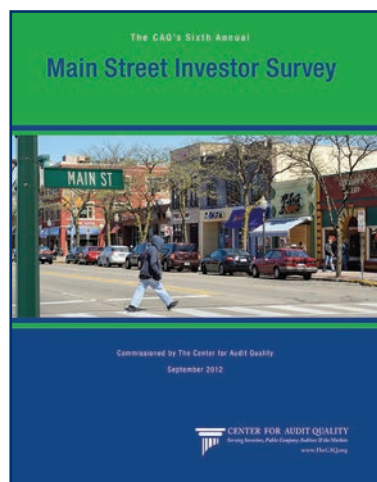
The CAQ seeks to improve audit quality in part through research related to the public company auditing profession and increasing engagement between auditors and the academic community. The CAQ also commissions research, provides grants for independent academic research, and sponsors conferences and other meetings attended by auditors and the academic community.

Main Street Investor Survey

Since 2007, the CAQ annually has conducted the Main Street Investor Survey to measure individual investors' confidence in U.S. and global capital markets, U.S. public companies and the audited financial information released by those companies.

In September, the CAQ released the results of its 6th Annual Main Street Investor Survey:

- Investor confidence in U.S. capital markets increased four percentage points, to 65 percent, a statistically significant change;
- Investor confidence in investing in U.S. public companies remained steady at 71 percent;
- Investor confidence in audited financial information held steady at 69 percent; and
- Investor confidence in capital markets outside the United States fell eight percentage points to 35 percent, continuing a decline that began in 2008.



Investors also were asked which entities are most effective in looking out for investors' interests, other than themselves. As in 2011, investors express the most confidence in independent auditors (70%), followed by financial advisors and brokers (66%) and independent audit committees (65%).

On September 19th, the CAQ held the 2012 CAQ Investor

Confidence Forum to mark the release of the Main Street Investor Survey. The Investor Confidence Forum featured a panel discussion moderated by Ben White, Wall Street Correspondent for *Politico*. Panelists included Douglas Elliott, Fellow of Economic Studies with the Brookings Institution; Cindy Fornelli; David Gardner, co-founder and



Cindy Fornelli delivers opening remarks during the 2012 CAQ Investor Confidence Forum

Chief Rule Breaker of the Motley Fool; Gail MarksJarvis, author of *Saving for Retirement (Without Living Like a Pauper or Winning the Lottery)*; and John Nofsinger, Professor of Finance at Washington State University and author of *The Psychology of Investing*.

Panelists provided context to the survey results and discussed what drives investor confidence, focusing on the continued resilience of the individual investor in the face of conflicting economic and political news.

Academic Research

The CAQ, through its Research Advisory Board (RAB), annually funds academic research on pertinent auditing and accounting topics. In December 2011, the CAQ issued a request for proposals (RFP) to fund research on such topics as financial reporting fraud deterrence and detection, professional skepticism and objectivity, audit quality, and the value of the audit.

The CAQ received 40 proposals in response to the RFP. After careful consideration of the proposals, the RAB funded the following five projects in 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; and
- “Evaluating the Intentionality of Misstatements: How Auditors Can Better Differentiate Errors from Fraud” by Erin Hamilton, University of South Carolina.

The 2012 grants represent the fourth year the CAQ has funded scholarly research projects. A total of 18 projects have been funded under the program. Several projects have been completed and two have been published in academic journals. In 2012, “Fraud Dynamics and Controls in Organizations,” a 2010 grant project from University of Illinois-Urbana-Champaign Professors Jon Davis and Heather Pesch, was published in *Accounting, Organizations and Society*.

As in previous years, the 2012 grants also included funding to doctoral students, including Texas A&M’s Brant Christenson, Bentley’s Denise Hanes and South Carolina’s Erin Hamilton. Additionally, Brett Rixom, a doctoral student at the University of Utah, whose research project received CAQ funding in 2009, received the Best Ph.D. Student Paper Award during the AAA’s 2012 Auditing Section Midyear Conference.

Auditing Research Symposium

On August 5th, the CAQ held its 4th Annual Auditing Research Symposium. The annual gathering of senior practitioners and leading academics provides an opportunity to discuss issues that are critical to auditing policy and to the future of the profession.



The CAQ’s Cindy Fornelli (2nd row, right) and Margot Cella (2nd row, left) with CAQ academic research grant recipients



John Veihmeyer, U.S. Chairman and CEO of KPMG LLP, welcomes attendees to the CAQ’s 4th Annual Auditing Research Symposium

The 4th Annual Symposium, held in Washington, D.C., was hosted by KPMG, and featured panel discussions on audit quality indicators and financial reporting as it relates to going concern opinions. In his welcoming remarks, John Veihmeyer, U.S. Chairman and CEO of KPMG LLP and a member of the CAQ’s Governing Board, invited academic researchers to explore how their research might tie into, and build upon, current knowledge and audit practice. Special guests at the Symposium included PCAOB Board Member Jeanette Franzel and SEC Deputy Chief Accountant Brian Croteau.

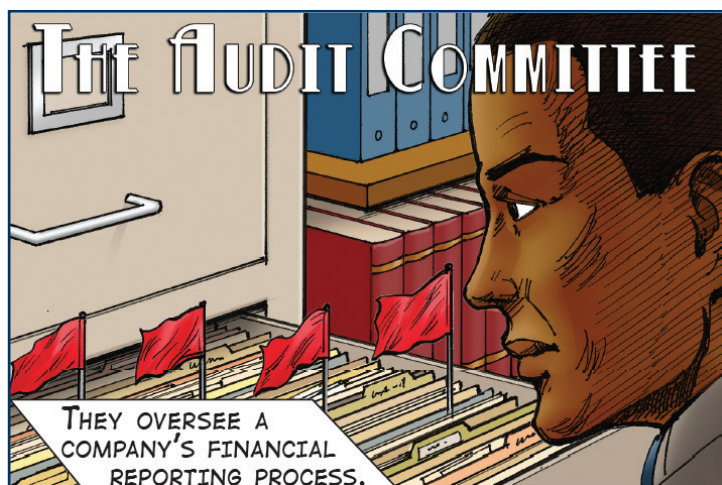


Symposium attendees discuss audit quality indicators during a brainstorming session

Investor Outreach and Education

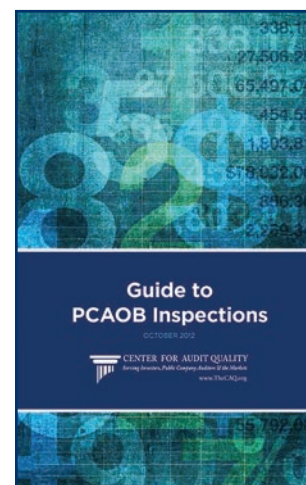
The CAQ engages in a range of investor outreach designed to narrow the expectation and information gaps regarding the audit process and the value that independent auditors bring to financial reporting.

During 2012, the CAQ expanded its investor education video campaign, which included the 2011 video on the “System of Investor Protection,” by releasing two new videos. In February, the CAQ released a video on “The Financial Statement Audit,” which examines how external auditors evaluate a public company’s financial statements, including a risk assessment, selection of the audit team, collection and documentation of evidence, and issuance of a written audit opinion as to whether the financial statements, as a whole, are free of material misstatement.



In July, the CAQ released a third video, on “The Audit Committee.” The video explores the role of the audit committee, the critical hub of the system of investor protection. The video explains that the audit committee hires and oversees the external auditor and oversees the company’s financial reporting process, including whether the company has effective controls to deter and detect fraud. At year’s end, more than 140,000 unique viewers had watched the three-video series. The videos are available on YouTube, Facebook, Twitter and CAQForInvestors.org.

In other investor outreach activities, in October, the CAQ released a *Guide to PCAOB Inspections*, which provides a high-level overview of the PCAOB’s process for inspecting public company auditing firms, including the process for selecting and reviewing audits for conformance to audit standards, and the assessment of a firm’s audit quality control program. The *Guide to PCAOB Inspections* is the latest in the CAQ’s series of publications on topics of interest to investors and the general public. Other CAQ *Guides* include the *Guide to Public Company Auditing*, the *In-Depth Guide to Public Company Auditing: The Financial Statement Audit*, and the *Guide to International Financial Reporting Standards*.



The CAQ also continued to post a weekly “Did You Know” fact about public company auditing on its homepage and on the “For Investors” section of TheCAQ.org.

Communications

The CAQ frequently communicates with the media, investors and other stakeholders to inform these influential audiences of our public policy goals and activities. This outreach helps the CAQ to advocate policies regarding investor protection and the role of the public company auditor, and advances the discussion of critical issues more broadly.

10th Anniversary of Sarbanes-Oxley

On July 31st, the CAQ sponsored an event presented by the SEC Historical Society to commemorate the 10th anniversary of the enactment of the Sarbanes-Oxley Act of 2002 (Act). The event featured a conversation with former Senator Paul Sarbanes and former Representative Mike Oxley, moderated by Professor Mark Beasley of North Carolina State University.

The Act's namesakes discussed the state of investor confidence and the environment in Washington, D.C. in the aftermath of major corporate accounting scandals at the beginning of the last decade, and the events leading to adoption of the Act. They also discussed the positive impact that the Act has had on investor confidence in financial reporting and on audit quality. Video of the event is archived on the SEC Historical Society's website.



NC State Professor Mark Beasley (center) interviews former Rep. Michael Oxley (left) and former Sen. Paul Sarbanes (right) on the 10th anniversary of the enactment of the Act

The Sarbanes-Oxley Act also was the topic of a CAQ-hosted discussion during April's New York Ideas event sponsored by *The Atlantic*, the Aspen Institute and the New-York Historical Society. Participants at the hour-long discussion included corporate executives, academics, public policy experts and the media. Former U.S. Senator Robert Bennett (who served in the Senate when the law was passed) and Alan Beller (who was the Director of the Division of Corporation Finance at the SEC at the time of the Act's implementation) shared their thoughts on the Act's impact on the capital markets.

Speaking Engagements

Cindy Fornelli spoke at numerous conferences and meetings in 2012 on topics such as auditor independence, objectivity and skepticism, audit committee effectiveness, financial statement fraud deterrence and detection, and the Sarbanes-Oxley Act.

Fornelli's speaking engagements spanned key stakeholder conferences, including the NACD Board Leadership Conference; FEI's Current Financial Reporting Issues Conference; and Corporate Board Member's Boardroom Summit. She also spoke at numerous auditing profession conferences and meetings (including those held by the AAA, AICPA and New York State Society of CPAs), and several academic institutions.



Cindy Fornelli moderates a panel discussion during the AAA Annual Meeting featuring PCAOB Board Member Jay Hanson (center) and Deloitte and Touche LLP Chairman and CEO Greg Weaver (right)

Sponsorships

The CAQ sponsored several events in 2012 that convened investors and other stakeholders on critical auditing, corporate governance and capital market issues.

The CAQ was a sponsor of FEI's 31st Annual Current Financial Reporting Issues Conference, NACD's Directorship 100 Forum and the Association of Securities and Exchange Commission Alumni's 20th Annual Dinner. Representatives from investor organizations, public companies and corporate governance organizations were guests of the CAQ at these events.

The CAQ also was a sponsor of the International Corporate Governance Network's 18th Annual Conference, the AICPA Conference on Current SEC and PCAOB Developments, *The Atlantic's* Economy Summit, the Washington Ideas Forum, Corporate Board Member's Boardroom Summit, and the SEC Historical Society. The CAQ was a supporting underwriter of New York Ideas, a forum for the exchange of ideas of consequence organized by *The Atlantic*, the Aspen Institute and the New-York Historical Society.

Media Relations

The CAQ was the focus of, or referred to, in more than 200 news stories in 2012. On September 19th, Cindy Fornelli appeared on CNBC's "Closing Bell" to discuss the results of the 6th Annual Main Street Investor Survey and the state of individual investor confidence. Fornelli was interviewed for Corporate Board Member's "This Week in the Boardroom" on the *Audit Committee Annual Evaluation of the External Auditor*, the Sarbanes-Oxley Act, and the PCAOB's proposal on mandatory audit firm rotation. She also was featured in three segments on *Accounting Today's* AT TV on auditor independence, the PCAOB's inspections process and safeguarding against financial reporting fraud.

The CAQ continued to promote issues related to audit quality in print, online and broadcast media outlets, guest articles, and on Twitter and Facebook. The CAQ provided quotes and background information to journalists at CNBC, *The Wall Street Journal*, *Bloomberg Businessweek*, *Compliance Week*, *Accounting Today*, Reuters, Dow Jones and other prominent mainstream and accounting media organizations during the year.



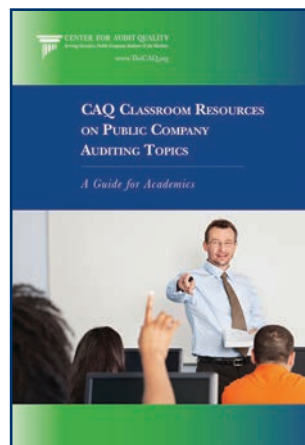
Cindy Fornelli discussed the results of the 6th Annual Main Street Investor Survey during an appearance on CNBC's "Closing Bell"

Publications

The CAQ issued the following publications in 2012:

- *Audit Committee Annual Evaluation of the External Auditor* (with 6 other organizations);
- CAQ Practice Aid on "Discussions with Audit Committees About Inspection Findings and Quality Control Matters";
- *Guide to PCAOB Inspections*;

- *Financial Statement Disclosure Effectiveness: Forum Observations Summary* (with the FASB);
- *The 6th Annual Main Street Investor Survey*;
- *Summary of Workshop on the Evolving Role of the Auditor*;
- *CAQ Classroom Resources on Public Company Auditing Topics*; and
- *The CAQ Monthly Newsletter*.



Website and Social Media

All CAQ materials are available to the public free of charge on www.TheCAQ.org. The website averaged 10,000 page views per month in 2012. The CAQ's investor education website, CAQForInvestors.org, averaged 2,000 monthly page views.

The CAQ also has an established social media presence, with active channels on YouTube, Facebook and Twitter, which is our primary social media communication vehicle.



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In January 2012, James Turley's responsibilities as Chair of the U.S. Firm Ernst & Young LLP were assumed by Managing Partner Stephen R. Howe, Jr., who also succeeded Jim as a member of the CAQ Governing Board.



In November 2012, Jack Weisbaum retired as CEO of BDO USA, LLP and was succeeded by Wayne Berson as a member of the CAQ Governing Board.

CAQ Staff 2012

Cindy Fornelli
Executive Director

“Fornelli works hard on two fronts – explaining how auditing works to the investing public through outreach like the Center for Audit Quality’s ‘Ledger Lines’ videos, and providing expert analysis and information to the regulators and others who are shaping the future of auditing.”

Accounting Today
Top 100 Most Influential People of 2012

Mark Anderson
Director of IT

Veronica Proctor
Executive Assistant

Margot Cella
Director of Research

Natalie Protze
CAQ Professional Practice Fellow

Jane Cobb
*Senior Director of Operations and
Chief of Staff*

Ajish Punnackal
IT Operations Manager

Crystal Cooke
Project Specialist

Jeffrey Rapaglia, CPA
Technical Director, Professional Practice

Angela Desmond
Senior Director, External Relations

Annette Schumacher, CPA
Senior Technical Manager for Policy

Becky Helms
Executive Assistant/Receptionist

Giselle Soriano
Conference and Office Manager

Marie Kallio
*Senior Project Administrator,
Professional Practice &
Member Relations*

Kristen Sutherland, CPA
*Senior Technical Manager, Professional
Practice & Member Relations*

Jake Leon
Deputy Director of Communications

Brian Wilson, CPA
Director, Professional Practice

Melissa Marbury
Executive Assistant

Brian Wolohan, CPA
*Senior Director, Professional Practice,
Policy and Research*

Gregory McElroy
Director of Administration



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