

Center for Audit Quality Observations on the Evolving Role of the Auditor

A Summary of Stakeholder Discussions



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

Affiliated with the American Institute of CPAs

The role of the public company auditor and whether it should evolve is being examined in the United States and around the globe by regulators, standard-setters and others.

The issues are complex and difficult to resolve in isolation. The “what, whys, and hows” related to changing the role of the auditor has to be considered within the context of the overall financial reporting system, including the important roles of the audit committee (which oversees a company’s financial reporting and the auditor) and company management (which has primary responsibility for financial reporting). Regulatory frameworks and oversight schemes for financial reporting and public company auditors are also key elements of that context.

The Center for Audit Quality (CAQ) and the public company auditing profession support responsible changes to the auditor’s reporting model and the role of the auditor. Accordingly, the CAQ is facilitating robust discussion on the issue by all stakeholders—including those who contribute to the financial reporting process and those who use financial reports.

Between May and July 2011, the CAQ sponsored four roundtable discussions in several cities to explore how the auditor’s role might change and evolve to improve financial reporting beyond the boundaries of the financial statements and internal control over financial reporting. What follows is a summary of the key observations made during candid sessions attended by investors, CEOs/CFOs, auditors, academics, attorneys, former regulators, and other interested parties.

The CAQ plans to continue this dialogue with stakeholders in order to develop actionable recommendations on changes to the role of the auditor consistent with audit quality and investor protection.

Sincerely,

A handwritten signature in cursive script that reads "Cynthia M. Fornelli".

Cindy Fornelli

Executive Director

Introduction

Over the years, the role of the public company auditor has been examined periodically to assess its relevancy in light of changing market practices and investor information needs. The topic was raised most recently following the financial crisis due to concerns about a perceived “disconnect” between what was reported in some companies’ annual reports and the companies’ subsequent failure or need for liquidity. Some suggest that this “disconnect” has called into question the relevance and value of the audit, which has led to several initiatives to explore areas for additional transparency into the audit process as well as areas where auditors could better serve the needs of investors.

Both the Public Company Accounting Oversight Board (PCAOB) and the International Auditing and Assurance Standards Board (IAASB) have launched initiatives to reexamine the auditor’s report, and as part of its effort, the PCAOB held a series of outreach meetings to explore possible alternatives to the current reporting model.¹ During those meetings, the Center for Audit Quality (CAQ), established in 2007 to serve investors and the capital markets by advancing audit quality across the public accounting profession, shared the views of the profession on areas where improvements could be made to the auditor’s report. As stated in the CAQ’s comment letter to the PCAOB dated June 28, 2011, the profession recognizes that change is needed and is prepared to embrace responsible calls for change. The CAQ also stated that it is necessary to take a holistic approach in which all stakeholders agree on a way forward that will best serve investors if such change is to be meaningful.

To explore areas where change may be appropriate, the CAQ formed a task force on the role of the auditor and moved to convene investors and other financial reporting stakeholders to examine the role of the auditor and the value of the audit.



¹ On June 21 the PCAOB issued a concept release on potential revisions to the auditor’s reporting model. Topics raised for public comment include what additional information auditors might communicate or report to investors concerning the audit and its findings and whether the scope of auditor attestation or assurance should expand beyond the audits of the financial statements and internal control over financial reporting. The IAASB, the UK Financial Reporting Council, and the European Commission are exploring similar issues.

During the summer of 2011, the CAQ held roundtable discussions on the role of the auditor in Dallas, New York City, San Francisco and Chicago. Each roundtable was attended by approximately 20 participants reflecting the full range of financial reporting stakeholders—CEOs, CFOs, board and audit committee members, investors, auditors, former regulators, attorneys and academics.

At each roundtable, the profession expressed a willingness to listen and explore changes to its role.

Participants were asked what information investors need that they currently do not receive and who in the financial reporting chain is best suited to provide that information. They explored whether the auditor's role might change and evolve to improve financial reporting beyond the boundaries of the audit of the financial statements and internal control over financial reporting. In this regard, although the roundtables were designed to discuss the evolving role of the auditor, it often was difficult for participants to move beyond dissatisfaction with the current state of financial reporting, and in particular, the fact that annual reports are in a state of “disclosure overload” resulting from the expanding complexity of Generally Accepted Accounting Principles (GAAP), as well as compliance and liability concerns on the part of preparers and counsel. It quickly became clear that the auditor's role had to be considered within the context of the broader corporate financial reporting framework, including the roles of management (preparers), the audit committee, investors, regulators and standard setters.

Below are an overview of the roundtable discussions and a summary of key observations, i.e., observations made during at least two roundtables and on which there was substantial agreement. The observations are arranged by those that apply mainly to the corporate reporting framework (preparers, audit committees and regulators/standard setters) and those that apply mainly to the external auditor's role in the reporting process. While a number of observations received wide agreement, the setting did not lend itself to obtaining all the details necessary to form specific recommendations. This report concludes with identification of the CAQ's short and longer-term next steps to further pursue observations regarding the role of the auditor. Appendix A to this report contains a more detailed summary of observations from the roundtable discussions; Appendix B contains a list of participants by roundtable. This summary

report was provided to the roundtable participants to assure that it fairly describes the observations made during the sessions.



Overview

The starting point for each roundtable discussion was to ask what information investors need that they currently do not receive and who in the financial reporting chain is best suited to provide that information. Follow-up questions included what changes are necessary to meet investors' information needs and

The auditor's traditional pass-fail opinion is a necessary "baseline"

how they should be implemented. Participants consistently expressed dissatisfaction with current compliance-oriented financial reports and questioned whether they appropriately serve their intended purpose of communicating to investors. Moreover, participants commented that changes to the role of the auditor without corresponding action to improve weaknesses identified in the corporate reporting framework may not sufficiently respond to investor financial reporting concerns.

Participants also were asked whether the current audit provides value and if there is more information auditors might share with investors and others about the audits of the financial statements and internal control over financial reporting. Participants agreed that the audit does have value in providing reasonable assurance whether the financial statements comply with GAAP and is viewed as a necessary "prescreen" or baseline by investors. They posited that auditors should continue to provide a binary audit report on the financial statements, noting that any changes to the role of the auditor should supplement the current audit process given its value. Several participants thought auditors might share more about the areas of highest risk in the financial statements although others pointed out the danger in such comments of investor misunderstanding and overreaction.

When asked what *additional* services public company auditors might provide beyond their current responsibilities for the audits of the financial statements and internal control over financial reporting, participants identified a number of disclosures that could be improved by *management* and/or might be appropriate for *auditor association*. The disclosures most commonly identified related to financial information contained in Management's Discussion and Analysis (MD&A); the company's process for assessing risk and developing financial assumptions and estimates; the company's critical judgments and accounting estimates; and the risk factors disclosure in the annual report.



However, in discussing the range of information in the annual report—financial and non-financial—that auditors might attest to, or otherwise be associated with, preparers, audit committee and attorney participants consistently cautioned that some areas may not be “auditable,” or that auditors may not have sufficient access to information and/or the necessary skills or experience to form an opinion (e.g., business model, certain types of forward-looking information). They also warned against exacerbating information overload.

Participants strongly resisted the notion of auditors publicly providing their “impressions” or views regarding the quality of a company’s accounting policies and practices. Participants believed that the auditor’s established role of attesting on information provided by management is appropriate and should not change.

Participants agreed that investors/markets act on current information, including financial information and other communications provided by management throughout the year, notably the annual and quarterly earnings releases. A significant number of participants thought these disclosures may have more significant relevance to investing decisions than the annual report, or the related auditor’s opinion. Whether some level of auditor assurance would add further value to certain communications from management to investors was an area all participants thought should be explored further.

Participants repeatedly acknowledged that any changes to the role of the auditor must be effected through a sanctioned framework to assure that expectations are clearly defined for auditors. There also was concern about unintended consequences, in particular how changes to the role of the auditor could impact the role of management and audit committees as the providers of information, specifically with respect to their primary responsibility for the financial statements and internal control over financial reporting. Preparers, audit committee members and attorneys also worried about increases in the cost of compliance and heightened liability exposure for both management and auditors.



Key Observations

CORPORATE REPORTING FRAMEWORK

- All participants, led by investors and preparers, stated that annual reports are in a state of “disclosure overload” resulting from the expanding complexity of GAAP, as well as compliance and liability concerns on the part of preparers and counsel. There was a clear call from investors and preparers for elimination of redundant material in annual reports through better coordination of disclosures related to legal information, management analysis, audited information, and, importantly a prioritization of, risk factors. Former regulators suggested that there is more that regulators and standard setters could do under current regulations (e.g., the safe harbor afforded under MD&A regulations) to encourage financial reporting that better suits the needs of investors, particularly their need for qualitative and forward-looking information.
- Participants also commented that changes to the corporate reporting framework and auditor’s reporting model will require establishment of a framework that provides sufficient clarity of roles, definitions of terms, metrics, etc.
- Audit committee members and preparers recommended that the full range of stakeholders develop a shared vision on the appropriate content of annual reports for *today’s* investor needs without being hindered by the current reporting requirements or legal/liability risks. They further suggested that the best chance of effecting meaningful improvements to financial reporting is through a “pilot program” authorized by regulators/standard setters, comprised of investors, preparers, auditors, and audit committee members charged with developing examples of streamlined annual reports and financial statements that focus on “what matters” to investors within an appropriate safe harbor.
- Preparers and audit committee members stated that auditors currently provide significant valuable input on the accounting policies selected by management. Audit committee members stated that they have frequent substantive discussions with auditors on a range of accounting policies and issues, and some suggested that the audit committee might provide an expanded report on its activities—including the *frequency* of communications and *range of topics* discussed with the auditors—to increase confidence that audit committees are fulfilling their responsibilities. Some participants suggested that auditors might provide some level of assurance around such a report. In addition, audit committee members thought that an expanded audit committee report demonstrating robust interaction with, and oversight of, auditors also would raise the performance bar for audit committees in general. Participants thought that this is a matter that audit committees should pursue, with input from investors and auditors, as well as regulators who may have to provide a regulatory and reporting framework.
- However, participants generally did not believe that audit committees should share the *content* of the auditor’s written/oral communications with investors because investors would not have the ap-

propriate context derived through the dialogue between the audit committee and the auditor. Audit committee members and investors thought such a practice would undermine the audit committee's ability to oversee financial reporting as communication may become more limited given the possibility of matters being misunderstood or taken out of context; although the concept of sharing *certain* auditor communications was endorsed by some without general agreement on specific areas.

ROLE OF THE AUDITOR

- Investors and other participants uniformly agreed that the audit is valuable and the current “pass-fail” report should be retained. Investors and a rating agency representative stated that a “clean” opinion on the financial statements and internal control over financial reporting provides investors with some “comfort” as it relates to other financial information provided by management. However, investors noted that financial statements are often used only as a “prescreen” because investors and analysts today rely on a range of quantitative information and financial models to make investment decisions, much of which is obtained from more current communications from management to investors outside of the historical annual report.
- With respect to the financial statement audit, several investors thought that auditors could “convey more” about the highest risk areas of financial statements, which might be done through, for example, an emphasis of a matter paragraph in the audit report, to add credibility to the report (although preparers and attorneys commented that the cost of additional work and legal risks of providing this information might outweigh any benefit).
- Participants strongly believed that the auditor's role should be limited to attesting to information provided by management and that auditors should not provide their own “impressions” or views regarding the quality of a company's accounting policies and practices. Audit committee members, preparers, attorneys and auditors thought that such analysis would “compete” with management's disclosures and ultimately shift the responsibility for accounting and disclosure away from management to the auditor. These “dueling” disclosures could also have the potential to confuse investors. Moreover, even if the disclosures were consistent the result would be additional redundancies, that would be time consuming and costly for the auditor to prepare due to the number of reviews that would be necessary prior to issuance.
- Participants thought investors would benefit from auditor association with certain areas of the annual report outside of the audited financial statements to provide investors additional assurance on matters they view as most important to their understanding of a company's financial performance and future prospects. Several investors suggested that they would appreciate some level of assurance around certain other financial and non-financial information used to analyze a company (e.g., disclosures in press releases, key performance indicators, and non-GAAP measures) and whether risks are appropriately described. However, given the limited discussion time, participants were not able to identify specific types of information or the levels of assurance that would be appropriate. Also, some

Investors rely on a range of company communications, much of it outside of the financial statements

participants thought that less sophisticated investors may not be aware that auditors currently provide some value by reading other information provided outside of the audited financial statements for consistency with the audited financial statements.

- Participants acknowledged that some information may not be “auditable” or would require substantial additional work before the auditor could issue some type of report (i.e., areas not currently examined as part of the audits of the financial statements and internal control over financial reporting). Also, audit committee chairs, former CEOs, attorneys, academics and investors thought that at present auditors may not have access to the appropriate information, or lack the necessary skill-set or experience to form an opinion on such information (e.g., business model, certain types of forward-looking information). Preparers and board members thought that analysts already fill this role. Academics noted that auditor review of these disclosures is not covered by current auditing standards, not tested in the CPA examination, and is not taught in universities.
- Other considerations raised include the cost-benefits of additional auditor assurance, the impact on management’s reporting practices, and liability concerns. Also, it was noted by preparers and analysts that many terms used by management are not used or defined consistently (e.g., research and development, general and administrative expense and customer information), which adds another layer of complexity for auditors and investors.
- There was strong endorsement of auditor association with earnings releases, which are of keen interest to investors, although participants did not specify the level of assurance that might be most helpful. Investors also expressed interest in auditor association with forward-looking information provided by management, while CEOs and others saw many practical obstacles to this suggestion. Auditor association with this information would require regulatory action or guidance to assure consistency of approach, as well as a need to consider safe harbors or other litigation protection. There was some agreement that auditors should be required to attest to financial information in press releases or other written reports (e.g., quarterly or current reports filed with the Securities and Exchange Commission [SEC]), although participants agreed that it would not be practical for auditors to review or provide some level of assurance on the plethora of meetings, calls and other communications that management has with investors and analysts. They also noted that auditor association would impact the timeliness of management’s press releases or written reports.
- Preparers and board members suggested that if auditors are asked to do more with respect to disclosures outside of the financial statements, then regulators should identify whether there are areas within the auditor’s current responsibilities that might be scaled back (within a sanctioned framework) so that the new work would be “cost neutral” for public companies. The intent would be to focus auditor efforts on areas that provide the most value to investors.



Conclusion and Next Steps

The CAQ plans to continue its dialogue with stakeholders here and abroad to explore ways to evolve the role of the auditor to meet the needs of investors in the near and longer term. In the near term, the CAQ and its member firms have developed model reports for the PCAOB and other stakeholders to consider that respond to calls for additional communications by the auditor. These enhanced communications should raise the level of understanding about a particular audit's focus and quality and, in turn, the quality of management's financial reporting.



However, if the profession is to effect more profound change, it is of paramount importance to explore the roundtable observations more deeply as changes could have profound impacts, including unintended consequences. Alternatives must be clearly defined, tested and fully vetted across all financial reporting stakeholders to see if they will engender the desired results in the most efficient and effective way.

The CAQ and the profession heard investors call for streamlined reporting with improved

content to reflect what matters to investors today in analyzing a company. We also heard that audit committees might play an expanded role in corporate reporting. The CAQ and the profession are willing to take a leadership role in a pilot program with other stakeholders to develop a shared vision on corporate reporting and the role auditors should play.

In addition, the CAQ is continuing to work with the full range of stakeholders to define actionable recommendations that *specifically* pertain to the role of the auditor. This work will center on:

- (1) What specific areas of the annual report (outside of the financial statements) would benefit from auditor association?

(2) For each area:

- What level of assurance should be provided and what is the appropriate form of auditor communication?
- Would auditor association require significant additional procedures (separate from drafting the auditor's communication)? What would be the additional cost of these procedures? Would the benefits outweigh the costs?
- What would the impact be on management's reporting practices?
- What would the impact be on communication between the auditor and management? The auditor and the audit committee?
- What would the impact be on management's and auditors' respective liabilities?

(3) Should auditors provide some level of assurance on earnings releases? What level of assurance is sought? Would auditor assurance significantly affect the timing of issuance? Would regulatory action be required to enact such change?

(4) Are there other types of financial or non-financial reports issued by management that auditors should report on (e.g., 10-Qs, 8-Ks, press releases)? If so, what parts?

- What would be the cost, timing and other practical considerations?

(5) If some changes to the role of the auditor involve a "culture change," how will auditors obtain the necessary skills and experience to perform this additional work? How long will it take for universities to expand the accounting and auditing curriculum to address the required skills?

This additional work will be shared with policymakers and other stakeholders to inform change and encourage consistency of approach across jurisdictions.

APPENDIX A

Summary of Observations

CORPORATE REPORTING – CURRENT STATE

- The company has fundamental responsibility for disclosing financial information, including forward-looking information, and this should not change (all participants).
- Annual reports are in a state of “disclosure overload” and are too complex to be useful to financial statement users. Examples cited include redundancy in information disclosed between the financial statements and MD&A and a risk factors discussion that contains “anything and everything” (all participants).
- While companies could provide better disclosure with more meaningful information and less redundancy, annual reports are a “law-driven document” due to regulatory requirements and legal precedent (analysts, attorneys and preparers).
- Investors increasingly seek forward-looking and non-financial information that is qualitative in nature resulting in the increased importance of MD&A (investors, board members, preparers, former regulators). However, MD&A has become “boilerplate” (all participants) resulting from:
 - ▼ Lack of adherence to (and enforcement of) SEC regulations and interpretive guidance for MD&A disclosure (attorneys and former regulators).
 - ▼ Management is not taking advantage of the safe harbor afforded by SEC regulations for forward-looking information in MD&A (attorneys and former regulators).
 - ▼ Less robust disclosure requirements in foreign jurisdictions create competitive concerns about MD&A and risk disclosures (investors, preparers).
- By the time the annual report is issued, the information contained is too dated to drive investment decisions; it is most often used as a baseline, supplemented with additional analysis based on more current information such as quarterly reports and press releases (investors, analysts, preparers, academics).

ROLE OF THE AUDITOR – CURRENT STATE

- The audit is valuable and should not be underestimated (all participants).
- Although dated, a “clean” opinion on the financial statements and internal controls over financial reporting provides investors with some “comfort” as to the other financial information provided by management (investors and analysts).
- Auditors currently evaluate certain “auditable” forward-looking information underlying financial statement estimates (e.g., level 3 fair value measurements, useful lives, salvage value, assumptions underlying post employment benefit obligations) (auditors and former regulators).
- Auditing standards require the auditor to read the annual report and identify material inconsistencies between unaudited (e.g., MD&A) and audited (financial statement) information. Additionally, many auditors review earnings releases for consistency with the information generated as a part of the in-progress audit. These procedures provide value, however, many users are unaware that these procedures are performed (audit committee and preparers).

- It is not practicable for auditors to be involved in all of management’s meetings and conference calls with investors, analysts and others participants. Additionally, auditor involvement could reduce the substance and timeliness of information provided by management (investors and preparers).
- Auditors provide significant value to the audit committee and management through their audit tests and observations relative to accounting principles, estimates, assumptions, control environment, tone at the top, fraud risk, etc. (preparers and audit committee members).

CORPORATE REPORTING – AREAS FOR FURTHER CONSIDERATION

GENERAL

- Annual reports must be streamlined to focus on “what’s important” to investors, particularly with respect to MD&A and management’s discussion of risk factors (all participants).
- There is a critical need to develop a shared vision for meaningful disclosures in the annual report with the information needs of investors in mind without being hindered by current reporting requirements and the legal environment. A “pilot program” convening all stakeholders could develop examples of annual reports and financial statements that would better inform investors on “what matters.” The appropriate degree of assurance also would be considered. Such an effort would likely require some sort of safe harbor due to the current legal and regulatory environment (all participants).

PREPARERS

- Annual reports should be streamlined to provide more relevant information and eliminate redundancies between disclosures (investors and attorneys).
- MD&A should provide more forward-looking information, key performance indicators and other qualitative information regarding the value drivers of the company, which are increasingly important to investors (investors and attorneys).
- The MD&A safe harbor for forward-looking information already provides a means for better disclosure (investors, board members, former regulators and attorneys).
- The risk factor discussion in the annual report should be disclosed in a “clean, concise” manner with a focus on the information needs of investors as opposed to legal considerations. It was suggested that most investors would be satisfied if management provided further information about: 1) the tone at the top and how it gets communicated throughout the organization; 2) the macro risks for a company’s sector; 3) the micro risks for a company’s particular business; and 4) the programs or strategies management has in place to manage such risks (investors, board members and preparers).

BOARD/AUDIT COMMITTEE MEMBERS

- The audit committee should provide investors with an expanded report on their activities including oversight of the auditor (i.e., frequency and range of interaction with the auditor) in order to promote investor confidence in the role/responsibilities of the audit committee and to raise the performance bar for audit committees (audit committee member).
- The audit committee should not share with investors the content of the required auditor’s communications to the audit committee because investors may misinterpret such information without the context of the dialogue between the audit committee and auditor (audit committee members, preparers, auditors).

- Most participants preferred that disclosure of auditor communications to the audit committee, if ultimately required, be made by the audit committee rather than the auditor with some level of auditor association for accuracy. However, some participants feared that such disclosure would destroy the communications between the audit committee and auditors to the detriment of investors (audit committee members).

REGULATORS/STANDARD SETTERS

- Changes to the corporate reporting framework and the role of the auditor cannot be accomplished without the establishment of a framework that provides sufficient clarity of roles, definitions of terms, metrics, etc. (preparers and auditors).
- There is a need for a global corporate reporting framework that mitigates competitive disadvantages for U.S. companies who must provide more comprehensive disclosure (i.e., strategy and risk) than their international competitors (preparers, investor).
- With respect to increasing the scope of auditor responsibilities, it is important for standard setters to consider whether:
 - ▼ It is reasonably possible to provide assurance on particular information. Where it is, the appropriate level of assurance should be determined (academics, attorneys, preparers, audit committee members, CEOs and auditors).
 - ▼ Current auditing standards exist or are necessary to evaluate such information and whether auditors have the requisite training to “audit” such areas (academics, attorneys, preparers, audit committee members, auditors).
 - ▼ Auditor responsibilities in areas of lesser value to investors should be scaled back (within a sanctioned framework) so that any additional work would be “cost neutral” for public companies (preparers, audit committee members, CEOs).

ACADEMIA

- Should an increase in the scope of auditor responsibilities be deemed appropriate, respective modifications may be necessary to the CPA examination as well as college curricula to ensure auditors are appropriately trained in these areas (i.e., specifically in regard to evaluating information outside of the financial statements) (auditors, academics, board members and audit committee members).

ROLE OF THE AUDITOR – AREAS FOR FURTHER CONSIDERATION

INFORMATION ABOUT THE AUDIT

- The auditor’s traditional role of attesting to information provided by management should not change (all participants).
- Auditors could identify for investors the areas of highest risk in the financial statements and how the auditor responded to those risks through, for example an emphasis of a matter paragraph in the audit report, to add credibility to the report. Some participants acknowledged that the benefits of such information may be outweighed by the: 1) legal risks resulting in such disclosures becoming “boilerplate” over time; and 2) the cost of the additional work associated with providing this additional communication (investors, attorneys, preparers). Others pointed out the danger of investor misunderstanding and overreaction.
- Auditors could provide some level of assurance on an expanded report from the audit committee to investors describing the frequency and range of interaction with the auditor.

- Auditors should not provide their own discussion and analysis (AD&A) or other qualitative analysis of a company as it would be highly subjective, could result in “dueling disclosures” that compete with management’s disclosures and/or disclosure redundancy contributing to further “disclosure overload,” may shift the responsibility for determining financial statement disclosures from management to the auditor, and could be time-consuming and costly to implement due to the number of reviews necessary (all participants).

INFORMATION OUTSIDE OF THE FINANCIAL STATEMENTS – RISK FACTORS

- The auditor could provide some level of assurance on risks (e.g., liquidity risk, etc.) prioritized by management in its risk factor discussion. Some participants noted that the auditor’s involvement should be limited to assessing financial risks as opposed to nonfinancial risks (e.g., human capital, information technology, etc.). Additionally, several participants noted that the auditor has a “limited field of view” and cannot be adequately informed on all aspects of the business to make judgments on whether risk factor disclosures are accurate and complete (preparers, board member and attorney).

INFORMATION OUTSIDE OF THE FINANCIAL STATEMENTS – MD&A

- Auditors could provide some level of assurance on MD&A related to:
 - ▼ Completeness and accuracy of information disclosed in MD&A (preparer).
 - ▼ The process by which management develops accounting estimates and underlying assumptions, assesses related risks, and the accuracy of such information disclosed in the MD&A (investors, preparers, audit committees).
 - ▼ Non-financial information (e.g., human capital, information technology) disclosed in MD&A. Others thought this would be outside the auditor’s area of expertise (investors, preparers, academics).
- Expanding auditor association to parts of MD&A is likely to promote more complete disclosures by management. It also was acknowledged the additional work would add cost, because the auditor is currently required to only read other information provided outside of the audited financial statements (e.g., critical accounting estimates) for consistency with the audited financial statements (preparers and attorneys).
- While preparers believe additional work should be “cost neutral,” due to already high compliance costs, there were no specific recommendations on where other audit procedures might be streamlined.

Could auditors provide assurance around other company communications, such as press releases and key performance indicators?

INFORMATION OUTSIDE OF THE ANNUAL REPORT – PRESS RELEASES, QUARTERLY REPORTS

- Management continuously provides information to investors throughout the year. Auditors could provide some level of assurance on certain information included in 10-Qs, 8-Ks and press releases (preparers, audit committee members, investors) although CEOs and others noted practical obstacles to this suggestion.
- While investors understand that management’s forward-looking information will be inherently inaccurate, they would have more confidence in management’s disclosures if the auditor commented on the process used to develop the information (investors and preparers).
- It is not practicable for auditors to be involved in all of management’s meetings and conference calls with investors, analysts and other stakeholders throughout the year. Additionally, auditor involvement with these conversations could reduce the amount and timeliness of information discussed by management (investors and preparers).

Appendix B

Participants in CAQ Role of the Auditor Roundtable Discussions

DALLAS

Discussion Moderator:

Clive Crook, Senior Editor, *The Atlantic*

John Bachmann, Chairman of Audit Committee, *AMR Corporation*, and Senior Partner, *Edward Jones*

Jana Bell, Chief Financial Officer, *EF Johnson Technologies, Inc.*

Mike Boone, Co-Founder, *Haynes and Boone*

Daniel Cancelmi, Controller, *Tenet Healthcare Corporate*

Michael Dastugue, Executive Vice President and Chief Financial Officer, *JCPenney Corporation, Inc.*

Cindy Fornelli, Executive Director, *Center for Audit Quality*

Mike Hewatt, Audit Committee Chairman, *DR Horton*

Thomas Hughes, Partner, *Fulbright & Jaworski LLP*

Terry Iannaconi, Partner in Charge, Department of Professional Practice Knowledge Sharing, *KPMG LLP*

Stephanie Jones, Portfolio Manager, *Smith Group Asset Management*

William Kinney, Jr., Ph.D., Chair in Business and PricewaterhouseCoopers Fellow in Auditing, *University of Texas, Austin*

Tom Kiraly, Chief Financial Officer, *Concentra*

Bill Knibloe, Partner, Audit and Financial Advisory, *Crowe Horwath LLP*

Constantine Konstans, Ph.D., Professor of Accounting and Corporate Governance, *University of Texas at Dallas*

Craig Lentzsch, Chairman, Audit Committee, *Dynamex, Inc.*

Andy McMaster, Vice Chairman, *Deloitte LLP*

Bob Moritz, Chairman and Senior Partner, *PricewaterhouseCoopers LLP*

Biggs Porter, Chief Financial Officer, *Tenet Healthcare Corporate*

Gary Walsh, Principal, Portfolio Manager/Analyst, *Luther King Capital Management*

NEW YORK

Discussion Moderator:

Clive Crook, Senior Editor, *The Atlantic*

Neri Bukspan, Executive Managing Director and Chief Quality Officer, *Standard & Poor's*

J. Michael Cook, Board Member, *Comcast* and *International Flavors and Fragrances*, and retired Chairman and Chief Executive Officer, *Deloitte & Touche LLP*

Cindy Fornelli, Executive Director, *Center for Audit Quality*

Joseph Giordano, Chief Financial Officer and Treasurer, *Drew Industries*

Harvey Goldschmid, Dwight Professor of Law, *Columbia University*, Senior Counsel, *Weil, Gotshal & Manges*, and Governing Board Member, *Center for Audit Quality*

Dan Goldwasser, Partner, *Vedder Price P.C.*

Wayne Kolins, Partner and National Director of Assurance, *BDO USA LLP*

Douglas Maine, Limited Partner and Senior Advisor, *Brown Brothers Harriman*, and Audit Committee Chairman, *Rockwood Holdings, Inc.*, *Alliant Techsystems* and *BroadSoft*

Bob Moritz, Chairman and Senior Partner, *PricewaterhouseCoopers LLP*

Devin Murphy, Vice Chairman, Investment Banking, *Morgan Stanley*

Joseph Perry, Firm-Wide Partner in Charge of Tax and Business Services, *Marcum LLP*, and Audit Committee Member, *Dime Community Bancshares*

Barbara Porco, Ph.D., Director of Financial and Budgetary Development, Office of the Provost, *Fordham University*

Robert Rozek, Chief Financial Officer and Executive Vice President, *Cushman & Wakefield*

Sam Ranzilla, National Managing Partner, Audit Quality and Professional Practice, *KPMG LLP*

Stephen Ryan, Ph.D., Professor of Accounting and KPMG Faculty Fellow, Stern School of Business, *New York University*

Larry Salva, Senior Vice President, Chief Accounting Officer and Controller, *Comcast*

E. Lyndon Tefft, Executive Vice President and Chief Financial Officer, *Commonfund*

Roman Weil, Ph.D., Director, *MainStay Funds* and Professor Emeritus of Accounting, *University of Chicago Booth School of Business*

Ian Welch, Head of Policy, *Association of Chartered Certified Accountants*

John White, Partner, *Cravath, Swaine & Moore LLP*

Lisa Wood, Vice President and Controller, *Foster Wheeler*

Michael Young, Partner, *Willkie Farr & Gallagher LLP*

SAN FRANCISCO

Discussion Moderator:

Geoff Colvin, Senior Editor at Large, *Fortune*

Joe Allanson, Senior Vice President and Corporate Controller, *Salesforce.com*

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Cindy Fornelli, Executive Director, *Center for Audit Quality*

Cheryl Francis, Co-Founder and Co-Chairman, *Corporate Leadership Center*

Lee Hendrickson, Former Chief Financial Officer, *Capitol Bancorp Limited*

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