

"Center for Audit Quality Update"

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Good morning, all, and thank you, Brad [Davidson], for that kind introduction. And thank you to Barry [Melancon] for your insightful remarks, which were thought-provoking as always.

For 12 years, I have had the privilege of working with Barry on the Governing Board of the Center for Audit Quality. And Barry, over the years, I have been grateful for your counsel, your tireless leadership, and your vision. All of these things have been so important for the public company auditing profession, for the CAQ, and for myself personally. You are a great mentor and friend, and together we have pushed forward to make real progress.

Since 2007, it's been my honor to brief this audience on that progress. Year in, year out, I have provided you with the CAQ's perspective on the key issues before us and the state of audit quality. This year, I will give you much the same briefing—but with one rather poignant difference. This will be my last time giving this speech.

Back in 2006, leaders in the public company auditing profession presented me with the opportunity of a lifetime: to become the CAQ's first Executive Director and to carry out their bold vision for helping to enhance audit quality and public trust in the capital markets.

The 12 years that followed have been an extraordinary journey. But, for me, that journey is drawing to a close. This spring, I will retire as the CAQ's Executive Director and move to Florida with my husband to begin our next chapter.

Now, as anyone who is entering or contemplating retirement knows, it's a time for serious reflection. Lately, I've found myself looking back and pondering everything I've learned at the CAQ over these dozen years.

As you can imagine, there's a great deal to ponder! When you hang around that long with CPAs and other talented professionals, you tend to learn a lot. In my time with you today, I am going to narrow things down and emphasize one overarching thing I've learned—a truth that is central to the CAQ and the public company auditing profession.

That truth is: **Working together, we gain strength and confidence.**



That may sound like simple common sense, but it's still worth pausing to reflect on it for a moment. Why is it so true? Why are we stronger and more confident when we work together?

We all know why. The auditing and accounting profession is not an island unto itself. Rather, the profession is a gatekeeper that is an integral part of numerous systems, notably our systems of financial reporting and of investor protection. And that's why a collaborative mindset is so important.

You see collaboration at work in the recent strategic plans of the SEC and the PCAOB, both of which were crafted with strong input from the profession, investors, businesses, academics, and other market stakeholders.

At the CAQ, we're well accustomed to this collaborative approach. In fact, you could say it defines us. From our earliest days, we have taken a systemic, holistic approach to enhancing audit quality. Thus, the CAQ, working with our members, has become a powerful engine of interaction and collaboration.

And since my last update to this audience one year ago, that engine has stayed in high gear. So in my remaining time, I'd like to summarize our recent efforts.

First, we are working together to enhance transparency.



Transparency is, of course vital for our markets.

One of the biggest transparency issues facing us is implementation of the PCAOB's new standard on the auditor's report. As has been true since 2011, the CAQ has remained highly engaged on auditor reporting, with an emphasis on working cooperatively and constructively with regulators at the PCAOB and elsewhere.

Our work also has focused on staying attentive to how implementation of the new standard might impact all of us in the financial reporting supply chain—not just auditors.

That work continues with a new CAQ publication that we are releasing today. This new resource presents early lessons learned from "dry runs" that CAQ member firms have conducted on CAMs. It also features important questions to consider and even an illustrative example of a CAM.

We'll be talking much more about the auditor's report at this conference. And we at the CAQ will stay engaged on these issues. The road ahead might not always be easy, but it's one certainly worth taking. Shedding light on the audit process has the potential to bring real benefits to investors, audit committees, and others in the capital markets.

We've seen these benefits at work in another area where transparency is evolving and increasing: audit committee disclosures to the marketplace.

Each year, the CAQ teams up with Audit Analytics to benchmark how audit committees are approaching the public communication of their oversight activities. We issue a report, titled the *Audit Committee Transparency Barometer*, which focuses on the robustness of proxy disclosures among companies in the S&P 1500.

As shown in our most recent report, released last month, the trends in this area have remained clear and encouraging.

We know that investors are interested in the work of audit committees. Year after year, audit committees are providing increasingly robust disclosures about the important investor-protection role that they play in overseeing the external audit and financial reporting.

So we at the CAQ will continue our work on audit committee disclosure—work in which dialogue and communication both are instrumental.

Such communication also lies at the heart of another transparency issue: audit quality indicators.

The CAQ's work on AQIs began in 2012 and has been reenergized recently. I'm pleased to share with you that in the first quarter of 2019, the CAQ will release a new disclosure framework that can aid audit firms in the development of their annual audit quality reports.

Today, leading firms provide a wealth of data on audit quality in these reports, along with affirmations of their core commitment to professional skepticism, ethical behavior, independence, and objectivity. There is, however, no consistent approach as to how that information is presented.

Our framework will provide a suggested approach to promote consistency, with the aim of making quality reports even more valuable to those with whom we interact in our market system.

It is a promising area for how the profession can and will operate in the years to come, which leads me to my next point on our efforts to gain strength and confidence.

We are working together towards the audit of the future.



As I know we will discuss in depth at this conference, the audit is headed for transformative change that is driven by advancing technology, as Barry mentioned in his remarks.

This prospect for change is very exciting. It is a disruptive force that will continue to revolutionize financial reporting and boost audit quality. Still, like any kind of disruption, it can also be unnerving.

That's why, at the CAQ, we are engaging with stakeholders on these technological developments.

On Wednesday, we will release yet another resource, this one titled: *Emerging Technologies: An Oversight Tool for Audit Committees*. The paper provides a framework for oversight and highlights two technologies that can have an outsized impact on financial reporting: artificial intelligence and robotic process automation.

We hope that this publication, like our others, will empower audit committees in their oversight. Because when audit committees are energized and have the resources they need, that's a good thing for the entire market system.

This empowerment is the reason why the director community has been such an important audience for the CAQ in our work on cybersecurity. We've spread the following message far and wide; as boards tackle the challenge of overseeing how companies manage cybersecurity risk, they have an extraordinary resource in the CPA profession.

Equipped with the AICPA's SOC for Cybersecurity framework, CPA firms can address cybersecurity challenges with independent and multi-disciplinary teams that are truly unique. These teams can combine credentialed IT professionals with CPAs whose expertise includes (1) evaluating risks and (2) evaluating management's response to those risks in the form of controls.

Like emerging technology, cybersecurity is an exciting development for the CPA profession. It's a story that we should tell to many audiences—not just boards of directors.

One of those audiences is students. The profession's use of technology to build confidence is an essential part of our broader message that the auditing profession is an excellent place to have a long and fulfilling career.

Together with the AICPA, and our member firms, the CAQ has been hard at work spreading this message. The most visible manifestation of this work is our annual #AuditorProud social media blitz.



The Blitz took place again last September and was another smashing success.

Just look at the numbers—103 countries, 387 cities—the global scale of the #AuditorProud blitz is just astounding. It's a clear example of the power of working together.

To round things out, I'll give you just one more example of that power.

We are working together in the fight against financial reporting fraud.



Our primary instrument here is the Anti-Fraud Collaboration, which unites the CAQ with Financial Executives International, the National Association of Corporate Directors, and The Institute of Internal Auditors.

Since forming in 2010, this Collaboration has stimulated the creation of great new anti-fraud resources. One such resource is the Collaboration's ongoing series of webcasts. To date, the Collaboration has produced 11 of these events, all offered to viewers free of charge.

And these webcasts are not just one-off events. The CAQ has worked with the AICPA to convert these videos into online self-study courses that are accessible at any time.

This self-study program allows professionals to hear from the best in the business on important anti-fraud topics—and to earn Behavioral Ethics CPE credit while they're at it. I invite you to check out the program, which as I mentioned is free of charge and can be found at the Collaboration's website, antifraudcollaboration.org.

The fight against financial reporting fraud is challenging, complex, and ongoing. It's also a fight in which the public company auditing profession will never relent.

Along with our partners, we will continue to address fraud challenges, and we will all become stronger and more confident along the way.

Here's something I want you to remember: 81 percent.



That, according to the CAQ's Main Street Investor Survey, is the percentage of US investors who express confidence that external auditors are effective in their investor protection role. It's a strong number, and it's one that we can all take pride in. To me, that number means that the efforts I've just discussed—enhancing transparency, preparing for our exciting future, and fighting fraud—are all efforts that are worthwhile.

SEC Chairman Jay Clayton, from whom we will hear from in a moment, has said, and I quote: "The bedrock of our capital market system is high-quality financial information."

In this room, and throughout the profession, we are doing our part to build and to strengthen that bedrock. We do so in partnership and dialogue with our regulators and all the stakeholders who take part in our dynamic capital markets. And we do so with enthusiasm and optimism.

Because, as I've learned over 12 wonderful years serving the public company auditing profession, working together, we gain strength and confidence.

Thank you, and I wish all of you a productive conference.

And now it's my great pleasure to invite SEC Chairman Jay Clayton and Chief Accountant Wes Bricker to the stage. Please join me in welcoming them.