



# CENTER FOR AUDIT QUALITY

*Serving Investors, Public Company Auditors & the Markets*

*Affiliated with the American Institute of CPAs*

The Center for Audit Quality was created to serve investors, public company auditors and the markets. Its mission is to foster confidence in the audit process, provide suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust.



# 2007 YEAR IN REVIEW

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# LETTER FROM THE EXECUTIVE DIRECTOR



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February 2008



Dear Friend of the CAQ:

In just 12 eventful and memorable months, the Center for Audit Quality (CAQ) has emerged as an influential voice for public company auditors and a staunch ally for investors.

Since our formation one year ago, we have embarked on an ambitious effort to improve financial reporting, reached out to investors and other market stakeholders, forged solid relationships with federal regulators, and offered real-world advice and other information to our nearly 800 members.

Perhaps most importantly, the CAQ has made it possible for our profession to speak with one voice on important issues and at a critical time. The increasing complexity of the global economy makes public company auditors more vital than ever.

Government agencies are clearly cognizant of the importance of the audit profession. Two high-level panels — the Treasury Department's Advisory Committee on the Auditing Profession and the Securities and Exchange Commission's Advisory Committee on Improvements to Financial Reporting — are scheduled to issue their recommendations this year. We welcome their efforts, and we're working with both committees to assist them as they work to advance constructive suggestions for change.

Protecting investors and the integrity of the markets is central to the CAQ's mission, and we intend to play an integral role in devising solutions to the challenges associated with today's financial markets. That's why we organized a national Public Dialogue Tour last year to gather ideas for modernizing business reporting. This dialogue, which will continue in 2008, brings together all stakeholders — investors, issuers, academics, regulators and audit professionals.

You can learn more about the dialogue tour — and all the work we've done since January 2007 — in this [Year in Review](#).

We have accomplished a lot in the course of a year, and we know there is much more work to do. With your continued support, we're looking forward to another productive year.

Sincerely,

Cindy Fornelli  
Executive Director





### Our Mission

The Center for Audit Quality (CAQ) was created to serve investors, public company auditors and the capital markets. Our mission is to foster confidence in the audit process and to aid investors by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust.

We strive to make public company audits even more reliable and relevant for investors in a time of growing financial complexity and market globalization. We also conduct research, recommend ways to enhance investor confidence and the vitality of the capital markets, provide technical support for public company auditing professionals, and help facilitate public discussion about modernizing business reporting.

*“In a short space of time, the CAQ and its public board members have brought the profession together and are actively engaged with market participants. By speaking out on issues that matter to the capital markets, the CAQ is fulfilling its role as an authoritative voice of the profession and a strong ally for investors.”*  
– James S. Turley, Chairman and CEO, Ernst & Young LLP and CAQ Governing Board Chair

### Our Structure

The CAQ is an autonomous, nonpartisan, nonprofit group based in Washington, D.C. We are affiliated with the American Institute of CPAs (AICPA), but the CAQ is self-supporting and entirely funded 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.

Our governing board comprises leaders from the public company auditing firms and the AICPA, as well as representatives from the academic, investor and issuer communities. To help ensure diversity of opinion our board includes three non-auditor members. The governing board meets monthly and provides the CAQ strategic vision and leadership to achieve our mission and guide our activities, the implementation of which is achieved through the work of the Center Executive Committee (CEC). The CEC is comprised of up to three senior leaders from each governing board organization, as well as our executive director.



Public outreach is a vital part of the CAQ's mission, and we have communicated with a wide range of audiences over the past year. Our goals are to educate and to learn. We want others to know more about the important role that public company auditors play in our economy and the issues related to market integrity. But we also want to hear concerns and suggestions from other market stakeholders, especially investors.

## Public Dialogue Tour

Reliable financial information is the bedrock of investor confidence in the capital markets. As one of its first major initiatives, the CAQ has engaged in a national Public Dialogue Tour to discuss potential improvements to the quality, relevance and integrity of financial reporting.

*"... a strategy designed to help modernize the business-reporting model."  
– WebCPA, May 27*

Beginning in Denver in April, the forums have brought together high-ranking state officials, scholars, legislators, investors, regulators and other stakeholders in major cities across the country. CAQ Executive Director Cindy Fornelli hosts the forums, which invariably spark lively discussions on ideas to help financial reporting keep pace with investor needs in a changing business environment.

In the dialogues thus far, we have heard from stakeholders that:

- Investors do not want more information, they want more useful information. Quality is more important than quantity.
- Financial information must serve a wide array of investors, from the retail investor to the most sophisticated institutional investor.
- Technology must be harnessed so that information is delivered in context. Vast amounts of data delivered in real-time can overwhelm even sophisticated investors.
- Investors view auditors as an ally, but expect them to find fraud.

When the tour ends this year, the CAQ will summarize the findings and offer recommendations to be shared publicly.

### Public Dialogue Tour 2007 Events

Denver  
April 26, 2007

Charlotte  
May 15, 2007

Minneapolis  
June 8, 2007

Seattle  
June 28, 2007

New York  
Sept. 27, 2007

Chicago  
Oct. 12, 2007

San Francisco  
Nov. 9, 2007

### 2008 Events

Dallas  
Feb. 5, 2008

Boston  
April 8, 2008

Washington, D.C.  
TBD

# SARBANES-OXLEY ACT TURNS FIVE

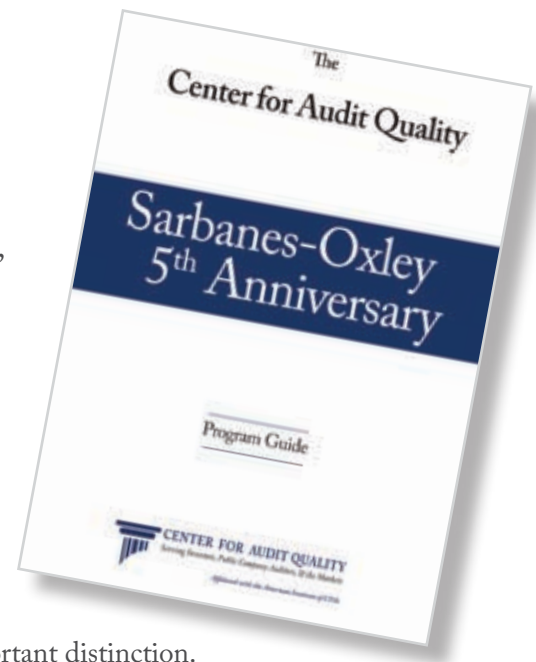
The Sarbanes-Oxley Act is a major focus for the CAQ. While the Act led to important reforms and helped restore confidence in the markets, after five years it was time to review how to make implementation more efficient and effective. The PCAOB accomplished this with the adoption of Auditing Standard No. 5 and the SEC did so with the adoption of management guidance in May. These changes, and commentary on the Act in general, were the topic of the CAQ's forum marking the Act's fifth anniversary.

Participants in the July 30 panel discussion at the National Press Club in Washington, D.C., broadcast live by C-SPAN, included the bill's authors, former Sen. Paul Sarbanes and former Rep. Michael Oxley, Securities and Exchange Commission Chairman Christopher Cox, PCAOB Chairman Mark Olson, former SEC Chairmen Harvey Pitt and William Donaldson, and former PCAOB Chairman William McDonough.

Addressing criticism of the law bearing his name, former Rep. Oxley remarked that, "Some of us tend to have short memories. Let's try to remember how bad it really was. During that [pre-SOX] period our markets lost \$8 trillion in market cap. That is four times the GDP of France." For his part, former Sen. Sarbanes said, "It is the implementation of the law that has caused the excessive burden, not the law itself. That is an important distinction. I do not believe these important investor protections should be opened up for amendment..."

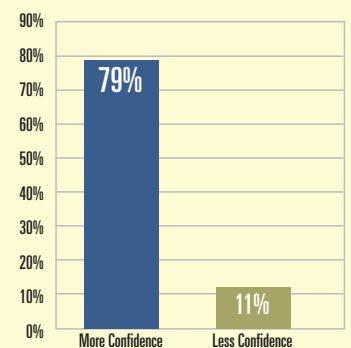
Asked if we are better off with SOX, SEC Chairman Cox said, "There is absolutely no question and I think most people in the investor community would agree... It was an organizing, rallying point for all of this activity and it has produced very significant results."

In conjunction with the event, the CAQ released the results of a national survey on investor confidence. The survey showed that while investor confidence has increased markedly since the law's enactment, significant work remains to solidify those gains.



## Impact of SOX: Audit Confidence

Four out of five investors say that knowing that the changes mandated by SOX have taken place gives them more confidence in audited financial statements.







The CAQ takes a lead role in researching and addressing guidance on issues that affect public company auditors, investors and the markets. We maintain strong relationships with regulatory agencies and government panels, routinely offering expertise and advice.

The CAQ is working closely with two important advisory panels: the Treasury Department’s Advisory Committee on the Auditing Profession and the SEC’s Advisory Committee on Improvements to Financial Reporting (CIFiR). The CAQ welcomed both panels as valuable allies in the effort to protect investors and ensure the vitality of the profession.

*“Five years after the first of SOX’s reforms, public company auditors are more committed than ever to the highest standards of quality and ethical service.”*  
– CAQ’s comment letter to the Treasury Advisory Committee on the Auditing Profession, Nov. 30

### **Treasury Advisory Committee on the Auditing Profession**

Two members of the CAQ’s governing board were appointed to serve on the advisory committee: KPMG LLP Chairman and Chief Executive Tim Flynn and AICPA President and CEO Barry Melancon. James Turley, chairman and CEO of Ernst & Young LLP, and chair of the CAQ’s governing board, was one of four experts from the profession who testified to the Treasury Department panel at a Dec. 3 hearing. Dennis Nally, chairman and senior partner of PricewaterhouseCoopers LLP; Julie K. Wood, chief people officer at Crowe Chizek and Company LLC; and Wayne Kolins, chairman of BDO Seidman LLP; also addressed the advisory committee.

### **SEC’s Advisory Committee on Improvements to Financial Reporting (CIFiR)**

The CAQ also worked with the CIFiR. CAQ governing board member and CEO and Executive Partner of Grant Thornton LLP, Ed Nusbaum, serves on the CIFiR Committee. The panel is tasked with examining the U.S. financial reporting system with two goals: reducing unnecessary complexity and making information more useful and understandable for investors. KPMG LLP Partner Sam Ranzilla, who chairs the Center’s Professional Practice Executive Committee, testified on behalf of the CAQ before a CIFiR subcommittee in December.



### Regulatory Liaison

The CAQ routinely comments on issues before the SEC and PCAOB and works with the agencies' staffs to discuss practices issues impacting public company auditors.

In May, the CAQ expressed its views and support for the SEC and PCAOB's efforts to address concerns related to the implementation of Auditing Standard No. 2, dealing with internal controls over financial reporting.

During 2007, the CAQ submitted 17 comment letters addressing such topics as regulatory relief and simplification for smaller companies, electronic filing and the definition of a significant deficiency.

The CAQ's regulatory liaison activities are frequently coordinated by the Professional Practice Executive Committee (PPEC), which addresses technical and regulatory matters involving practice before the SEC and PCAOB as subject matter experts. The PPEC's responsibilities include enhancement of audit quality of member firms' public company audit practices through the communication of current SEC/PCAOB developments, and sharing of best practices.

The SEC Regulations Committee, a subcommittee of the PPEC, and its task force, the International Practices Task Force, meet periodically with the SEC staff to discuss emerging technical accounting and reporting issues related to SEC rules and regulations.

In addition to working with regulatory agencies, the CAQ monitors congressional activity affecting the profession. In April, Executive Director Fornelli urged the Senate Small Business and Entrepreneurship Committee to "put the interests of investors" first as the panel considered changes to the Sarbanes-Oxley Act.

*"It's a complex marketplace right now," said Cindy Fornelli, the Center's executive director.*

*"It is important for our profession to be proactive and bold in carrying out our responsibilities as auditors."  
– Associated Press, Nov. 2*

# PROFESSIONAL PRACTICE & MEMBER RELATIONS



While representing auditors and investors before external audiences, the CAQ also serves as a valuable professional resource for its members.

## White Papers

As problems with subprime loans affected the availability of credit around the world, the CAQ produced three white papers on dealing with illiquidity during 2007. Their release in October drew widespread and overwhelmingly positive media attention. The papers offered insights in the areas of measuring fair value, the consolidation of commercial paper conduits and accounting for underwriting and loan commitments.

In addition to making the white papers available to members, the CAQ shared the documents with the staffs of the SEC, the PCAOB, the Financial Accounting Standards Board and various banking regulatory agencies.

## Member Alerts

Approximately 70 alerts, covering a host of issues, were made available to CAQ members during 2007. For example, in April the CAQ issued information to member firms regarding the early adoption of the fair value option for financial assets and liabilities (FASB Statement 159). This alert, which resulted from questions raised by members, was developed through discussions with the SEC staff, and addressed matters to consider in analyzing an early adoption of this accounting standard.

## Web casts

An October Web cast focused on the implementation of PCAOB Auditing Standard No. 5 in advance of the deadline for smaller companies to comply with Section 404 of the Sarbanes-Oxley Act. Web cast participants included PCAOB Chief Auditor Tom Ray, PCAOB Director of Technical Policy Implementation Sharon Virag and Trent Gazzaway, Managing Partner of Corporate Governance at Grant Thornton LLP. A November Web cast focused on the PCAOB's inspection report on smaller firms. PCAOB Regional Associate Director of Inspections, Mark West, Kurtis Wolff, principal in charge of audit and assurance at the Reznick Group and Joan Waggoner, partner in charge of quality assurance at Blackman Kallick participated on the Web cast.







## Earned Media

The CAQ has become a trusted source for the news media on issues affecting the capital markets. Since its inception a year ago, the CAQ has been cited more than 125 times in various publications. *The Wall Street Journal* noted the CAQ's growing influence in an October article declaring that the CAQ "has emerged as the voice" of public company auditors. The *Washington Post* profiled Executive Director Fornelli and her role at the CAQ in its "New at the Top" feature and *Accounting Today* named her one of the top 100 most influential people in accounting. The CAQ regularly serves as a source for information on issues facing the profession in specialty media such as *Practical Accountant*, WebCPA.com and *Compliance Week*.

*"Auditors Get Tough"*  
 – Associated Press  
 headline, Nov. 2

*"We can speak for the profession, and there's strength in that."*  
 – CAQ Executive Director Cindy Fornelli in *The Wall Street Journal*, Oct. 17.

## Web Site

The CAQ's Web site, [www.thecaq.org](http://www.thecaq.org), is a dynamic element of our outreach to the public and our members. Traffic to the site has increased steadily, especially after a redesign in April transformed it into a working resource for professionals, the media, academia and investors. Key additions in recent months include an updated member resources page that provides links to our member alerts and events pages with links to a comprehensive photo library. We also post videos from our Public Dialogue Tour on our Web site and our YouTube channel.



# COMMUNICATIONS & STAKEHOLDER RELATIONS



## Publications

During our first year we have increased our output of communications beyond releases and member alerts to include a monthly newsletter and a brochure on the CAQ and its mission. The e-mail distribution list for our monthly newsletter has tripled in recent months as our outreach initiatives have garnered increased national attention. The newsletter is also posted to our Web site. The brochure will be distributed to audiences with an interest in issues affecting the capital markets or the auditing profession.



## Speakers Bureau

We welcome the opportunity to publicly present the CAQ to accomplish our goal of educating groups about our mission and activities. As the CAQ gained national media attention, requests for Executive Director Fornelli to present our mission and background to various groups increased. She, and other CAQ staff, have had the opportunity to speak at a range of events and conferences, from the National Association of State Boards of Accountancy (NASBA) and AICPA Annual Conferences and Council of Institutional Investors regional meetings, to Rutgers Business School and the 18th Annual ACFE Fraud Conference.

## Stakeholder Meetings

The CAQ has worked to strategically position itself as a resource and a facilitator for other key groups with an interest in public company auditing through dozens of outreach meetings to key stakeholders. Executive Director Fornelli has attended meetings with the National Association of Attorneys General (NAAG) and NASBA. She has also held informal conversations with representatives from the regulatory and institutional investing worlds, including the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS).

In a related development, the CAQ demonstrated its support for sound business and investment practices by signing onto the groundbreaking Aspen Principles in June 2007.



# THE CENTER FOR AUDIT QUALITY'S 2008 LEADERSHIP & STAFF

## Governing Board Chair



**James S. Turley**  
*Chairman and CEO*  
*Ernst & Young LLP*

## Governing Board Co-Vice Chairs



**Michele J. Hooper**  
*Co-Founder*  
*The Directors' Council*



**Barry Melancon**  
*President and CEO*  
*American Institute of CPAs*

## Governing Board Members



**Charles M. Allen**  
*CEO*  
*Crowe Chizek & Company LLC*



**Harvey J. Goldschmid**  
*Former Commissioner: U.S. Securities*  
*and Exchange Commission*



**Dennis M. Nally**  
*Chairman and Senior Partner*  
*PricewaterhouseCoopers LLP*



**Ed Nusbaum**  
*CEO and Executive Partner*  
*Grant Thornton LLP*



**Lynn S. Paine**  
*Professor of Business Administration:*  
*Harvard School of Business*



**Barry Salzberg**  
*CEO*  
*Deloitte & Touche USA LLP*



**David R. Scudder**  
*Managing Partner*  
*McGladrey & Pullen LLP*



**John B. Veihmeyer**  
*Americas Regional Chairman,*  
*KPMG International,*  
*Deputy Chairman, KPMG LLP*



**Jack Weisbaum**  
*CEO*  
*BDO Seidman LLP*

## The Center for Audit Quality's Staff



**Cindy Fornelli**  
*Executive Director*

**Kathy Bateman**  
*Senior IT Project Manager*

**Robert Burns**  
*Director of Policy and Research*

**Margot Cella**  
*Senior Technical Manager for*  
*Policy and Research*

**Lillian Ceynowa**  
*Director of Professional Practice*  
*& Member Relations*

**Jane Cobb**  
*Director of Operations*

**Crystal Cooke**  
*Project Specialist*

**Jay Hyde**  
*Director of Communications*

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

**Jeanne Parsons**  
*Technical Manager,*  
*Professional Practice &*  
*Member Relations*

**Lori Schock**  
*Director of Outreach*

**Annette Schumacher**  
*Technical Manager for*  
*Policy and Research*

**Kellie Sclafani**  
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*Professional Practice &*  
*Member Relations*

**Giselle Soriano**  
*Office Manager*

**Melody Thompson**  
*Assistant to Executive*  
*Director*



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