



Demonstrating the Value of Public Company Auditors

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CAQ
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A letter from the Center for Audit Quality's CEO Julie Bell Lindsay:

Dear Readers,

In reflecting on 2021, it would be easy to summarize it as “déjà vu.” The continuing impact of the global pandemic kept us largely working from home, cancelling in-person meetings for more virtual “zooms,” and not back to full travel schedules – whether for work or pleasure. However, while some may refer to last year as a continuous “Groundhog Day,” it was also another year of public company auditors demonstrating their value by bringing trust – in a time of continued uncertainty – to our capital markets.

2021 was the first full year that the majority of public company audits were completed during the pandemic. I have often remarked as to how I witnessed auditors serving as the hub in the wheel between audit committee members, regulators and company management as we moved to a fully remote environment, and that role continued in 2021. Despite concerns about the impact of working remotely, auditors quickly pivoted to fully embrace their use of technology to execute smart and efficient audits—without sacrificing audit quality.

This view is evidenced by a recent survey of audit committee members by the CAQ and Deloitte, in which nearly every respondent said audit quality either increased (32%) or remained the same (66%) over the last year. When asked what contributes to audit quality, 85% of respondents cited the competence of the engagement team and strong communication between

the engagement partner and the audit committee as the most important factors. The “new normal,” likely a hybrid of remote work and on-site interaction, is still evolving, but I am confident that public company auditors will continue to deliver high-quality audits. Audit quality brings trust and transparency to the capital markets and auditors know that the consequences of losing that trust are severe. Protecting hard working Americans who invest in our capital markets is at the core of the profession’s work and will remain our focus in the new year.

2022 is shaping up to be an important year and I am excited about the many opportunities. Part of these opportunities include changes in the regulatory environment. We have a robust agenda under SEC Chair Gensler and the most diverse PCAOB board in its history. Looking ahead to next year, we aim to continue demonstrating the value of public company auditors by:

- + Enhancing trust and transparency in public company auditors’ ability to produce high-quality audits
- + Responding to increasing demand for assurance over climate-related and other environmental, social and governance information (ESG)
- + Assisting all key stakeholders in the detection and deterrence of financial reporting fraud
- + Building a more diverse pipeline of talent into accounting and auditing and foster best practices in retaining diverse auditors

This is all in furtherance of our mission: to promote-high quality performance by U.S. public company auditors.

Thank you,



Julie Bell Lindsay
Chief Executive Officer
Center for Audit Quality

2022 Outlook: Areas of Opportunity

AUDIT QUALITY: ENHANCING TRUST AND TRANSPARENCY

Public company auditors serve as builders of trust, building confidence for investors – from the retiree in Arizona to the hedge fund manager in New York – that the financial information disclosed by public companies and the internal controls underlying this information is reliable. Investors then have this information available to inform resource allocation decisions that drive the multi-trillion-dollar U.S. capital market. Audited financial statements might not get the most attention on a day-to-day basis but they play an important role in the capital market system that provides resources to so many of the companies that touch our daily lives.

This role in the public trust is a big part of the audit profession's mission and it drives our focus on audit quality. This year marks the 20th anniversary of the Sarbanes-Oxley Act (SOX) becoming the new benchmark for accountability and transparency related to public company audits and auditors. Twenty years later, SOX continues to serve an important role in protecting investors, resulting in higher quality financial reporting for investors and

other capital market stakeholders to use. Coupled with significant investments by auditors – in talent, tools and technologies – the ability of auditors to perform high quality audits has never been higher.

While audit quality remains high, auditors remain committed to enhancing trust and transparency in public company audits. In 2022, the CAQ will encourage audit firms to increase transparency by:

- + Continue – or begin – publishing annual transparency reports demonstrating commitment to audit quality
- + Supporting the continued evolution of auditing standards around issues such as quality control, technology and more to maintain high audit quality
- + Acknowledging and supporting the need for financial statements to include forward-looking information, as applicable

Other stakeholders, including the PCAOB and audit committees, also have the opportunity to increase transparency through a variety of actions. For

example, we believe that timely inspection reports produced by the PCAOB are critical to audit quality and encourage the PCAOB to strive for timelines that will provide audit firms with more actionable information. And audit committees bring oversight and significant expertise and dedication to a public company's audit process. We encourage audit committees to continue to increase their disclosures in the proxy statement to tell investors and other users of financial statements not just *what* they do, but *how* they are overseeing the external auditor, auditor independence and their company's financial reporting.

These are just a few examples for how the profession can increase trust and transparency and we will plan to advocate for more throughout 2022.

INCREASING DEMAND FOR ASSURANCE: ESG AND THE AUDITOR

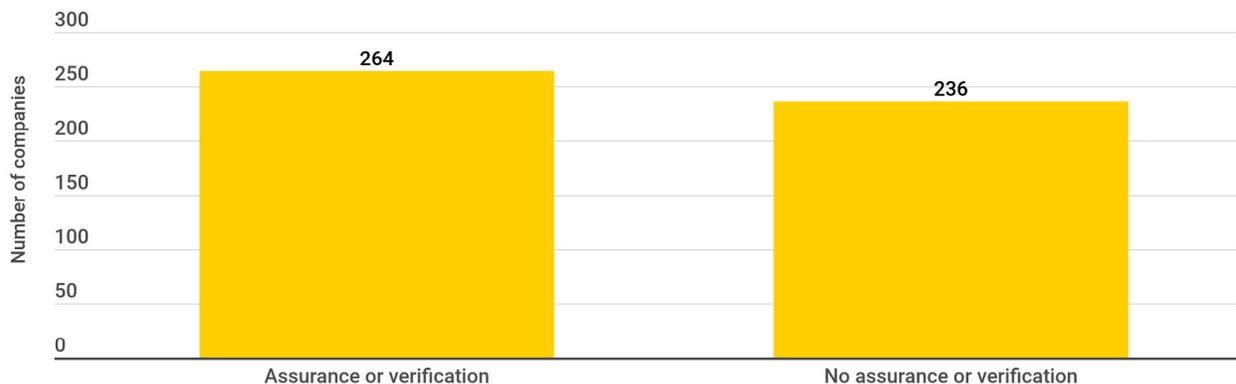
ESG reporting is no longer an emerging trend, but has become necessary information that investors have come to expect. Larry Fink said in his [annual letter](#) to CEOs, "As stewards of our clients' capital, we ask businesses to demonstrate how they're going to deliver on their responsibility to shareholders, including through sound environmental, social, and governance practices and policies."

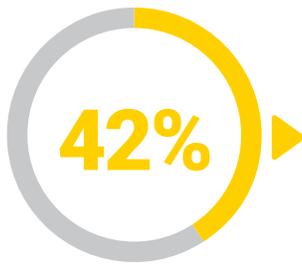
Stakeholders will continue to put pressure on public companies to disclose their ESG practices in 2022. And based on an [analysis](#) we conducted of the S&P 500, we know that the majority of these public companies (95%) already are. We are also seeing more requests for assurance on aspects of company-reported ESG information, and like others, we await the SEC's proposals on certain of these ESG topics such as climate and human capital disclosures, expected in the first quarter of 2022. Public company auditors are already providing this assurance in limited circumstances. In their public interest role, auditors are uniquely equipped to draw on the same capabilities, such as professional skepticism and independence, that underpin the high-quality U.S. financial reporting system. Public company auditors are already steeped in the corporate reporting ecosystem and can use their knowledge of public companies' internal systems and controls to help company management and boards establish integrated and reliable ESG reporting controls and processes.

The reliability of ESG reporting is just one critical issue to aid investors in evaluating ESG information; comparability also proves essential. The formation of the International Sustainability Standards Board (ISSB) in 2021 was a positive step forward delivering comparability and it will go a long way in establishing a global baseline for ESG-related disclosures.

ASSURANCE OR VERIFICATION

The CAQ looked at the most recent publicly available assurance or verification statement for S&P 500 companies as of June 18, 2021. More than half of S&P 500 companies (264 companies) had some form of assurance or verification over ESG metrics.





Audit committee members surveyed who thought fraud risk has increased over the last 12 months.



Audit committee members surveyed who have updated internal controls to address the remote work environment over the last 12 months.

FRAUD: EXTERNAL INDEPENDENT AUDITORS WILL CONTINUE TO PLAY AN IMPORTANT ROLE AS THE LAST LINE OF DEFENSE

It's clear that the pandemic – and an increasingly remote work environment – has made many companies more acutely aware of their fraud risk in remote work situations.

In the recent [report](#) the CAQ wrote with Deloitte, we found that 42% of audit committee members surveyed thought fraud risk has increased. Additionally, 74% said they updated their internal controls over the last 12 months to address the remote work environment.

The key to protecting companies from fraud is for all members of the financial reporting ecosystem to demonstrate vigilance, a resolve to exercise skepticism, focus on culture and attention to risk.

Public company auditors are the last line of defense in this ecosystem, exercising independence and skepticism to reasonably assure that financial statements are free of any material misstatements that may have been caused by fraud.

Given the heightened fraud risk environment in 2022, we encourage all members of the financial reporting supply chain to refer to the [Anti-Fraud Collaboration](#), an organization led by the CAQ, along with FEI, NACD and IIA, to advance the discussion of critical anti-fraud efforts. The Anti-Fraud Collaboration

develops resources that provide insights and recommendations that the respective members of the collaborating organizations can use to more efficiently and effectively perform those functions that focus on fraud deterrence and detection and fraud risk management.

DIVERSE TALENT: INVESTING IN THE NEXT GENERATION

The eight public company audit firms represented on the CAQ Governing Board have made significant investments (over \$470M to date) to increase diversity and inclusion within the workforce and talent pipeline, but in 2022 we aim to accelerate these efforts. In January, we launched [Bold Ambition](#) and [Accounting+](#), initiatives to attract a diverse talent pipeline and bring awareness to the U.S. public company audit profession's focus on diversity, equity, and inclusion.

Pursuing greater diversity and inclusion is the right thing to do – it advances equity and opportunity, while recognizing each individual's identity. It is also the smart thing to do – it helps the audit profession better perform its public mission and, ultimately, improve audit quality.

I'm proud of these programs but they are only the next step in this profession's DEI journey. We have a long way to go until accounting and auditing looks like our society at large, but that is our Bold Ambition. •