

Contemporary Audit Quality: Perspectives of Canadian Audit Committee Members

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CPAB Symposium

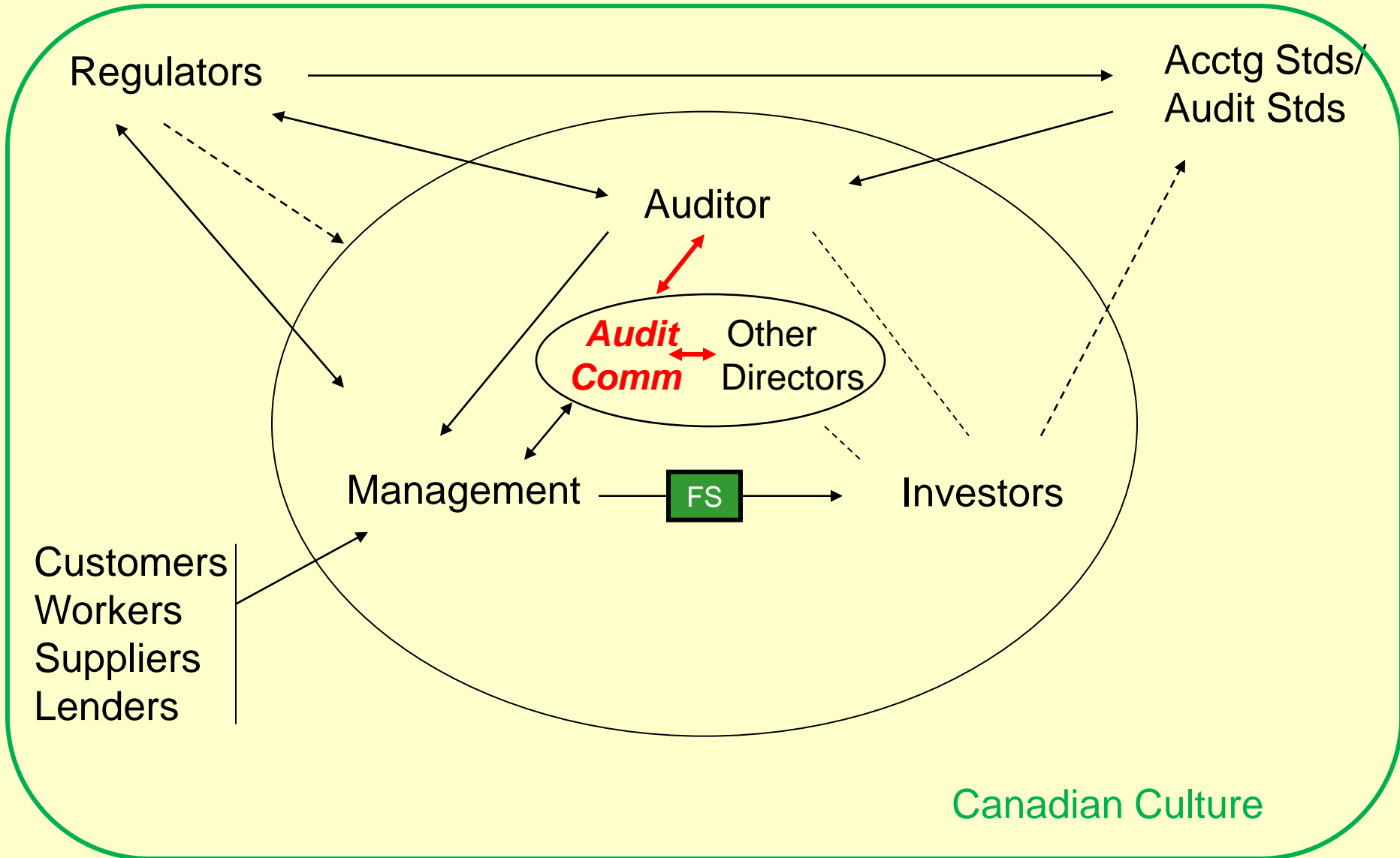
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Audit Quality and Audit Committees

- Lots of interest and Independent Audit Committee is central to Audit Quality
- *Not* regulated by CPAB or PCAOB
- Little is known about Audit Quality as perceived by audit committee members
 - yet critical to systemic success!

Audit Quality Environment - Canada



Financial reporting laws, regulations, standards and culture *outside Canada*

EU law/ EC directives/ Sec. reg.??

US law/ Sec. reg.

•US national

•NYSE rules
•US private lit.

US culture/
contracts/
governance

*A, Inc. B, Inc.
C Corp.*

UK law/ Sec. reg.?

•UK national

•LSE rules
•UK private lit.

UK culture/
contracts/
governance

*D, Inc. E, Inc.
F Corp.*

FR law/ Sec. reg.?

•FR national

•Borse rules
•FR private lit.

FR culture/
contracts/
governance

*G, Inc. H, Inc.
I Corp.*

Global Financial Reporting Framework and Auditing Standards

Is Audit Quality constant even with *same* global network firm?

Our approach

- CPAB contacted 10 leading Canadian audit committee members having . . .
- . . . experience on multiple audit committees of entities of all sizes and many industries across Canada, North America, Europe, and globally.
- One lively hour of structured interviews with each (a script, but many insightful deviations conditioned by responses)

Our Questions

- What is your best and worst experience as an audit committee member?
- What is your assessment of overall Audit Quality today and has it changed over time?
- How well are particular requirements (e.g., inspections and communications) working?
- Is there an audit committee expectations gap?
- What changes would *you* make to the structure of auditing, corporate governance, or disclosure and accounting frameworks?

ACM perceptions of Audit Committees

- General satisfaction with AQ and current mechanisms including auditor/ communication
- Need audit firm expertise and dedicated *partner attention* for audits – and backup world-wide
- AC can manage NAS and independence issues
- More effort is needed for AC member selection
- Compliance issues require AC involvement with the audit partner and with *other directors*
- Want and need input from CPAB/PCAOB on audit quality from inspections – yet in “last place!”

ACM perceptions of Audit Firms

- General satisfaction with present audits (but too few firms) and with auditing standards, including audit partner communications with AC members
- Value breadth of knowledge and skills of global networks regarding accounting, business, tax, and operations as well as global regulation, governance, and cultural differences
- Relationships and a culture of professional skepticism are essential for governance
- Audit fee competition disrupts focus and necessary relationship building/ AC protection

ACM perceptions of Regulators/Standards setters

- Not much direct contact with regulators or standards setters, but reporting and disclosure oversight burden is onerous
- Inspections are (almost certainly) good for governance, but present CPAB/PCAOB inspections reports are *not useful* for audit committees
- More public communication from the auditor *isn't* a substitute for more disclosure by *management* or the *audit committee*

AC perceptions of Current issues

- Audit firm rotation bad along several dimensions
 - restricts knowledge available to AC
 - interrupts communication with the audit partner
 - reduces audit partner investment in the relationship
 - disrupts professional advisory network relationships
- “Auditor D&A” would hurt communications and add boilerplate without new information
- Better AQ globally requires more consistent governance mechanisms world wide, but “audit only” firms are not needed, given a good AC

Table Talk Question:

“If your table were in charge of changing the regulatory mechanism for audited financial reporting and disclosure, What would you change?”

Include auditing standards, inspections, corporate governance structure, mandated disclosures, financial reporting framework, and anything else that strikes you as fruitful.

A single sentence suggestion could be enough, but you decide