Draft Report of the Advisory Committee on the Auditing Profession

I am a Certified Public Accountant, and have been in public practice, as well as having served as the Chief Financial Officer for both public companies that were Registrants under the securities laws, and now the Chief Financial officer for a privately owned company. My current position includes diverse international operations and activities, which has given me insight to accounting and auditing standards in the United States, the United Kingdom and Canada. Furthermore, I have in depth knowledge of the IFRS (International Financial Reporting Standards). Obviously, I also have in depth knowledge of the capital markets in the three countries in which we have operations as well as the activities of the European Union.

I had very high expectations of the Advisory Committee. I believe that due to events over the past several years, including high profile events such as Enron, Worldcom, and others in the United States, and foreign events, such as Parmalat and Societe General, the capital markets and the investing public in general have little faith in the audit process and the reports issued by public accounting firms. I believe strongly this is an issue that we must address, especially in the United States, which arguably has been the largest capital market in the world.

However, I am extremely disappointed in the recommendations of the Advisory Committee. I believe the mission of the Advisory Committee should be to make recommendations that are fundamental to improving the audit profession to enable it to serve the investing public and other constituents in the markets, and the public at large. I think the Advisory Committee failed to make recommendations to that end.

First, I would like to point out what I see as deficiencies in the current recommendations.

While we intuitively know that it is the competence and ethical standards of the members of the auditing profession that are key to make it viable and reliable, I fail to understand how the Advisory Committee recommendations that updating college curricula, attracting and evolving diversity, ensuring college faculty are available, and the other recommendations add any significant value to what we already know. Academia is only the starting point for a career in auditing. Experience and training by hiring firms is more key to the ultimate improvements sought to strengthen the profession.

The Advisory Committee recommendations related to the structure and finances of auditing firms does little to pin point the real issues. For example, the recommendations include the need to strengthen fraud skills, yet fail to suggest how that might happen. Improving regulatory cooperation, the focus of state boards, and independent board members on audit firm boards, adds nothing but window dressing to the issues, and in fact, will only add to the confusion and lack of focus on the underlying issues.

The recommendations related to concentration and competition seem mostly self serving to the profession, not the public who entrusts the profession to "do its job" by ensuring that financial data can be relied upon in making investment or credit decisions in the marketplace. There already exists numerous rules, regulations and interpretations on auditor independence which is wildly confusing to practitioners. While preservation of the firms is important, we should do that by strengthening the profession, not limiting practice liability or making practice insurance more affordable.

The fundamental issue before us is how to improve audits to avoid or minimize the audit failures that have brought us to the brink of losing public trust.

I would offer a few suggestions of my own to help achieve this fundamental objective.

1) Clarify the responsibility of auditors to detect fraud, such that audit firms can ensure audit procedures meet these expectations. In today's world, the responsibility of management, and the responsibility of auditors is still a matter of debate, and even litigation.
2) Develop a "bible" of required audit techniques to be adopted by federal regulators to replace the myriad of suggested techniques by audit profession, outside vendors, etc. This "bible" will become the foundation of consistent techniques adopted and applied by all audit firms, and can be updated for current events or accounting requirements. In essence, there would be a legal set of audit programs, checklists, and practice guidance.
3) Set clear criteria on materiality in conducting audits, rather than judgmental decisions. While there may need to be materiality "alternatives" based on the objectives of the audit or accounts being audited, a uniform set of guidance will make it clear when auditors must report errors or omissions, or incident of fraud to investors, boards, and even the regulators.
4) Refocus audit procedures on substantive tests, rather than analytical or risk based approaches. Clearly, the audit failures we have experienced have been highlighted by the lack of substantive procedures to review underlying support, documents and the like to support recorded transactions and financial position.
5) Require all audit firms to provide minimum hours annually in audit training, and specifically industry accounting and audit training for the teams assigned to client audits. Increased knowledge of the industry and its accounting and auditing peculiarities is a key from our experiences over the years for audit failures.

Lastly, I would add that I believe one of the shortcomings of accounting education at the college level, is far too much focus on advanced degrees, and too little focus on actual experience as an accountant and auditor. This is an issue I also believe merits consideration.

I appreciate the opportunity to comment on the Draft Report of the Advisory Committee. I would be happy to discuss my views if desired.

Yours truly,

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