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To: Arthur Levitt, Jr. (Co-Chair)
Donald T. Nicolaisen (Co-Chair)
Advisory Committee on the Auditing Profession
Department of the Treasury

From: Gerry M. Preville
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Re: Comments for the October 15, 2007 Open Meeting of the Advisory Committee on the Auditing Profession

I commend the members of the advisory committee for agreeing to serve in this initiative to study the auditing profession and to make recommendations to encourage a more sustainable profession. I also appreciate the opportunity to submit comments regarding the state of the industry. My comments relate mainly to employee recruitment and industry concentration.

Late Entries To The Profession

Compared to countries such as Canada and England, the United States has developed a system to more easily allow older candidates to become CPAs. Most states recognize both public accounting and industry experience to meet the requirements for licensure. Canada, on the other hand, requires candidates to article with public accounting firms. Because those accounting firms generally hire directly from college, older candidates wishing to become Chartered Accountants have a much more difficult time finding a public accounting firm willing to hire them. The US accounting profession should be commended for allowing more reasonable entrance requirements which in turn serves to encourage mature applicants into the profession.

Big Four Hiring

Despite the auditing profession's claim of a shortage of qualified professionals, the Big Four firms appear to recruit mainly young candidates with two to ten years of experience. They also seem overly partial to hiring CPAs with Big Four experience. More experienced candidates do not appear to be as attractive to the large audit firms. I would encourage the committee to take a serious look at the Big Four firms record of hiring CPAs with over 15 years experience. The

AICPA estimates that 75% of its membership will approach retirement in 15 years and it's not clear to me how well the large audit firms are addressing the recruitment of experienced professionals.

My impression is that if corporations in other industries followed the hiring practices of the Big Four favoring mainly entry level candidates, the US economy would be severely hampered. Big Four arguments that experienced workers do not fit easily into their system of service delivery would likely not stand up to serious scrutiny.

In a dynamic labor market one would expect more two-way movement between auditing firms and industry. Instead we mainly see a one-way flow where auditors go to work for their client companies in industry. If the auditing profession is intent on overcoming the staff shortage, more effective policies must be implemented to allow greater two-way mobility. However this must be done without creating additional auditor independence issues.

Auditing's Two Solitudes

As a result of the audit industry concentration among the top four firms, the profession is now divided into two solitudes with Big Four firms and Non-Big Four Firms serving the US market.

Despite the industry's critical need to remain a unified profession, they have become two distinct groups. One only needs to attend a state CPA society event to note the absence of Big Four CPAs. Since the Big firms supply much of the continuing education directly to their staff, they are conspicuously absent at state CPA society functions. This reduces the interaction among professionals required to maintain a vibrant industry.

Moreover, the division contributes to the balkanization of the US accounting profession at a time when global forces are moving the profession toward greater harmonization of accounting rules and regulations. The committee should investigate ways to reduce the barriers currently existing which inhibit the exchange of professional insight and innovations.

The committee is tasked with examining a number of important issues facing the auditing profession. Employee recruitment practices and industry concentration are two of the more prominent issues which should be more fully analyzed. I would be pleased to assist the committee any way possible.