

and Hoosier Energy's Merrom Generating Station at Merrom, IN, both located on INRD's line.

The transaction is scheduled to be consummated on May 30, 2008.

The purpose of the trackage rights is to permit INRD to move loaded coal trains and empty hopper trains in single-line service between the Sunrise facility and INRD's two power plants, thus enhancing operational efficiency.

As a condition to this exemption, any employees affected by the acquisition of the trackage rights will be protected by the conditions imposed in *Norfolk and Western Ry. Co.—Trackage Rights—BN*, 354 I.C.C. 605 (1978), as modified in *Mendocino Coast Ry., Inc.—Lease and Operate*, 360 I.C.C. 653 (1980).

This notice is filed under 49 CFR 1180.2(d)(7). If it contains false or misleading information, the exemption is void *ab initio*. Petitions to revoke the exemption under 49 U.S.C. 10502(d) may be filed at any time. The filing of a petition to revoke will not automatically stay the transaction. Stay petitions must be filed by May 22, 2008 (at least 7 days before the exemption becomes effective).

Pursuant to the Consolidated Appropriations Act, 2008, Public Law 110-161, section 193, 121 Stat. 1844 (2007), nothing in this decision authorizes the following activities at any solid waste rail transfer facility: Collecting, storing or transferring solid waste outside of its original shipping container; or separating or processing solid waste (including baling, crushing, compacting and shredding). The term "solid waste" is defined in section 1004 of the Solid Waste Disposal Act, 42 U.S.C. 6903.

An original and 10 copies of all pleadings, referring to STB Finance Docket No. 35137, must be filed with the Surface Transportation Board, 395 E Street, SW., Washington, DC 20423-0001. In addition, a copy of each pleading must be served on John Broadley, John H. Broadley & Associates, P.C., 1054 31st Street, NW., Suite 200, Washington, DC 20007.

Board decisions and notices are available on our Web site at <http://www.stb.dot.gov>.

Decided: May 7, 2008.

By the Board, David M. Konschnik, Director, Office of Proceedings.

Anne K. Quinlan,
Acting Secretary.

[FR Doc. E8-10723 Filed 5-14-08; 8:45 am]

BILLING CODE 4915-01-P

DEPARTMENT OF THE TREASURY

Draft Report of the Advisory Committee on the Auditing Profession

AGENCY: Office of the Undersecretary for Domestic Finance, Treasury.

ACTION: Notice; request for comments.

SUMMARY: The Advisory Committee on the Auditing Profession is publishing a Draft Report and soliciting public comment.

DATES: Comments should be received on or before June 13, 2008.

ADDRESSES: Comments may be submitted to the Advisory Committee by any of the following methods:

Electronic Comments

- Use the Department's Internet submission form (<http://www.treas.gov/offices/domestic-finance/acap/comments>); or

Paper Comments

- Send paper comments in triplicate to Advisory Committee on the Auditing Profession, Office of Financial Institutions Policy, Room 1418, Department of the Treasury, 1500 Pennsylvania Avenue, NW., Washington, DC 20220.

In general, the Department will post all comments on its Web site (<http://www.treas.gov/offices/domestic-finance/acap/comments>) without change, including any business or personal information provided such as names, addresses, e-mail addresses, or telephone numbers. The Department will also make such comments available for public inspection and copying in the Department's Library, Room 1428, Main Department Building, 1500 Pennsylvania Avenue, NW., Washington, DC 20220, on official business days between the hours of 10 a.m. and 5 p.m. Eastern Time. You can make an appointment to inspect comments by telephoning (202) 622-0990. All comments, including attachments and other supporting materials, received are part of the public record and subject to public disclosure. You should submit only information that you wish to make available publicly.

FOR FURTHER INFORMATION CONTACT:

Kristen E. Jaconi, Senior Policy Advisor to the Under Secretary for Domestic Finance, Department of the Treasury, Main Department Building, 1500 Pennsylvania Avenue, NW., Washington, DC 20220, at (202) 927-6618.

SUPPLEMENTARY INFORMATION: At the request of the two Co-Chairs of the

Department of the Treasury's Advisory Committee on the Auditing Profession, the Department is publishing this notice soliciting public comment on the Advisory Committee's Draft Report. The text of this Draft Report is found in the appendix to this notice and may be found on the Web page of the Advisory Committee at <http://www.treas.gov/offices/domestic-finance/acap/index.shtml>. The appendices to the Draft Report are not included in this notice, but may be found on the Web page of the Advisory Committee at <http://www.treas.gov/offices/domestic-finance/acap/index.shtml>. The Draft Report contains the Advisory Committee's developed proposals on improving the sustainability of a strong and vibrant public company auditing profession. All interested parties are invited to submit their comments in the manner described above.

Dated: May 8, 2008.

Taiya Smith,
Executive Secretary.

Appendix: Advisory Committee on the Auditing Profession, Draft Report—May 5, 2008, The Department of the Treasury

Draft Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury

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I. Transmittal Letter

Advisory Committee on the Auditing Profession

[July 2008].

The Honorable Henry M. Paulson, Jr.,
Secretary, U.S. Department of the Treasury,
1500 Pennsylvania Avenue, NW.,
Washington, DC 20220.

Dear Secretary Paulson: On behalf of the Department's Advisory Committee on the Auditing Profession, we are pleased to submit our Final Report.

[Contents of letter to be included in Final Report.]

Respectfully Submitted on behalf of the Committee,

Arthur Levitt, Jr.,

Committee Co-Chair.

Donald T. Nicolaisen,

Committee Co-Chair.

Enclosure.

cc: Undersecretary for Domestic Finance
Robert K. Steel.

II. Executive Summary

[Contents of Executive Summary to be included in subsequent drafts of this Report.]

III. Committee History

On November 20, 2006, the Secretary of the Treasury, Henry M. Paulson, Jr., delivered a speech on the competitiveness of the U.S. capital markets, highlighting the need for a sustainable auditing profession.¹ In March 2007, Secretary Paulson hosted a conference at Georgetown University with investors, current and former policy makers, and market participants to discuss issues impacting the competitiveness of the U.S. capital markets, including the sustainability of the auditing profession.²

On May 17, 2007, Secretary Paulson announced the Department of the Treasury's (the Department) intent to establish the Advisory Committee on the Auditing Profession (the Committee) to consider and develop recommendations relating to the sustainability of the auditing profession.³ At

the same time, Secretary Paulson announced that he had asked Arthur Levitt, Jr. and Donald T. Nicolaisen to serve as Co-Chairs of the Committee. The Department published the official notice of establishment and requested nominations for membership on the Committee in the **Federal Register** on June 18, 2007.⁴ Secretary Paulson announced the Committee's membership on October 2, 2007, with members drawn from a wide range of professions, backgrounds and experiences.⁵ The Department filed the Committee's Charter with the Senate Committee on Banking, Housing, and Urban Affairs, the Senate Committee on Finance, the House Committee on Financial Services and the House Committee on Ways and Means on July 3, 2007.⁶

Committee Activities

The Committee held its initial meeting on October 15, 2007 in Washington, DC.⁷ Under Secretary for Domestic Finance Robert K. Steel welcomed the Committee members and provided introductory remarks.⁸ Also on October 15, 2007, the Committee adopted its by-laws⁹ and considered a Working Discussion Outline to be published for public comment.¹⁰ The Working Discussion Outline identified in general terms issues for the Committee's consideration. A Working Bibliography, updated intermittently throughout the course of the Committee's deliberations, provided the members with articles, reports, studies, and other written materials relating to the auditing profession.¹¹ All full Committee meetings

Plan (May 17, 2007) (included as Appendix E); Press Release, U.S. Dep't of Treas., Paulson: Financial Reporting Vital to U.S. Market Integrity, Strong Economy (May 17, 2008) (included as Appendix F).

⁴ Notice of Intent to Establish; Request for Nominations, 72 FR 33560 (U.S. Dep't of Treas. June 18, 2007) (included as Appendix A).

⁵ Press Release, U.S. Dep't of Treas., Paulson Announces Auditing Committee Members to Make Recommendations for a More Sustainable, Transparent Industry (Oct. 2, 2007) (included as Appendix G). This press release describes the diverse backgrounds of the Committee members. For a list of Members, Observers, and Staff, see Appendix K.

⁶ See Committee Charter (included as Appendix B).

⁷ The Record of Proceedings of this and subsequent meetings of the Committee are available on the Department's Web site at <http://www.treas.gov/offices/domestic-finance/acap/press.shtml>. See Record of Proceedings, Meeting of the Committee (Oct. 15, 2007, Dec. 3, 2007, Feb. 4, 2008, Mar. 13, 2008, Apr. 1, 2008, and [] [hereinafter Record of Proceedings (with appropriate date)] (on file in the Department's Library, Room 1428), available at <http://www.treas.gov/offices/domestic-finance/acap/press.shtml>.

⁸ Under Secretary for Domestic Finance Robert K. Steel, Welcome and Introductory Remarks Before the Initial Meeting of the Treasury Department's Advisory Committee on the Auditing Profession (Oct. 15, 2007), in Press Release No. HP-610, U.S. Dep't of Treas. (Oct. 15, 2007) (included as Appendix H).

⁹ The Committee By-Laws are included as Appendix I.

¹⁰ The Working Discussion Outline is included as Appendix L.

¹¹ The Working Bibliography is included as Appendix M. The Working Bibliography was

were open to the public and conducted in accordance with the requirements of the Federal Advisory Committee Act.¹² The meetings of the full Committee were also Web or audio cast over the Internet.

The Committee held its second meeting on December 3, 2007 in Washington, DC. The agenda for this meeting consisted of hearing oral statements from witnesses and considering written submissions that those witnesses had filed with the Committee. The oral statements and written submissions focused on the issues impacting the sustainability of the auditing profession, including issues mentioned in the Working Discussion Outline. Nineteen witnesses testified at this meeting.¹³ The Committee held a subsequent meeting on February 4, 2008 in Los Angeles, California at the University of Southern California. The agenda for this meeting consisted of hearing oral statements from witnesses and considering written submissions that those witnesses had filed with the Committee. The oral statements and written submissions focused on the issues impacting the sustainability of the auditing profession, including issues mentioned in the Working Discussion Outline. Seventeen witnesses testified at this meeting.¹⁴ The Committee held additional meetings on March 13, 2008, April 1, 2008, and []. All were face-to-face meetings held at the Department in Washington, DC, except for February 4, 2008, which was held in Los Angeles, California, and the meetings on April 1, 2008, and [], which were telephonic meetings.

The Committee, through the Department, published [] releases in the **Federal Register** formally seeking public comment on issues under consideration. On October 31, 2007, the Committee published a release seeking comment on the Working Discussion Outline,¹⁵ in response to which we received seventeen written submissions. In addition, the Department announced each meeting of the Committee in the **Federal Register**, and in each announcement notice included an invitation to submit written statements to be considered in connection with the meeting.¹⁶ In response to these meeting notices, the Committee received [] written submissions. In total, the Committee received [] written submissions in response to **Federal Register** releases.¹⁷ All of the submissions made to the

subsequently updated in December 2007 and February 2008.

¹² 5 U.S.C. App. 2 § 1.

¹³ Appendix J contains a list of witnesses who testified before the Committee.

¹⁴ Appendix J contains a list of witnesses who testified before the Committee.

¹⁵ Request for Comments, 72 FR 61709 (U.S. Dep't of Treas. Oct. 31, 2007).

¹⁶ Notice of Meeting, 72 FR 55272 (U.S. Dep't of Treas. Sept. 28, 2007); Notice of Meeting, 72 FR 64283 (U.S. Dep't of Treas. Nov. 15, 2007); Notice of Meeting, 73 FR 2981 (U.S. Dep't of Treas. Jan. 16, 2008); Notice of Meeting, 73 FR 10511 (U.S. Dep't of Treas. Feb. 27, 2008); Notice of Meeting, 73 FR 13070 (U.S. Dep't of Treas. Mar. 11, 2008); Notice of Meeting, 73 FR 21016 (U.S. Dep't of Treas. Apr. 17, 2008).

¹⁷ All of the written submissions made to the Committee are available in the Department's Library, Room 1428 and on the Department's

Continued

¹ Treasury Secretary Henry M. Paulson, Jr., Remarks on the Competitiveness of U.S. Capital Markets at the Economic Club of New York (Nov. 20, 2006), in Press Release No. HP-174, U.S. Dep't of Treas. (Nov. 20, 2006) (included as Appendix C).

² Treasury Secretary Henry M. Paulson, Jr., Opening Remarks at Treasury's Capital Markets Competitiveness Conference at Georgetown University (Mar. 13, 2007), in Press Release No. HP-306, U.S. Dep't of Treas. (Mar. 13, 2007) (included as Appendix D).

³ Press Release, U.S. Dep't of Treas., Paulson Announces First Stage of Capital Markets Action

Committee will be archived and available to the public through the Department's Library.

In addition to work carried out by the full Committee, fact finding and deliberations also took place within three Subcommittees appointed by the Co-Chairs. The Subcommittees were organized according to their principal areas of focus: Human Capital, Firm Structure and Finances, and Concentration and Competition.¹⁸ Each of the Subcommittees prepared recommendations for consideration by the full Committee.

IV. Background

[Contents of Background to be included in subsequent drafts of this Report.]

V. Human Capital

The Committee devoted considerable time and effort surveying the human capital issues impacting the auditing profession, including education, licensing, recruitment, retention, and training of accounting and auditing professionals. The charter of the Committee charged its members with developing recommendations relating to the sustainability of the public company auditing profession. Likewise, the Committee directs the following recommendations and related commentary to those practicing public company auditing. However, the Committee recognizes that several of its recommendations regarding human capital matters would have impact beyond the public company auditing profession, impacting the accounting profession as a whole. The Committee views the accelerating pace of change in the global corporate environment and capital markets and the increasing complexity of business transactions and financial reporting as among the most significant challenges facing the profession as well as financial statement issuers and investors. These are directly impacted by human capital issues. To ensure its viability and resilience and its ability to meet the needs of investors, the public company auditing profession needs to continue to attract and develop professionals at all levels who are prepared to perform high quality audits in this dynamic environment. It is essential that these professionals be educated and trained to review, judge, and question all accounting and auditing matters with skepticism and a critical perspective. The recommendations presented below reflect these needs.

After receiving testimony from witnesses and from comment letters, the Committee identified specific areas where the Committee believed it could develop recommendations to be implemented in the relatively short term to enhance the sustainability of the auditing profession. These specific areas include accounting curricula, accounting faculty, minority representation and retention, and

Committee's Web page at <http://www.treas.gov/offices/domestic-finance/acap/press.shtml>. To avoid duplicative material in footnotes, citations to the written submissions made to the Committee in this Final Report do not reference the Department's Library, Room 1428.

¹⁸ For a list of members and their Subcommittee assignments, see Appendix K.

development and maintenance of human capital data. The Committee has also developed a recommendation to study the possible future of higher accounting education's institutional structure.

The Committee recommends that regulators, the auditing profession, educators, educational institutions, accrediting agencies, and other bodies, as applicable, effectuate the following:

Recommendation 1. Implement market-driven, dynamic curricula and content for accounting students that continuously evolve to meet the needs of the auditing profession and help prepare new entrants to the profession to perform high quality audits.

The Committee considered the views of all witnesses who provided input regarding accounting curricula at educational institutions.¹⁹ The Committee believes that the accounting curricula in higher education are critical to ensuring individuals have the necessary knowledge, mindset, skills, and abilities to perform quality public company audits. In order to graduate from an educational institution with an accounting degree, students must have completed a certain number of hours in accounting and business courses. Accounting curricula typically include courses in auditing, financial accounting, cost accounting and U.S. federal income taxation. Business curricula typically include courses in ethics, information systems and controls, finance, economics, management, marketing, oral and written communication, statistics, and U.S. business law.²⁰ Since the 1950s, several

¹⁹ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Joseph V. Carcello, Director of Research, Corporate Governance, University of Tennessee, Knoxville, 8), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Carcello120307.pdf> (noting the market's expectations that university accounting curricula will expose students to recent financial reporting developments, such as international financial reporting standards and eXtensible Business Reporting Language); Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 3) available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf> (stating the need to "[d]edicate funds and people to work with accounting professors to ensure that the curriculum is keeping pace with developments in business transactions, international economics and financial reporting" and specifying the need to focus on ethical standards and international accounting and auditing standards); Record of Proceedings (Dec. 3, 2007) (Written Submission of Dennis Nally, Chairman and Senior Partner, PriceWaterhouseCoopers LLP, 4), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Nally120307.pdf> (stating the need to "[m]odernize and enhance the university accounting curriculum, which should include consideration of other global curriculum models to increase knowledge of International Financial Reporting Standards (IFRS), finance and economics, and process controls").

²⁰ Record of Proceedings (Feb. 4, 2008) (Written Submission of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 13), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> (commenting that business students typically take two sophomore-level introductory accounting classes and accounting majors take six additional accounting courses in their final two years of schooling).

private sector groups have studied and recommended changes to the accounting curricula,²¹ but notwithstanding these pleas for reform, curricula are characteristically slow to change.²²

In this regard, the Committee makes the following recommendations:

(a) Regularly update the accounting certification examinations to reflect changes in the accounting profession, its relevant professional and ethical standards, and the skills and knowledge required to serve increasingly global capital markets.

Accounting and auditing professionals commonly complete the requirements of professional examinations in order to comply with legal or professional association requirements. To become licensed at the state level as a certified public accountant, an individual must, among other things, pass the Uniform CPA Examination. Professional examinations, such as the Uniform CPA

²¹ See e.g., Franklin Pierson, et al., *The Education of American Businessmen* (1959) (noting that the main goal of a business education should be the development of an individual with broad training in both the humanities and principles of business); Robert A. Gordon and James E. Howell, *Higher Education for Business* (1959) (suggesting that accounting curriculum abandon its emphasis on financial accounting and auditing while emphasizing humanities); Robert H. Roy and James H. MacNeill, *Horizons for a Profession* (1967) (emphasizing the importance of a humanities background for accountants and recommending accounting graduate study); American Institute of Certified Public Accountants, *Committee on Education and Experience Requirements for CPAs*, Report of the Committee on Education and Experience Requirements for CPAs (1969) (recommending a five-year education requirement for accounting students); American Institute of Certified Public Accountants, *Education Requirements for Entry into the Accounting Profession: A Statement of AICPA Policies* (1978) (recommending a change from five years to 150 semester-hours and recommending that a graduate degree requirement at the conclusion of the 150-hours should be explicitly stated); American Accounting Association, *Committee on the Future Structure, Content, and Scope of Accounting Education*, *Future Accounting Education: Preparing for the Expanding Profession*, Issues in Accounting Education (Spring 1986) (examining accounting education and accounting practice since 1925 and concluding that since 1925, the profession has changed while accounting education has not changed); American Institute of Certified Public Accountants, *Education Requirements for Entry into the Accounting Profession: A Statement of AICPA Policies*, Second Edition, Revised (1988) (requiring that at least 150 semester hours are needed to obtain a CPA license); Perspectives on Education: Capabilities for Success in the Accounting Profession (1989) (noting that graduates entering public accounting need to have greater interpersonal, communication, and thinking skills as well as greater business knowledge); and Accounting Education Change Commission, *Objectives of Education for Accountants: Position Statement Number One*, Issues in Accounting Education (Fall 1990a) (awarding grants to schools as a catalyst for curricula changes in accounting programs).

²² Record of Proceedings (Dec. 3, 2007) (Written Submission of Ira Solomon, R.C. Evans Distinguished Professor, and Head, Department of Accountancy, University of Illinois, 14-15), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Solomon120307.pdf> (lamenting the slow pace of change in accounting curricula and education).

Examination, influence the content of the technical, ethical, and professional materials comprising the accounting curricula.²³

The Committee believes that evolution of professional examination content serves as an important catalyst for curricular changes to reflect the dynamism and complexity of auditing public companies in global capital markets. The American Institute of Certified Public Accountants (AICPA) already regularly analyzes and updates its examination content, through practice content analysis and in conjunction with the AICPA Board of Examiners, which comprises members from the profession and state boards of accountancy. The Committee recommends that such changes remain a focus to ensure that examination content reflects in a timely manner important ongoing market developments and investor needs, such as the increasing use of international financial reporting standards (IFRS), expanded fair value measurement and reporting, increasingly complex transactions, new Public Company Accounting Oversight Board (PCAOB) auditing and professional standards,²⁴ risk-based business judgment, and technological innovations in financial reporting.

Moreover, the Committee believes that professional²⁵ and ethical standards²⁶ and subject matter relating to their application are an essential component of the accounting curricula and accordingly should be reflected in the professional examinations and throughout business and accounting coursework.

Finally, the Committee recommends that the market developments outlined in this section be reflected in professional examination content as soon as practicable, but not later than 2011. In addition, the Committee recommends that new evolving examination content be widely and promptly communicated to college and university faculty and administrators so that corresponding curricular changes in educational institutions can continually occur on a timely basis.

(b) Reflect real world changes in the business environment more rapidly in teaching materials.

Students are expected to use a variety of sources, such as textbooks and online materials, to learn. Such materials are an important element of higher education. The Committee learned that these commercial materials are generally conservatively managed and follow rather than lead recent

market developments.²⁷ Because developing accounting materials involves a significant investment of time and resources, commercial content providers carefully consider the potential risks and rewards before publishing new materials, even where a more prompt response to new developments might be beneficial to students.

The Committee believes that accounting educational materials can contribute to inducing curricular changes that reflect the dynamism and complexity of the global capital markets and that commercial content providers should recognize the importance of capturing recent developments in their published materials. Specifically, the Committee recommends that organizations, such as the AICPA and the American Accounting Association (AAA), meet with commercial content providers and encourage them to update their materials promptly to reflect recent developments such as the increasing use of IFRS, new PCAOB auditing and professional standards, risk-based business judgment and expanded fair value reporting, as well as technological developments in financial reporting and auditing such as eXtensible Business Reporting Language (XBRL).

Further, in order to ensure access to such materials, the Committee recommends that authoritative bodies and agencies should be encouraged to provide low-cost, affordable access to digitized searchable authoritative literature and materials, such as Financial Accounting Standards Board (FASB) codification and eIFRS, to students and faculty members. Moreover, since the content of professional examinations, such as the Uniform CPA Examination, is based upon research using digitized materials, students need to have access to, among other things, searchable accounting standards.²⁸ The Committee believes that low-cost affordable access to such primary materials would thus enhance student learning and performance and technical research.

(c) Require that schools build into accounting curricula current market developments.

A common theme of our first set of recommendations is that accounting curricula should reflect recent developments, including globalization and evolving market factors. As a further catalyst to curricula development and evolution by educational institutions, the Committee recommends ongoing attention to responsiveness to recent developments by the bodies that accredit educational institutions. Accrediting agencies review institutions of higher

education and their programs and establish that overall resources and strategies are conformed to the mission of the institutions. For example, the Association to Advance Collegiate Schools of Business (AACSB) and the Association of Collegiate Business Schools and Programs (ACBSP) accredit business administration and accounting programs. Since 1919, the AACSB has accredited business administration programs and, since 1980, accounting programs offering undergraduate and graduate degrees. The AACSB has accredited over 450 U.S. business programs and over 150 U.S. accounting programs. Since 1988, the ACBSP has accredited business programs offering associate, baccalaureate and graduate degrees. As of February 2008, over 400 educational institutions have achieved ACBSP accreditation. The accreditation standards at both accrediting agencies relate to, among other things, curricula, program and faculty resources, and faculty development.

The Committee believes that the accreditation process and appropriate accreditation standards can contribute to curricular changes. In particular, accreditation standards that embody curricular requirements to reflect the dynamism and complexity of the global capital markets and that evolve to keep pace in the future can be helpful in maintaining and advancing the quality of accounting curricula. The AACSB has emphasized in its accreditation standards that accounting curricula should reflect recent market developments. For example, educational institutions must include in their curricula international accounting issues in order to receive AACSB accreditation. The Committee supports the accrediting agencies' efforts to continually develop standards specifically emphasizing the need to update accounting programs.

Recommendation 2. Improve the representation and retention of minorities in the auditing profession so as to enrich the pool of human capital in the profession.

The auditing profession presents challenging and rewarding opportunities for those who pursue a career in auditing and the profession actively recruits talent from all backgrounds. Yet, the Committee was concerned by what it heard from individuals with various backgrounds about minority representation and retention in the auditing profession.²⁹ In 2004, minorities accounted for 23% of bachelor's degrees awarded in accounting, 21% of master's graduate degrees awarded in accounting, and 38% of doctoral

²³ Gary Sundem, *The Accounting Education Change Commission: Its History and Impact* Chapter 6 (1999), available at <http://aaahq.org/AECC/history/index.htm> ("[T]he CPA examination has certainly had a major influence on the accounting curriculum and on other aspects of accounting programs.").

²⁴ See e.g., *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, Auditing Standard No. 5* (Pub. Company Accounting Oversight Bd. 2007).

²⁵ See PCAOB Standards and Related Rules, available at http://www.pcaobus.org/Standards/Standards_and_Related_Rules/index.aspx.

²⁶ See PCAOB Interim Ethics Standards, available at http://www.pcaobus.org/Standards/Interim_Standards/Ethics/index.aspx.

²⁷ Subcommittee on Human Capital Record of Proceedings (Jan. 16, 2008) (Oral Remarks of Bruce K. Behn, President, Federation of Schools of Accountancy, and Ergen Professor of Business, Department of Accounting and Information Management, University of Tennessee, Knoxville).

²⁸ See Record of Proceedings (Feb. 4, 2008) (Written Submission of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 14), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> (affirming the need for student access to digitized searchable accounting and auditing materials).

²⁹ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Ira Solomon, R.C. Evans Distinguished Professor, and Head, Department of Accountancy, University of Illinois, 13), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Solomon120307.pdf>; Record of Proceedings (Dec. 3, 2007) (Questions for the Record of George S. Willie, Managing Partner, Bert Smith & Co., 2 (Jan. 30, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Willie120307.pdf>; Record of Proceedings (Dec. 3, 2007) (Written Submission of Julie K. Wood, Chief People Officer, Crowe Chizek and Company LLC, 2) available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Wood120307.pdf>.

degrees awarded in accounting-related studies.³⁰ In 2004, African Americans represented 1% of all CPAs, Hispanic/Latino, 3%, and Asian/Pacific Islander, 4%.³¹ African Americans accounted for 5.4% of new hires in 2007 in the largest six accounting firms, Hispanics, 4.6%, and Asians, 21.3%.³² In 2007, 1.0% of the partners in the six largest accounting firms were African American, 1.6% were Hispanic/Latino, 3.4% were Asian, and less than 1.0% were Native Hawaiian/Pacific Islander or American Indian/Alaska Native, aggregating less than 7% of the total partners.³³

The Committee recognizes that important groups within the minority population are significantly under-represented in the accounting and auditing profession, especially at senior levels, and this under-representation of minorities in the profession is unacceptable from both a societal and business perspective. As the demographics of the global economy continue to expand ethnic diversity, it is imperative that the profession also reflect these changes. The auditing profession's historic role in performing audits in an increasingly diverse global setting and in establishing investor trust cannot be maintained unless the profession itself is viewed as open and representative. To ensure the continued health and vibrancy of the profession, it is imperative that all participants in the financial, investor, educator, and auditor community adopt and implement policies, programs, practices, and curricula designed to attract and retain minorities. In order for minority participation in the accounting and auditing profession to grow and sustain itself, minority recruitment and retention needs to be a multi-faceted, multi-year effort, implemented and championed by community leaders, families, and most importantly business and academic leaders who educate, recruit, employ, and rely on accountants and auditors.

In this regard, the Committee recognizes the importance of setting goals and measuring progress against these goals and thus makes the following recommendations:

(a) Recruit minorities into the auditing profession from other disciplines and careers.

The Committee heard from witnesses that the auditing profession has "fallen short" on

its minority recruitment goals.³⁴ Accordingly, the Committee recommends that auditing firms actively market to and recruit from minority non-accounting graduate populations, both at the entry and experienced hire level, utilizing cooperative efforts by academics and firm-based training programs to assist in this process. Generally, auditing firms hire individuals for the audit practice who are qualified to sit for the Uniform CPA Examination.³⁵

Further, the Committee recommends that auditing firms expand their recruitment initiatives at historically black colleges and universities (HBCUs), and explore the use of proprietary schools as another way to recruit minorities into the profession. Currently over 100 educational institutions established before 1964 to serve the African American community are designated as HBCUs and over fifty of these HBCUs maintain accounting programs. Approximately 290,000 students are enrolled in HBCUs³⁶ and HBCUs enroll 14% of all African American students in higher education.³⁷ Twenty-seven HBCUs have one or more of the six largest accounting firms recruiting professional staff on their campus.³⁸ Both the number of these schools visited by the largest firms and the number of firms recruiting at these schools should increase. Proprietary schools are for-profit businesses that teach vocational or occupational skills and there are over 2,000 proprietary schools in the United States.³⁹ In 2005, these schools enrolled over 1 million students: African Americans accounted for 23% of these students, Hispanics, 13%, and Asian/Pacific Islander, 4%.⁴⁰

(b) Emphasize the role of community colleges in the recruitment of minorities into the auditing profession.

³⁴ See e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Julie K. Wood, Chief People Officer, Crowe Chizek and Company LLC, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Wood120307.pdf> (admitting an auditing firm had not met its goals in minority recruitment).

³⁵ See Record of Proceedings (Dec. 3, 2007) (Questions for the Record of James S. Turley, Chairman and Chief Executive Officer, Ernst & Young LLP, 4 (Feb. 1, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/QFRs-12-3-07.pdf> (noting that since 1997, Ernst & Young LLP has typically hired individuals qualified to sit for the Uniform CPA Examination).

³⁶ Stephen Provasnik and Linda L. Shafer, *Historically Black Colleges and Universities, 1976 to 2001 2* (NCES 2004-062), available at <http://nces.ed.gov/pubs2004/2004062.pdf>.

³⁷ White House Initiative on Historically Black Colleges and Universities, available at <http://www.ed.gov/about/initiatives/list/whhbcu/edlite-index.html>.

³⁸ Center For Audit Quality, Supplement to Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession 1 (Mar. 5, 2008).

³⁹ Thomas D. Snyder, Sally A. Dillow, and Charlene M. Hoffman, *Digest of Education Statistics 2007 Table 5* (NCES 2008-022), available at <http://nces.ed.gov/pubs2008/2008022.pdf>.

⁴⁰ Thomas D. Snyder, Sally A. Dillow, and Charlene M. Hoffman, *Digest of Education Statistics 2007 Table 220* (NCES 2008-022), available at <http://nces.ed.gov/pubs2008/2008022.pdf>.

Community colleges are a vital part of the postsecondary education system. They provide open access to post-secondary education, preparing students for transfer to four-year institutions, providing workforce development and skills training, and offering non-credit programs. Moreover, as the cost of higher education continues its upward climb, more and more high-achieving students are beginning their post-secondary study through the community college system.

As of January 2008, approximately 11.5 million students were enrolled in the 1,200 community colleges in the United States: African Americans accounted for 13% of these students, Hispanics, 15%, and Asian/Pacific Islander, 6%.⁴¹

In August 1992, the Accounting Education Change Commission (AECC), created in the late 1980s by the academic community to examine potential changes to accounting education, recognized the importance of two-year colleges in accounting education. The AECC noted that over half of all students taking their first course in accounting do so at two-year colleges and that approximately one-fourth of the students entering the accounting profession take their initial accounting coursework at two-year colleges. The AECC called for "greater recognition within the academic and professional communities of the efforts and importance of two-year accounting programs."⁴²

The Committee also heard from witnesses emphasizing the need to expand minority recruitment initiatives at community colleges.⁴³

The Committee believes that more attention to community colleges may provide, in addition to an increase in the overall supply of students, another avenue for minorities to become familiar with and attracted to the auditing profession. Currently none of the largest auditing firms recruit at community colleges because "individuals who only have associate degrees typically will not have sufficient qualifications to satisfy state licensing requirements."⁴⁴ The Committee recommends that accreditation of two-year college accounting programs at

⁴¹ American Association of Community Colleges, available at <http://www2.aacc.nche.edu/research/index.htm>.

⁴² Accounting Education Change Commission, *Issues Statement Number 3: The Importance of Two-Year Colleges for Accounting Education* (Aug. 1992) available at <http://aaahq.org/aecc/PositionsandIssues/issues3.htm>.

⁴³ Record of Proceedings (Feb. 4, 2008) (Written Submission of Gilbert R. Vasquez, Managing Partner, Vasquez & Company LLP, 4), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Vasquez02042008.pdf> (noting that auditing firms overlook community colleges where minorities, and specifically Latinos, represent a large student population); Record of Proceedings (Dec. 3, 2007) (Questions for the Record of George S. Willie, Managing Partner, Bert Smith & Co., 2 (Jan. 30, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/QFRs-12-3-07.pdf> (recommending that the auditing profession increase its visibility at community colleges).

⁴⁴ Center For Audit Quality, Supplement to Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession 1 (Mar. 5, 2008).

community colleges be explored and implemented when viable, so that these programs can be relied upon as one of the requisite steps toward fulfilling undergraduate educational requirements. Further, the Committee recommends that auditing firms and educational institutions at all levels support and cooperate in building strong fundamental academic accounting programs at community colleges, including providing internships or financial support for students who begin their studies in two-year programs and may be seeking careers in the auditing profession. The Committee also recommends that auditing firms and four-year colleges and universities and their faculty focus on outreach to community college students in order to support students' transition from community colleges to four-year educational institutions.

(c) Emphasize the utility and effectiveness of cross-sabbaticals and internships with faculty and students at Historically Black Colleges and Universities.

As discussed above, African Americans are significantly under-represented in the auditing profession.

The Committee recommends encouraging a concerted effort to increase the focus upon HBCUs in order to raise the number of African Americans in the auditing profession and urging the HBCUs, auditing firms, corporations, federal and state governments, and other entities to emphasize the use of cross-sabbaticals. Cross-sabbaticals are interactive relationships where faculty and seasoned professionals are regularly represented in the practice and academic environments through exchanges. Evidence suggests that such exchanges can be beneficial, and continued development of such exchanges is expected to provide substantial benefits for all parties.⁴⁵ Cross-sabbaticals present an opportunity for "reflective thinking" for seasoned professionals.⁴⁶

In addition, the Committee recommends that the over fifty HBCUs with accounting

⁴⁵ See Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf> (recommending encouraging sabbaticals, internships, and fellowship opportunities, structured to give faculty opportunities to conduct research for promotion and tenure); Record of Proceedings (Feb. 4, 2008) (Oral Remarks of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 68), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-2-4-08.pdf> (stating that sabbaticals deliver professors "a wealth of knowledge they could bring back in the classroom").

⁴⁶ See Record of Proceedings (Mar. 13, 2008) (Oral Remarks of H. Rodgin Cohen, Chairman, Sullivan & Cromwell LLP, 69), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-03-13-08.pdf> (noting that spending time in the classroom should "give the [practicing accountant] the time to do the reflective thinking."); Record of Proceedings (Mar. 13, 2008) (Oral Remarks of Zoe-Vonna Palmrose, Deputy Chief Accountant, SEC), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-03-13-08.pdf> (commenting that sabbaticals provide the "opportunity for reflective thinking").

programs require one member of their accounting faculty annually to participate in a cross-sabbatical with a private or public sector entity. The Committee also recommends that the private and public sector entities provide these opportunities, as well as focus on other arrangements to build relationships at these educational institutions.

The Committee received testimony regarding the lack of minority mentors and role models⁴⁷ and notes that the profession has recognized this situation.⁴⁸ Thus, the Committee also recommends that public company auditing firms intensify their efforts to create internships and mentoring programs for students in accounting and other complementary disciplines, including those from HBCUs and community colleges, as a means to increase the awareness of the accounting profession and its attractiveness among minority students.

(d) Increase the numbers of minority accounting doctorates through focused efforts.

Some dedicated programs have succeeded in attracting minorities to enter and complete accounting doctoral studies.⁴⁹ In particular, the PhD Project, an effort of the KPMG Foundation, has worked to increase the diversity of business school faculty.⁵⁰ The PhD Project focuses on attracting minorities to business doctoral programs, and provides a network of peer support. Since the PhD Project's establishment in 1994, the number of minority professors at U.S. business schools has increased from 294 to 889.⁵¹

⁴⁷ See Record of Proceedings (Feb. 4, 2008) (Written Submission of Gilbert R. Vasquez, Managing Partner, Vasquez & Company LLP, 4), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Vasquez02042008.pdf> (highlighting the lack of Hispanic role models and mentors in the accounting profession).

⁴⁸ See Record of Proceedings (Dec. 3, 2007) (Questions for the Record of George S. Willie, Managing Partner, Bert Smith & Co., 2 (Jan. 30, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Willie120307.pdf> (recommending the establishment of a mentor program for minority accounting students); Record of Proceedings (July 12, 2006) (Written Testimony of Manuel Fernandez, National Managing Partner—Campus Recruiting, KPMG LLP, to the Subcommittee on Oversight and Investigations of the House Financial Services Committee, 5), available at <http://financialservices.house.gov/media/pdf/071206mf.pdf> (identifying the lack of minority faculty mentors and role models and noting "[w]hen students of color do not see professors of their own ethnic background on the accounting faculty, they are less apt to consider the option of a career in accountancy").

⁴⁹ For a list of educational support programs that auditing firms are sponsoring, see Record of Proceedings (Feb. 4, 2008) (Written Submission of Barry Salzberg, Chief Executive Officer, Deloitte LLP, Appendix A), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Salzberg020408.pdf>.

⁵⁰ For further information on the PhD Project, see <http://www.phdproject.org/mission.html>.

⁵¹ Record of Proceedings (Feb. 4, 2008) (Written Submission of Barry Salzberg, Chief Executive Officer, Deloitte LLP, Appendix A), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Salzberg020408.pdf>.

Ninety percent who enter the PhD Project earn their doctorates, and 99% of those who completed their doctorates go on to teach.⁵² The PhD Project has received over \$17.5 million⁵³ in funding since 1994 from corporations, foundations, universities, and other interested parties.⁵⁴

The Committee believes that programs such as these can successfully recruit minorities to accounting doctoral studies. The Committee recommends that auditing firms, corporations, and other interested parties advertise existing and successful efforts to increase the number of minority doctorates by developing further dedicated programs. Additionally, the Committee recommends that auditing firms, corporations, and other interested parties maintain and increase the funding of these programs.

Recommendation 3. Ensure a sufficiently robust supply of qualified accounting faculty to meet demand for the future and help prepare new entrants to the profession to perform high quality audits.

The Committee heard testimony from individuals regarding the need to have an adequate supply of faculty with the knowledge and experience to develop qualified professionals for the increasingly complex and global auditing profession.⁵⁵

The Committee recognizes that there is a high level of concern about the adequacy of both the near and the long-term supply of doctoral faculty, especially given the anticipated pace of faculty retirements. According to National Study of Postsecondary Faculty data, the number of

⁵² See Jane Porter, *Going to the Head of the Class: How the PhD Project is Helping to Boost the Number of Minority Professors in B-schools*, BUSINESS WEEK ONLINE, Dec. 27, 2006, available at http://www.businessweek.com/schools/content/dec2006/bs20061227_926455.htm.

⁵³ See Record of Proceedings (July 12, 2006) (Written Testimony of Manuel Fernandez, National Managing Partner—Campus Recruiting, KPMG LLP, to the Subcommittee on Oversight and Investigations of the House Financial Services Committee, 5), available at <http://financialservices.house.gov/media/pdf/071206mf.pdf>.

⁵⁴ For further information on the PhD Project, see http://www.phdproject.org/corp_sponsors.html.

⁵⁵ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of David W. Leslie, Chancellor Professor of Education, College of William and Mary), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Leslie120307.pdf> (noting a 13.3% decline in accounting faculty from 1988 to 2004); Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Nusbaum020408.pdf> (stating that "recent years have seen a reduction in accounting faculty, based on a wave of retirements and lack of accounting PhDs coming into the system."); Record of Proceedings (Dec. 3, 2007) (Written Submission of Ira Solomon, R.C. Evans Distinguished Professor, and Head, Department of Accountancy, University of Illinois, 4), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Solomon120307.pdf> (stating that "the number of persons entering accountancy doctoral programs is too low to sustain the accountancy professoriate.").

full- and part-time accounting faculty at all types of educational institutions fell by 13.3% from 20,321 in 1993 to 17,610 in 2004, while student (undergraduate) enrollment has increased by 12.3% over the same period.⁵⁶ Moreover, the current pipeline of doctoral faculty is not keeping pace with anticipated retirements. In November 2006, it was estimated that one-third of the approximately 4,000 accounting doctoral faculty in the United States were 60 years old or older, and one-half were 55 years old or older.⁵⁷ The average retirement age of accounting faculty was 62.4 years.

In terms of specialization within the accounting discipline, an AAA study concluded that only 22% and 27% of the projected demand for doctoral faculty in auditing and tax, respectively, will be met by expected graduations in the coming years.⁵⁸ However, 91% and 79% of the projected demand for doctoral faculty in financial accounting and managerial accounting, respectively, will be met.⁵⁹

In addition to the accounting faculty supply issues, the Committee heard testimony from witnesses on the need to ensure faculty are qualified and able to teach students the latest market developments, such as fair value accounting and IFRS. The Committee learned that often new accounting faculty may have little practical experience.⁶⁰ Witnesses testified to the difficulty of academics' acquiring "practice-oriented" knowledge as the bond between the profession and academia is underdeveloped. Witnesses did suggest improving these relationships with incentives for sabbaticals and sharing practice experience.⁶¹

⁵⁶ Record of Proceedings (Dec. 3, 2007) (Written Submission of David W. Leslie, Chancellor Professor of Education, College of William and Mary), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Leslie120307.pdf>.

⁵⁷ James R. Hasselback, 2007 Analysis of Accounting Faculty Birthdates, available at <http://aaahq.org/temp/phd/JimHasselbackBirthdateSlide.pdf>.

⁵⁸ R. David Plumlee, Steven J. Kachelmeier, Silvia A. Madeo, Jamie H. Pratt, and George Krull, *Assessing the Shortage of Accounting Faculty*, 21 Issues in Accounting Education, No. 2, 119 (May 2006).

⁵⁹ R. David Plumlee, Steven J. Kachelmeier, Silvia A. Madeo, Jamie H. Pratt, and George Krull, *Assessing the Shortage of Accounting Faculty*, 21 Issues in Accounting Education, No. 2, 119 (May 2006).

⁶⁰ Record of Proceedings (Dec. 3, 2007) (Written Submission of Joseph V. Carcello, Director of Research, Corporate Governance, University of Tennessee, Knoxville, 21), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Carcello120307.pdf>.

⁶¹ Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf> (noting that the auditing firms recognize the need to be more active in sharing practical experiences with academics); Record of Proceedings (Feb. 4, 2008) (Written Submission of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 19), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> ("[R]elationships between practitioners and academics have so diminished

In this regard, the Committee makes the following recommendations:

(a) Increase the supply of accounting faculty through public and private funding and raise the number of professionally qualified faculty that teach on campuses.

The Committee recognizes that ensuring an adequate supply of doctoral accounting faculty in higher education is crucial to both retaining the academic standing of the discipline on campus and developing well-prepared and educated entry-level professionals. The resource represented by these professionals is essential for high quality audits. The Committee believes that high quality audits are critical to well-functioning capital markets, and therefore the funding necessary to provide the healthy pipeline of doctoral accounting faculty to assist in providing these human capital resources must be provided. The Committee therefore recommends expanding government funding, at both the federal and state level, for accounting doctoral candidates. The Committee also recommends that private sources (including corporations, institutional investors, and foundations as well as auditing firms) continue to be encouraged to fund accounting doctoral candidates. The Committee recognizes and commends the auditing firms' support of doctoral candidates.⁶²

Currently, minimum accreditation requirements for accountancy faculty typically require that approximately 50% of full-time faculty have a doctoral degree. Commonly, business school deans and academic vice presidents (those making the budgetary decisions regarding faculty allotments on campuses) interpret this accreditation requirement to require that a minimum of 50% of a department's faculty hold an earned doctorate and are actively engaged in research and publication activity. Although a high percentage of faculty are expected to be professionally qualified (i.e., having recent direct business experience), at times gatekeepers for budget allocations may be less enthusiastic about maximizing the number of professionally qualified teaching slots in a given program. The Committee sees benefits to the increased participation of professionally qualified and experienced faculty, who would bring additional practical business experience to the classrooms, and notes that witnesses and commenters have underscored the benefits of professionally qualified and experienced faculty.⁶³

that they are little more than formal liaison assignments involving very few parties from any side * * * [w]here there have been opportunities for interaction (curriculum issues, policy deliberations, research matters), those opportunities have been embraced perceptibly less often").

⁶² See Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf>.

⁶³ See Andrew D. Bailey, Jr., Professor of Accountancy-Emeritus, University of Illinois, and Senior Policy Advisor, Grant Thornton LLP, Comment Letter Regarding Discussion Outline 19 (Jan. 30, 2008), available at http://www.treas.gov/_files/BAILEYCOMMENTSONTREASURYADVISORYCOMMITTEEOUTLINEFINALSUBMISSION13008.doc (stating that

Therefore, the Committee recommends that accrediting agencies continue to actively support faculty composed of academically and professionally qualified and experienced faculty.

(b) Emphasize the utility and effectiveness of cross-sabbaticals.

As discussed above, cross-sabbaticals are interactive relationships where faculty and seasoned professionals are regularly represented in the practice and academic environments through exchanges. For example, currently, the Securities and Exchange Commission (SEC) and the FASB offer fellowship programs for professional accountants and accounting academics. Evidence suggests that such exchanges can be beneficial, and continued development of such exchanges is expected to provide substantial benefits for all parties.⁶⁴ Cross-sabbaticals present an opportunity for "reflective thinking" for seasoned professionals.⁶⁵ Academics often face the disincentive of being forced to forgo their full salaries in order to engage in such sabbaticals,⁶⁶ and colleges and universities may not encourage professional practice sabbaticals, preferring that the focus of faculty be directed exclusively toward academic research and the number and placement of scholarly articles. The Committee believes that changing both the academic and practice culture will require a

"[t]here are clearly practice professionals that make excellent contributions to some of the most highly rated accounting programs in the country"); Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 3) available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf> (stating that accreditation bodies "revise accreditation standards to allow the employment of more audit professionals, either active or retired, as adjunct professors").

⁶⁴ See Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf> (recommending encouraging sabbaticals, internships, and fellowship opportunities, structured to give faculty opportunities to conduct research for promotion and tenure); Record of Proceedings (Feb. 4, 2008) (Oral Remarks of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 68), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> (stating that sabbaticals deliver professors "a wealth of knowledge they could bring back in the classroom").

⁶⁵ See Record of Proceedings (Mar. 13, 2008) (Oral Remarks of H. Rodgin Cohen, Chairman, Sullivan & Cromwell LLP, 69), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-03-13-08.pdf>; Record of Proceedings (Mar. 13, 2008) (Oral Remarks of Zoe-Vonna Palmrose, Deputy Chief Accountant, SEC, 67), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-03-13-08.pdf>.

⁶⁶ Record of Proceedings (Feb. 4, 2008) (Oral Remarks of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 67-69), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> (noting the financial disincentives associated with sabbaticals).

plan and commitment of support at the highest institutional levels.

Specifically, the Committee recommends that educational institutions, auditing firms, corporations, federal and state regulators, and others engage in a two-fold strategy to both encourage cross-sabbaticals and eliminate financial or career disincentives for participating in such experiences. Further, the Committee recommends that university administrators place as high a value on professional sabbaticals for purposes of promotion and tenure for research and scholarly publication.

The Committee also recommends that accrediting agencies establish an expectation that at least one full-time member per year of each accounting faculty group participate in a sabbatical with a private sector or a governmental entity. Auditing firms, corporations, government agencies, and universities should be expected to provide these opportunities with the elimination of any financial disincentives. Further, the Committee recommends expanding faculty fellowship programs in agencies, such as those at the SEC and the FASB, and making them available at the PCAOB. The successful long-term operation of these programs at the SEC and the FASB and the application of appropriate conflict-of-interest and recusal rules have demonstrated that these programs can be maintained and expanded while protecting against conflicts of interest.

(c) Create a variety of tangible and sufficiently attractive incentives that will motivate private sector institutions to fund both accounting faculty and faculty research, to provide practice materials for academic research and for participation of professionals in behavioral and field study projects, and to encourage practicing accountants to pursue careers as academically and professionally qualified faculty.

As discussed above, there are concerns about the adequate supply of accounting faculty and about the need to have faculty who can inject more practical experience into classroom learning. Currently, there are few specific financial incentives encouraging private sector funding of accounting doctoral faculty or sponsoring of professional accountants to teach at educational institutions. Nonetheless, the Committee notes that the profession recognizes the need to support initiatives to increase faculty and is currently directing its efforts to raise funds for such a new initiative.⁶⁷

The Committee also heard from several witnesses regarding the unavailability of data relating to auditing practice and the impact this lack of data has on research and potentially on the profession's sustainability. In particular, witnesses stated that the

⁶⁷ See Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf> (stating that "[b]ecause of the profession's concern over the shortage of qualified faculty to teach accounting, the AICPA Foundation, along with the 80 largest CPA firms, are working to raise more than \$17 million to fund additional PhD candidates at participating universities").

decline in auditing research materials, including archival or experimental data will lead to a further decline in faculty and doctoral students specializing in auditing.⁶⁸ Since educational institutions normally require publications in top tier journals for promotion or tenure, faculty and doctoral students will conduct research in accounting areas where data are prevalent.

The Committee also heard that encouraging more professionally qualified and experienced faculty will foster a stronger relationship between academia and the profession.⁶⁹ Currently, there exists a need for more interaction between academia and the profession.⁷⁰ Encouraging practicing accountants to pursue careers as academically and professionally qualified faculty would bring practical business experience to classrooms so that students are better prepared to perform quality audits in the dynamic business environment.

Finally, the Committee recommends that Congress pass legislation creating a variety of tangible incentives for private sector institutions to establish support for accounting and auditing faculty and faculty research, to facilitate access to research data and individuals, and to sponsor transition of professional accountants from practice to teaching positions. These incentives must be sufficiently attractive to companies and auditing firms to effect rapid behavioral change, and should avoid cumbersome levels of administration. The Committee believes that these incentives would provide the

⁶⁸ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Joseph V. Carcello, Director of Research, Corporate Governance, University of Tennessee, Knoxville, 21), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Carcello120307.pdf> ("[D]octoral students in * * * [a 2007] Deloitte [Foundation] study indicated that lack of access to public accounting firm and client data represented a severe obstacle to the research they want to conduct, and that this difficulty might result in them focusing on a different accounting sub-area. This issue must be addressed, or auditing may cease to exist as a discipline on many university campuses."); Record of Proceedings (Feb. 4, 2008) (Written Submission of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 8), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> (recommending the development of a means "for researchers to gain access to auditing related data" and noting, without this means, interest in doctoral auditing programs will continue to decline); Record of Proceedings (Dec. 3, 2007) (Written Submission of Ira Solomon, R.C. Evans Distinguished Professor, and Head, Department of Accountancy, University of Illinois, 7), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Solomon120307.pdf> (noting the lack of auditing research data and the "drastic decline in auditing research among extant accountancy faculty and among accountancy doctoral students").

⁶⁹ Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf>.

⁷⁰ Record of Proceedings (Feb. 4, 2008) (Written Submission of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 19), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf>.

necessary impetus to private sector institutions to help increase the number of accounting faculty as well as faculty with significant practical experience.

Recommendation 4. Develop and maintain consistent demographic and higher education program profile data.

The Committee heard testimony regarding the lack of consistent demographic and higher education program profile data concerning the profession.⁷¹ The need for comparable, consistent, periodic information regarding the demographic profile of professional accountants and auditors, related higher education program capacity, entry-level supply and demand of personnel, accounting firm retention and compensation practices, and similar particulars are fundamental to a meaningful understanding of the human capital circumstances which affect the public company auditing profession and its future and sustainability.

Historically, there has been neither an ongoing collection of data nor a centralized location where the general public can access data. For instance, the AICPA publishes a supply and demand study every two years. Additionally, various other groups, such as the AAA, NASBA, colleges and universities, and individuals collect some of these data but not in a manner available and useful for research.

Materials such as those supplied by the Center for Audit Quality to the Committee,⁷² previous AICPA Supply and Demand studies⁷³ and AAA-commissioned demographic research⁷⁴ provide examples of

⁷¹ See e.g., Record of Proceedings (Dec. 3, 2007) (Questions for the Record of David A. Costello, President and Chief Executive Officer, National Association of State Board of Accountancy, 2-4 (Feb. 6, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/QFRs-12-3-07.pdf> (stating that "[s]ince 1970, * * * NASBA and the AICPA have recognized the need for a national database for Certified Public Accountants and have taken steps leading to the development of the database * * * [c]urrently, NASBA is not aware of a mechanism or database which would provide an accurate count of CPAs, without the effect of 'double counting.'"); Julia Grant, *Demographic Challenges Facing the CPA Profession*, 20 Research in Accounting Regulations 5 (2007) (forthcoming); Record of Proceedings (Dec. 3, 2007) (Written Submission of Ira Solomon, R.C. Evans Distinguished Professor, and Head, Department of Accountancy, University of Illinois, 13), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Solomon120307.pdf> (noting the lack of comprehensive accounting profession supply and demand data and recommending the "establishment of a continuous and comprehensive system that produces more timely and reliable supply and demand data").

⁷² Center For Audit Quality, Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession (Jan. 23, 2008).

⁷³ Beatrice Sanders and Leticia B. Romeo, The Supply of Accounting Graduates and the Demand for Public Accounting Recruits—2005: For Academic Year 2003–2004 (2005), available at http://ceae.aicpa.org/NR/rdonlyres/11715FC6-F0A7-4AD6-8D28-6285CBE77315/0/Supply_DemandReport_2005.pdf.

⁷⁴ David Leslie, Accounting Faculty in U.S. Colleges and Universities: Status and Trends, 1993–2004, A Report of the American Accounting Association (Feb. 19, 2008).

the necessary information. In addition, AICPA membership trends, augmented by data available from state boards of accountancy regarding numbers of licensees, may be useful data.

Therefore, the Committee recommends the establishment of a national cooperative committee, comprised of organizations such as the AICPA and the AAA, to encourage periodic consistent demographic and higher education program profile data. The Committee believes that having such data available will increase the ability of auditing firms, corporations, investors, academics, policy makers, and others to understand more fully, monitor and evaluate, and take necessary or desirable actions with respect to the human capital in the auditing profession and its future and sustainability.

Recommendation 5. Encourage the AICPA and the AAA to jointly form a commission to provide a timely study of the possible future of the higher education structure for the accounting profession.

The Committee heard testimony regarding the feasibility of establishing a free-standing, post-graduate professional educational structure.⁷⁵ Currently, there is no post-graduate institutional arrangement dedicated to accounting and auditing. Graduate programs in accounting are generally housed within business schools and linked with undergraduate accounting programs.

The history of the development of U.S. educational programs and preparation for accounting careers reveals a pattern of evolution of increasing formal higher education, with accreditation standards following and reinforcing this evolution, and with market needs providing the impetus and context. Today, accrediting agencies have recognized over 150 accounting programs as the result of these programs' improving accounting education as envisioned by prior studies and reports.

In a November 2006 Vision Statement, the chief executive officers of the principal international auditing networks noted the challenges in educating future auditing professionals, including the sheer quantity and complexity of accounting and auditing standards, rapid technological advancements, and the need for specialized industry knowledge.⁷⁶ This development in the market leads to a clear need to anticipate and enhance the human capital elements of the auditing profession. As such, this vision statement provides the impetus to

⁷⁵ See, e.g., Record of Proceedings (Dec. 3, 2007) (Oral Submission of Joseph V. Carcello, Director of Research, Corporate Governance, University of Tennessee, Knoxville, 3), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/CarcelloOralStatement120307.pdf> (recommending that "the Advisory Committee consider a different model—an education model involving professional schools of auditing * * *"); Record of Proceedings (Feb. 4, 2008) (Written Submission of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 3), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> (discounting the feasibility of free-standing professional schools).

⁷⁶ Global Capital Markets and the Global Economy: A Vision From the CEOs of the International Audit Networks 15 (Nov. 2006).

commission a group to study and propose a long-term institutional arrangement for accounting and auditing education.

As in the past, in the face of challenges of the changing environment for the profession, the Committee believes that the educational system should thoughtfully consider the feasibility of a visionary educational model. Therefore, the Committee recommends that the AICPA and the AAA jointly form a body to provide a timely study of the possible future of the higher education structure for the accounting profession. This commission may include representation from higher education, practitioners from the wide spectrum of the accounting and auditing profession, regulators, preparers, users of the profession's services, and others. The commission would consider the potential role of a postgraduate professional school model to enhance the quality and sustainability of a vibrant accounting and auditing profession. The commission should consider developments in accounting standards and their application, auditing needs, regulatory framework, globalization, the international pool of candidates, and technology. Finally, a blueprint for this sort of enhanced professional educational structure would also require the consideration of long-term market circumstances, academic governance, operations, programs, funding and resources, the role of accreditation, and experiential learning processes.

Other Issues Under Consideration

The Committee is also considering and debating a variety of other issues. Further elaboration on these issues will be included in subsequent drafts of this Report.

VI. Firm Structure and Finances

In addressing the sustainability of the auditing profession, the Committee sought input on and considered a number of matters relating directly to auditing firms, including audit quality, governance, transparency, global organization, financial strength, ability to access capital, the investing public's understanding of auditors' responsibilities and communications, the limitations of audits, particularly relating to fraud detection and prevention, as well as the effect of litigation where audits are alleged to have been ineffective. The Committee also considered the regulatory system applicable to auditing firms.

While much data was available to the Committee, such information was not exhaustive. Certain information regarding auditors of public companies, the auditor of record, and audit fees is readily available. Auditing firms also provide on a voluntarily basis certain other information they believe useful to clients, regulators, and/or investors. Also, in connection with the work of the Committee, the largest firms provided certain additional input, through the Center for Audit Quality (CAQ), sometimes by individual firm and sometimes in summarized format.⁷⁷

⁷⁷ Center For Audit Quality, Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession (Jan. 23, 2008); Center for Audit Quality,

After reviewing these data and receiving testimony from witnesses and comment letters, the Committee focused on a few specific areas: Fraud prevention and detection; federal and state regulatory system; governance; and disclosure of auditor changes.

The Committee recommends that regulators, the auditing profession, and others, as applicable, effectuate the following:

Recommendation 1. Strengthen auditing firms' fraud detection and prevention skills and clarify communications with investors regarding auditing firms' fraud detection responsibilities.

Public Company Accounting Oversight Board (PCAOB) standards currently require auditors to plan and perform audits to obtain reasonable assurance whether financial statements are free of material misstatement, including those caused by fraud.⁷⁸ The Committee considered testimony and commentary regarding auditing firms' responsibilities and practices relating to fraud prevention and detection.⁷⁹ The auditing profession itself has recognized the significance of its duties with respect to fraud: "Perhaps no single issue is the subject of more confusion, yet is more important, than the nature of the obligation of auditors to detect fraud—or intentional material misstatement of financial information by public companies."⁸⁰

The Committee believes that continued enhancement of auditors' fraud prevention and detection skills will improve financial reporting and audit quality and enhance investor confidence in financial reporting and the auditing function. In that regard, the Committee recommends the following:

(a) Urge the creation of a national center to facilitate auditing firms' and other market participants' sharing of fraud prevention and detection experiences, practices, and data and innovation in fraud prevention and detection methodologies and technologies, and commission research and other fact-finding regarding fraud prevention and detection, and further, the development of best practices regarding fraud prevention and detection.

No formal forum currently exists where auditors and other market participants

Second Supplement to Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession (Apr. 16, 2008).

⁷⁸ Consideration of Fraud in a Financial Statement, Interim Auditing Standard AU 316 (Pub. Company Accounting Oversight Bd. 2002).

⁷⁹ See, e.g., Andrew D. Bailey, Jr., Professor of Accountancy-Emeritus, University of Illinois, and Senior Policy Advisor, Grant Thornton LLP, Comment Letter Regarding Discussion Outline 4 (Jan. 30, 2008), available at http://comments.treas.gov/_files/BAILEYCOMMENTS ONTREASURYADVISORYCOMMITTEEOUTLINE FINALSUBMISSION13008.doc; Record of Proceedings (Feb. 4, 2008) (Written Submission of Dennis Johnson, Senior Portfolio Manager, Corporate Governance, California Public Employees' Retirement System, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Johnson020408.pdf>.

⁸⁰ Serving Global Capital Markets and the Global Economy: A View from the CEOs of the International Audit Networks 12 (Nov. 2006).

regularly share their views and experiences relating to fraud prevention and detection in the context of fraudulent financial reporting. The Committee received testimony that it would improve audit quality and benefit the capital markets and investors and other financial statement users for auditing firms to share their fraud detection experiences⁸¹ and to develop best practices relating to fraud prevention and detection.⁸²

The Committee believes that a collective sharing of fraud prevention and detection experiences among auditors and other market participants will provide a broad view of auditor practices and ultimately improve fraud prevention and detection capabilities and enable the development of best practices. The Committee also believes that research into industry trends and statistics will help auditors focus and develop procedures to identify areas and situations at greater risk for fraud. The Committee believes that best practices regarding fraud prevention and detection will enhance the internal processes and procedures of auditing firms.

The Committee recommends the creation of a national center both to facilitate auditing firms' sharing of fraud prevention and detection experiences, practices, and data and innovation in fraud prevention and detection methodologies and technologies and to commission research and other fact-finding regarding fraud prevention and detection. The Committee also recommends that the auditing firms, forensic accounting firms, certified fraud examiners, investors, other financial statement users, public companies, and academics develop, in consultation with the PCAOB, the Securities and Exchange Commission (SEC), international regulators, and the National Association of State Boards of Accountancy (NASBA), best practices regarding fraud prevention and detection. The Committee also recognizes that a national center and best practices will have greater impact if these concepts are ultimately extended and embraced internationally.

(b) Urge that the PCAOB and the SEC clarify in the auditor's report the auditor's role in detecting fraud under current auditing standards and further that the PCAOB periodically review and update these standards.

The Committee considered testimony and commentary regarding a long-standing

"expectations gap" between the public's expectations regarding auditor responsibility for fraud detection and the auditor's required and capable performance of fraud detection.⁸³ The public may believe that auditors will detect more fraud than those in the profession believe can be reasonably expected. This belief may be unreasonable in some circumstances given the difficulties of detecting fraud, especially before it has resulted in a material misstatement. On the other hand, public investors have raised questions when large frauds have gone undetected. The auditing standard governing fraud detection, AU Section 316, *Consideration of Fraud in a Financial Statement Audit*, notes that fraud may involve deliberate concealment and collusion with third parties.⁸⁴ AU Section 316 states that the "auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud." This gap between public expectation and the auditor's performance causes confusion and ultimately undermines investor confidence in financial reporting and the capital markets.

Commentary has suggested that auditors must more effectively communicate their responsibility regarding fraud detection and prevention with investors and the capital markets. The Committee agrees with this suggestion. Accordingly, the Committee believes that the auditor's report should articulate clearly to investors the auditor's

⁸³ See, e.g., Andrew D. Bailey, Jr., Professor of Accountancy—Emeritus, University of Illinois, and Senior Policy Advisor, Grant Thornton LLP, Comment Letter Regarding Discussion Outline 4 (Jan. 30, 2008), available at http://comments.treas.gov/_files/BAILEYCOMMENTS/ONTREASURYADVISORYCOMMITTEE/OUTLINEFINALSUBMISSION13008.doc (stating that "[i]f the discovery of material errors and fraud is not a major part of what the audit is about, it is not clear what value-added service the auditor offers the investor and capital markets"); Record of Proceedings (Feb. 4, 2008) (Questions for the Record of Cynthia M. Fornelli, Executive Director, Center for Audit Quality, 5 (Mar. 31, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/QFRs-2-4-08.pdf> ("While auditors provide reasonable assurance that fraud material to the financial statements will be detected, they cannot be expected to provide absolute assurance that all material fraud will be found. Cost-benefit constraints and the lack of governmental subpoena and investigative powers, among other factors, make absolute assurance impossible."); Record of Proceedings (Feb. 4, 2008) (Written Submission of Dennis Johnson, California Public Employees' Retirement System, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Johnson020408.pdf> (stating that "[o]f critical importance to investors is the responsibility of auditors to detect fraud and improve the timely communication of these frauds to investors and shareowners."); Serving Global Capital Markets and the Global Economy: A View from the CEOs of the International Audit Networks 12 (Nov. 2006) ("Nonetheless, there is a significant 'expectations gap' between what various stakeholders believe auditors should do in detecting fraud, and what audit networks are actually capable of doing, at the prices that companies or investors are willing to pay for audits.").

⁸⁴ Consideration of Fraud in a Financial Statement, Interim Auditing Standard AU 316 (Pub. Company Accounting Oversight Bd. 2002).

role and limitations in detecting fraud. The Committee believes that expressly communicating to investors, other financial statement users, and the public the role of auditors in fraud detection would help narrow the "expectations gap."

The Committee recommends that the PCAOB and the SEC clarify in the auditor's report the auditor's role and limitations in detecting fraud under current auditing standards. In addition, the Committee recommends, in light of this continuing "expectations gap," that the PCAOB review the auditing standards governing fraud detection and fraud reporting. Specifically, the Committee recommends that the PCAOB periodically review and update these standards.

Recommendation 2. Encourage greater regulatory cooperation and oversight of the public company auditing profession to improve the quality of the audit process and enhance confidence in the auditing profession and financial reporting.

The SEC, the PCAOB, and individual state boards of accountancy regulate the auditing profession. The SEC and the PCAOB enforce the securities laws and regulations addressing public company audits. Individual state accountancy laws in 55 jurisdictions in the United States govern the licensing and regulation of both individuals and firms who practice as certified public accountants.⁸⁵ State boards of accountancy enforce these laws and also administer the Uniform CPA Examination. NASBA serves as a forum for these boards to enhance their regulatory effectiveness and communication.

The Committee believes that enhancing regulatory cooperation and reducing duplicative oversight of the auditing profession by federal and state authorities and enhancing licensee practice mobility among the states are in the best interest of the public and the effective operation of the capital markets. In this regard, the Committee recommends the following:

(a) Institute the following mechanism to encourage the states to substantially adopt the mobility provisions of the Uniform Accountancy Act, Fifth Edition (UAA);⁸⁶ If states have failed to adopt the mobility provisions of the UAA by December 31, 2010, Congress should pass a federal provision requiring the adoption of these provisions.

The American Institute of Certified Public Accountants (AICPA) and NASBA jointly author the UAA, a model bill which focuses on the education, examination, and experience requirements for certified public accountants. As the name of the bill suggests, the UAA advances the goal of uniformity, in addition to protecting the public interest and promoting high professional standards. In 2006 and 2007, recognizing the changing global economy and the impact of electronic commerce, the AICPA and NASBA proposed amendments to the UAA to allow for a streamlined framework for CPA "mobility" of

⁸⁵ Record of Proceedings (Dec. 3, 2007) (Written Submission of David A. Costello, President and Chief Executive Officer, National Association of State Boards of Accountancy, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Costello120307.pdf>.

⁸⁶ Uniform Accountancy Act (Fifth Ed. July 2007).

⁸¹ See, e.g., Record of Proceedings (Feb. 4, 2008) (Questions for the Record of Cynthia M. Fornelli, Executive Director, Center for Audit Quality, 6 (Mar. 31, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/QFRs-2-4-08.pdf>; Record of Proceedings (Dec. 3, 2007) (Written Submission of James S. Turley, Chairman and Chief Executive Officer, Ernst & Young LLP, 7), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Turley120307.pdf>.

⁸² See, e.g., Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 10), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Nusbaum020408.pdf> (stating that "[s]uccess also requires that the profession work with standard setters and regulators to develop best practices and the infrastructure for effective audits designed to detect material financial fraud").

practice among the states; that is, a CPA's practice privileges would be valid and portable across all state jurisdictions beyond that of the CPA's resident state.⁸⁷

According to NASBA, to date twenty-two states have passed mobility legislation. Twelve other states currently have mobility legislation introduced and other bills are anticipated in the 2008 legislative session. Almost every state is now discussing or considering mobility, and a number of other state boards of accountancy have voted to support and move forward with mobility.

The Committee considered testimony and commentary on the importance to auditing firms' multi-state practices of the adoption of the UAA's mobility provisions.⁸⁸ A NASBA representative testified, "In order for our capital market system to continue to prosper and grow, NASBA recognized the need to ensure that an efficient, effective mobility system is in place that will allow CPAs and their firms, as professional service providers, to serve the needs of American businesses, where ever they are located."⁸⁹

The Committee believes that, given the multi-state operations of many public companies and the multi-state practices of many auditing firms, practice mobility will foster a more efficient operation of the capital markets. The Committee recommends the following mechanism to encourage the states to adopt the UAA's mobility provisions: If states have failed to adopt the mobility provisions of the UAA by December 31, 2010, Congress should pass a federal provision requiring the adoption of these provisions.

⁸⁷ See Record of Proceedings (Dec. 3, 2007) (Questions for the Record of David A. Costello, President and Chief Executive Officer, National Association of State Board of Accountancy, 1 (Feb. 6, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/QFRs-12-3-2007.pdf> ("As the global business community continues to expand, CPAs will be required to practice beyond the state in which they reside. Inefficiencies are created when those individuals are required to complete paperwork and submit a fee for every state in which they perform professional services.")

⁸⁸ See, e.g., Amper, Politzner and Mattia, P.C., Comment Letter Regarding Discussion Outline 2 (Nov. 14, 2007) available at http://comments.treas.gov/_files/AmperPolitznerMattia.pdf (noting that "[t]he ease of performing audits in any state by a valid CPA * * * without requiring to be licensed by each state would be beneficial."); Record of Proceedings (Dec. 3, 2007) (Written Submission of Dennis Nally, Chairman and Senior Partner, PricewaterhouseCoopers LLP, 5) (Dec. 3, 2008), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Nally120307.pdf> (noting that a number of states are cooperating and working towards adopting uniform mobility requirements); Record of Proceedings (Dec. 3, 2007) (Written Submission of James S. Turley, Chairman and Chief Executive Officer, Ernst & Young LLP, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Turley120307.pdf> ("The Treasury Committee should suggest that the states eliminate barriers to interstate practice by universal adoption of the mobility provisions of the Uniform Accountancy Act.")

⁸⁹ Record of Proceedings (Dec. 3, 2007) (Written Submission of David A. Costello, President and Chief Executive Officer, National Association of State Board of Accountancy, 6), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Costello120307.pdf>.

The Committee recognizes that some state legislatures meet biannually, and for such legislatures this deadline poses a challenge. However, such a deadline should be attainable and will encourage such legislatures to place this issue high on their agenda. The Committee also recommends that the states participate in NASBA's Accountancy Licensee Database (ALD) as a mechanism to assist in maintaining appropriate oversight of CPAs throughout the country regardless of where they practice and that appropriate authorities interpret federal and state privacy regulations to facilitate implementation of the ALD.

(b) Require regular and formal roundtable meetings of regulators and other governmental enforcement bodies in a cooperative effort to improve regulatory effectiveness and reduce the incidence of duplicative and potentially inconsistent enforcement regimes.

Under the federal securities laws, the SEC has enforcement authority over public company auditing firms and oversight authority over the PCAOB under the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley). Sarbanes-Oxley provides the PCAOB with registration, reporting, inspection, standard-setting, and enforcement authority over public company auditing firms.⁹⁰ In addition, the fifty-five boards of accountancy license, regulate, and enforce state accountancy laws pertaining to certified public accountants and their firms. In addition, the Department of Justice (DOJ) and state attorneys general can bring enforcement actions against auditing firms and their employees.

The Committee considered testimony from auditing firms on the duplicative and sometimes inconsistent federal and state oversight of the profession.⁹¹ The Committee does recognize that both federal and state regulators have made attempts to coordinate better their enforcement activities.⁹² One

⁹⁰ Sarbanes-Oxley Act of 2002, 15 U.S.C. §§ 7211–7219.

⁹¹ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Dennis Nally, Chairman and Senior Partner, PricewaterhouseCoopers LLP, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Nally120307.pdf>; Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 7), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Nusbaum020408.pdf>; Record of Proceedings (Feb. 4, 2008) (Questions for the Record of Barry Salzberg, Chief Executive Officer, Deloitte LLP, App. A 4 (Mar. 31, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/QFRs-2-4-08.pdf> (criticizing duplicative auditing firm investigations by states with no nexus to alleged conduct).

⁹² See, e.g., Record of Proceedings (Dec. 3, 2007) (Oral Remarks of David A. Costello, President and Chief Executive Officer, National Association of State Board of Accountancy, 98), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-12-3-07.pdf> (noting that "[NASBA] has been working with the PCAOB very closely coordinating efforts, trying to diminish as much as possible the redundancy in enforcement") Record of Proceedings (Dec. 3, 2007) (Written Submission of David A. Costello, President and

witness suggested the possible formation of a commission to help improve regulatory effectiveness.⁹³ Another witness urged state and federal regulatory cooperation to ensure harmonized regulation and licensure.⁹⁴

The Committee recommends mandating regular and formal roundtables of the PCAOB, the SEC, the DOJ, the state boards of accountancy, and the state attorneys general, to periodically review the overall enforcement regimes applicable to the public company auditing profession. These roundtables also should focus on regulatory coordination, improvement, and consistent approaches to enforcement to minimize duplicative efforts. Because of the difficulty and cost of bringing together many different state agencies on a regular basis, the Committee recommends that NASBA assist states by taking a leadership role in coordinating their responsibilities and interests.

(c) Urge the states to create greater financial and operational independence of their state boards of accountancy.

The Committee is concerned about the financial and operational independence of state boards of accountancy from outside influences, such as other state agencies, and the possible effect on the regulation and oversight of the accounting profession. A number of state boards are under-funded⁹⁵ and lack the wherewithal to incur the cost of investigations leading to enforcement. In addition, some state boards fall under the centralized administrative "umbrella" of other state agencies and lack control of financial resources and/or operational independence necessary to carry out their mandate of public protection.⁹⁶ In some

Chief Executive Officer, National Association of State Board of Accountancy, 6), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Costello120307.pdf> (stating that NASBA is assisting state boards in enforcement cases involving multi-state activities).

⁹³ Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 7), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Nusbaum020408.pdf> (noting that, "it would be useful to evaluate the possibility of an interstate commission for the whole of the audit profession. Such a commission would bring together state licensing authorities, the PCAOB, and appropriate professional organizations. It would be the means to rationalize existing disparities in licensing qualifications, continuing education requirements and peer review for non-public company audit practices. It would also enable enforcement of common regulations and license discipline across state and federal jurisdictions.")

⁹⁴ Record of Proceedings (Dec. 3, 2007) (Written Submission of Dennis Nally, Chairman and Senior Partner, PricewaterhouseCoopers LLP, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Nally120307.pdf>.

⁹⁵ National Association of State Boards of Accountancy, Submission in Connection with the December 3, 2007 Meeting of the Advisory Committee on the Auditing Profession (Jan. 2008) (documenting the wide spectrum of funding for individual state boards of accountancy and noting the number of full-time staff per state boards of accountancy office).

⁹⁶ Statement of Ronald J. Rotaru, Executive Director, Accountancy Board of Ohio, before Ohio

cases, board members are nominated by private associations whose constituencies are not necessarily focused on the protection of the public.

The Committee believes that greater independence of state boards of accountancy would enhance their regulatory effectiveness. The Committee recommends that, working with NASBA, states evaluate and develop means to make their respective state boards of accountancy more operationally and financially independent of outside influences. The Committee notes that this Recommendation to ensure the independence of state boards of accountancy is not meant to limit in any way the efforts of regulators and other governmental enforcement bodies to coordinate their regulatory and enforcement activities as recommended in Recommendation 2(b).

Recommendation 3. Urge the PCAOB and the SEC, in consultation with other federal and state regulators, auditing firms, investors, other financial statement users, and public companies, to analyze, explore, and enable, as appropriate, the possibility and feasibility of firms appointing independent members with full voting power to firm boards and/or advisory boards with meaningful governance responsibilities to improve governance and transparency at auditing firms.

In response to the recent corporate accounting scandals, related legislative and regulatory requirements and best practices, public companies enhanced their corporate governance. One of the most prominent alterations to the corporate governance scheme was the increased representation and strengthening of independent members of boards of directors. The New York Stock Exchange and the Nasdaq enhanced their public company listing standards to call for a majority of independent board members.⁹⁷ Best practices have gone even further, calling for a "substantial majority" of independent directors.⁹⁸

A combination of Sarbanes-Oxley provisions and exchange listing standards mandate fully independent audit committees, nominating/corporate governance, and compensation committees.⁹⁹ In addition,

H. Finance Committee of the Ohio House of Representatives 1 (Mar. 18, 2005) ("The evidence shows that 'consolidated' states have difficulty in effectively enforcing the statutes governing the profession under their central agency umbrella.").

⁹⁷ New York Stock Exchange, Listed Company Manual § 303A.01 (2003); Nasdaq, Manual, Rule 4350(c).

⁹⁸ See, e.g., The Business Roundtable, Principles of Corporate Governance (May 2002) (recommending, among other things, a substantial majority of independent directors and fully independent audit, corporate governance/nominating, and compensation committees); The Conference Board, Commission on Public Trust and Private Enterprise (Jan. 9, 2003) (recommending, among other things, a substantial majority of independent directors and regular executive sessions of the independent directors).

⁹⁹ Sarbanes-Oxley Act, 15 U.S.C. § 78-j (2002) (mandating audit committees comprised solely of independent directors); New York Stock Exchange, Listed Company Manual § 303A.04 (2004) (requiring nominating/corporate governance committees comprised solely of independent directors); New York Stock Exchange, Listed Company Manual § 303A.05 (2004) (requiring

independent directors' responsibilities have increased. For example, the independent audit committee now appoints, oversees, and compensates the auditor.¹⁰⁰ Although difficult to quantify the benefits of these enhancements, many have extolled these reforms as improving the quality of board oversight, reducing conflicts of interest, and enhancing investor confidence in public company operations and financial reporting.¹⁰¹

Public company auditing firms as private partnerships are not subject to these requirements. Instead, state laws and partnership agreements determine the governance of auditing firms.¹⁰² Often a firm's governing body is comprised of elected firm partners.¹⁰³ Some firms are currently using advisory boards, although these may not be well-publicized or transparent.

Several witnesses testified to the benefits of improving auditing firm governance and suggested the addition of independent members to the boards of directors.¹⁰⁴ One

compensation committees comprised solely of independent directors); New York Stock Exchange, Listed Company Manual § 303A.06 (2003) (mandating compliance with SEC rules requiring audit committees comprised solely of independent directors); Nasdaq, Manual, Rule 4350(d) (mandating compliance with SEC rules requiring audit committees comprised solely of independent directors). Note that the Nasdaq listing standards do not require the existence of nominating/corporate governance committees and compensation committees.

¹⁰⁰ Sarbanes-Oxley Act, 15 U.S.C. § 78-j (2002).

¹⁰¹ For example, see the commentary accompanying New York Stock Exchange, Listed Company Manual § 303A.01 ("Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest.").

¹⁰² Center For Audit Quality, Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession 2 (Jan. 23, 2008).

¹⁰³ Center For Audit Quality, Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession 2-22 (Jan. 23, 2008) (detailing the various governance structures of the largest six auditing firms); Cynthia M. Fornelli, Executive Director, Center for Audit Quality, and James S. Turley, Chair, Governing Board, Center for Audit Quality, and Chairman and CEO, Ernst & Young LLP, Comment Letter Regarding Discussion Outline 13 (Nov. 30, 2007), available at http://comments.treas.gov/_files/Treasurycommentletterfinal11302007.pdf (noting the largest auditing firms have supervisory boards overseeing management).

¹⁰⁴ See, e.g., Andrew D. Bailey, Jr., Professor of Accountancy-Emeritus, University of Illinois, and Senior Policy Advisor, Grant Thornton LLP, Comment Letter Regarding Discussion Outline 12 (Jan. 30, 2008), available at http://comments.treas.gov/_files/BAILEYCOMMENTSONTREASURYADVISORYCOMMITTEEOUTLINEFINALSUBMISSION13008 ("[I]ndependent board members similar to those found on public company boards would be a good governance practice and would signal the markets about the firms' positive commitment to the public good."); Record of Proceedings (Feb. 4, 2008) (Written Submission of Dennis Johnson, Senior Portfolio Manager, Corporate Governance, California Public Employees' Retirement System, 3), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Johnson020408.pdf>

witness called for an entirely independent board with enhanced responsibilities, including chief executive officer selection, determining partner compensation, and monitoring potential conflicts of interest and audit quality.¹⁰⁵ An auditing firm representative noted that his firm was considering adding independent members on its international governing board.¹⁰⁶

The Committee believes that enhancing corporate governance of auditing firms through the appointment of independent board members, whose duties run to the auditing firm and its partners/owner, to advisory boards with meaningful governance responsibilities (possible under the current business model), and/or to firm boards could be particularly beneficial to auditing firm management and governance.¹⁰⁷ The Committee also believes that such advisory boards and independent board members could improve investor protection through enhanced audit quality and firm transparency. The Committee is particularly intrigued by the idea of independent board members with duties and responsibilities similar to those of public company non-executive board members.

The Committee recognizes the multiple challenges that instituting a governance structure with independent board members might entail, including compliance with state partnership laws and independence requirements, insurance availability for such directors, and liability concerns. Accordingly, the Committee recommends that the PCAOB and the SEC, in consultation with federal and state regulators, auditing firms, investors, other financial statement users, and public companies, analyze, explore, and enable, as appropriate, the possibility and feasibility, within the current context of independence requirements and the liability regime, of firms' appointing independent board members and advisory boards. The Committee notes that the PCAOB and the SEC should consider the size of auditing firms in analyzing and developing any governance proposals.

Recommendation 4. Urge the SEC to amend Form 8-K disclosure requirements to characterize appropriately and report every

(stating that independent board of directors could possibly decrease potential conflicts of interest).

¹⁰⁵ Record of Proceedings (Feb. 4, 2008) (Written Submission of Paul G. Haaga Jr., Vice Chairman, Capital Research and Management Company, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Haaga020408.pdf>.

¹⁰⁶ Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 7), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Nusbaum020408.pdf>.

¹⁰⁷ Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 7), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Nusbaum020408.pdf> ("Such a change in the governance model may be one way to strengthen our ability to serve market participants and reinforce independence.").

public company auditor change and to require auditing firms to notify the PCAOB of any premature engagement partner changes on public company audit clients.

In 2006, over 1,300 public companies changed their auditor and from 2002 to 2006 over 6,500 public companies changed their auditor.¹⁰⁸ Under current SEC regulations, a public company must disclose any auditor change on Form 8-K.¹⁰⁹ SEC regulations require disclosure of any disagreements on financial disclosures during the preceding two years prior to the resignation and whether some issue, such as the auditor's inability to rely on management's representations, may put into question financial disclosure reliability. SEC regulations also allow a public company to request that the auditor respond with a letter addressed to the SEC stating whether it agrees with the company's disclosure and, if it does not agree, stating why.

While the SEC does attempt to uncover through its rules whether the auditor change relates to disagreements over accounting and reporting matters, the SEC rules do not require a public company to provide a reason for the auditor's departure in the vast majority of cases. The limitations of the existing disclosure requirements have resulted in companies failing to disclose any reason for their auditor changes in approximately 70% of the more than 1,300 auditor changes occurring in 2006.¹¹⁰

The Committee considered testimony and commentary regarding the lack of clear disclosure surrounding auditor changes. Testimony and commentary viewed the lack of transparency surrounding auditor changes as detrimental to investor confidence in financial reporting.¹¹¹ Testimony and commentary suggested greater transparency regarding auditor changes would compel audit committees to more closely evaluate auditor selection decisions and lead to greater competition in the audit market.¹¹²

¹⁰⁸ See Mark Grothe and Blaine Post, *Speak No Evil*, GLASS LEWIS & CO RESEARCH 12 (May 21, 2007).

¹⁰⁹ Form 8-K, available at <http://www.sec.gov/about/forms/form8-k.pdf>.

¹¹⁰ See Mark Grothe and Blaine Post, *Speak No Evil*, GLASS LEWIS & CO RESEARCH 12 (May 21, 2007).

¹¹¹ See, e.g., Andrew D. Bailey, Jr., Professor of Accountancy-Emeritus, University of Illinois, and Senior Policy Advisor, Grant Thornton LLP, Comment Letter Regarding Discussion Outline 4 (Jan. 30, 2008), available at <http://comments.treas.gov/files/BAILEYCOMMENTSONTREASURYADVISORYCOMMITTEEOUTLINEFINALSUBMISSION13008.doc> (recommending SEC and PCAOB disclosures of auditor changes to enhance the growth of smaller auditing firms); Record of Proceedings (Feb. 4, 2008) (Oral Remarks of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 193-94), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-2-4-08.pdf> (calling for expanded Form 8-K disclosure requirements as "in the best interest of investors").

¹¹² See e.g., Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 3), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/>

The Committee believes that explicitly stating the reason for an auditor change will assist investors in determining the quality of financial reporting and subsequent investment decisions. The Committee recommends that the SEC amend its Form 8-K disclosure on auditor changes by providing for the following mechanism: The public company would file within four days of an auditor change a Form 8-K disclosing that an auditor had resigned, was terminated, or did not seek reappointment; the company would appropriately characterize and state in all cases in plain English the reason or reasons for the change. The company would also disclose whether its audit committee agreed with the disclosure it has provided. The company would also provide the auditor with a copy of the disclosure and request a response as to the accuracy of the disclosure. The company would include any response as an exhibit to the company's Form 8-K filing, or if received following the due date for the Form 8-K, in a subsequent Form 8-K. As discussed above under current SEC regulations, the public company can request that the auditor respond to the company's statements in the Form 8-K regarding disagreements over accounting and financial matters.

In addition, the Committee recommends that auditing firms notify the PCAOB of any engagement partner changes on public company audits if made before the normal rotation period and, other than for retirement, the reasons for those changes.¹¹³

Other Issues Under Consideration

While the work of the Committee is incomplete at this point, the Committee has tentatively concluded it will not make a recommendation regarding vehicles to access outside capital. The Committee notes that some witnesses have suggested changing the capital structure of auditing firms to allow access to capital.¹¹⁴

The Committee is also considering and debating a variety of other issues. Further elaboration on these issues will be included in subsequent drafts of this Report.

02042008/Nusbaum020408.pdf (noting that the Committee should examine "[c]omprehensive disclosures about reasons for auditor switches").

¹¹³ But cf., Record of Proceedings (Feb. 4, 2008) (Written Submission of Paul G. Haaga Jr., Vice Chairman, Capital Research and Management Company, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Haaga020408.pdf> (calling for public disclosure on audit partner changes other than for rotation requirements); Record of Proceedings (Feb. 4, 2008) (Oral Remarks of D. Paul Regan, President and Chairman, Hemming Morse Inc., 194-195 (Feb. 4, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-2-4-08.pdf> (commenting that "if an audit partner is * * * rotated [early] off of an issuer, there ought to be a disclosure, and there ought to be communication from the partner who was rotated off early as to [the reason for the early rotation] * * * because in many instances * * * there [is] controversy * * *").

¹¹⁴ See, e.g., Record of Proceedings (Dec. 3, 2007) (Questions for the Record of James R. Doty, Partner, Baker Botts LLP, 3 (Feb. 19, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/QFRs-12-3-2007.pdf> (suggesting allowing auditing firms to organize as limited liability companies or corporate entities to allow for the issuance of equity or debt securities).

VII. Concentration and Competition

The Committee analyzed public company audit market concentration and competition. In its work the Committee focused on concentration and competition in the context of their impact on audit quality and effectiveness. In turn, consideration of the sustainability of the auditing profession was also subject to examination in the context of audit quality and effectiveness. The recommendations set out below reflect this focus.

During the course of its deliberations, the Committee received testimony and commentary from the Government Accountability Office (GAO), the Public Company Accounting Oversight Board (PCAOB), academics, auditing firms, investors, and others regarding audit market concentration and competition.

In January 2008, the GAO issued *Audits of Public Companies: Continued Concentration in Audit Market for Large Public Companies Does Not Call for Immediate Action*,¹¹⁵ updating its 2003 report on audit market concentration.¹¹⁶ The GAO concluded that the four largest auditing firms continue to dominate the large public company audit market. In 2006, the four largest auditing firms audited 98% of the 1500 largest public companies with annual revenues over \$1 billion and 92% of public companies with annual revenues between \$500 million and \$1 billion. However, concentration in the small and mid-size public company audit market has eased during the past five years. The largest firms' share in auditing small public companies with annual revenues under \$100 million has declined from 44% in 2002 to 22% in 2006 and in auditing mid-size public companies with annual revenue between \$100 million and \$500 million from 90% in 2002 to 71% in 2006.¹¹⁷

The Committee considered the testimony of several witnesses regarding the reasons for the continued concentration in the large public company audit market. Auditing firms, public companies, market participants, academics, investors and others reasoned that large public companies with operations in multiple countries need auditing firms with global resources and technical and industry expertise to deal with an increasingly complex business and financial reporting environment.¹¹⁸ These needs limit

¹¹⁵ U.S. Government Accountability Office, *Audits of Public Companies: Continued Concentration in Audit Market for Large Public Companies Does Not Call for Immediate Action*, GAO-08-163 (Jan. 2008) [hereinafter 2008 GAO Report].

¹¹⁶ GAO, *Public Accounting Firms: Mandated Study on Consolidation and Competition*, GAO-03-864 (July 2003) (finding that "although audits for large public companies were highly concentrated among the largest accounting firms, the market for audit services appeared competitive according to various indicators").

¹¹⁷ 2008 GAO Report 19. The GAO also found that the largest firms collected 94% of all audit fees paid by public companies in 2006, slightly less than the 96% they collected in 2002. 2008 GAO Report 16.

¹¹⁸ See, e.g., 2008 GAO Report 21 (surveyed companies most frequently cited size and complexity of their operations (92%), the auditor's technical capability with accounting principles and auditing standards (80%), and the need for industry

auditor choice to only the largest auditing firms for many large public companies. The Committee heard from witnesses who also described barriers to the growth of smaller auditing firms, including the behavior of underwriters and other capital market participants.¹¹⁹

In analyzing these data on concentration and limited auditor choice in the large public company audit market, the Committee focused on the potential negative impact of concentration on audit quality. Some have suggested the lack of competition may not provide sufficient incentive for the dominant auditing firms to deliver high quality and innovative audit services.¹²⁰

Notwithstanding the increasing number of public company financial restatements,¹²¹ the Committee heard from several witnesses that audit quality had improved.¹²² For example, the GAO observed that market participants and public company officials had noted improvement in recent years in audit quality, including auditing firm staff's technical expertise, responsiveness to client needs, and ability to identify material financial reporting matters.¹²³ Much of the improvement was credited to the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), which enhanced auditor independence, replaced the self-regulation of the auditing profession with the PCAOB, mandated evaluation and disclosure of the effectiveness of internal controls over financial reporting,¹²⁴ and

specialization or expertise (67%)); Record of Proceedings (Dec. 3, 2007) (Written Submission of Wayne Kolins, National Director of Assurance and Chairman, BDO Seidman LLP, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Kolins120307.pdf>; Record of Proceedings (Feb. 4, 2008) (Written Submission of Neal D. Spencer, Managing Partner, BKD, LLP, 1–4), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Spencer020408.pdf>.

¹¹⁹ Record of Proceedings (Feb. 4, 2008) (Oral Remarks of Brad Koenig, Former Managing Director and Head of Global Technology Investment Banking, Goldman Sachs, 219–220), available at <http://www.treas.gov/offices/domestic-finance/acap/Koenig020408.pdf> (describing underwriters' views of auditing firms other than the largest four auditing firms).

¹²⁰ 2008 GAO Report 31–32.

¹²¹ See, e.g., Susan Scholz, *The Changing Nature and Consequences of Public Company Financial Restatements 1997–2006* (April 2008).

¹²² 2008 GAO Report 5; Public Company Accounting Oversight Board, *Report on the PCAOB's 2004, 2005, and 2006 Inspections of Domestic Triennially Inspected Firms*, PCAOB Rel. No. 2007–010 (Oct. 22, 2007).

¹²³ Record of Proceedings (Dec. 3, 2007) (Questions for the Record of Ms. Jeanette M. Franzel, Director, Financial Management and Assurance Team, U.S. Government Accountability Office, 2 (Jan. 30, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/QFRs-12-3-2007.pdf> (observing that the market believes the “bar had been raised” on audit quality). See also Center for Audit Quality, *Report on the Survey of Audit Committee Members* (March 2008) (concluding that: 17% of surveyed audit committee members view audit quality as good, 53% as very good, 25% as excellent, while 82% say overall quality has improved somewhat/significantly over the past several years).

¹²⁴ 2008 GAO Report 32.

strengthened audit committee membership, independence, and responsibilities.

Although industry concentration can lead to increased prices, the Committee notes that the GAO concluded that higher audit market concentration has not been associated with higher fees. Public companies, auditing firms, and other market participants believe the considerable increase in audit fees in recent years is due not to market power of a concentrated industry, but to the increased requirements under Sarbanes-Oxley, the complexity of accounting and financial reporting standards, the need to hire and retain qualified audit staff, and the independence requirements (which have led to the possible re-pricing of audits to their unbundled market price).¹²⁵ The Committee also considered the impact of the possible loss of one of the four largest accounting firms in light of the high degree of concentration of public company auditing, and especially large public company auditing, in those firms. The GAO noted the possibility of this loss due to issues arising out of firm conduct, such as civil litigation, federal or state regulatory action or criminal prosecution, or economic events, such as a merger.¹²⁶ The GAO posited potential negative effects of such a loss, including the following: Further limitations on large public company auditor choice, costs associated with changing auditors, and companies' inability to obtain timely financial statement audits.¹²⁷ However, the GAO did not recommend insulating auditing firms directly from either the legal or market consequences of their actions.

With the above considerations in mind, the Committee recommends that regulators, the auditing profession, and other bodies, as applicable, effectuate the following:

Recommendation 1. Reduce barriers to the growth of smaller auditing firms consistent with an overall policy goal of promoting audit quality. Because smaller auditing firms are likely to become significant competitors in the market for larger company audits only in the long term, the Committee recognizes that Recommendation 2 will be a higher priority in the near term.

The GAO concluded that concentration in the large public company audit market will not be reduced in the near term by smaller auditing firms. The Committee considered testimony regarding the reasons that smaller auditing firms are unable or unwilling to enter the large public company audit market. Challenges facing these firms' entry into this market typically include the following: lack of staffing and geographic limitations on both the physical span of their practices and experience and expertise with global auditing complexities; inability to create global networks necessary to serve global clients, due to lack of auditing firms abroad to act as potential partners; the need for greater

¹²⁵ 2008 GAO Report 27–29. On the re-pricing of audits, see also James D. Cox, *The Oligopolistic Gatekeeper: The U.S. Accounting Profession*, in *After Enron: Improving Corporate Law and Modernizing Securities Regulation in Europe and the U.S.*, Chapter 9, Oxford, forthcoming, available at <http://ssrn.com/abstract=926360>.

¹²⁶ 2008 GAO Report 34–35.

¹²⁷ 2008 GAO Report 35–36.

technical capability and industry specialization; lack of name recognition and reputation; and limited access to capital.¹²⁸ In addition, expanding into the large public company audit market may be unattractive for some smaller auditing firms for a variety of reasons,¹²⁹ including increased exposure to litigation, the possibility that their business model is not scaleable, and the fact that for some smaller firms other aspects of their business (such as private company auditing and other work) has greater potential for expansion.

To address these issues, the Committee recommends that policy makers press for the reduction of barriers, to the extent consistent with audit quality and other public interest factors, to the growth of smaller auditing firms. For smaller firms, this includes encouraging and promoting development of technical resources in such areas as international financial reporting standards and fair value accounting, and development of specialized or “niche” practices or industry “verticals” where they are in the best interests of investors and can lead to more effective competition. Pressure also should be applied against non-justifiable resistance to using smaller firms on the part of a variety of market actors.

The Committee believes that the following specific and incremental actions would assist in the growth of the smaller firms and their entry into the large public company audit market:

(a) Require disclosure by public companies in their annual reports and proxy statements of any provisions in agreements with third parties that limit auditor choice.

The Committee considered testimony and commentary that certain market participants, such as underwriters, banks, and lenders, may influence and effectively limit public company auditor selection decisions.¹³⁰ For instance, certain contractual arrangements limit public companies' auditor choice.¹³¹

¹²⁸ 2008 GAO Report 37. See also Record of Proceedings (Dec. 3, 2007) (Written Submission of Wayne Kolins, National Director of Assurance and Chairman, BDO Seidman LLP, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Kolins120307.pdf> (describing as barriers for smaller auditing firms liability risks, overly complex independence rules, and an array of factors that audit committees may review in choosing an auditor that best matches the company); Record of Proceedings (Feb. 4, 2008) (Written Submission of Neal D. Spencer, Managing Partner, BKD, LLP, 1), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Spencer020408.pdf> (noting that barriers include resources, institutional bias, insurability, and liability).

¹²⁹ 2008 GAO Report 38.

¹³⁰ See, e.g., Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 3), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Nusbaum020408.pdf> (noting that transparency regarding “restrictive contracts with underwriters” could improve auditor choice). See also 2008 GAO Report 47.

¹³¹ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Lewis H. Ferguson, III, Partner, Gibson Dunn & Crutcher, 2), available at

Continued

Consistent with the large public company audit market, this practice is particularly prevalent in the initial public offering (IPO) arena, where an underwriter may include in the underwriting agreement a provision limiting the company's auditor choice to a specified group of auditing firms.¹³²

Evidence suggests that auditor choice may be more limited among the largest IPOs: While midsize and smaller firms' combined share of the IPO market (by number of IPOs) has increased progressively (rising from 18% in 2003 to 40% in 2007),¹³³ the largest firms continue to audit the majority of the largest IPOs.¹³⁴

The Committee believes these provisions impair competition by limiting public company auditor choice and the ability of smaller auditors to serve a greater share of the public company audit market. Accordingly, the Committee recommends that the Securities and Exchange Commission (SEC) require public companies to disclose any provisions in agreements limiting auditor choice. The disclosure should identify the agreement and include the names of the parties to the agreement and the actual provisions limiting auditor choice.¹³⁵

(b) Include representatives of smaller auditing firms in committees, public forums, fellowships, and other engagements.

<http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Ferguson120307.pdf> ("Sometimes lenders, investors, investment bankers or credit rating agencies will insist that a company seeking to access the capital markets have its financial statements audited by one of the largest accounting firms, adding a bias that has the practical effect of being a barrier to entry.").

¹³² See, e.g., Record of Proceedings (Feb. 4, 2008) (Oral Remarks of Brad Koenig, Former Managing Director and Head of Global Technology Investment Banking, Goldman Sachs, 219–220), available at <http://www.treas.gov/offices/domestic-finance/acap/Koenig020408.pdf> (noting underwriter practices in auditor selection). See also Edwin J. Kliegman, CPA, Comment Letter Regarding Discussion Outline 2 (Nov. 26, 2007).

¹³³ 2008 GAO Report 44.

¹³⁴ Record of Proceedings (Feb. 4, 2008) (Written Submission of Brad Koenig, Former Managing Director and Head of Global Technology Investment Banking, Goldman Sachs, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/Koenig020408.pdf> (noting that from 2002–2007 the largest four auditing firms had an 87% market share of the 817 initial public offerings that exceeded \$20 million). See also 2008 GAO Report 44 ("Staff from some investment firms that underwrite stock issuances for public companies told [GAO] that in the past they generally had expected the companies for which they raised capital to use one of the largest firms for IPOs but that now these organizations were more willing to accept smaller audit firms * * *. However, * * * most of the companies that went public with a mid-size or smaller auditor were smaller. In addition, these firms' share of IPOs of larger companies (those with revenues greater than \$150 million) rose from none in 2003 to about 13 percent in 2007.").

¹³⁵ The Committee notes that a group of market participants put together by the United Kingdom's Financial Reporting Council to study audit market competition has suggested similar disclosure of contractual obligations limiting auditor choice. See Financial Reporting Council, FRC Update: Choice in the UK Audit Market 4 (Apr. 2007) [hereinafter FRC Update] (recommending that "when explaining auditor selection decisions, Boards should disclose any contractual obligations to appoint certain types of audit firms").

The Committee considered testimony that the lack of smaller firms' name recognition and reputation have hindered smaller auditing firms' ability to compete in the large public company audit market. The GAO noted that name recognition, reputation, and credibility were significant barriers to smaller auditing firm expansion.¹³⁶ The PCAOB has registered and oversees 982 U.S. auditing firms and 857 foreign auditing firms.¹³⁷ While it is not possible to include all smaller firms, the Committee received testimony and comment letters suggesting that there should be greater inclusion and participation of smaller firms in public and private sector committees, roundtables, and fellowships.¹³⁸ One auditing firm representative suggested the creation of a PCAOB professional practice fellowship program, reaching out to professionals from auditing firms of various sizes.¹³⁹

The Committee believes increasing name recognition and reputation could promote audit market competition and auditor choice. Accordingly, the Committee recommends that regulators and policymakers, such as the SEC, the PCAOB, and the Financial Accounting Standards Board, include representatives of smaller auditing firms in committees, public forums, fellowships, and other engagements.¹⁴⁰

Recommendation 2. Monitor potential sources of catastrophic risk faced by public company auditing firms and create a mechanism for the preservation and rehabilitation of troubled larger public company auditing firms.

¹³⁶ 2008 GAO Report 44 ("Fifty percent of accounting firms responding to [GAO's] survey that want to audit large companies said that name recognition or reputation with potential clients was a great or very great impediment to expansion. Similarly, 54 percent of these firms cited name recognition or credibility with financial markets and investment bankers as a great or very great impediment to expansion."). See also Edward J. Kliegman, Comment Letter Regarding Discussion Outline 1 (Nov. 16, 2007).

¹³⁷ Data are as of Feb. 21, 2008.

¹³⁸ See, e.g., Andrew D. Bailey, Jr., Professor of Accountancy—Emeritus, University of Illinois, and Senior Policy Advisor, Grant Thornton LLP, Comment Letter Regarding Discussion Outline 16 (Jan. 30, 2008), available at http://comments.treas.gov/_files/BAILEYCOMMENTS ONTREASURYADVISORYCOMMITTEE OUTLINEFINALSUBMISSION13008.doc; Record of Proceedings (Dec. 3, 2007) (Questions for the Record of James S. Turley, Chairman and Chief Executive Officer, Ernst & Young LLP, 4 (Feb. 1, 2008)), available at <http://www.treas.gov/offices/domestic-finance/acap/QFRs-12-3-2007.pdf>.

¹³⁹ Record of Proceedings (Dec. 3, 2007) (Written Submission of Wayne Kolins, National Director of Assurance and Chairman, BDO Seidman LLP, 4), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Kolins120307.pdf>. See Chapter V (recommending the creation of a PCAOB fellowship program). While maintenance and extension of professional fellowship programs are also considered in the Committee's recommendations relating to human capital matters, extending these opportunities increasingly to firms of various sizes could assist smaller firms in their ability to compete in the public company audit market.

¹⁴⁰ For a similar recommendation, see SEC Advisory Committee on Smaller Public Companies, Final Report 114 (Apr. 23, 2006).

The Committee considered testimony regarding the variety of potentially catastrophic risks that public company auditing firms face. These risks include general financial risks and risks relating to failure in the provision of audit services and non-audit services, including civil litigation, regulatory actions, and loss of customers, employees, or auditing network partners due to a loss of reputation.¹⁴¹

The Committee believes these risks are real and notes that over the past two decades two large auditing firms have gone out of existence. In 1990, Laventhol & Horwath, at the time the seventh largest auditing firm in the United States, filed for bankruptcy protection due in part to a failure in the provision of non-audit services, and subsequent class action litigation, loss of reputation, and inability to attract and retain clients.¹⁴² In 2002, Arthur Andersen, at the time one of the five largest auditing firms in the United States, dissolved. The Department of Justice (DOJ) had criminally indicted the auditing firm on obstruction of justice charges relating to the audit of Enron. The resulting inability to retain clients and partners and keep together its global affiliate network led to the collapse of Arthur Andersen.¹⁴³

In addition, KPMG recently faced the possibility of criminal indictment relating to its provision of tax-related services. In the end, KPMG entered into a deferred prosecution agreement with the DOJ.¹⁴⁴ Many have suggested that a criminal indictment would have led to the dissolution of the firm.

Currently, BDO Seidman is appealing a \$521 million state judgment involving a private company audit client. The auditing firm's chief executive has publicly stated that

¹⁴¹ See, e.g., 2008 GAO Report 32–36; Zoe-Vonna Palmrose, *Maintaining the Value and Viability of Independent Auditors as Gatekeepers under SOX: An Auditing Master Proposal*, in Brookings-Nomura Seminar: After the Horses Have Left the Barn: The Future Role of Financial Gatekeepers 12–13 (Sept. 28, 2005). Civil litigation was the risk most often cited by witnesses before the Committee. See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of James D. Cox, Brainerd Currie Professor of Law, Duke University School of Law), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Cox120307.pdf>. See also Eric R. Talley, *Cataclysmic Liability Risk among Big Four Auditors*, 106 Colum. L. Rev. 1641 (Nov. 2006) ("On one hand, the pattern of liability exposure during the last decade does not appear to be the type that would, at least on first blush, imperil the entire profession. On the other hand, if one predicts historical liability exposure patterns into the future, the risk of another firm exiting due to liability concerns appears to be more than trivial.").

¹⁴² See, e.g., 2008 GAO Report 33.

¹⁴³ See, e.g., U.S. Government Accountability Office, *Public Accounting Firms: Mandated Study on Consolidation and Competition 12* (July 2003) ("The criminal indictment of fourth-ranked Andersen for obstruction of justice stemming from its role as auditor of Enron Corporation led to a mass exodus of Andersen partners and staff as well as clients.").

¹⁴⁴ 2008 GAO Report 56–57, n. 60. Note that the Department of Justice did indict several individuals.

such a judgment amount would threaten the firm's viability.¹⁴⁵

As discussed above, the Committee believes that the loss of one of the larger auditing firms would likely have a significant negative impact on the capital markets. Of greatest concern is the potential disruption to capital markets that the failure of a large auditing firm would cause, due to the lack of sufficient capacity to audit the largest public companies and the possible inability of public companies to obtain timely audits.¹⁴⁶ The Committee believes these concerns must be balanced against the importance of auditing firms and their partners, as private, for-profit businesses, being exposed to the consequences of failure, including both the legal consequences and economic consequences.

In consideration of these competing concerns, the Committee makes the following recommendations:

(a) As part of its current oversight over registered auditing firms, the PCAOB should monitor potential sources of catastrophic risk which would threaten audit quality.

The PCAOB's mission is to oversee auditing firms conducting audits of public companies. Its audit quality-focused mission is intertwined with issues of catastrophic risk, as most often risks to firms' survival historically have been largely the result of significant audit quality failures or serious compliance issues in the non-audit services aspect of their business.

Sarbanes-Oxley provides the PCAOB with registration, reporting, inspection, standard-setting, and enforcement authority over public company auditing firms.¹⁴⁷ Under its inspection authority, the PCAOB inspects audit engagements, evaluates quality control systems, and tests as necessary audit, supervisory, and quality control procedures. For example, in its inspection of an auditing firm's quality control systems, the PCAOB reviews the firm's policies and procedures related to partner evaluation, partner compensation, new partner nominations and

admissions, assignment of responsibilities, disciplinary actions, and partner terminations; compliance with independence requirements; client acceptance and retention policies and procedures; compliance with professional requirements regarding consultations on accounting, auditing, and SEC matters; internal inspection program; processes for establishing and communicating audit policies, procedures, and methodologies; processes related to review of a firm's foreign affiliate's audit performance; and tone at the top.¹⁴⁸

The PCAOB also has authority to require registered auditing firms to provide annual and periodic reports. In May 2006, the PCAOB issued *Proposed Rules on Periodic Reporting by Registered Public Accounting Firms* requiring annual and periodic reporting.¹⁴⁹ The PCAOB has not yet finalized this proposal.

The Committee therefore recommends that the PCAOB, in furtherance of its objective to enhance audit quality and effectiveness, exercise its authority to monitor meaningful sources of catastrophic risk that potentially impact audit quality through its programs, including inspections, registration and reporting, or other programs, as appropriate. The objective of PCAOB monitoring would be to alert the PCAOB to situations in which auditing firm conduct is resulting in increased catastrophic risk which is impairing or threatens to impair audit quality.

(b) Establish a mechanism to assist in the preservation and rehabilitation of a troubled larger auditing firm. A first step would encourage larger auditing firms to adopt voluntarily a contingent streamlined internal governance mechanism that could be triggered in the event of threatening circumstances. If the governance mechanism failed to stabilize the firm, a second step would permit the SEC to appoint a court-approved trustee to seek to preserve and rehabilitate the firm by addressing the threatening situation, including through a reorganization, or if such a step were unsuccessful, to pursue an orderly transition.

The Committee considered testimony regarding the importance of the viability of the larger auditing firms and the negative consequences of the loss of one of these firms on the capital markets. The Committee also considered commentary regarding issues auditing firms faced in addressing circumstances that threatened their viability, including, in particular, problems arising from the need to work with regulators and law enforcement agencies.¹⁵⁰ Several

witnesses suggested the development of a mechanism to allow auditing firms facing threatening circumstances to emerge from those situations.¹⁵¹ Committee member and former Federal Reserve Chairman Paul Volcker opined that, "[I]f we had [such an] arrangement at the time Andersen went down, we would have saved it."¹⁵² The Committee recommends the following two-step mechanism described below.

First Step—Internal Governance Mechanism

The Committee notes that auditing firms operate as partnerships, generally led by a centralized management team, with a supervisory board of partners overseeing management's strategy and performance.¹⁵³ In the event of threatening circumstances at a larger auditing firm, the Committee believes that a lack of effective centralized governance mechanisms may delay crucial decision making, impede difficult decisions that could sustain the firm and its human assets, and lessen the firm's ability to communicate with maximum responsiveness and effectiveness with private, regulatory and judicial bodies.

The Committee therefore recommends that larger auditing firms (those with 100 or more public company audit clients that the PCAOB inspects annually) establish in their partnership agreements a contingent internal governance mechanism, involving the creation of an Executive Committee (made up of partners or outsiders) with centralized firm management powers to address threatening circumstances. The centralized governance mechanism would have full authority to negotiate with regulators, creditors, and others, and it would seek to hold the firm's organization intact, including preserving the firm's reputation, until the mitigation of the threat, or, failing that, the implementation of

18, 2002) (indictment of Arthur Andersen); SEC Staff Accounting Bulletin No. 90 (Feb. 7, 1991) (bankruptcy of Laventhol & Horwath).

¹⁵¹ Record of Proceedings (Dec. 3, 2007) (Written Submission of James R. Doty, Partner, Baker Botts L.L.P., 11–13), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Doty120307.pdf> (suggesting that the Bankruptcy Code be amended to prevent creditors whose claims relate to violations of professional standards from opposing reorganization under a court-approved plan; an automatic stay against partners facilitating partner retention; expanding the SEC's emergency powers to enable the SEC to act by summary order to address the registered firm's ability to continue to provide audit services; and encouraging the SEC or PCAOB to discourage "client poaching" by requiring public companies to show that switching auditors was not related to mega-judgments against audit affiliates in other jurisdictions). See also Record of Proceedings (Dec. 3, 2007) (Written Submission of Peter S. Christie, Principal, Friemann Christie, LLC, 6), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Christie120307.pdf> ("If it remains possible that a firm can fail for reasons other than liability claims it may be attention needs to be given to devices that will permit a firm to re-emerge.")

¹⁵² Record of Proceedings (Mar. 13, 2008) (Oral Remarks of Committee Member Paul Volcker, 317), available at <http://www.treas.gov/offices/domestic-finance/acap/agendas/minutes-03-13-08.pdf>.

¹⁵³ Center for Audit Quality, Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession 13 (Jan. 23, 2008).

¹⁴⁵ *Jury Awards Rise Against BDO Seidman*, Assoc. Press, Aug. 15, 2007.

¹⁴⁶ See 2008 GAO Report 35, 36 (observing that further audit market concentration would "leave large companies with potentially only one or two choices for a new auditor" and that "the market disruption caused by a firm failure or exit from the market could affect companies' abilities to obtain timely audits of their financial statements, reducing the audited financial information available to investors"). See also London Economics, Final Report to EC-DG Internal Market and Services, Study on the Economic Impact of Auditors' Liability Regimes 24 (Sept. 2006) ("The adjustment to a situation in which one of the Big-4 networks fails is unlikely to be smooth. But the long run consequences are likely to be limited provided the overall statutory audit capacity does not fall significantly. Among the various economic sectors, financial institutions may find such a situation particularly difficult as their statutory audits are viewed as more risky and * * * two Big-4 firms dominate the market for statutory audits of financial institutions. The situation is likely to be much direr if a second Big-4 network fails shortly after the first one. Investors' confidence will be in all likelihood seriously affected and the adjustment to the new situation is likely to be difficult.")

¹⁴⁷ Sarbanes-Oxley Act of 2002, 15 U.S.C. 7211–7219.

¹⁴⁸ See, e.g., PCAOB, Observations on the Initial Implementation of the Process for Addressing Quality Control Criticisms within 12 Months after an Inspection Report, PCAOB Release No. 104–2006–078 (Mar. 21, 2006). See also the PCAOB's completed inspection reports at http://www.pcaobus.org/Inspections/Public_Reports/index.aspx#k.

¹⁴⁹ PCAOB Release No. 2006–004 (May 23, 2006).

¹⁵⁰ See, e.g., Securities and Exchange Commission, Temporary Final Rule and Final Rule: Requirements for Arthur Andersen LLP Auditing Clients, SEC Release No. 33–8070 (Mar. 18, 2002); Securities and Exchange Commission, Press Rel. No. 2002–39 and Order Rel. No. 33–8070 (March

the second step outlined below. The auditing firm voluntarily would trigger the operation of this mechanism upon the occurrence of potentially catastrophic events specified in the partnership agreement, such as civil litigation or actual or significantly threatened government or regulatory action. If necessary, the SEC and the PCAOB could encourage the firm to trigger the mechanism through private communications, public statements, or other means. Regulators could also assist in maintaining the firm's organization intact by, for example, increasing the time period for registrants that are audit clients to have audits or reviews completed and providing accelerated consultative guidance to registrants that are audit clients.¹⁵⁴ The Committee recognizes the precise details of such a mechanism would vary from auditing firm to auditing firm, depending on firm structures, history, and culture.

Second Step—External Preservation Mechanism

The Committee also recommends that the larger auditing firms establish in their partnership agreements a rehabilitation mechanism under SEC oversight. The failure of the internal governance mechanism to preserve the auditing firm outlined in the first step above would trigger this second step, which would require legislation. Upon triggering of the second step, either voluntarily by the firm or by the SEC, the SEC would appoint a trustee, subject to court approval, whose mandate would be to seek to address the circumstances that threaten survival, and failing that, to pursue a reorganization that preserves and rehabilitates the firm to the extent practicable, and finally, if reorganization fails, to pursue an orderly transition. If this second mechanism is to include an element that addresses claims of creditors (which could include investors with claims, audit and other clients, partners, other employees, and others), legislation to integrate this mechanism with the judicial bankruptcy process may be necessary.

It is important that this mechanism not be used as insurance for partner capital; that is, this mechanism should not be developed to “bail out” a larger auditing firm, but rather to preserve and rehabilitate the firm in order to ensure the stable functioning of the capital markets and the timely delivery of audited financial statements to investors and other financial statement users. Accordingly, there must be powers that can be exercised in furtherance of the objective of holding the firm together.¹⁵⁵

¹⁵⁴ See, e.g., Securities and Exchange Commission, Temporary Final Rule and Final Rule: Requirements for Arthur Andersen LLP Auditing Clients, SEC Release No. 33-8070 (Mar. 18, 2002); Securities and Exchange Commission, Press Rel. No. 2002-39 and Order Rel. No. 33-8070 (March 18, 2002) (indictment of Arthur Andersen); SEC Staff Accounting Bulletin No. 90 (Feb. 7, 1991) (bankruptcy of Laventhol & Horwath).

¹⁵⁵ Record of Proceedings (Dec. 3, 2007) (Written Submission of James R. Doty, Partner, Baker Botts L.L.P., 11), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Doty120307.pdf> (Dec. 3, 2007) (“It is an anecdotal but firmly held perception of the profession that no accounting firm has entered

The Committee also notes that the larger auditing firms are members or affiliates of global networks of firms and rely on these networks to serve their global clients. Since the networks are maintained through voluntary contractual agreements, the fact that a U.S.-based firm may be facing threatening circumstances could lead to the disintegration of the network. In this regard, in developing this mechanism, auditing firms, regulators, policy-makers, and other market participants must consider the practical implications resulting from the relationship between the U.S.-based firms and the global networks.

Recommendation 3. Recommend the PCAOB, in consultation with auditors, investors, public companies, audit committees, boards of directors, academics, and others, determine the feasibility of developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose these indicators. Assuming development and disclosure of indicators of audit quality are feasible, require the PCAOB to monitor these indicators.

A key issue in the public company audit market is what drives competition for audit clients and whether audit quality is the most significant driver. Currently, there is minimal publicly available information regarding indicators of audit quality at individual auditing firms. Consequently, it is difficult to determine whether audit committees, who ultimately select the auditor, and management are focused and have the tools that are useful in assessing audit quality that would contribute to making the initial auditor selection and subsequent auditor retention evaluation processes more informed and meaningful.¹⁵⁶ In addition, with the majority of public companies currently putting shareholder ratification of auditor selection to an annual vote, shareholders may also lack audit quality information important in making such a ratification decision.¹⁵⁷

The Committee believes that requiring firms to disclose indicators of audit quality may enhance not only the quality of audits provided by such firms, but also the ability of smaller auditing firms to compete with larger auditing firms, auditor choice, shareholder decision-making related to ratification of auditor selection, and PCAOB oversight of registered auditing firms.

The Committee recognizes the challenges of developing and monitoring indicators of audit quality, especially in light of the complex factors driving the potential impact on the incentives of market actors, and the

bankruptcy and emerged to continue its practice. The hard assets of the firm are not significant: the professionals and the clients are the lifeblood of the registered firm. With any anticipation of bankruptcy, these mobile assets are gone.”)

¹⁵⁶ See, e.g., New York Stock Exchange, Listed Company Manual § 303A, which the SEC approved on November 4, 2003, for the responsibilities of exchange-listed companies' audit committees.

¹⁵⁷ Institutional Shareholder Services, U.S. Corporate Governance Policy—2007 Updates 3 (2006).

resulting effect on competitive dynamics among auditors.¹⁵⁸

The Committee has considered testimony and comment letters¹⁵⁹ as well as other studies and reports in developing this recommendation. A possible framework for PCAOB consideration is reviewing annual auditing firm reports in other jurisdictions. For example, one auditing firm's United Kingdom affiliate lists in its annual report nine “key performance indicators, including average headcount, staff turnover, diversity, client satisfaction, audit and non-audit work, proposal win rate, revenue, profit, and profit per partner.”¹⁶⁰ The Financial Reporting Council recently published a paper setting out drivers of audit quality.¹⁶¹ In addition, the PCAOB also could consider some of the factors that auditing firms present to audit committees, such as engagement team composition, the nature and extent of firm training programs, and the nature and reason for client restatements.¹⁶²

The Committee therefore recommends that the PCAOB, in consultation with auditors, investors, public companies, audit committees, boards of directors, academics, and others, determine the feasibility of developing key indicators of audit quality

¹⁵⁸ If the idea proves to be workable, implementation could be a major undertaking for the PCAOB. Developing meaningful quality indicators, defining how they should be measured, and rolling out the measurement process could take significant PCAOB time and effort. Auditing firms, public companies, investors, and academics would all likely have valuable ideas as to approaches the PCAOB could take. However the indicators were devised, firms would have to build their internal processes for measuring the audit quality indicators and the PCAOB would have to develop procedures and training to monitor those processes.

¹⁵⁹ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Wayne Kolins, National Director of Assurance and Chairman, BDO Seidman LLP, 4), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Kolins120307.pdf> (recommending the issuance of regulatory guidance on qualitative factors to be used to evaluate auditing firms); Record of Proceedings (Dec. 3, 2007) (Written Submission of Dennis M. Nally, Chairman and Senior Partner, PricewaterhouseCoopers LLP, 6), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Nally120307.pdf> (suggesting that disclosure of “key elements that drive audit quality would be a useful benefit to the capital markets” and could include a “discussion of the levels of partner and staff turnover, average hours of professional training, risk management and compliance measurements, and metrics related to the quality of management and firm governance processes”); Anonymous Retired Big 4 partner, Comment Letter Regarding Discussion Outline (Nov. 2007) (recommending public disclosure of the following audit quality drivers: (1) Average years of experience of audit professionals, (2) ratio of professional staff to audit partners, (3) chargeable hours per audit professional, (4) professional chargeable hours managed per audit partner, (5) annual professional staff retention, and (6) average annual training hours per audit professional).

¹⁶⁰ See KPMG LLP, UK Annual Report 2007 46.

¹⁶¹ FRC Update 4.

¹⁶² Record of Proceedings (Dec. 3, 2007) (Written Submission of Wayne Kolins, National Director of Assurance and Chairman, BDO Seidman LLP, 2), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Kolins120307.pdf>.

and requiring auditing firms to publicly disclose these indicators. Testimonies and comment letters have suggested specific audit quality indicators, such as the average experience level of auditing firm staff on individual engagements, the average ratio of auditing firm professional staff to auditing firm partners on individual engagements, and annual staff retention. The Committee also recommends that, if the proposal is feasible, the PCAOB, through its inspection process, should monitor these indicators.

Recommendation 4. Promote the understanding of and compliance with auditor independence requirements among auditors, investors, public companies, audit committees, and boards of directors, in order to enhance investor confidence in the quality of audit processes and audits.

The Committee considered testimony and comment letters regarding the significance of the independence of the public company auditor—both in fact and appearance—to the credibility of financial reporting, investor protection, and the capital formation process.¹⁶³ The auditor is expected to offer critical and objective judgment on the financial matters under consideration, and actual and perceived absence of conflicts is critical to that expectation.

The Committee believes that auditors, investors, public companies, and other market participants must understand the independence requirements and their objectives, and that auditors must adopt a mindset of skepticism when facing situations that may compromise their independence. In that regard, the Committee makes the following recommendations:

(a) Compile the SEC and PCAOB independence requirements into a single document and make this document Web site accessible. The American Institute of Certified Public Accountants (AICPA) and states should clarify and prominently note that differences exist between the SEC and PCAOB standards (applicable to public companies) and the AICPA and state standards (applicable in all circumstances, but subject to SEC and PCAOB standards, in the case of public companies) and indicate, at each place in their standards where differences exist, that stricter SEC and PCAOB independence requirements applicable to public company auditors may supersede or supplement the stated requirements. This compilation should not require rulemaking by either the SEC or the PCAOB because it only calls for assembly and compilation of existing rules.

In the United States, various oversight bodies have authority to promulgate

independence requirements, including the SEC and PCAOB for public company auditors, and the AICPA and states for public and private company auditors.¹⁶⁴ The Committee recommends that the SEC and PCAOB compile and publish their independence requirements in a single document and make this document easily accessible on their Web sites. The Committee recommends that the AICPA and states clarify and prominently state that differences exist between their standards and those of the SEC and the PCAOB and indicate, at each place in their standards where differences exist, that additional SEC and PCAOB independence requirements applicable to public company auditors may supersede or supplement the stated requirements.¹⁶⁵

(b) Develop training materials to help foster and maintain the application of healthy professional skepticism with respect to issues of independence and other conflicts among public company auditors, and inspect auditing firms, through the PCAOB inspection process, for independence training of partners and mid-career professionals.

The Committee considered testimony and commentary that, to comply with the

¹⁶⁴ See, e.g., SEC Regulation S-X, Article 2, Rule 2-01—Qualifications of Accountants, 17 CFR § 210.2-01; SEC Financial Reporting Policies, Sec. 602.01—Interpretations Relating to Independence; SEC Final Rule, Amendments to SEC Auditor Independence Requirements “Strengthening the Commission’s Requirements Regarding Auditor Independence”, SEC Rel. No. 33-8183 (2003); SEC Final Rule, Revision of the Commission’s Auditor Independence Requirements, SEC Rel. No. 33-7919 (2001); PCAOB, Interim Independence Standards, ET Sections 101 and 191; Independence Standards Board, Independence Standards Nos. 1, 2, and 3, and ISB Interpretations 99-01, 00-1, and 00-2; PCAOB Bylaws and Rules, Section 3, Professional Standards; AICPA Code of Professional Conduct, ET Sections 100-102.

¹⁶⁵ The Committee took note of concerns expressed regarding independence issues from a variety of perspectives. See, e.g., Andrew D. Bailey, Jr., Professor of Accountancy—Emeritus, University of Illinois, and Senior Policy Advisor, Grant Thornton LLP, Comment Letter Regarding Discussion Outline 9 (Jan. 30, 2008), available at http://comments.treas.gov/_files/BAILEYCOMMENTSONTREASURYADVISORYCOMMITTEEOUTLINEFINALSUBMISSION13008.doc (suggesting simplifying the current SEC independence standards); Dana R. Hermanson, Kennesaw State University, Comment Letter Regarding Discussion Outline 1 (Oct. 4, 2007), available at http://comments.treas.gov/_files/HermansonStatement10407.pdf (stating that consulting and auditing were incompatible and posed a significant threat to the long-term sustainability of the profession); Record of Proceedings (Dec. 3, 2007) (Written Submission of Dennis M. Nally, Chairman and Senior Partner, PricewaterhouseCoopers LLP, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Nally120307.pdf> (“The independence rules should be re-evaluated periodically to examine whether the rules continue to strike the right balance between cost burden and benefit.”); Record of Proceedings (Dec. 3, 2007) (Written Submission of James S. Turley, Chairman and Chief Executive Officer, Ernst & Young LLP, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Turley120307.pdf> (recommending consideration of potential changes to aspects of independence rules).

detailed and complex¹⁶⁶ requirements, some auditors may be taking a “check the box” approach to compliance with independence requirements, and losing focus on the critical need to exercise independent judgment or professional skepticism about whether the substance of a potential conflict of interest may compromise integrity or objectivity, or create an appearance of doing so.¹⁶⁷

The Committee recommends that auditing firms develop appropriate independence training materials for auditing firms, especially partners and mid-career professionals, that help to foster a healthy professional skepticism with respect to issues of independence that is objectively focused and extends beyond a “check the box” mentality. The training materials should focus on lessons learned and best practices observed by the PCAOB in its inspection process and the experience of other relevant regulators as appropriate. To ensure the implementation of this training on an overall basis, the PCAOB should review this training as part of its inspection program.

Recommendation 5. Adopt annual shareholder ratification of public company auditors by all public companies.

Although not statutorily required, the majority of public companies in the United States—nearly 95% of S&P 500 and 70%–80% of smaller companies—put auditor ratification to an annual shareholder vote.¹⁶⁸ Even though ratification of a company’s auditor is non-binding, the Committee learned that corporate governance experts consider this a best practice serving as a “check” on the audit committee.¹⁶⁹ Pursuant to Sarbanes-Oxley, audit committees of exchange-listed companies must appoint, compensate, and oversee the auditor.¹⁷⁰ SEC rules implementing Sarbanes-Oxley specifically permit shareholder ratification of auditor selection.¹⁷¹ Ratification allows shareholders to voice a view on the audit committee’s work, including the reasonableness of audit fees and apparent conflicts of interest.

The Committee believes shareholder ratification of auditor selection through the annual meeting and proxy process can enhance the audit committee’s oversight to ensure that the auditor is suitable for the

¹⁶⁶ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Michael P. Cangemi, President and Chief Executive Officer, Financial Executives International), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Cangemi120307.pdf>; Financial Executives International, Recommendations to Address Complexity in Financial Reporting (March 2007).

¹⁶⁷ See, e.g., Consideration of Fraud in a Financial Statement, Interim Auditing Standard AU 316, Paragraph .13 (Pub. Company Accounting Oversight Bd. 2002) (“Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence.”).

¹⁶⁸ Institutional Shareholder Services, ISS U.S. Corporate Governance Policy—2007 Update 3 (Nov. 15, 2006).

¹⁶⁹ Institutional Shareholder Services, Request for Comment—Ratification of Auditors on the Ballot 1.

¹⁷⁰ Sarbanes-Oxley Act, 15 U.S.C. § 78j-1 (2002).

¹⁷¹ SEC, Final Rule: Standards Related to Listed Audit Committees. Release No. 33-8220 (Apr. 9, 2003).

¹⁶³ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Dennis M. Nally, Chairman and Senior Partner, PricewaterhouseCoopers LLP, 5) available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Nally120307.pdf> (“Independence forms the bedrock of credibility in the auditing profession, and is essential to the firms’ primary function in the capital markets.”); Record of Proceedings (Feb. 4, 2008) (Written Submission of Edward E. Nusbaum, Chief Executive Officer, Grant Thornton LLP, and Chairman, Grant Thornton International Board of Governors, 3), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Nusbaum020408.pdf>.

company's size and financial reporting needs.¹⁷² This may enhance competition in the audit industry. Accordingly, the Committee encourages such an approach as a best practice for all public companies. The Committee also urges exchange self-regulatory organizations to adopt such a requirement as a listing standard. In addition, to further enhance audit committee oversight and auditor accountability, the Committee recommends that disclosure in the company proxy statement regarding shareholder ratification include the name(s) of the senior auditing partner(s) staffed on the engagement.¹⁷³

Recommendation 6. Enhance regulatory collaboration and coordination between the PCAOB and its foreign counterparts, consistent with the PCAOB mission of promoting quality audits of public companies in the United States.

The globalization of the capital markets has compelled regulatory coordination and collaboration across jurisdictions. Regulators of public company auditors are no exception, as companies increasingly seek investor capital outside their home jurisdictions and the larger auditing firms create, expand, and, in some audits, increasingly rely on global networks of affiliates in order to provide auditing and other services to companies operating in multiple jurisdictions.¹⁷⁴ The Committee considered commentary regarding the PCAOB's regulatory role on a global basis.¹⁷⁵

¹⁷² See also FRC Update 5, 7 (recommending that "the FRC should amend the section of the Smith Guidance dealing with communications with shareholders to include a requirement for the provision of information relevant to the auditor re-selection decision," and that "investor groups, corporate representatives, firms and the FRC should promote good practices for shareholder engagement on auditor appointment and re-appointments").

¹⁷³ As discussed above, the Committee also believes that this ratification process would be made more meaningful if accompanied by the development and disclosure of key indicators of audit quality.

¹⁷⁴ See Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia M. Fornelli, Executive Director, Center for Audit Quality, 16), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf> (noting the "growing consensus that regulators on every continent would be well served by working more closely together in the interest of improving worldwide audit quality"); PCAOB Press Release, PCAOB Meets with Asian Counterparts to Discuss Cooperation on Auditor Oversight (Mar. 23, 2007), available at http://www.pcaobus.org/News_and_Events/News/2007/03-23.aspx ("The PCAOB strongly believes that dialogue and cooperation among auditor regulators are critical to every regulator's ability to meet the challenges that come with the increasingly complicated and global capital markets.").

¹⁷⁵ See, e.g., PCAOB Briefing Paper, Oversight of Non-U.S. Public Accounting Firms (Oct. 28, 2003); PCAOB Final Rules Relating to the Oversight of Non-U.S. Public Accounting Firms, PCAOB Rel. No. 2004-005 (June 9, 2004); Request for Public Comment on Proposed Policy Statement: Guidance Regarding Implementation of PCAOB Rule 4012, PCAOB Rel. No. 2007-001 (Dec. 5, 2007); PCAOB Chairman Mark Olson and EU Commissioner Charlie McCreevy Meet to Discuss Furthering Cooperation in the Oversight of Audit Firms, PCAOB Press Rel. (March 6, 2007); PCAOB Meets with Asian Counterparts to Discuss Cooperation on

The PCAOB has the statutory responsibility for ensuring quality audits of public companies. In a world of global business operations and globalized capital markets, the PCAOB benefits from cooperation with foreign auditing firm regulators (many created and modeled after the PCAOB) to accomplish its inspections of registered foreign auditing firms, including firms that are members of global auditing firm networks.

In May 2007, the PCAOB hosted its first International Auditor Regulatory Institute where representatives from more than 40 jurisdictions gathered to learn more about PCAOB operations. In 2006, the PCAOB formally joined the International Forum of Independent Audit Regulators, created to encourage regulatory collaboration and sharing of regulatory knowledge and experience.

The Committee believes that these types of global regulatory coordination and cooperation are important elements in making sure public company auditing firms of all sizes are contributing effectively to audit quality. The Committee strongly supports the efforts of the PCAOB to enhance the efficiency and effectiveness of its programs by communicating with foreign regulators and participating in global regulatory bodies. The Committee urges the PCAOB and its foreign counterparts to continue to improve regulatory cooperation and coordination on a global basis.

Other Issues Under Consideration

The Committee is also considering and debating a variety of other issues. Further elaboration on these issues will be included in subsequent drafts of this Report.

VIII. Separate Statements

[The contents of Separate Statements to be included in subsequent drafts of this Report.]

[FR Doc. E8-10818 Filed 5-14-08; 8:45 am]

BILLING CODE 4810-25-P

DEPARTMENT OF THE TREASURY

Open Meeting of the Advisory Committee on the Auditing Profession

AGENCY: Office of the Undersecretary for Domestic Finance, Treasury.

ACTION: Notice of meeting.

SUMMARY: The Department of the Treasury's Advisory Committee on the Auditing Profession will convene a meeting on June 3, 2008, in the Cash Room of the Main Department Building, 1500 Pennsylvania Avenue, NW., Washington, DC, beginning at 10 a.m.

Auditor Oversight, PCAOB Press Rel. (Mar. 23, 2007); Establishment of the International Forum of Independent Audit Regulators, Haut Conseil du Commissariat aux Comptes Press Rel. (Sep. 15, 2006); PCAOB Enters into Cooperative Arrangement with the Australian Securities and Investments Commission, PCAOB Press Rel. (July 16, 2007); Board Establishes Standing Advisory Group, PCAOB Press Rel. (Apr. 15, 2004).

Eastern Time. The meeting will be open to the public.

DATES: The meeting will be held on Tuesday, June 3, 2008, at 10 a.m. Eastern Time.

ADDRESSES: The Advisory Committee will convene a meeting in the Cash Room of the Main Department Building, 1500 Pennsylvania Avenue, NW., Washington, DC. The public is invited to submit written statements with the Advisory Committee by any of the following methods:

Electronic Statements

- Use the Department's Internet submission form (<http://www.treas.gov/offices/domestic-finance/acap/comments>); or

Paper Statements

- Send paper statements in triplicate to Advisory Committee on the Auditing Profession, Office of Financial Institutions Policy, Room 1418, Department of the Treasury, 1500 Pennsylvania Avenue, NW., Washington, DC 20220.

In general, the Department will post all statements on its Web site (<http://www.treas.gov/offices/domestic-finance/acap/comments>) without change, including any business or personal information provided such as names, addresses, e-mail addresses, or telephone numbers. The Department will also make such statements available for public inspection and copying in the Department's Library, Room 1428, Main Department Building, 1500 Pennsylvania Avenue, NW., Washington, DC 20220, on official business days between the hours of 10 a.m. and 5 p.m. Eastern Time. You can make an appointment to inspect statements by telephoning (202) 622-0990. All statements, including attachments and other supporting materials, received are part of the public record and subject to public disclosure. You should submit only information that you wish to make available publicly.

FOR FURTHER INFORMATION CONTACT:

Kristen E. Jaconi, Senior Policy Advisor to the Under Secretary for Domestic Finance, Department of the Treasury, Main Department Building, 1500 Pennsylvania Avenue, NW., Washington, DC 20220, at (202) 927-6618.

SUPPLEMENTARY INFORMATION: In accordance with section 10(a) of the Federal Advisory Committee Act, 5 U.S.C. App. 2 and the regulations thereunder, David G. Nason, Designated Federal Officer of the Advisory Committee, has ordered publication of