

SEC Chairman Proposes New Board to Oversee Public Company Auditor Discipline and Quality Control

On January 17, 2002, SEC Chairman Harvey Pitt unveiled a proposal to restructure the accounting profession's quality monitoring and disciplinary processes and bolster public and investor confidence in auditing and financial reporting.

The Chairman stated in announcing this proposal that the SEC had, even before Enron's collapse, called upon the accounting profession to resolve its vulnerabilities and weaknesses. He noted that the accounting profession had shown great willingness to work with the SEC to produce a better regulatory system for auditors of publicly traded companies.

Chairman Pitt described the new system as a tough, no-nonsense, fully transparent disciplinary system, subject to independent leadership and governance. In addition, he asserted that there must be regular monitoring of the ways in which auditing firms perform their responsibilities and of the areas in which either individual firms or the profession as a whole can improve.

The SEC initially envisions a new body dominated by public members. It has two primary components – discipline and quality control. Here are some of the components the SEC believes should be a part of this process.

Discipline

1. The system should be subject to a new body that is dominated by public membership.
2. The SEC should decide whether conduct should be pursued as violations of law (in which case the SEC would handle it), or pursued as violations of ethical and/or competence standards (in which case they would be handled by the private sector regulatory body). The body would also consider complaints regarding public company auditors that come from sources other than the SEC.
3. The body should be empowered to perform investigations, bring disciplinary proceedings, publicize results, and restrict individuals and firms from auditing public companies. It would also have the ability to impose fines.
4. The disciplinary proceedings should proceed expeditiously.
5. Disciplinary actions should be subject to SEC oversight.

Quality Control

1. There should be a reform of the current peer review process for SEC registrants that re-engineers firm-on-firm review.
2. The new process should replace the current triennial firm-on-firm peer review for auditors of publicly-traded companies with more frequent monitoring of audit quality designed to produce better audits in the future.
3. There should be a permanent Quality Control staff, composed of knowledgeable people unaffiliated with any accounting firm.
4. The staff should be deployed and overseen by the new publicly dominated body and its staff.

Chairman Pitt noted that the Commission is at the early stages of this proposal and that many details remain to be worked out. He pledged that the SEC will carefully review this and other proposals regarding regulatory systems to ensure that the SEC addresses all concerns with the current system.

For a full copy of Chairman Pitt's remarks go to: <http://www.sec.gov/news/speech/spch535.htm>