

# News Release

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## AICPA CHAIRMAN, IN TESTIMONY, CALLS FOR REFORM

**Washington, D.C., February 14, 2002** – Testifying before the House Energy and Commerce Committee (Subcommittee on Communications, Trade and Consumer Protection), James G. Castellano, chairman of the American Institute of Certified Public Accountants, today expressed the accounting profession’s support for reform – both of the current accounting and auditing system and for enhancement and modernization of the broader financial reporting system.

“We are deeply disturbed by the collapse of Enron. It has shaken the faith of America, and of the world, in our financial markets. The personal tragedy to Enron’s employees, retirees, and investors goes far beyond the dollars and jobs they have lost. The AICPA and its members are committed to taking the steps necessary to restore public confidence in the accounting profession and capital markets system. We will work actively with Congress to develop meaningful public policy reforms.”

Specifically, Mr. Castellano called for these initiatives:

- **Report a broader “bandwidth” of information.** A modernized financial reporting model must provide greater disclosure to investors about plans, opportunities, risks, uncertainties and the drivers of future success. Financial reports should address off-balance sheet activity, liquidity issues, other risks and uncertainties, forward-looking information, non-financial performance indicators, unreported intangibles and other important information.
- **More frequent reporting.** Economic change has moved swiftly. The annual and quarterly reporting regime must keep pace with that change, recognizing that real-time information is now available to investors on the Internet.

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- **Address consolidation accounting.** Mr. Castellano encouraged FASB to revise current accounting rules for special purpose entities, such as those used by Enron, to deter accounting abuses.
- **New audit standard.** Mr. Castellano described a proposed new auditing standard that would result in significant change in auditor performance and thereby improve the likelihood that auditors will detect material misstatements due to fraud in a financial statement audit. An exposure draft of this new standard, he said, will be issued for public comments by month's end with the expectation of issuing a final standard this year.
- **Require reports on internal control.** Company management should be required to make an analysis and assertion as to the effectiveness of the company's internal control systems. The auditor should be required to report separately on the effectiveness of the management assertion.

Further, Mr. Castellano stated: "Support for reform should not be limited to standard setters, regulators, and those whose oversight can take on formal qualities. All interested parties – including but not limited to the accounting profession, the investment community, registrants, creditors, and the financial industry – should be actively and constructively engaged. They should be united by the common goal of empowering investors."

Mr. Castellano concluded by stating: "The AICPA looks forward to working with Congress, the SEC and the FASB to develop meaningful reforms in these areas and we are open to other areas of inquiry. It is a debate long overdue, and one that we welcome."

The American Institute of Certified Public Accountants is the national, professional organization of CPAs, with more than 340,000 members in business and industry, public practice, government, and education. It sets U.S. auditing and professional ethical standards and, with the Financial Accounting Standards Board, U.S. accounting standards. The AICPA is the first national, professional association to be ISO 9001-certified, in recognition of its quality management and assurance practices.

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A copy of the written testimony of James Castellano can be found at [www.aicpa.org](http://www.aicpa.org) by clicking on the flashing green banner at the top of the page.