

Frequently Asked Questions

The following is a list of sample responses to some of the most frequently asked questions concerning the CPA profession's reaction to the Enron collapse and to recent proposals put forth by the SEC to change the regulatory structure of the audit process for publicly-traded companies.

1. Does the AICPA still believe the profession's self-regulation policies have been effective over the years?

Yes. More than 15,000 public company audits are completed successfully every year without restatement or allegations of impropriety. The AICPA believes that self-regulation contributes significantly to the issuance of reliable financial statements, which have helped attract capital to finance American business.

The GAO, in its 1996 study of the profession, concluded that the actions taken by the profession in response to the major issues raised by the many studies from 1972 through 1995 shows that the profession has been responsive in making changes to improve financial reporting and auditing of public companies.

2. What is "auditor independence" and why is it important?

Objectivity and integrity are the fundamental tenets of the accounting profession. Independence is the manner in which the profession has chosen to measure its objectivity. It is the bedrock of the CPA profession and is important because it is the measure that a CPA professional uses to protect the public interest and the integrity of the American financial markets. Violations of auditor independence can culminate in the revocation of a CPA's license by state boards of accountancy.

Finally, CPAs are bound by a code of ethics through either their state boards of accountancy, their professional associations, or both, that are based on the guiding principle of independence. Breaches of these codes of conduct are enforced vigorously within the rules of the profession.

3. Why should the investing public trust the audit opinion CPAs provide?

The profession has a 100-year history of credibility in meeting the public interest and has been a critical component of the success of the U.S. financial markets. It is rooted in the core values of competence, integrity, objectivity, broad-based knowledge, and lifelong learning. These core values are the guiding principles by which CPAs conduct themselves and serve their clients.

In August 2000, the Public Oversight Board's Panel on Audit Effectiveness released its report, which made some specific recommendations for improvements, and which stated, "both the profession and the quality of its audits are fundamentally sound."

The profession recognizes that the Enron collapse has caused many people who have typically relied on the integrity of the outside CPA's work – whether it be the audit or other work CPAs do – to question whether that confidence is justified. The profession is committed to doing whatever it takes to rebuild that public trust.

4. What changes has SEC Chairman Harvey Pitt put forth concerning oversight of the audits of publicly held companies?

While specific details are yet to be announced, under Chairman Pitt's proposal, the quality monitoring and disciplinary activities of auditors of publicly held companies would be administered by new boards made up of a majority of public members operating independently from the profession and outside of the AICPA.

The disciplinary board would be designed to accelerate the investigation of alleged misconduct and provide a disciplinary system that is more readily understandable. Additionally, the current program of firm-on-firm triennial peer reviews for auditors of publicly traded companies would be replaced by an annual quality monitoring process for only the largest firms, administered by a new board, again with a majority of public members and outside the profession's existing structure. This new body would have expanded authority to monitor compliance with SEC practice standards and to refer instances of noncompliance to the disciplinary board.

5. What is the timing for enacting these new entities?

The Chairman has said he hopes that the new system will be operational by the end of the year.

6. Will the disciplinary board have a staff to complete investigations of its own, or just act more quickly once failures have occurred?

It is anticipated that the disciplinary board will have its own staff to expeditiously investigate matters that come to its attention.

7. Does this disciplinary board have a name yet? Have its members been identified?

Not yet.

8. How many public members will it have?

While the number is not set, there will likely be, at a minimum, a two-thirds supermajority of public members.

9. Will firms get to defer investigations for matters in litigation?

That issue is unresolved at this time.

10. What is the AICPA's position on these new proposals?

The AICPA recognizes that in light of the Enron collapse, dramatic regulatory changes will be made. As soon as formal proposals are issued by the SEC, the entire profession is committed to implementing this process as expeditiously as possible. The AICPA will cooperate with the SEC.

11. Why has Chairman Pitt chosen to work with the accounting profession so directly on this solution?

While it would be presumptuous to speak for the Chairman, he called upon the profession to cooperate in order to move in a collaborative, rather than an adversarial, manner. Chairman Pitt made clear that he believes the regulatory process will produce faster results.

12. Why should the investing public have confidence that these reforms he has proposed be meaningful?

One reason is that the whole world is watching. Another is that the SEC proposal calls for a disciplinary board outside the profession's existing structure, with expanded powers and public members. A second board, responsible for annual audit quality reviews, would replace the once-every-three year peer review for the largest firms that perform audits of SEC registrants. This represents unprecedented changes for the accounting profession, most of which have not been supported by the AICPA in the past.

13. Will the new system impact all firms performing audits - even audits of privately-held companies?

The proposed changes will be effective only for audits of publicly-traded companies.

14. Does anyone besides Chairman Pitt and the accounting profession think that these reforms are adequate?

Congressman Michael Oxley (R-Ohio), Chairman of the House Financial Services Committee, has introduced H.R. 3763, a bill that parallels Chairman Pitt's proposal. We are analyzing the bill in its entirety.

15. Does accepting fees for non-audit services affect auditor independence?

Two very recent, and very notable, reports indicate strongly that accepting fees for non-audit services does not affect auditor independence. In January 2002, a University of Southern California (USC) study found "no evidence that non-audit service fees impair auditor independence."

In its August 2000 report on the profession, the Panel on Audit Effectiveness (the "O'Malley Panel"), stated that "while many specific recommendations are made for improvements in the conduct of audits and the governance of the profession, our report demonstrates that both the profession and the quality of its audits are fundamentally sound." The Panel did not issue a recommendation on whether non-audit services should be banned, and encouraged corporate audit committees to become actively involved in monitoring these services, a position that the profession has long supported.

Providing non-attest services can help both the client and auditor understand the economic realities and environment of the company and can lay the groundwork for a better audit, as documented in the Public Oversight Board's audit effectiveness report. The foundation of the public's trust in the profession is the CPA's commitment to render an objective opinion. The auditors have always been prohibited from reviewing their own work, or from acting as management of a company. Knowing that, firms are required to have adequate and appropriate safeguards in place to ensure that whatever non-audit service they might provide do not impair their independence.

16. Had these new rules and procedures being proposed by the SEC and the profession been in place, would they have helped prevent the Enron collapse?

Until the numerous investigations are complete, it is unclear what would have prevented the Enron collapse and protected that company's shareholders. The AICPA believes these proposed rules and other changes are only the first steps of many that need to be implemented to help restore investor confidence. The SEC proposals, for example, are an affirmative step forward toward strengthening the profession's quality monitoring and disciplinary processes. But reforms also need to be made in the financial reporting model, the analyst community, boards of directors and audit committees, and in the corporate culture of companies.

17. I've heard that the accounting profession needs to move from having standards that are rules-based to those that are principles-based. What does that mean?

In a principles-based system, the CPA refers to the guiding principle when he or she is faced with a fact pattern they need to consider, and they must exercise appropriate professional judgment based on the principle. In a rules-based approach, a series of specific rules are written to cover each fact pattern. If there isn't a rule, however, the CPA doesn't have guidance for that situation.

An example of both is our code of ethics, which is both principle and rules based. It has governing principles, and over time, it has evolved to include some rules for specific situations. If there isn't a rule for the specific situation, the CPA can still look to the overarching principle to make his or her decision.

18. Given the number of recent high profile business failures, do we need more regulation than simply adding a few public members to the process?

The proposed framework does more than just add public members. It changes and strengthens the profession's quality monitoring and disciplinary processes for auditors of publicly-traded companies.

19. If the profession is so committed to upholding the public trust, why hasn't the profession condemned the unethical, probably illegal, and possibly criminal acts committed by Andersen?

This is a matter presently under investigation by the Department of Justice, the Department of Labor, the SEC, several Congressional committees, and the AICPA's SEC Practice Section. At the same time, the AICPA, Big Five and the 1,200 firms that are members of the SEC Practice Section are forging ahead on implementing changes to quality monitoring and disciplinary processes that will proactively address the public's concerns. The profession is already moving forward, for example, with improved audit standards for detecting fraud and new measures for deterring fraud such as expanded internal control procedures for management, boards and audit committees.

20. Shouldn't the auditors have detected fraud at Enron?

There are still too many unknowns to say conclusively what happened to result in the Enron bankruptcy. For example, the company may have adopted aggressive accounting practices but

remained in compliance with GAAP standards. Under that scenario, the integrity of the audit would not be called into question, but possibly the accounting standards under which the financial statements were prepared would be seriously questioned. But again, there is too little information available at this time to draw any conclusions about violations or deficiencies in standards.

The accounting profession, as far back as 10 years ago, called for increased vigilance in detecting fraud. In its June 1993 report, "Meeting the Financial Reporting Needs of the Future: A Public Commitment from the Public Accounting Profession," the AICPA's Board of Directors stated that "the public looks to the independent auditor to detect fraud, and it is the auditor's responsibility to do so." This policy position led to development and implementation of auditing standards regarding fraud detection, specific guidance, and identification of risk factors, many of which appear to be prevalent in the Enron debacle.

21. Why would anyone want to be an auditor?

The Enron failure has moved the importance of the independent audit - and the men and women who perform them - into centerstage. It has also shown how the audit process is one of the key underpinnings of the U.S. capital markets, and the important role CPAs play in the orderly working of that market and the global economy.

Being a CPA who audits public companies is a dynamic, highly responsible profession, with unlimited opportunities to ensure the reliability and integrity of business information