

MEMORANDUM

February 25, 1985

TO : Chairman Shad

FROM: David Martin *DM*

Attached is the long statement that the AICPA has submitted in connection with the accounting hearings. It is more of an advocacy piece than we have been working on and makes the case that the current "mosaic of regulation" is basically sufficient, that auditors are in fact exercising a high degree of objectivity and integrity, that the present framework for bringing about needed improvements is adequate, and that increased regulation would not be likely to yield significant improvements.

Some of the statement's more salient points are as follows:

- o Business failures are not caused by audit failures.
- o Audit failures are generally the result of human error such as failing to detect material irregularities or making faulty, though good faith, judgments.
- o Added regulation of auditors is not a solution to the problem of business failures because they stem from factors other than the quality of financial reporting and auditing.
- o The exposure to legal action is a major deterrent to substandard performance by independent auditors.
- o Major changes are not warranted in the present process for setting accounting and auditing standards.
- o Compliance with AICPA rules to ensure independence is generally very high.
- o There is no evidence that MAS has impaired the independence of auditors and the AICPA believes it would be a serious mistake to restrict or prohibit the performance of MAS by independent auditors.

The statement concludes that although major changes are not called for, there are areas where improvements might be made. Without further elaboration, the AICPA notes five recent initiatives:

- o Consideration of a multi-organizational effort to improve prevention and detection of fraud.
- o A reexamination of existing auditing guidance for bank loan loss reserves.
- o Review of the adequacy of the Code of Professional Ethics and related enforcement machinery - a special committee will issue a draft report in the fall of 1985.
- o Task Force of the SECPS reviewing membership requirements and scope of peer review.
- o SECPS considering how the public might be made more aware of the procedures and findings of its Special Investigations Committee.

On the whole, the statement is relatively bland. It contains few statistics and no discussion of particular cases. Finally, the report makes no attempt to define or otherwise explain areas where improvements may be necessary. Given the orientation of the these hearings, it is not likely that this somewhat superficial support of the status quo will be particularly effective.

Attachment

cc: Linda Quinn