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U.S. Securities & Exchange Commission  
Hearing on Proposed Rule Regarding  
Revision of Auditor Independence Requirements  
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Testimony of Robert R. Garland  
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Good afternoon. My name is Bob Garland and I am the partner in charge of the Deloitte & Touche audit practice in the United States.

I would like to start by thanking you for this opportunity to provide my thoughts on this crucial matter and to commend you for your efforts to modernize the aspects of independence in the area of financial and employment relationships.

I have been with D&T for 35 years, my entire adult life. I've been an auditor all that time. I'm proud to be an auditor and a D&T partner. I'm proud to be part of the profession. I'm even proud when people call me a "bean counter."

The reason I'm proud is because I'm part of a profession and firm that constantly "strives to do the right thing." As every adult knows, that isn't always easy. There are many pressures in life that try to interfere with doing the right thing. They're like gravity, they want to pull you down. You have to work very hard to resist those pressures.

Over the years, I've worked with my partners to do the right thing. Don't get me wrong, we're not perfect. Sometimes we make mistakes, but I'm proud of my partners because the overwhelming majority of the time they do work with our clients and get it right.

They do take to heart their very special responsibilities to our capital markets and our society. They, along with corporate management, standard setters, regulators, investment bankers, and the legal profession are the reason we have the best capital markets in the world.

It is no secret that my firm believes that the proposed appearance-based independence standard and the restrictions on scope of services are not in the public interest and should not be adopted by the Commission.

I agree with the Panel on Audit Effectiveness who have stated that the profession's audits are fundamentally sound but we should strive to continuously improve. I believe the SEC is well intentioned, and my firm and I are in total agreement with your objectives of continually improving audit quality. However, I believe it is vital to understand how significant the consequences of this rule could be. It could serve to reduce audit quality, a result which is clearly not in the public interest. Therefore, I urge you to slow down and proceed with caution.

Over the past 35 years, I have been involved in hundreds of audits and dealt with thousands of complex accounting and auditing issues. I believe it would be very difficult to get an audit done without the skills and talents of my tax, consulting and actuarial partners.

For example, we recently completed the audit of a very large client where we had to review hundreds of thousands of transactions. We were looking for patterns of errors and fraud. The task was so complex that it exceeded the IT capabilities of our auditors. We had to bring in 16 consultants to successfully accomplish the audit. If we had been pushed into selling our consulting practice, we would not have had those resources to bring to bear on the audit. This is not an isolated incident. Non-auditor resources are

used in the audit of virtually every complex public company, and that trend is increasing as we enter the new economy.

I want to be careful here not to overstate. I am not saying that an accounting firm which is forced to shed its consulting competencies will not be able to perform an effective audit. I am saying that losing internal access to important competencies will be a significant obstacle to the performance of high quality audits. It will make audits more expensive and will raise a whole new set of issues. Rulemaking should make it easier to do high quality audits, not harder.

For instance, if we had to go outside our firm to access consulting capabilities, we would have far less control of the timeliness and quality of the work performed, and it would be difficult to assess if the outsider were applying the same level of professional ethics and independence standards that we apply.

Before we make the dramatic changes proposed, we should ask: Why should we enter these risky waters? What problems are we trying to solve?

I have seen no evidence that a broad scope of services has had an adverse effect on audit quality. After studying this issue for 40 years, no one has ever produced any such evidence, including the SEC. In fact, my experience is just the opposite. I believe a broad scope of services enhances audit quality.

As you are aware, the Panel on Audit Effectiveness recently studied this and other issues relating to the audit profession. Like everybody else who has studied this issue, the Panel was unable to identify any instances in which providing non-audit services had a negative effect on audit effectiveness. In fact, they found exactly the opposite. On about a quarter of the engagements in which non-audit services had been provided, the Panel noted that those services had a positive impact on the audit.

Given what is at stake, and the fact that there is no demonstrated problem, it would be irresponsible to take on the considerable risks surrounding the proposed rule. It would be like doing radical surgery on a healthy patient.

Frequently, the perception of independence caused by a broad scope of services is raised as a concern. Unfortunately, I believe the SEC has been largely responsible for promoting this issue. I question how widespread this perception really is in the marketplace. If it were widespread, we would see evidence as to a confidence crisis in the capital markets. That is simply not the case.

Moreover, even if there were a widespread misperception that a broad scope of services had a negative impact on audit quality, the best way to deal with that misperception would be with facts, not just giving in to it. When people believed the world was flat, we did not we try to build fences around the edges. Rather, we studied the issue, gathered the facts and presented them to people and their perceptions changed. We need to do the same thing with the scope of services issue. Present them with the facts. The facts are that a broad scope of services enhances audit quality; not undermines it.

So how do we resolve this debate?

As the Panel on Audit Effectiveness so perceptively noted, the U.S. has developed great capital markets as a result of a very effective partnership between the standard setters, the SEC and the accounting profession. The partnership between the SEC and the profession is currently under unusual stress. A solution mandated by the SEC and forced upon the profession is not the answer and will undermine the partnership.

I believe "due process" in the private sector, with appropriate regulatory oversight, is a far superior solution.

I suggest that the SEC, accounting profession, and POB thoughtfully deliberate the recommendations of the Panel on Audit Effectiveness as was done with the Blue Ribbon Committee recommendations. I also suggest (as did the Panel on Audit Effectiveness) that the ISB be allowed to do its job in the area of independence and scope of services, free of undue pressure (and preconceptions) from either the SEC or the profession. I have confidence the ISB will develop sensible solutions that will enhance audit effectiveness. As a result, changes will occur that will lead to the continuous improvements we all desire.

Thank you.