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Contact: Jay Hyde

202-609-8057, or

Jeannie McPherson

202-609-8048

CAQ Webcast Focuses on Role of Auditors When Illegal Acts Are Suspected

Washington, D.C. – When a public company auditor discovers or suspects an illegal act, Section 10A of the Securities Exchange Act of 1934, as well as the auditing standards, contemplate a series of steps which serve to advise the appropriate parties, enhance the quality of the audit, and protect investors.

A recent Webcast moderated by Center for Audit Quality (CAQ) Executive Director Cindy Fornelli, and streamed to more than 150 locations via the Internet, brought together the perspectives of the forensic auditor assisting the audit firm, the forensic accountant assisting a company's audit committee, and counsel to an audit committee.

Illegality covered by Section 10A includes violations of securities laws and extends to, among other things, such matters as money laundering, violations of the Foreign Corrupt Practices Act, and the Patriot Act, which expanded the authority of U.S. law enforcement agencies for the purpose of fighting terrorism.

Section 10A includes three important steps an auditor should take if he/she suspects an illegal act has been committed: evaluate the impact of the act on the company's financial statements; make sure the audit committee is adequately informed; and evaluate whether the audit committee is taking timely and appropriate remedial actions.

According to Steven Skalak, Advisory Services Partner, PricewaterhouseCoopers LLP, "The standard requires the audit thought process be one where first you think about whether the act might be illegal, and after that, the second consideration is how it might affect the financial statements."

Dr. Timothy P. Hedley, Forensic Partner, KPMG LLP, explained to Webcast viewers that when an auditor suspects an illegal act, "They should take certain steps to understand

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when they've got smoke if there is some fire, asking 'do I need to move this up the ladder?' Each matter is going to be different, but they all require an audit response."

Panelist Michael R. Young, Litigation Partner, Willkie Farr & Gallagher LLP, remarked that, "the evaluative steps are left up to the discretion of the auditor, which can be an area fraught with peril since the [U.S. Securities and Exchange Commission (SEC)] can ultimately determine if the auditor did the right thing in his or her assessment of the situation." Young added that auditors need to be very cautious about their treatment of such situations, "and if they conclude the audit committee is not taking timely and appropriate remedial actions he or she is required to go to the SEC within 24 hours."

Asked by moderator Fornelli for their key observations, Skalak replied that, "The auditor doesn't want to be sold a bill of goods. That means having the right team involved to conduct the investigation." From Hedley's perspective, the auditor should "Be involved up front; move lockstep with the investigation; and, most importantly, maintain a heightened level of professional skepticism in these situations." For his part, Young said, "It boils down to two words from the auditor's perspective: independence and transparency. Make sure the investigation is independent, and you need to have transparent access to the results of that investigation."

To view the Webcast, visit <http://www.ian.ibeam.com/events/aicp001/26974>.

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The Center for Audit Quality (CAQ) is an autonomous public policy organization serving investors, public company auditors and the capital markets. The CAQ's mission is to foster confidence in the audit process and to aid investors and the markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants. For more information, visit www.thecaq.org.