



## **Accountants Form Group To Improve Audit Quality**

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By Judith Burns

WASHINGTON – U.S. accounting firms have formed a new private-sector group to improve audit quality and restore confidence in a profession tarnished by massive corporate accounting scandals.

The nonprofit organization, unveiled Tuesday, is affiliated with the American Institute of Certified Public Accountants and backed by the Big Four accounting firms - Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP - plus the five next-largest audit firms.

Improving the quality of public company audits and increasing investor confidence will be a top priority for the Washington, D.C.-based group, known as the Center for Audit Quality, according to Executive Director Cynthia Fornelli.

In an interview Tuesday, Fornelli said accountants recognize that "people lost confidence" as a result of accounting scandals, which accounting firms hope to reverse by improving the quality of corporate financial reporting and audits. She likens public company auditors to umpires, saying when they do their job right, everyone can focus on the game and have confidence that it will be played fairly. In auditing public companies, she said: "We're really trying to be a fair and impartial umpire."

Shielding auditors from damaging lawsuits will be another issue for the new organization, along with controversial audits of internal financial-reporting controls at public companies, which Congress mandated in 2002 as part of a sweeping package of corporate accounting reforms.

"Auditor liability has certainly been in the news and something we'll look at and have a dialogue about," said Fornelli, a former regulatory executive at Bank of America, and former deputy director of the SEC's investment-management division, which oversees the \$10 trillion mutual-fund industry.

Accounting professionals will dominate the new organization's 12-member board. Seven seats will be held by the head of the AICPA and the chief executives of the six largest audit firms, with two seats rotating among smaller and midtier audit firms. Three public board members will be named shortly.

Already named to the board are AICPA Chief Executive Barry Maelancon, BDO Seidman Chief Executive Jack Weisbaum, Crowe Chizek and Co. CEO Mark Hildebrand, Deloitte & Touche CEO James Quigley, Ernst & Young Chairman and CEO James Turley, Grant Thornton CEO Ed Nusbaum, KPMG Chairman and Chief Executive Timothy Flynn, McGladrey & Pullen managing partner David Scudder and

PricewaterhouseCoopers Chairman Dennis Nally.

Nusbaum said in a telephone interview that he expects the new group to promote "good accounting and good auditing," in part by helping auditors do a better job of uncovering corporate fraud. He also expects the new group will seek suggestions on how to make corporate financial reports more useful to investors.

Staff members are still being hired, but Fornelli already has recruited Jane Cobb, now the head of legislative affairs at the Securities and Exchange Commission, as director of operations.

Fornelli said the new group will bring a single-minded focus to public company audits, in contrast to the AICPA, the professional trade group for more than 300,000 CPAs, many of whom do not audit public companies. The new organization replaces the AICPA's center for public company audit firms, with 787 member firms, and is open to auditors who handle public company audits, as well as those that don't.

AICPA leaders pushed for the organization, voting in 2005 to create the Public Company Auditors' Forum, comprised of the AICPA, large audit firms and public members. Early plans called for the forum to be independent and autonomous while being affiliated with and funded by the AICPA.

Supporters of the concept figured a new group would be free from past history - and bad blood - with lawmakers and regulators at the SEC. Massive corporate accounting scandals ended the AICPA's self-regulatory role and led Congress to create the Public Company Accounting Oversight Board in 2002, charging it with inspecting and disciplining public company accountants.

Looking ahead, Fornelli said the new organization expects to work closely with the SEC and the oversight board, saying: "A lot of their interests and our interests are the same."