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COMMITTEE PRINT

# IMPROVING THE ACCOUNTABILITY OF PUBLICLY OWNED CORPORATIONS AND THEIR AUDITORS

REPORT OF THE

SUBCOMMITTEE ON REPORTS, ACCOUNTING AND MANAGEMENT

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

NOVEMBER 1977

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(PURSUANT TO S. RES. 4 AND S. RES. 71, 95TH CONGRESS)
WASHINGTON, D.C. 20510



4 November, 1977

Honorable Abraham Ribicoff
Chairman
Committee on Governmental Affairs
3308 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

I am transmitting to you the report of this subcommittee concerning its inquiry into various accounting practices and responsibilities of the Federal government. These practices and responsibilities arise primarily under the provisions of the Federal securities laws.

The subcommittee began its in-depth study of Federal accounting practices two years ago. Our inquiry has involved the collection and analysis of substantial amounts of information, the issuance of a detailed staff study (The Accounting Establishment," Sen. Doc. 95-34), and eight days of public hearings.

This report presents the views of the subcommittee members based on all the information and recommendations which have come to our attention. The report has been unanimously approved by all members of the subcommittee. I strongly believe that it will serve as a forceful and sound statement of public policy on accounting matters for Congress, the Securities and Exchange Commission, the accounting profession, and others.

Interest in this subcommittee's work by the accounting profession, the business community, the academic community, and Federal agencies concerned with accounting matters indicates there will be widespread interest in this report outside of Congress. Therefore, I ask that the report be issued as a committee print.

Very truly yours,

Lee Metcalf

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## INTRODUCTION

During the past several years, serious questions have arisen concerning the activities and accountability of publicly owned corporations operating in the United States and throughout the world. These questions have arisen in large part from a series of unexpected failures by major corporations, as well as disclosures of widespread questionable and illegal activities by the managements of many publicly owned corporations. Such problems have contributed to a severe decline of public confidence in the integrity of American business.

Public confidence in the integrity and efficiency of the business community must be restored because such confidence is the key element in making the Nation's economic system function effectively. The Federal Government has certain public policy responsibilities in helping to assure the accountability of publicly owned corporations as set forth in the Securities Act of 1933 and the Securities Exchange Act of 1934. The Federal Government also has an important direct interest in understanding and correcting problems in the business sector. Those problems can lead to substantial Federal assistance programs, as in the cases of Penn Central Corp. and Lockheed Aircraft Corp.

Congress has attempted to meet its responsibilities in this area through various initiatives, both in the enactment of legislation deemed necessary and in the increased oversight activities by appropriate committees.

The Subcommittee on Reports, Accounting and Management is responsible for assuring, among other things, that accounting and financial reporting practices promulgated or approved by the Federal Government are responsive to the needs of the public. Accordingly, this subcommittee has devoted substantial time and effort over the past two years to evaluating the role of such accounting and financial reporting practices as a means of improving the accountability of publicly owned corporations.

### PURPOSE

The purpose of this report is to summarize the consensus views of the subcommittee's members regarding the ways in which existing accounting and financial reporting practices should be improved to benefit the public. The subcommittee has focused its efforts on the responsibilities delegated to accounting organizations and the Securities and Exchange Commission because they are the respective private and public entities charged by Congress with protecting the public on corporate accounting and financial reporting matters. Thus, this report primarily deals with actions which can be taken by the accounting profession and the SEC to perform their respective functions more effectively.

The subcommittee intends that this report will inform Congress and the public of certain responsibilities which should be met by the accounting profession and the SEC in today's business environment. The report is also intended to establish public policy goals which the accounting profession and the SEC should achieve through specific programs which they have promised to develop and implement.

At the outset, it is important to note the limits of Federal jurisdiction over accounting and financial reporting matters so that the scope of the views expressed in this report will be clearly understood. The Federal securities acts limit the responsibilities of the Federal Government to activities concerning publicly owned corporations. Thus, the views in this report affecting the accounting profession apply only to that segment of the profession which provides services to publicly owned corporations.

The subcommittee's primary interest is to improve the accountability of publicly owned corporations by improving the performance and stature of accounting firms which provide services to such corporations. Subcommittee members are aware, however, that smaller accounting firms serving small, privately owned businesses have interests and needs which often differ greatly from those of generally larger accounting firms which provide services for publicly owned corporations. As a matter of public policy, the subcommittee endorses a strong and independent accounting profession at all levels, and believes that fair and effective representation from all segments of the profession is essential throughout the organizational structures of private professional bodies which represent the interests of accountants.

## SUBCOMMITTEE ACTIVITIES ON ACCOUNTING MATTERS

The subcommittee began its inquiry into accounting during the fall of 1975. The inquiry was initiated because of general concern over unexpected failures and wrongdoing by publicly owned corporations which were either undetected or not disclosed by the accounting firms acting as independent auditors for those corporations. The subcommittee also received complaints from academics and representatives of small accounting firms that the Nation's eight largest accounting firms—the "Big Eight" firms—were dominating the profession's private standard-setting organizations, and that such dominance was detrimental to the interests of both the general public and the accounting profession as a whole.

Prior to this subcommittee's inquiry, Congress had not made a thorough study of the independent auditing system established under the provisions of the Federal securities laws since they were enacted more than 40 years ago. Little information was available regarding the accounting firms that audit publicly owned corporations because accounting firms are not required to report to the public or government. Thus, the subcommittee first requested certain information from the "Big Eight" accounting firms and various accounting and business organizations involved in setting standards used by independent auditors.

The information collected by the subcommittee was analyzed by its staff. A staff study, "The Accounting Establishment" (S. Doc. 95–34), issued in January 1977, contained the staff's detailed analysis and much of the information received by the subcommittee. The staff study documented many of the allegations made in complaints to the subcommittee, and was generally critical of the manner in which the large national accounting firms and the SEC were performing their responsibilities.

Recognizing that this subcommittee has no jurisdiction over private organizations and accounting firms, the staff compiled 16 recommendations for actions which could be taken by the Federal Government to improve the auditing and accountability of publicly owned corporations.

### SUBCOMMITTEE HEARINGS

During April, May, and June of 1977, the subcommittee held eight days of public hearings on the issues raised in the staff study. Thirty-nine witnesses representing a broad spectrum of interests and opinions testified. The subcommittee heard representatives from "Big Eight" accounting firms, small accounting firms, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), independent management consultants, issuers of financial statements, the SEC and many others. (See appendix of this report for the complete witness list.)

Many witnesses agreed with findings and recommendations of the subcommittee staff, and many witnesses disagreed. However, all of the witnesses agreed that this subcommittee's inquiry was useful as a catalyst to help achieve necessary reforms.

Most of the witnesses who disagreed with the staff's recommendations made their own recommendations for reform and endorsed efforts being made within the private sector to improve the performance of independent auditors. The private sector efforts endorsed most often were the recommendations of the AICPA's Commission on Auditors' Responsibilities (generally called the Cohen commission after its chairman, the late Manuel F. Cohen) and the recommendations of the Structure Committee of the Financial Accounting Foundation (generally called the FAF Structure Committee). Witnesses supporting this view usually asked that the subcommittee permit existing private organizations working in cooperation with the SEC a reasonable period of time to correct problems before considering mandated reforms.

The subcommittee members were impressed by the constructive attitude and concern for improvement shown by the witnesses. The substantial contributions made by representatives from smaller accounting firms and persons outside the accounting profession were particularly appreciated in view of the significant efforts demonstrated by their appearance and illuminating testimony. Testimony by witnesses representing the large national accounting firms and organizations also showed serious preparation and some important proposals for change.

The views of the subcommittee expressed in this report reflect the considered opinion of its members after evaluating the points made by the various witnesses, the subcommittee staff, and a wide range of materials submitted to the subcommittee or which came to its attention. The subcommittee is convinced that the goals described in this report will serve the interests of the public, the accounting profession, and the business community.

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It was apparent during the hearings that the SEC and leaders in the accounting profession recognize that meaningful reforms are needed in the way they perform their responsibilities. The subcommittee members were encouraged by pledges of timely action within the accounting profession to achieve reforms, and by the pledge of the SEC to exercise its authority to assure that necessary reforms are implemented. Thus, the subcommittee believes the existing framework of the accounting profession and SEC should be given an opportunity to fulfill their pledges promptly.

Indeed, the subcommittee's staff study, several witnesses, and the SEC itself clearly demonstrated that ample authority already exists within the present framework to meet the goals which are contained in this report. The most expeditious path to achieving the goals in this report is for dedicated people within the accounting profession to use their leadership, talent, and resources to develop specific plans of action which will effectively implement these goals.

Self-initiated action by the private sector in cooperation with the SEC is the method of reform preferred by subcommittee members. However, the subcommittee recognizes congressional responsibility to continue oversight of this process, and to propose mandatory reforms if meaningful progress is not made on a timely basis.

The subcommittee believes that accounting in Government—at all levels—needs improvement. The General Accounting Office, at the subcommittee's request, is studying and will report on Federal agency accounting. Improvement of accounting in the private sector should be complemented by improvement in the public sector.

## THE ROLE OF THE INDEPENDENT AUDITOR FOR PUBLICLY OWNED CORPORATIONS

The economic and social climate in the United States has changed dramatically since the present independent auditing system for publicly owned corporations was established under the Federal securities laws more than 40 years ago. Perhaps the most significant change affecting that auditing system was the tremendous economic growth which began after World War II. As the Nation's major corporations grew in size through market expansion and acquisitions, the accounting firms that served as independent auditors for those corporations showed a similar pattern of growth.

The subcommittee believes that many of the problems facing the accounting profession today can be traced directly to the vast economic growth and concentration which has occurred. The accounting firms which independently audit most major corporations have evolved into large multinational organizations with hundreds of partners and thousands of professional staff. Maintaining the independence and individual professionalism that is essential to auditing has been very difficult for auditors working in such large firms, and problems have resulted.

Chairman Williams of the SEC expanded on this point in his testimony before the subcommittee:

> What we need to do is, first, to strengthen the environment in which the profession functions to reduce the pressures on independence which in turn give rise to poor judgment and professionalism. Secondly, to strengthen the quality control

> over the application of accounting principles and auditing standards, again to reduce occurrences of poor judgment and poor professionalism. Third, improve the effectiveness of the disciplinary process against those who fail in their professional responsibilities. * * *
>
> In our judgment the fundamental problem is one of independence, which is clearly the auditor's single most valuable attribute. If the accountant approaches the audit with a predisposition—whether conscious or otherwise—to validate management's work rather than to subject it to careful scrutiny, then the ultimate result will be a diminution of public confidence in the profession and in business generally; correspondingly, the very substantial sums which our economy channels to the accounting profession will be in large measure wasted.

In addition to problems which have resulted from economic growth, independent auditors of publicly owned corporations are facing a new social environment. A series of traumatic events during the past decade has caused a severe decline of public confidence in several major institutions, particularly in government and the business community. The public is not willing to accept things on faith today. Government and business leaders must demonstrate that they are worthy of the trust they ask of the public.

There are two basic tenets in today's environment which seem necessary for government and business leaders to follow if they are to regain public confidence. The first is avoidance of real or apparent conflicts of interest in the performance of their duties. The second is a policy of openness which permits the public to satisfy itself that leaders in our society are acting properly. Government officials have taken substantial steps to implement these two basic tenets. Business leaders are moving in that direction, and it is in this light that independent auditors will be judged.

Because of the economic and social environment which now exists, the subcommittee believes it is timely for the public and the accounting profession to reassess the role which independent auditors should play in making the Nation's economic system function effectively. The pattern of conduct followed by independent auditors and the scope of services they offer must be reexamined to determine whether they are compatible with public expectations. Above all, the auditor's essential qualities of independence and professionalism must be strengthened and adapted to the present environment.

## PROBLEMS RELATING TO SIZE OF ACCOUNTING FIRMS

The accounting profession has long regarded itself as having unified interests and problems, even though the organization and practice of a small accounting firm may be much different from those of a large national firm serving publicly owned corporations. This view has led to the development of common standards and procedures to govern the conduct of all accounting firms, no matter what their size or what type of clients they serve. As a consequence, some standards and procedures may not adequately meet the needs of the public regarding different types of businesses.

Certain standards and procedures may be overly complicated and burdensome for use by smaller businesses and the parties who are interested in the financial and operating results of such businesses. On the other hand, some standards and procedures may not adequately recognize the public's need for more reliable and informative reporting by publicly owned corporations. Those corporations and the accounting firms which independently audit them are generally large organizations whose activities and personnel are known to the public primarily through the information presented in corporate financial reports.

Organizational complexity is inherently related to growth in size of corporations and their independent auditors. As size increases, the authority to perform the functions of a business or an accounting firm must be increasingly shared, delegated, subdivided, and compartmentalized into an institutional framework. Similarly, necessary quality control and personal accountability become more institutionalized. The potential impact on the general public from deficiencies or failures in the performance of business and auditor functions also increases with size.

The subcommittee believes the public and the accounting profession must recognize the special problems associated with the size and responsibilities of publicly owned corporations as the first step toward improving the accountability of such corporations. That recognition should provide a basis for evaluating the responsibilities which should be expected from accounting firms choosing to serve as independent auditors for publicly owned corporations. The responsibilities expected of those accounting firms must then guide the development of standards and procedures used in performing independent audits under the Federal securities laws.

The subcommittee is aware that many smaller accounting firms currently view establishment of special standards and procedures for auditing publicly owned corporations as a move which will further concentrate the audits of such corporations among the large national accounting firms. If the goals set forth in this report are implemented as intended by the subcommittee, however, the opportunity for smaller accounting firms to serve as independent auditor for publicly owned corporations should improve substantially. Improvement should occur through increased public awareness of the capabilities of smaller firms, removal of unnecessary restrictions on seeking audit clients, and sensible provisions to ease compliance with standards and procedures for accounting firms with only a few publicly owned corporate clients.

During its accounting hearings, the subcommittee heard much testimony that the present system benefits the large national accounting firms at the expense of smaller firms, without any corresponding benefit to the public. Achieving the goals in this report should alleviate that situation by improving the performance of independent auditors for publicly owned corporations while recognizing that an accountant may not need to meet such requirements in order to fulfill his or her professional responsibilities for other types of clients. The subcommittee members see no benefit in requiring all accountants to meet standards and procedures which are only necessary for auditing publicly owned corporations.

The subcommittee strongly believes that the position of independent auditor is vital to the successful functioning of the Nation's economy, with its many competing interests. Confidence in financial information is a key element in our economy's operation. The independent auditor's role is especially important for publicly owned corporations because investors and other interested parties are generally far removed from the actual operations of such businesses, and must rely heavily on information reported publicly under the Federal securities laws to support their economic decisions.

The role of independent auditor for publicly owned corporations is analogous to that of an umpire in sports. Like the umpire, an auditor must perform his or her responsibilities in a manner which assures all interested parties that the opinion given is competent and unbiased. The independent auditor provides that assurance by applying standards established fairly, by forming an opinion using professional expertise and judgment, and by strictly maintaining his or her independence.

Standards that are established fairly may not satisfy everyone affected by their application, but all interested parties should be able to agree that the process of establishing such standards is sound and does not favor any particular interest. The subcommittee believes that agreement can be achieved by having all interested parties represented throughout the decisionmaking process, by opening the entire process to the public, and by assuring that the decisionmakers and their staff operate independently of any particular interest group.

An independent auditor should give an opinion that financial reports are fair only after carefully examining corporate operations according to appropriate professional standards. The auditor's application of expertise and judgment should be reviewed for quality both through internal procedures of accounting firms and through periodic external review programs. The public must be assured that the primary professional responsibility of an independent auditor is to protect those who rely upon corporate financial reports, and that the application of his or her expertise and judgment continually recognizes that responsibility.

Independence is the essential characteristic of an auditor which provides the basis for public confidence in the integrity of his or her professional opinion. The auditor must be independent in both fact and appearance. If the auditor does not appear independent to the public, then the purpose of the audit is frustrated. Achieving independence is one of the auditor's most important professional responsibilities, and the burden of proving the auditor's independence must not be shifted to the public.

The testimony presented to the subcommittee indicated that improvement of present standards and procedures is necessary to make the performance of independent auditors for publicly owned corporations better meet the vital responsibilities they have chosen to accept. The ultimate goal should be a financial reporting system which is fully responsive to the various needs of those who must rely on financial reports of publicly owned corporations.

## IMPROVING ACCOUNTING STANDARDS

Accounting standards are the rules which govern the manner in which specific business transactions of publicly owned corporations must be reported to the public in corporate financial statements.

These standards are used by corporate managements in preparing financial reports. Independent auditors are responsible for assuring that accounting standards are applied properly by managements, and that the information reported to the public fairly reflects the substance of corporate business activities.

The Financial Accounting Standards Board (FASB), a private sector body, presently establishes accounting standards. As a matter of formal policy, the SEC requires that publicly owned corporations use the standards established by the FASB, although the SEC has sufficient authority to promulgate accounting standards directly as part of its responsibility to protect the public. The FASB was created in 1972 after two previous standard-setting bodies in the private sector had failed to perform effectively.

The present system of establishing accounting standards for publicly owned corporations has been criticized by many in the business community and the accounting profession, as well as by this subcommittee's staff and others. They cite several areas where the system has not operated in the public interest. Supporters of the present system say that it serves the public by blending private sector expertise and resources with Government authority and responsibility.

Establishing accounting standards for publicly owned corporations is a function which was delegated by Congress in the Federal securities laws. Because inadequate standards have the potential for misleading the public and causing substantial losses, it is important that the system of establishing accounting standards assures that the public interest will be protected. The subcommittee believes effective private sector participation is essential for developing sound standards, whether through private standard-setting bodies or through public rulemaking proceedings.

Whatever system is used to establish accounting standards, a primary concern must be to provide objective evidence that special interests are not being served at the expense of the public. Basic policies which produce independence and fairness must be followed. Openness must be an integral part of the system.

The Financial Accounting Foundation (FAF)—the private organization which sponsors the FASB—has demonstrated a willingness to respond to criticism with constructive changes intended to correct deficiencies in the standard-setting process. The FAF Structure Committee issued a report in the spring of 1977 listing several recommendations for improving the responsiveness of the FASB to the public. The subcommittee supports such initiative, and looks for further action by the FAF and the SEC to fully implement the goals set forth in this subcommittee's report.

Recommendations by the FAF Structure Committee include opening all aspects of the FASB to public view, increasing involvement in the FASB from all segments of its broad constituency, strengthening the organization of the FASB, and accelerating its work pace, establishing planning goals, issuing documents explaining proposed standards in layman's language before public hearings are held, systematically reviewing existing standards, and broadening the base of FASB financial support. The subcommittee endorses these recommendations as the type of action which must be taken to foster public confidence in the system of establishing accounting standards, but believes additional improvements are necessary.

Subcommittee members note with approval that the FAF Structure Committee recognized the broad constituency to which the FASB is responsible. The Structure Committee defined it as follows:

> We use the word "constituency" throughout this report to refer to all of those who have an interest in financial accounting and reporting: the public, the investors and creditors, the analysts, the investment advisers and underwriters, the preparers, the attestors, the educators, the governments.

The subcommittee is firmly convinced that standards established by the FASB will be accepted by its broad constituency only if all segments of that constituency are fairly represented at all levels of the FASB's operation—from the FAF, the board, and its staff to the advisory councils and task forces which work on specific projects. Broad representation is especially necessary for effective operation of the standard-setting and oversight functions.

The FAF has already moved to implement several of the Structure Committee's recommendations, as well as to improve the FASB's policies for preventing conflicts of interest. Strict enforcement of sound policies to prevent conflicts of interest is essential to the credibility of any standard-setting body, and the subcommittee members hope that the new rules to be adopted by the FASB will correct the deficiencies in its previous policies.

There are some areas where the FASB's implementation of an openness policy could be strengthened. One example would be to publish annually a list of the meetings held with various parties and interest groups, along with a synopsis of the topics discussed. Members of the FASB may benefit from an exchange of views during such meetings, but the public should be made aware of them.

Another example of improved openness would be wide public distribution of information reported by individuals under the FASB's conflict-of-interest policies. If the FASB's broad constituency is to have confidence in the independence of board members and senior staff, then the information demonstrating independence should be readily available for evaluation by its constituency in a medium such as the FASB's annual report, rather than reserved for inspection by the few who visit its offices in Stamford, Connecticut.

Some additional areas where the subcommittee believes improvement is necessary were highlighted during its accounting hearings. The first is an immediate need for recognition of the financial reporting problems of small businesses and the accounting firms which serve them. Reporting requirements which are necessary for publicly owned corporations may be inappropriate and burdensome for small businesses. Increased representation in standard-setting bodies from small businesses and accounting firms must be achieved, as should organizational improvements to focus knowledgeable attention on their problems.

Financial reports of publicly owned corporations must be made more understandable to unsophisticated users while still providing sophisticated users with sufficient detailed information. The subcommittee was impressed by the simplified explanations accompanying the financial statements of Koppers Corp. in its 1976 annual report, which was used as a favorable example during the accounting hearings.

More attention and resources should be applied to fulfilling the needs of average people regarding corporate financial information.

Uniformity in the development and application of accounting standards must be a major goal of the standard-setting system. Neither the SEC nor private sector bodies has clearly stated that uniformity must be achieved in a timely manner, notwithstanding some efforts which have been made to narrow differences and reduce alternatives. Yet, several witnesses testified that alternative standards for reporting the same type of business transaction not only are unnecessary, but have significantly hindered the development of clear, comparable financial statements. As an example, one witness described how annual revenues and earnings calculated by using the percentage of completion method for reporting long-term contracts can differ radically from reporting revenues and earnings of the same contracts as they are actually completed.

The subcommittee strongly believes that the clarity and comparability of corporate financial statements will be substantially improved if uniform accounting standards are used to report the same type of business transactions. Congress has previously indicated that uniform accounting standards are in the public interest by establishing the Cost Accounting Standards Board and directing the development of such standards for oil and gas producing companies.

Until uniformity is achieved, the public should be informed of the effect on financial statements from using a particular accounting standard to report a transaction, rather than using any of the acceptable alternatives. The independent auditor should give an opinion that the standards used are the most appropriate under the circumstances.

If the present standard-setting system is to become more responsive, the SEC must more vigorously oversee the system on behalf of the public. The standards and operation of the system should not be accepted automatically by the SEC, but should be evaluated and questioned to determine if they meet the public policies set forth in this report and by other actions of Congress. The SEC's annual report to Congress on accounting matters should comment on progress made in reaching these goals.

## IMPROVING AUDITING AND AUDITING STANDARDS

Independent auditors of publicly owned corporations must play a key role in improving corporate accountability and enhancing public confidence in the business community. That will require renewed commitment by the accounting profession to strengthen its basic audit function and exercise restraint on engaging in activities which appear to conflict with the public's expectations regarding the independence of auditors. Price Waterhouse & Co., one of the Nation's largest accounting firms, noted this point well in a booklet describing its program for reform:

> Action is required—understandable, effective action—to strengthen and monitor the quality of work performed by independent accountants and to restore public trust in the accounting profession.

The subcommittee believes the actions taken should focus on the two essential qualities of an auditor—professionalism and independence. These two qualities must be strengthened, both for accounting firms which serve as the independent auditor for publicly owned corporations and for the individuals performing work on behalf of those firms. Because many of the Nation's largest corporations also operate in other countries, the scope of any program to improve the performance of auditors must extend worldwide to include all parts of the audit process.

### ORGANIZATION OF ACCOUNTING FIRMS

A program realistically designed to meet public concerns should start with an organization of accounting firms that serve or want to serve as independent auditor for publicly owned corporations. Such an organization must have the capability of establishing and enforcing minimum standards of auditor performance and behavior which will satisfy the need for independent assurance that corporate financial reports fairly reflect corporate activities. Once the organization has improved the stature of independent auditors, they will be in a good position to encourage managements of corporate clients to improve their own standards.

The philosophical question underlying the accounting organization should be: "Why expect less from independent auditors than the public expects from the corporations which are clients of those auditors?" Application of that philosophy helps to clarify the type of actions which must be taken to resolve specific issues of concern. The independent auditor's public responsibilities and unique position in our economy require adherence to standards at least as demanding as those imposed on the corporations they audit.

To be effective, the organization of accounting firms envisioned by the subcommittee must include *all* accounting firms which audit publicly owned corporations. It must also have the power to impose sanctions on errant members which directly affect their continued ability to audit such corporations. An accounting organization with authority similar to that of the New York Stock Exchange or the National Association of Securities Dealers might be sufficient, but a mandatory-membership organization may be necessary to assure that all accounting firms auditing publicly owned corporations would join and remain members.

The subcommittee believes that no accounting firm should be able to audit publicly owned corporations without meeting the accounting organization's performance and behavior standards. The SEC would be responsible for oversight of the organization to make sure that it will operate in the public interest. The SEC would have to satisfy itself that the organization meets the policy goals set forth in this report, and would periodically inform Congress of the organization's activities.

### EXTERNAL QUALITY REVIEW

The first requirement of the organization should be a program of external quality review for member firms to be performed every three years or as shown to be necessary. The review program—and every other facet of the accounting organization's activities—should be governed by an executive board comprised of persons from a broad spectrum of interests and backgrounds, including those outside the accounting profession. Broad representation of interests will help assure that the organization is responsive to the public's needs, and will not be controlled by the large accounting firms.

The purpose of a quality review program should be to spot deficiencies in a member firm's compliance with the standards of practice established by the accounting organization, and suggest improvements. The subcommittee envisions the process as educational for everyone involved. Independent audits of publicly owned corporations are mandatory, so the quality reviews of their auditors should also be mandatory.

Quality reviews should be conducted by broad-based teams appointed by the executive board of the accounting organization. Members of corporate audit committees are expected to be independent, and it is reasonable to expect that review team members will be independent of the firms being reviewed. The teams should include members from outside the accounting organization and some who are not accountants in order to reflect the broad public interest considerations embodied in the composition of the executive board.

The reports of the quality review teams should be submitted to the SEC and made available to the public. The review process would not relieve the SEC of its present responsibilities for investigating and correcting errant behavior by auditors under the Federal securities laws. However, the process should complement the SEC's enforcement activities.

Financial data and important operating information of publicly owned corporations is required to be publicly disclosed. The subcommittee believes a similar requirement should be applied to the accounting firms which audit such corporations. Accounting firms should not expect the public to accept their opinions on corporate financial statements if they refuse to disclose their own financial interests and obligations. Reports by accounting firms should also include sufficient information on client relationships so that the accounting organization and the SEC can monitor compliance with appropriate standards.

The subcommittee notes with approval that some accounting firms have voluntarily disclosed financial and operating information to the public, and have had a favorable response. Voluntary efforts are not sufficient on a matter as important as providing the public with information regarding the interests of those who perform audits on its behalf. The SEC has not adequately addressed its responsibilities in this area.

## STANDARD-SETTING

The auditing and behavior standards of the accounting organization should be established in open meetings with broad representation of interests. The organization should have sufficient staff to assure that standards are well researched and can be handled on a timely basis. Like the FASB, the accounting organization should develop rules of procedure for standard-setting that emphasize basic due process and periodic review of established standards.

The subcommittee wants to stress that the standards developed by the accounting organization should not act to prevent new entry into the field of auditing publicly owned corporations, or be overly burdensome on accounting firms with only a few publicly owned clients. However, any accounting firm desiring to audit such corporations must recognize the public responsibilities involved, and be willing to accept reasonable costs of meeting those responsibilities. The SEC should carefully monitor this particular area of concern.

### CORPORATE AUDIT COMMITTEES

During our accounting hearings, all witnesses agreed that corporate accountability would be improved through establishing independent audit committees on the boards of directors of all publicly owned corporations. The subcommittee strongly believes that the accounting profession or the SEC should immediately require that publicly owned corporations establish audit committees composed of outside directors as a condition for being accepted as a client by an independent auditor. Audit committee members should be free of any significant involvement with the management of a corporation, such as commercial or investment banking relationships, outside legal counsel, management consulting, or major commercial relationships.

The major purpose of a corporate audit committee should be to handle relations with the independent auditor, improve internal auditing controls, and establish appropriate policies to prohibit unethical, questionable, or illegal activities by corporate employees. An audit committee should have sole authority to hire the independent auditor, set the audit fee, and dismiss the auditor. In addition, the audit committee should meet privately with the independent auditor, receive full reports from the auditing firm on its findings, and be informed of all services being provided to the corporation by the auditing firm. The audit committee's own independence could perhaps be increased by rotating its chairman.

Independent auditors should use their expertise to help audit committees establish strong internal auditing controls and high standards of conduct for corporate employees. Compliance with those standards and controls should be reviewed as part of the independent audit, and the auditor's report to the public should comment on the adequacy of the standards and controls, as well as compliance with them.

### MANAGEMENT ACCOUNTING

A good audit begins with a good set of books. One way to improve corporate accountability through internal controls is to enhance the professionalism of management accountants and strengthen the environment in which they operate. For example, the National Association of Accountants has instituted a program to certify management accountants. To gain the professional stature of a Certified Management Accountant, a corporate accountant has to meet certain standards of education and experience, abide by a code of ethics, and be subject to professional disciplinary proceedings and loss of certification for violations of CMA standards. This program offers a professional career path for management accounting similar to that of public accounting, and benefits the public by strengthening the position of accountants in corporate managements.

The Institute of Internal Auditors is also attempting to enhance the professionalism of its members by strengthening its ethics and practice standards. Although internal auditors are hired by corporate managements and work within corporations, they can serve an important function in promoting corporate accountability, as well as efficiency. Internal auditors can provide valuable assistance to corporate audit committees by monitoring compliance with established policies, and reporting on existing and potential problems.

### EXECUTIVE PERQUISITES

Corporate audit committees must become involved in reviewing the propriety of special perquisites enjoyed by senior management officials of some corporations. Audit committees should establish sound policies to prevent hidden remuneration of executives through use of corporate assets for housing, personal loans, club memberships, and personal travel or pleasure. Independent auditors should monitor compliance with such policies, and assure that the amounts and types of all management compensation are reported to shareholders and the public.

### COHEN COMMISSION FINDINGS AND RECOMMENDATIONS

The subcommittee generally endorses the tentative findings and recommendations of the AICPA's Commission on Auditors' Responsibilities (the Cohen commission). Subcommittee members welcome such private sector initiatives. However, the subcommittee's accounting hearings indicated certain areas of needed improvement which were either not covered by the commission or not addressed in a manner which the subcommittee believes will produce the best results for the public.

The Cohen commission recommended several reforms in the way auditors for publicly owned corporations perform their responsibilities. The recommendations were based on a reaffirmation of the auditor's function, which the commission said is to protect the public's interest against "biases, errors, and misrepresentations, including material frauds and illegal or questionable acts." The commission said that the auditor's primary responsibility is to the users of his or her work, and that independence is "the essential qualification of the auditor."

Recommendations by the Cohen commission include better education to prepare students for the demands of independent auditing, as well as improved self-regulation by the accounting profession to help prevent audit failures and to promote individual discipline. Corporate audit committees are recommended as a means for enhancing the independence of auditors. The commission also found that broadened representation and more resources are needed to make auditing standards responsive to public expectations and small business problems.

### DETERIORATION OF QUALITY

One of the most disturbing findings of the Cohen commission is that pressures to acquire or maintain audit clients have adversely impacted the quality of work performed by individuals auditing particular clients. Accounting firms have often cut costs to the point where the integrity of the independent audit is impaired. Unrealistic time constraints have also been cited as a major problem affecting the quality of independent audits.

Independent auditing is a profession with public responsibilities which are so important that money and time pressures cannot be permitted to impair the performance of those responsibilities. The subcommittee believes that many of the problems involving auditors of publicly owned corporations in recent years have resulted from the emphasis placed by some accounting firms on increasing revenues and earnings rather than enhancing their professionalism and independence. The primary mission of the accounting organization envisioned by the subcommittee will be to assure that the two essential qualities of independent auditors—professionalism and independence—are not sacrificed for commercial success.

### DISCIPLINARY ACTION

The Cohen commission recommended that professional disciplinary proceedings should not await the outcome of civil or criminal litigation, and that the identities of persons found violating professional standards should be publicized. The subcommittee agrees that disciplinary actions should be expedited, and should be based on failure to follow high professional standards rather than violation of legal standards. Because the effectiveness of disciplinary sanctions rests upon the professional's desire to maintain his or her personal reputation, the identities of offenders must be disclosed to the public.

### AUDIT PROCEDURES

There are other recommendations to improve the independent auditing process, by the Cohen commission or other witnesses, which the subcommittee supports. Independent audits should be continual throughout the year rather than rushed toward the end of the year. This would better utilize the resources of accounting firms while alleviating many of the time pressures which impair the audit process.

Independent auditors should have access to significant financial data concerning the corporation being audited, even though held by other corporations and individuals, when it is shown to be necessary. Under certain conditions, direct communication among auditors should be facilitated and responses to audit confirmation requests should be required. There should be effective legal penalties for corporate officials who falsify books and records, or who intentionally deceive independent auditors.

### PUBLIC COMMUNICATION

Better public communication regarding the auditing process and professional discipline should enhance the auditor's usefulness and professionalism. The subcommittee agrees with the Cohen commission that the independent auditor's report accompanying corporate financial statements should be more descriptive of the auditor's work. However, an expanded description of the functions and limitations in the audit process must not become a list of disclaimers which substitute for the auditor's overall professional opinion that the financial statements fairly represent business activities and that appropriate standards have been consistently applied. The purpose of an independent audit is to receive a professional outside opinion on the status of a corporation, and not just a description of work performed.

The subcommittee believes the professionalism of auditors would be enhanced considerably by requiring the individuals in charge of the audit for each corporate client to sign their names personally on the auditor's report to the public, along with the name of the accounting firm they represent. This simple requirement would not add to the cost of an audit, but would promote personal responsibility for those performing specific audits while also providing individual public recognition for work done well. The legal profession already follows this practice.

### INDEPENDENCE

The subcommittee agrees with the Cohen commission and many others that the accounting profession must improve its procedures for assuring independence in view of the public's needs and expectations. Several activities of independent auditors have raised questions. Among them are public advocacy on behalf of a client, receiving gifts and discounts from clients, and maintaining relationships which detract from the appearance of arm's-length dealings with clients. Such activities are not appropriate.

### MANAGEMENT ADVISORY SERVICES

The subcommittee's accounting hearings illustrated some important concerns which were not adequately addressed by the tentative findings and recommendations of the Cohen commission. The first is management advisory services.

Testimony by several witnesses indicated that significant problems have arisen from the expansion of many accounting firms into providing management advisory services to their audit clients and others. The witnesses from the accounting profession saw the performance of nonaccounting management services by independent auditors as reflecting adversely on the stated ideals of professionalism and independence. Witnesses from outside the profession noted that independent audits required by Federal law give accounting firms an inside position with corporate managements which many firms use unfairly to market nonaccounting services that could be provided by independent management consulting firms if open competition prevailed.

The subcommittee is deeply concerned about improving the professionalism and independence of auditors, and is also committed to fair competition as a basic principle of the Nation's economic system. The benefits derived from professional self-regulation carry with them a corresponding responsibility of self-restraint from engaging in activities which detract from professional ideals. The subcommittee firmly believes the important function of independently auditing publicly owned corporations should be, and is, financially rewarding and personally satisfying in its own right, without any need for engaging in activities which appear to detract from professional responsibilities.

The best policy in this area—and the policy which is presently followed by most accounting firms— is to require that independent auditors of publicly owned corporations perform only services directly related to accounting. Nonaccounting management services such as executive recruitment, marketing analysis, plant layout, product analysis, and actuarial services are incompatible with the public responsibilities of independent auditors, and should be discontinued. Management services related to accounting are confined to the limited area of providing certain computer and systems analyses that are necessary for improving internal control procedures of corporations.

It should be noted that executive recruitment normally refers to placing executives for a fee. Many of the Nation's large national accounting firms also place departing employees with corporate clients as an accommodation at no cost. Because sound public policy requires that auditors maintain arm's-length relationships with their clients, all placement activities should be discontinued. Departing employees can be placed by recruitment firms which are not associated with independent auditing.

The problems of appearing to audit one's own work and unfair competition can arise even when independent auditors provide accounting-related management services for audit clients. The subcommittee heard differing proposals for surmounting those problems. One was to prohibit any management services to an audit client. Another was to require public disclosure in corporate proxy statements of all fees for services performed by the independent auditor, as well as the nature of such services. Public disclosure would be enhanced by stating whether competitive bidding practices are used in contracting for services with independent auditors.

As indicated in its testimony, the SEC has instituted a public rulemaking proceeding to review the scope of management services provided by independent auditors. The subcommittee believes public rulemaking is the best way to consider in depth the above mentioned proposals and to implement public policy in this area because so many parties outside the accounting profession have a direct interest in its outcome. In addition, concerned directors and audit committees should carefully review the policies of their corporations to assure that the audtior's independence does not appear to be compromised.

## RESTRAINTS ON MARKET ENTRY

One element which is essential to improving the professional environment for independent auditors is the removal of artificial restrictions on the auditor's ability to communicate with potential clients. The subcommittee believes these restrictions have been detrimental to the public because they have prevented the free flow of information needed by users of accounting services to evaluate properly the types, amounts, and prices of services offered by the accounting profession. In the absence of such information, the public—including even sophisticated users in banking, the investment community, and business—have tended to associate quality accounting services solely with the Nation's eight largest accounting firms whose names are well-known.

Smaller accounting firms have not been able to compete effectively for publicly owned clients and larger businesses due to the lack of information on their ability to perform quality auditing and accounting services. Subcommittee members have been impressed with the accounting expertise shown by representatives of smaller firms, and believe that the trend toward concentration in the supply of accounting services to publicly owned corporations could be reversed if such firms were permitted to inform existing and potential clients of their abilities. The key to avoiding development of a "first class" and "second class" accounting profession is public knowledge that smaller firms can perform as well as large firms.

The public will receive the best accounting services in an environment which provides competition in pricing and innovation, but is balanced by a strong program to assure that professionalism and independence are not compromised. Accounting firms practicing in such an environment can inform the public of their abilities if the appropriate means become available. Thus, the subcommittee believes there must be an immediate end to artificial professional restrictions against advertising, talking with another firm's clients, and talking with another firm's employees about possible employment without first informing that firm. Prohibitions by accounting organizations in some States against competitive bidding should also be removed.

## ILLEGAL AND QUESTIONABLE ACTS

The organization of accounting firms envisioned by the subcommittee should pay particular attention to the behavior of independent auditors when they discover illegal or questionable activities by corporate employees. Clearly, any illegal activities must be reported immediately to the corporation's audit committee and the appropriate government authorities. Questionable activities must also be reported immediately to the audit committee, and should be closely followed by the independent auditor to determine if public disclosure and notification of government authorities is required.

The standard of materiality which governs public disclosure of specific corporate activities must be reviewed to assure that it is properly serving the public. All illegal acts must be disclosed because they subvert the presumed legal operation of a corporation and are by nature outside the proper scope of corporate activities. The subcommittee believes that auditors should apply high professional standards in forming an opinion on questionable acts, and should not rely solely on a strict list of rules to determine whether an act is right or wrong.

## ROTATION OF AUDIT FIRMS

Rotation of audit firms and personnel has been widely discussed as a means of strengthening the independence of auditors. The Cohen commission recommended against rotation of audit firms after a period of years because of costs and evidence that many audit failures occur within the first year or two of auditing a new client. Others told the subcommittee that periodic rotation of firms is the only way to assure an independent relationship between auditors and clients, while also providing external review of work done by previous independent auditors. Proponents of rotation maintain that audit failures in the initial years of an engagement have been due primarily to unrealistic cost pressures associated with attracting new audit clients.

The subcommittee believes rotation needs more study by the accounting profession and the SEC before a sound conclusion can be reached. As a minimum, it seems prudent to rotate personnel assigned to a specific audit within an accounting firm. There does not appear to be sufficient information available to judge the cost effectiveness of gaining fresh perspective through rotation of audit firms.

Research into improved auditing and detection of management fraud should be increased. The preparatory education of individuals who enter the profession of independently auditing publicly owned corporations should also be strengthened. For example, the subcommittee believes the establishment of professional schools of accounting within universities provides an atmosphere which encourages development of professional responsibility and independence.

### LIABILITY OF AUDITORS

The goals set forth in this report are designed to strengthen the practice of independent auditing in the private sector so that government involvement, especially at the Federal level, will be minimized. Accordingly, the subcommittee strongly supports enforcement mechanisms to make the system work in the private sector without extensive Federal participation. Testimony during the subcommittee's accounting hearings clearly demonstrated that potential legal liability for negligence is the most effective mechanism for assuring that independent auditors perform their public responsibilities competently and diligently.

The subcommittee believes that independent auditors of publicly owned corporations should be liable for their negligence to private parties who suffer damages as a result. The "private attorney-general" concept—which permits private parties to recover damages through the judicial system—serves the public best because it provides incentive for independent auditors to perform responsibly while compensating private parties who have actually suffered damages through the proven negligence of errant auditors. To be effective, the system must allow access to the judicial process for parties claiming damages, and auditors found negligent should not receive special treatment by having their liability artifically limited by law.

Some accounting firms have advocated limitations on the negligent liability of auditors because they fear excessive nuisance suits. The subcommittee recognizes their concerns, but believes they may be unfairly restricting access to the judicial process for valid claims by focusing only on one side of the improved system outlined in this report. By establishing more responsive standards of professional conduct, and by communicating clearly to the public the work performed to support their professional opinion, independent auditors acting with due professional diligence should have a more substantial defense to frivolous claims than exists under present standards and procedures.

### AUDITING MULTINATIONAL CORPORATIONS

One very important area of concern was not covered by the subcommittee's staff study and was mentioned only briefly during the subcommittee's accounting hearings. The growth of multinational corporations operating in many countries throughout the world has led to a concurrent multinational expansion by accounting firms acting as independent auditors for those corporations. The quality of audit work performed in foreign countries has been seriously questioned as a result of disclosures in recent years of extensive illegal and questionable activities by corporations in those countries.

Investors and the public in the United States rely upon the independent auditors' reports accompanying the consolidated financial statements of multinational corporations. Yet a substantial portion of the revenues, expenses, assets, liabilities, and other items shown in consolidated statements may be attributable to corporate business activities in foreign countries. Thus, investors and the public in this country have a direct interest in the quality of auditing performed on multinational corporations in other countries. However, there is presently very little information available to Congress and the public on the organization and operation of multinational accounting firms and their foreign affiliates.

This subcommittee intends to pursue its inquiry into the international organization and operations of accounting firms to assure that the same high standards applied to independent auditing in the United States are also applied to audits of corporate activities in foreign countries. Organizational procedures such as worldwide profit sharing among the partners of an accounting firm should help to relieve individual partners of excessive fee pressures from specific audit clients. The organization of accounting firms envisioned by the subcommittee and the SEC should focus attention on both domestic and international operations of independent auditors when formulating appropriate standards and a responsive quality review program.

## SEC AUTHORITY AND RESPONSIBILITIES

In its testimony to the subcommittee, the SEC pledged to undertake certain projects to improve corporate accountability, and submitted a memorandum outlining its authority to implement reforms. The memorandum was prepared at the request of the subcommittee in response to testimony by Adm. H. G. Rickover that the SEC should exercise its authority immediately to achieve necessary reforms. Admiral Rickover and others testified that the accounting profession has failed to meet its promises to reform in previous years, and that the SEC should not wait any longer to implement reforms directly.

The memorandum submitted by the SEC states that it has sufficient authority to oversee the setting of auditing and accounting standards, effect registration and financial disclosure by accounting firms, review the work of independent auditors and discipline those which do not meet minimum standards, and subpoena information from uncooperative accounting firms. The SEC also said it has authority to effect divestiture of management advisory services by independent auditors, promulgate standards of independence for auditors, require use of independent audit committees by publicly owned corporations, assure that the auditor's report clearly informs the public of deficiencies and uncertainties, and require disclosure of the effects of alternative accounting standards on corporate financial statements. Clearly, the SEC has ample authority to implement necessary reforms directly.

The SEC told the subcommittee that a rulemaking proceeding would be instituted to require disclosure of services provided by independent auditors to corporate clients, along with the fees paid for such services. The proceeding would examine the propriety of management advisory services offered by auditors, and develop better methods of discouraging the dismissal of independent auditors who exercise sound professional judgment which disagrees with the desires of a client's management. That rulemaking has now been instituted (File No. S7-721).

There is continued need for the SEC to exercise vigorously its own rulemaking and enforcement activities in order to achieve reforms. The subcommittee is pleased that the SEC has initiated a rulemaking to address important issues raised by the subcommittee's inquiry into accounting. However, the SEC's proposal to resolve these issues does not meet all of the policy goals set forth in this report, and the subcommittee urges the SEC to revise its rules accordingly.

The SEC testified that it will act directly to establish proper accounting standards if the Financial Accounting Standards Board fails to act within a reasonable period of time, or when fair presentation of financial information would not otherwise be achieved. An annual report to Congress on progress in achieving accounting reforms will be submitted by the SEC starting July 1, 1978. The subcommittee looks forward to seeing evidence that Admiral Rickover was perhaps overly pessimistic in his opinion of the accounting profession's inability to meet public needs in cooperation with the SEC.

Regarding enforcement of high professional standards, the SEC said it is studying the problem of reduced access to Federal courts by private parties who have suffered damages through negligence by independent auditors. The SEC will report the findings of that study to Congress when it is concluded. The subcommittee was also told by the SEC that it will continue its own vigorous enforcement program. In performing its enforcement functions, the SEC should apply equal sanctions for similar offenses to all independent auditors without regard to size of accounting firms.

The SEC must play an important role in improving the performance of independent auditors for publicly owned corporations. The SEC must enforce the Federal securities laws and exercise close oversight of the accounting organization envisioned by the subcommittee to assure that the public policy goals in this report are implemented. Congress and the public rely upon the SEC to prevent private sector interests from abusing the special responsibilities and privileges that have been entrusted to them.

## COST ACCOUNTING STANDARDS BOARD

The Cost Accounting Standards Board (CASB) was created by Congress in 1970 to establish uniform and consistent accounting standards for measuring costs charged to the Federal Government by defense contractors. The standards set by the CASB have since been adopted for use by other Federal agencies for nondefense contracts. More than $20 billion of Federal contracts are covered by CASB standards annually.

The subcommittee believes the CASB should meet private sector efforts to improve the process of establishing accounting standards. Broad representation of interests and open meetings are necessary to foster public confidence in any standard-setting process. The members appointed to the CASB should represent a fair balance of interests, and the standards set by the board should not be so burdensome as to require excessive exemptions.

## CONCLUSIONS

The public policy goals set forth in this report provide sound guidelines for improving the performance of independent auditors of publicly owned corporations. These goals emphasize self-reform in the private sector with close oversight by the public sector. The subcommittee believes achieving these goals through partnership between the private and public sectors is the best and most rapid way to meet public concerns regarding the performance of independent auditors.

During the accounting hearings, subcommittee members were pleased to hear pledges from the accounting profession and the SEC that public concerns can be met without the need for new legislation. The SEC also pledged to inform Congress of progress on accounting matters through comprehensive periodic reports. All parties agreed that oversight by Congress is a valuable catalyst for achieving needed reforms. The subcommittee intends to continue its oversight of accounting through additional hearings in 1978.

Private sector accounting firms are becoming more involved in public sector accounting, and that is an added reason for improving performance of their responsibilities in a manner which satisfies public expectations. The Federal Government must also reexamine its own policies to assure that they are properly serving the public. Federal policy on awarding contracts to accounting firms—both for auditing and other services—may be unfairly biased toward large national accounting firms. Special provisions to award Federal contracts to smaller firms may be necessary.

The subcommittee believes there are many talented and dedicated people in the accounting profession who are eager to make the profession's performance meet its ideals. Subcommittee members prefer that the profession itself achieve reforms in cooperation with the SEC. It must be remembered, however, that the public has reasonable needs and expectations which must be satisfied, and the amount of time for achieving reforms is not unlimited. Therefore, the subcommittee expects the accounting profession and the SEC to act in a timely manner to implement the policy goals in this report.

## APPENDIX

SUBCOMMITTEE ON REPORTS, ACCOUNTING AND MANAGEMENT
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

HEARINGS ON ACCOUNTING AND AUDITING PRACTICES AND PROCEDURES

WITNESS LIST

Tuesday, April 19, 1977 10:00 a.m.

Representative John E. Moss (D-Calif.), Chairman, Subcommittee on Oversight and Investigations, House Committee on Interstate and Foreign Commerce.

Dr. Robert Chatov, Professor, School of Management, State University of New York at Buffalo.

*American Institute of Certified Public Accountants*

Michael N. Chetkovich, Chairman of the Board.

Wallace E. Olson, President.

Theodore C. Barreaux, Vice President of Government Relations.

Thursday, April 21, 1977 10:00 a.m.

*Financial Accounting Foundation/Financial Accounting Standards Board*

Alva O. Way III, Vice President-Finance, General Electric Corp., Chairman, Committee on Government Relations of FAF Board of Trustees.

Marshall Armstrong, Chairman, FASB.

*Panel*

Gordon Anderson, CPA, Veltkamp, Dore & Co., Bozeman, Mont.

Norman J. Elliott, CPA, Norman J. Elliott & Co., New York, N.Y.

Robert A. Satin, CPA, Local Practitioners Action Forum, Beverly Hills, Calif.

Thomas S. Watson, Jr., CPA, Watson, Rice & Co., Cleveland, Ohio.

Tuesday, May 10, 1977 8:30 a.m.

John C. Biegler, Managing Partner, Price Waterhouse & Co.

*Panel*

Robert Half, Robert Half Personnel Agencies, Inc., New York, N.Y.

Theodore Barry, Theodore Barry & Associates, Los Angeles, Calif.

*Panel*

William R. Mette, Jr., Executive Partner, Alexander Grant & Co., Chicago, Ill.
J. B. Dresselhaus, CPA, Philip G. Johnson & Co., Lincoln, Neb.
Irving Kellogg, CPA, Kellogg & Andelson, Los Angeles, Calif.
Norman H. Stavisky, CPA, Stavisky, Shapiro & Whyte, Boston, Mass.

Thursday, May 12, 1977
8:30 a.m.

Walter E. Hanson, Senior Partner, Peat, Marwick, Mitchell & Co.

Rudolph J. Passero, Vice Chairman, National Affairs Committee, National Society of Public Accountants.

*Panel*

Charles T. Horngren, President, American Accounting Association.
T. R. Lilley, President, Financial Analysts Federation.
Charles C. Hornbostel, President, Financial Executives Institute.
William M. Young, Jr., Executive Director, National Association of Accountants.

Tuesday, May 24, 1977
9:00 a.m.

Harvey Kapnick, Managing Partner, Arthur Andersen & Co.

Eli Mason, CPA, Mason & Co., New York, N.Y.

William S. Kanaga, Managing Partner, Arthur Young & Co.

Norman Auerbach, Managing Partner, Coopers & Lybrand.

Thursday, May 26, 1977
10:00 a.m.

Hon. Elmer B. Staats, Chairman, Cost Accounting Standards Board.

Adm. H. G. Rickover, Deputy Commander for Nuclear Power, Naval Sea Systems Command.

Thursday, June 9, 1977
10:00 a.m.

Manuel Cohen, Chairman, Cohen Commission.

Newton N. Minow, Chairman, Arthur Andersen Public Review Board.

*Panel*

Howard Wagner, Chairman, Finance Committee, Director, Jewel Companies, Inc.
John Hackett, Executive Vice President, Director, Cummins Engine Co., Inc.

Monday, June 13, 1977
10:00 a.m.

Congressman Max Baucus (D-Montana)
*Securities and Exchange Commission*
Chairman Harold M. Williams
accompanied by
Commissioner Philip A. Loomis, Jr.
Commissioner John Evans
Commissioner Irving Pollack

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