PROPOSED AUDITING STANDARDS

THE AUDITOR'S REPORT ON AN AUDIT OF
FINANCIAL STATEMENTS WHEN THE AUDITOR
EXPRESSIONS AN UNQUALIFIED OPINION;

THE AUDITOR'S RESPONSIBILITIES REGARDING
OTHER INFORMATION IN CERTAIN DOCUMENTS
CONTAINING AUDITED FINANCIAL STATEMENTS
AND THE RELATED AUDITOR'S REPORT;

AND RELATED AMENDMENTS TO PCAOB
STANDARDS

ENCOURAGING LARGE CPA FIRMS TO FULFILL THEIR HIGHEST POTENTIAL IN THE
CONTEXT OF NEW PROPOSED AUDITOR RESPONSIBILITIES

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September 13, 2013
ENCOURAGING LARGE CPA FIRMS TO FULFILL THEIR HIGHEST POTENTIAL IN THE CONTEXT OF NEW PROPOSED AUDITOR RESPONSIBILITIES

The National Asian American Coalition has commented on a number of occasions on the PCAOB’s laudable efforts to ensure public support for the highest auditing standards and ethics.

We believe that, in general, the vast majority of large CPA firms, including all of the Big Four, support the highest auditing and ethical standards. The PCAOB has now embarked upon, through this rulemaking, a once-in-a-lifetime effort to enhance the credibility of auditor reports and thereby enhance the reputation of the accounting profession.

As the Chairman of the PCAOB stated and many publications have noted, this could be the most major and significant change in the responsibility of auditors since the Second World War.

Because of the importance of the suggested new responsibilities of the Big Four and other audit firms, the African American AME churches join the National Asian American Coalition in this effort.

We support the changes suggested by PCAOB Chairman James Doty and the entire Board. Particularly, we support the changes requiring information on the auditor’s independence from management, the duration of the CPA firm’s work with the corporation, and on the need for CPA firms to offer independent and relevant observations on the potential for fraud.

As distinguished long time Board Member Steven Harris stated in his concurring remarks, "These are welcome changes, especially in light of the history of concerns about the impact on independence of the issuer-pay model, the potential for auditor capture in long-running engagements, and the need for clear understanding of the auditor's role. In addition, and most significantly, the proposals require an auditor to report on what he or she has identified as ‘critical audit matters.’"

We would urge that the Board take seriously all of Board Member Harris’ perceptive observations about the infirmities and weaknesses of the proposed changes.

As Board Member Harris states, these proposals are a step in the right direction, as we attempt to protect ratepayers and investors who depend on the accuracy of these reports.

In California, for example, three major utilities audited by Big Four firms have sought to have over $15 billion in additional costs be imposed on the ratepayers. These additional charges rely on the so-called independence and accuracy of CPA audit reports.
**PG&E as an Example**

To the great credit of Pacific Gas & Electric (PG&E) and its CEO, it has decided to reexamine one key aspect of the auditor relationship even before these proposed rules were issued. It has determined that its long time auditor, Deloitte & Touche, will be forced to compete in the marketplace if it is to be a future auditor for PG&E. That is, Deloitte & Touche must prove by a combination of the accuracy of its audit reports and the costs of its audit reports that it can compete in the marketplace with other large CPA firms.

This PG&E effort is a welcomed first step.

Our groups intend in all future California Public Utilities Commission ratepayer cases to raise this issue relating to Southern California Edison and Sempra (SoCal Gas and SDG&E) auditors.

**Need for PCAOB Independent Audit Fund**

Besides these reforms, we also strongly support other related reforms by the PCAOB. For example, we strongly urge an historic change from the past as to how auditors should be paid. Rather than being paid by the corporation they audit, all payments should come from a central PCAOB-controlled fund. This would enable the auditors to be totally free of corporate influence, at least as it affects the level of compensation for services. We estimate that this PCAOB central fund would be approximately $2.5 billion just for Fortune 500 corporations who would contribute to the fund based upon the complexity and size of the audit.

We believe that many large CPA firms would prefer this if the general level of compensation to them was fair and related to the size and complexity of the audit. Please note, we do not contend that present compensation is excessive. We are merely trying to maximize the independence of and perceptions of independence from management.

**Diversity Goals**

Further, as part of these historic changes, we would urge the PCAOB to once again examine the diversity and lack of diversity at most large CPA firms. In an increasingly complex and diverse world, particularly in the United States, where minorities will soon be the majority and the vast majority of college graduates are women, it might be appropriate for CPA firms, with guidance from the PCAOB, to set aspirational goals for diversity.

For example, within twenty years, 40 percent of senior partners should be women, including women of color, and 40 percent of senior partners should be minorities. We note with particular alarm, the present virtual absence of African American or Latino senior partners at the largest CPA firms and the surprisingly small number of Asian American senior partners even among Vietnamese Americans, Korean Americans and Filipino Americans (these are three of the five most populous Asian American sub-ethnic groups in the United States).

This type of diversity would also enable CPA firms to substantially increase the number of young people who turn to accounting as a profession. And, it would help fulfill Dr. King's dream on full economic and employment integration as articulated by President Obama in
his August 28, 2013 speech. (We note that two of America’s greatest failures regarding our youth are the absence of sufficient scientists and CPAs among minority youth.)

Conclusion: Using the Bully Pulpit

The Chairman and many Board Members have recognized not only the power of rules and regulations, but the power of the bully pulpit.

The bully pulpit can and should be used to encourage CPA firms to aspire to the goals of dedicated and objective independent service that motivated most CPAs when they entered the profession. That is, we believe that most CPAs share Dr. King’s dream of equal opportunity and President Obama’s desire to encourage upward mobility. We hope that this support will be reflected in the comments CPA firms file herein and the actions they subsequently take to fulfill Dr. King’s dreams.

Respectfully submitted,

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