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CONCEPT RELEASE ON AUDITOR  
INDEPENDENCE AND AUDIT FIRM  
ROTATION

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PCAOB Rulemaking  
Docket Matter No. 37

**ENSURING THE FINANCIAL STABILITY AND INTEGRITY OF  
FORTUNE 500 CORPORATIONS**

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June 28, 2012

## **ENSURING THE FINANCIAL STABILITY AND INTEGRITY OF FORTUNE 500 CORPORATIONS**

My name is Sheila Green. These comments are on behalf of three California-headquartered minority business organizations that work with more than six dozen Fortune 500 corporations who have been audited by Big Four firms. The three organizations are the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition.

Many of my colleagues and I had the opportunity to have a lengthy meeting with Chairman Doty and board members Ferguson, Franzel and Harris in Washington DC on June 5<sup>th</sup>.

On behalf of six million minority owned businesses and on behalf of 120 million minority consumers, we thank you for your vigilance and your commitment to protecting consumers through ensuring financial accuracy and stability.

As I discussed at our DC meeting, an early part of my career was spent as a professional at Arthur Andersen. I was surprised, but not shocked, that there were no Black, Latino or women of color at senior levels. But, I am more shocked that 20 years later, there appears to be little, if any, change.

When the government audits even small nonprofits that receive \$25,000 grants, it demands high and impeccable standards of performance and accuracy. We believe that the PCAOB and all of the federal and state regulators that rely on PCAOB audits should demand the same of the Big Four and other large CPA firms.

The data made available to us by the PCAOB audits is disturbing.<sup>1</sup> Forty percent or more of Fortune 500 corporations audited by the Big Four are suspect. They are suspect because the audits are not independent of management. And, they are suspect because in many cases, Big Four firms do not follow Accounting 101 principles. That is they do not follow generally accepted accounting principles.

After these hearings in San Francisco are completed, our organizations recommend that a formal conference be held with all the key federal regulators whose findings and conclusions are affected by inadequate audits. This includes the Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Securities and Exchange Commission, Department of Treasury, Federal Trade Commission and Department of Justice. And, as the Black Economic Council chairman, Len Canty, has informed the California Public Utilities Commission, they too should be part of the discussion on remedies.

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<sup>1</sup> *Wall Street Journal*, May 22, 2012, "The Asset Valuations Trip Up Audits."

A failure by the accounting profession to address these glaring gaps in meeting appropriate professional standards affects America's standing worldwide. Recently, the Chinese government decided to unilaterally lower the already low U.S. standards by the Big Four.<sup>2</sup> They ordered the Big Four to further compromise their standards by requiring that a majority of CPAs auditing Chinese companies be Chinese-trained.<sup>3</sup> We have no questions as to the intelligence of these Chinese-trained auditors. But, in light of recent events and the turmoil in China, it is hard to believe that any Chinese-trained accountant would be fully independent of the Chinese Communist Party. We therefore commend the SEC for its recent actions questioning the Big Four's compliance with what the Chinese Communist Party dictates.

The PCAOB is in a position to set the global accounting standards for the rest of this century. If it does not, Europe will dominate. The European Union is already suggesting far higher audit standards than the Big Four are willing to meet in the U.S.

#### Potential PCAOB Goals

Firstly, we believe the PCAOB's budget of \$204 million may be inadequate and should be substantially increased.<sup>4</sup> The PCAOB's budget, for example, is less than a quarter of one percent of the total revenue earned by Big Four firms. One way to increase the budget is to raise the annual fees of the Big Four, which are now a trivial \$100,000.<sup>5</sup> (This is approximately \$1 per \$100,000 in audit fees received annually by each of the Big Four.)

Secondly, we recommend and urge that the PCAOB on a voluntary basis and, if necessary, on a mandatory basis, secure the diversity data at every level for the Big Four and other major CPA firms by race, ethnicity and gender. As we informed you at our June 5<sup>th</sup> meeting, it appears there are close to zero senior partners that are Black or Latino women. This is especially important because competition for auditing services may be the key to breaking up the cozy management relationships that presently exists between 97 percent of corporations that use Big Four CPA firms.

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<sup>2</sup> *New York Times*, May 10, 2012, "China Issues New Rules to Foreign Auditing Firms."

<sup>3</sup> *Wall Street Journal*, May 18, 2012, "U.S., China Feud Over Audit Firms," and *New York Times*, May 10, 2012, "The Case for Global Accounting."

<sup>4</sup> PCAOB 2011 Annual Report.

<sup>5</sup> PCAOB 2011 Annual Report.

Thirdly, we recommend far more intensive oversight for the Top 10 CPA firms. All issue a hundred or more audit reports on public companies. And, if possible, we would urge that this heightened scrutiny also be put in place for the 18 other large firms that issued audit reports for 50 or more public companies.

With heightened scrutiny and greater focus on public benefits, we could have 25 or more CPA firms effectively and aggressively competing to audit the vast majority of Fortune 500 corporations. Obviously, the monopoly situation of today is not acceptable. For example, according to the *Wall Street Journal*, the Big Four firms audit 97.5 percent of the total market value of U.S companies.<sup>6</sup>

We have raised these issues before the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Trade Commission and antitrust division of the Department of Justice. But, it is our hope that we will not need an antitrust lawsuit to break up the Big Four quasi-monopoly. It would be far more beneficial to create the standards and environment necessary to allow dozens of CPA firms to compete for the audit business of the Fortune 500 corporations. This may be the best solution in terms of producing higher quality and more independent audits. That is competition, competition and more competition.

I close with the following observations. Today, in California, consumers face \$17 billion in unnecessary rate increases from large public utilities primarily as a result of non-independent and often inaccurate audits by the Big Four firms. The financial crisis that has created double-digit unemployment rates in California in large measure could have been avoided had the Big Four firms been truly independent of “too big to fail” banks and offered a dose of healthy independent skepticism before accepting artificially inflated values for real estate holdings.

Respectfully submitted,

/s/ Sheila Green

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June 28, 2012

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<sup>6</sup> *Wall Street Journal*, March 20, 2012, “A Good Auditor Is Hard to Find.”