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November 1st, 2003

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006

SUBJECT: PCAOB Rulemaking Docket Matter No. 008

Dear Secretary & Other Distinguished Commissioners:

I have been following in the Wall Street Journal and other newspapers on the pending rules regarding internal controls. I have also paid close attention to the many accounting scandals of the past few years. I would like to offer my comments, as an individual investor, to your rulemaking process.

I am concerned because as I read through your rules I sense three major issues that are truly disturbing.

First, you are providing guidelines or rules for auditors to do their job. This is probably long overdue because as we all know they have not been doing their job lately and we have seen some very big audit failures. I commend you on this. But, it seems to me that many of the rules you are proposing are things that people like me would have already expected the auditors to be doing.

I would already expect auditors to look for fraud and to look at the client's financial reporting process to understand how it works. If they don't know that how on earth do they know whether or not the audits they are performing are sufficient? What were they doing?

It seems to me that if auditors were doing their job we would not have the problems we have today. I commend you on trying to establish rules that will make it clear that they can no longer put personal relationships with chummy former employees and customers who pay them to do "special projects" to look the other way. These abuses must be stopped.

Second, it seems that many companies are objecting to the impending rules because they are going to be cost prohibitive to implement. I've seen many articles that say the audits are going to cost more. Some estimate between 25% and 50% more. Well, if companies that are outside of the US do not have these same requirements then I agree with them - this is a bad idea because it makes US business less competitive in a global marketplace.

More importantly though, I must ask - why should audits cost more? Some articles seem to suggest it has to do with the fact that the auditors don't really make money performing audits. They use the audit as a "loss-leader" and instead make money doing all the other special things that got them into trouble in the first place.

Well that's ridiculous rhetoric. No business I know of continues to operate unprofitable businesses for very long. Judging from the expensive suits, lifestyles, and salaries that these Partners are living I seriously doubt they have been losing money in the audit business for very long. Instead I suspect that they are misleading us about how lucrative this business really is.

I recall reading an article earlier this year in the Wall Street Journal whereby the Chairman of one of these firms was making over $2,000,000 per year and was giving his ex-wife only $5,000 a month on which to raise there family. Apparently she had to sue to get the records of the partnership opened up so she could find out how much he really made. She not only had to fight her ex-husband, she had to fight the deep pockets of the firm to find out how much he was worth. The judge was so outraged that he awarded her over 60% of the marital property (which amounted to tens of millions of dollars).

It is obvious that he kept many secrets, including how much money he made and how much they were worth. He also had a willing accomplice - his firm in making his pleas of poverty. Are we to believe these people when they tell us they don't make money conducting audits? Another article suggested the average partner income is over $500,000/year. I am not sure if the article is right or not, but even if it was only half of that it seems to me they would be doing pretty well.

I don't believe for a minute that they do not make money on audits… that sounds like the hollow plea that the Chairman of that one firm gave his ex-wife when he offered her $1,000,000 to go away. We shouldn't believe it and we should recognize it for what it is - another attempt to deceive and mislead the American investor.

But the above story does give us some insight into the public accounting profession. It makes me wonder whether or not we can trust these people or whether they have become corrupt because of all of the money they do make.

Perhaps you should consider making these firms report their earnings publicly from each business line as part of the reforms you implement. Increased transparency for the public accounting profession would probably do more to create positive reform then anything else you could do. If nothing else it might cause more competition and drive down prices, thereby making the reforms you implement better for the companies I invest in. It's an interesting idea and one I think you should give special consideration to. It also would force them to not lie to us about how "unprofitable" audit work really is.

Third, and finally, when I read through your rules and some of the comments to date - I do not understand how the auditor can help their clients make sure their internal controls are good and then audit those internal controls. I may not fully understand the situation but it seems to me that what we are creating is a vicious cycle. Auditors help their clients document internal controls and presumably they get paid to do this - then they come in and audit the books and records and the internal controls and get paid again to do that?

It seems to me that someone cannot be independent when they help create the solution. It seems a lot like having the auditor also be the bookkeeper. If the auditor were to help his client set up the chart of accounts (help him identify how best to organize the accounts), instruct him on model formats on which to prepare the financial statements, and how best to collect the information they report in their financial statements and then audit those financial statements this would seem to me to be a conflict.

My impression is that companies should be responsible for that and the auditors should come in to make sure that the company did it right. It seems to me that this should be the same for internal controls. Companies should be responsible for that and the auditors (or perhaps some other independent body or other firm) should come in and tell them they are ok. Having them do both just doesn't make sense.

I appreciate you listening to my ideas and thoughts and thank you for your time and consideration. Hopefully your new rules will reign in some of the abuses that I see enable us to once again trust that the numbers we get from the companies we invest in are accurate.

Sincerely,

Stephen

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