

Public Company Accounting Oversight Board transparency bill introduced

Written by Grassley Press

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Reed and Grassley Seek to Increase Transparency at Accounting Watchdog

WASHINGTON, DC – In an effort to protect the investing public and improve the oversight of corporate auditing, U.S. Senators Jack Reed (D-RI) and Chuck Grassley (R-IA) are introducing the PCAOB Enforcement Transparency Act of 2011.

In the wake of a series of corporate accounting scandals, such as Enron, that cost investors billions of dollars and hurt the U.S. economy, Congress established the Public Company Accounting Oversight Board (PCAOB) as a watchdog to oversee auditors of public companies. The 2002 Sarbanes-Oxley law creating the Board also required PCAOB's disciplinary proceedings to be kept confidential through charging, hearings, initial decision, and appeal. Unfortunately, the secretive nature of the process enables firms that engage in misconduct to drag out the proceedings for years while the investing public is kept in the dark.

The Reed-Grassley bill will make PCAOB disciplinary proceedings public to bring auditing deficiencies at the firms or the companies they audit to light in a timely manner and help to deter violations.

“The PCAOB is responsible for ensuring that auditors of public companies meet the highest

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standards of quality, independence, and ethics. Reliable financial reporting is vital to the health of our economy and we must take the legislative steps necessary to enhance transparency in the PCAOB's enforcement process. Currently, Congress, investors, and others are being denied critical information about an auditor's disciplinary process. Investors and companies alike should be aware when the auditors and accountants they rely on have been charged or sanctioned for violating professional auditing standards," said Reed.

"Sunshine is the best disinfectant," Grassley said. "This legislation levels the playing field between auditors reviewed by the SEC and auditors reviewed by the PCAOB. Currently, PCAOB proceedings are secret while SEC proceedings are not. The secrecy provides incentives to bad actors to extend the proceedings as long as possible so they can continue to do business without notice to businesses about potential problems with a particular auditor. This bill ends the secrecy and brings the kind of transparency that adds accountability to agency proceedings."

The PCAOB sets auditing standards for auditors of public companies, examines the quality of audit performed by public company auditors, and where necessary, imposes disciplinary sanctions on registered auditors and auditing firms. The PCAOB oversees more than 2,400 auditing firms registered with the Board, as well as the thousands of audit partners and staff who contribute to a firm's work on each audit.

The lack of transparency surrounding disciplinary proceedings under current law can provide unscrupulous firms with an incentive to litigate cases in order to continue to shield conduct from the public.

For example, an accounting firm that was subject to a disciplinary proceeding issued no fewer than 29 additional audit reports on public companies during the course of the proceedings. Those public companies and their investors were completely unaware there was a potential auditing problem with this accounting firm. Before the firm was expelled from public company auditing, it issued those audit reports, knowing all the while that it was subject to disciplinary proceedings. But investors were denied this information.

PCAOB's closed proceedings run counter to the public enforcement proceedings of other regulators, including the U.S. Securities and Exchange Commission (SEC), the U.S. Department of Labor, the Federal Deposit Insurance Corporation (FDIC), the U.S. Commodity Futures Trading Commission (CFTC), the Financial Industry Regulatory Authority (FINRA), and

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others. Nearly all administrative proceedings brought by the SEC against public companies, brokers, dealers, investment advisers, and others are open, public proceedings.

This Reed-Grassley bill will make PCAOB hearings and all related notices, orders, and motions, open and available to the public unless otherwise ordered by the Board. The PCAOB procedure would then be similar to SEC Rules of Practice for similar matters, where hearings and related notices, orders, and motions are open and available to the public.

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