

APPENDIX I – OCTOBER 1999 PUBLIC HEARINGS

1 The Panel conducted public hearings in October 1999 to gather information directly from leaders of all constituencies of the financial reporting process – investors, regulators, auditors, preparers, analysts, plaintiffs’ and defendants’ bars, standard setters and educators. Leaders of almost 30 organizations were invited to testify at the hearings, and most agreed to participate. Participants were asked to express their views on the current effectiveness of audits in protecting investors’ interests. Each participant made a presentation lasting 15–20 minutes, followed by questions from Panel members.

2 The following organizations were represented at the hearings¹:

American Accounting Association
American Bar Association, Committee on Law and Accounting
American Institute of Certified Public Accountants
Arthur Andersen LLP
BDO Seidman, LLP
Bear Stearns & Co.
Deloitte & Touche LLP
Ernst & Young LLP
Financial Accounting Standards Board
Financial Executives Institute
Grant Thornton LLP
KPMG LLP
McGladrey & Pullen, LLP
Milberg Weiss Bershad Hynes & Lerach
National Association of State Boards of Accountancy
New York Society of Security Analysts
PricewaterhouseCoopers LLP
Public Oversight Board
Securities and Exchange Commission
SEC Practice Section
Ten Eyck Associates
Wharton School of the University of Pennsylvania
Willkie Farr & Gallagher

3 The speakers were forceful and straightforward in their remarks, and responded candidly to Panel members’ questions. The Panel considered the information it received to have been very valuable in its deliberations and is grateful to the speakers for their outstanding participation.

¹ See Exhibit 3 to this report for a timetable of the presentations at the October 1999 hearings.

4 The views expressed by the speakers are referred to in the “Findings” sections of this report. Among the areas of recurring comments by the speakers were:

- Governance of the profession
- Financial statement and reporting models
- Non-audit services
- Recruiting new people to the profession
- Auditing revenue recognition
- Auditing reserves
- Auditors’ involvement in interim periods
- The “rate” of audit failures
- Encouraging employees to disclose fraud
- Earnings management
- Audit myths, including audits as loss leaders
- Alternative practice structures
- Risk-based audit model
- Effects of globalization
- The relationship between the SEC and audit firms