

APPENDIX J – FIRM MATERIALS/MEETINGS WITH FIRMS

1 At the outset of the project, representatives of the Panel met with some of the leaders of the accounting and auditing practices of the eight largest firms. These meetings generally included the partners responsible for the firms' U.S. accounting and auditing practice and for activities related to professional education; risk management, including client acceptance and continuance; professional standards; internal consultation; and methodology development and implementation. The objective of these several-hour meetings was to obtain the firms' views on the accounting and auditing environment and the issues the Panel should consider, including:

- *Expectations of auditors*, including by management, audit committees, boards of directors, shareholders, other users and auditors
- *Personnel*, including recruiting and the availability of quality people, knowledge and skills, performance measures and employee turnover
- *Audit methodologies*, including the risk-based model, the effects of technology, and auditors' responsibilities for detecting fraud
- *Accounting and auditing standards*, including the processes for developing and implementing them, and ideas about necessary changes
- *Governance issues*, including, in particular, the roles of the SEC, AICPA and POB
- *Independence matters*, including the effects, if any, of non-audit services performed by auditors

2 The partners also provided the Panel with in-depth information and explanations about changes in their audit methodologies and tools and related firm policies.

3 Separately, the firms provided additional information and statistics on a variety of topics for the Panel's use in developing its findings and recommendations. The topics included:

- Audit policies, procedures, guidance materials and practice aids
- Risk management – client acceptance and continuance
- Professional development activities, including instructor-led and self-study course catalogs and selected course content, coaching and mentoring programs, and average training hours per auditor by experience level
- Performance measurement and evaluation policies and procedures and related measurement tools
- Reward and incentive compensation programs for employees at each experience level
- Marketing publications designed to attract new audit clients or promote

additional services to existing audit clients

- Internal messages to staff, particularly relating to the importance of performing quality audit work, and external messages to clients and potential clients concerning audit quality
- Statistical data covering five-year trends in hiring, employee retention and employee work load and scheduling
- Success stories – examples of situations where audits uncovered material errors or fraud before the issuance of financial statements or where the auditor took a strong stand against overly aggressive accounting or client-imposed time pressures