

materially and in some cases hugely misstated financial statements that appear to have gone undetected by auditors.

Some auditors assert that the changes to their processes are responsive to the increased use of information technology in financial reporting and accounting. Other market participants, however, may believe that the profession is abandoning the techniques that, in the past, made the financial statement audit a valuable tool for the protection for investors.

The primary focus of our concern, therefore, is whether today's audit model, with its emphasis on risk assessments and analyses instead of more intensive fact checking and verification of the numbers, can continue to assure investors that appropriate steps have been taken to provide them with reliable financial information. A review of this issue may involve a top to bottom examination of the "re-engineered" audit function, including, among many other things, the training of auditors, how audits are planned and supervised, whether firms' quality controls address all necessary elements in the new audit process, and whether the apparent decrease in audit documentation will impact the efficacy of peer reviews and other evaluations of audits.

As you know Al, before becoming Chief Accountant, I served as the Chief Financial Officer for a large technology company. Serving in that role drove home the reality that in order for an auditor to understand and appreciate fully the way management evaluates business risks and makes financial decisions, that auditor must have considerable business and professional experience. I am concerned that a substantial majority of the individuals performing audit work today, although some of the brightest graduates from our universities, do not have that experience. As the bulk of the audit work involves ongoing assessments of operations and associated risks, and how those risks might impact the reported results, this lack of practical business experience may have significant detrimental effects on the quality of audits. An inquiry into if, when, and how auditors bring partner-level and in-depth industry experience to bear in the audit process, therefore, would appear to be essential to an understanding of whether that process is continuing to protect investors.

Other questions might include whether the current audit model allows the auditor to de-emphasize or eliminate audit procedures that would have uncovered material financial statement misstatements, and whether there is a set of minimum detail-testing audit procedures that the auditor should not be permitted to eliminate under any new audit model or audit re-engineering.

As you know, our suggestion for a panel to review the new audit process is not an alarmist call to arms, but an effort to be proactive in making sure that all participants in the process work together to assure the continued protection of investors. As we discussed, I understand the POB will need to consider this request at its next Board meeting, along