1-1-2002

News -- 2002 January 17; Letter sent from Charles A. Bowsher to James S. Gerson

American Institute of Certified Public Accountants. SEC Practice Section. Public Oversight Board

Charles A., 1931- Bowsher

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January 17, 2002

Mr. James S. Gerson
Chair
Auditing Standards Board
c/o PricewaterhouseCoopers LLP
500 Campus Drive
Florham Park, NJ 07932

Dear Mr. Gerson:

The purpose of this letter is to request the Auditing Standards Board (ASB) to review its standards and interpretations and to take appropriate action to enhance its standards on auditing issues raised by Enron Corporation's collapse.

As you know, the Enron situation has created deep concern among Congressional Committees and regulators and has been the subject of continuing media coverage. The scope of these inquiries is evolving, but certainly is focusing on: what happened, how did it happen, why did it happen so quickly, and what can and should be done to avoid similar events in the future.

Given the Public Oversight Boards oversight authority with respect to the ASB, and as part of the POB's mission to act in the public interest, we believe that protecting investors and maintaining confidence in our capital markets is essential. In this spirit, the POB requests that the ASB review and take appropriate action on the auditing issues relating to the items listed below as a result of the Enron matter:

1. The auditors responsibility for Plain English fair and meaningful disclosure in financial statements including footnotes.

2. Auditing guidance related to special purpose entities (SPEs), including liabilities, contingent or otherwise, valuation issues and whether the SPE meets the criteria for non-consolidation.

3. Auditing guidance related to estimated and contingent liabilities (see The Panel on Audit Effectiveness Report and Recommendations, paragraph 2.160).

4. Auditing guidance related to energy and other commodity contracts for which there is no readily determinable market.

5. Measurement and disposition of proposed audit adjustments.
6. Evaluation of the quality of other information accompanying audited financial statements (e.g., description of the business, segment information, management discussion and analysis of operations and financial condition, as well as risk factors).

7. The auditors understanding of the business purpose and substance of related party transactions and related disclosures.

Particular focus should be on off-balance sheet financing. We also encourage the ASB to review any additional issues as the Enron matter evolves.

We are sending a copy of this letter to the Financial Accounting Standards Board with a request that it take such action as it deems appropriate because the list of issues involves accounting principles, and to the SEC because it administers the disclosure program covering the issues cited. We also are sending copies to the SEC Practice Section that adopts membership requirements for accounting firms that audit financial statements of issuers that file reports with the SEC, and to the House Congressional Committees that have oversight and legislative responsibilities and have contacted us previously on this subject. We further are sending copies to the AICPA and the Big 5 accounting firms that have taken initiatives in these areas, and to the Peer Review and Quality Control Inquiry Committees with the request that these Committees review their processes for whatever enhancements are appropriate in light of the Enron matter.

Sincerely,

Charles A. Bowsher
Chair

cc: The Honorable W. J. Billy Tauzin, Chair
    Committee on Energy and Commerce

    The Honorable John D. Dingell, Ranking Member
    Committee on Energy and Commerce

    The Honorable Cliff Stearns, Chair
    Subcommittee on Commerce, Trade, and Consumer Protection
    Committee on Energy and Commerce

    The Honorable Edolphus Towns, Ranking Member
    Subcommittee on Commerce, Trade, and Consumer Protection
    Committee on Energy and Commerce

    The Honorable Michael G. Oxley, Chair
    Committee on Financial Services

    The Honorable John J. LaFalce, Ranking Member
    Committee on Financial Services

    The Honorable Richard H. Baker, Chair
    Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
    Committee on Financial Services

    The Honorable Paul E. Kanjorski, Ranking Member
    Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
    Committee on Financial Services

    The Honorable Harvey Pitt, Chair
United States Securities and Exchange Commission

The Honorable David M. Walker, Comptroller General
United States General Accounting Office

Edmund L. Jenkins, Chair
Financial Accounting Standards Board

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American Institute of Certified Public Accountants

Richard L. Miller, Chair
Peer Review Committee

Robert D. Neary, Chair
Quality Control Inquiry Committee

§ 2002 Public Oversight Board

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