

GILBERT F. VIETS
2105 North Meridian Street, Suite 400
Indianapolis, Indiana 46202

April 18, 2012

Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

PCAOB Rulemaking Docket Matter No. 37 Concept Release on Auditor Independence and Audit Firm Rotation

Dear Members of the Board and Mr. Seymour:

Please be imaginative in considering solutions that reduce deliberate and accidental misrepresentation. There are strong hints that we may be going the wrong direction and a big turn is needed. If research and development is needed as indicated by its absence in your proceedings (see **Note**) and the work of the Treasury Department Advisory Committee, maybe that should be your job, rather than monitoring a traditional system that blocks a better one. The research must be aimed at the system itself, not only at choices we could make within the existing one. An engineer told me once, about an old bridge, "... it wasn't designed to carry the traffic we have today...repaving won't work." That may be true of our financial certification system.

This 21st century has produced unacceptable surprises about general use financial statements, unmatched since the years preceding the great depression when audits were frequently not required and financial reports were not based on sound accounting principles. Now, we have remarkable technology, mandatory audits of financial statements and internal controls and, whether you agree with them or not, accounting principles; yet, we nearly sank the world economy by failing to discover that bad assets were no good, others were improperly valued and real liabilities couldn't be properly assigned, identified or valued. Stock options were manipulated hundreds of times as company managers put a thumb on the scale in front of the policemen. All this occurred after we effectively consolidated audits of the vast portion of our world economy into four undercapitalized, limited liability firms that get the majority of their revenue from consulting services, while doing audits using a theoretical, vague, risk acceptance formula restraining time and imagination, regrettably after we passed legislation to assure Enron, WorldCom and Arthur Andersen would never happen again. But, it did.

You, the Public Company Accounting Oversight Board, are seemingly part of a better solution to reduce errors before they pass to investors and pensioners pleading with a judge and jury to determine just treatment after market distorting misstatements pump up capital and retirement hopes before truth appears. You carry a big burden. Rather than temperance and civility and the charitable delay in advising investors of the bad results of your reviews, we all, accounting firms included, would be served best if you would attack errors, with the enthusiasm of a back court guard after the ball, as important evidence of what happens from our system.

Ask hard questions, not easy ones that don't quite get to the point of why audited financial statements are too frequently wrong, using specific examples of audit failures, not "gotchas" from reviews of audits of little significance. For your purpose, it does not matter that some private side litigation may be "ongoing;" it will always be "ongoing" until the sealed structured settlement permanently buries cause and cure. There ought to be a limit to avoiding truth. I know the firms would resist and some would say it is not practical; but, there is greater harm in not getting the facts and, for that reason, being unable to address the problem.

This inquiry into whether enhanced auditor independence would result if public companies were required to occasionally change audit firms, is inconclusive, it seems to me. It shows some say "yes," some "no," and diplomats who don't know but want to reach a "middle ground" that would not cost too much, nearly all based on experience relative to some interest group to which they are related, rather than what is more likely to produce financial statements that are right rather than wrong, something that really matters to investors. Empirical evidence sought never appeared (See **Note**), only opinion. I add my own feeble opinion based on a long auditing livelihood followed by a reflective period of teaching auditing, public company board and audit committee experience, public company CFO and state government. So, I touched the problem but remain among those who really don't know how results of the two paths would differ.

You have authority to make a big difference, and perhaps, save the audit profession, maybe broad capital markets and happy retirements, but unless you use your position wisely, we are just waiting for the next major unjust transfer of wealth auditors fail to see. You are not where you are to see how close to real conflict you can cut a deal for whatever you call "independence." To rephrase Plato, don't just poke only at black and gray; poke at white, too.

The accounting firms and their representatives, as they did throughout the last decade, continue to tell you how much better things are now with your help, and that you should go after audit committees that are given credit for employing one, often the only one, of the few selections available. Likewise, auditors claim to be misunderstood and want to say more in their reports, without doing more work, as if we would all then have known that a loan to a transient on a burned out house might not be worth the several hundred thousand dollars at which it is reported to us, if only there had been an emphasis paragraph citing the risk. I understand their interest. Yet, the things auditors speak of as their "new" game changing internal quality procedures all existed during the '90s. So did emphasis paragraphs.

Things are not better! We were told in 2004 to 2007 how much investor confidence had improved; then again let down. Earlier, the audit profession pushed hard for, and achieved, 150 hour college education requirements to be a CPA, but that additional schoolwork seems not to have made audits better. Math and logic were less popular trimmings than sales, marketing and networking. The numbers based language of accounting for reporting business results gives mathematics a bad name.

I know you understand this is serious business to which you have been appointed. If we are to comfortably and effectively use public markets to raise and support capital, employing the savings of hundreds of millions of people, then we cannot excuse “C” work, in the name of efficiency and tradition, by regulators, auditors, public company managers and other advisors.

Strong argument exists to change the system. Perhaps there is a better answer than to have auditors, paid by the audited, auditing successive increments of performance, after they earlier audited cumulative intervals spanning decades. They are reconfirming their own work, accommodating their own past errors and beliefs, as they try to maintain their own revenue stream. In too many instances, the audit firm has been with the company longer than any member of management, board or shareholder, the only thing our present system permits in many instances, leading to the question: “Who is auditing who?” Tension and opportunity, needed to compel performance and unsullied thought between the auditor and the audited, is often weak if not missing altogether.

Thank you for your efforts and courage.

Sincerely,

Gilbert F. Viets
317 513 5407
gilviets@aol.com

Note: I appreciate the recent contributions of experts who have performed research (e.g. Comment Letters 634 and 642). But, their efforts must be studied and vetted rigorously before accepting conclusions contained therein. Also, these studies are directed at a more effective continuation of the present system slightly modified, a condition for which there is some data relatively easy to obtain, maybe too easy, when we may be better served by someone studying a different system altogether.