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From the perspective of auditor psychology, the question before the board is easy and obvious. Of course the current system undermines auditor independence. Indeed, the very notion that the current system allows for truly independent audits is laughably implausible. These claims are not controversial among psychologists. Indeed, they are such an obvious application of the basic psychological principles that psychologists find this whole debate entirely uninteresting.

Understanding the fact that long-enduring relationships between firms and their auditors represent a conflict of interest that compromise auditor independence is easy. The real question is whether the PCAOB will have the courage to act to reduce this conflict of interest and increase auditor independence.

There are some critics of this reform who argue that we must pay attention to the whole patient and the cost-benefit ratio of the proposed treatment. While this logic sounds reasonable, we believe it is problematic in this instance. The auditing profession exists because it promises independence. Without independence, outside auditors become redundant with inside auditors, raising questions about whether outside auditors perform a useful service at all and whether it makes sense to require firms to pay for audits that are, in effect, redundant with their own internal accounting reports.

If the PCAOB is the doctor, treating the ills that have befallen auditor independence, there are some who would invoke the logic of the Hippocratic oath: "First, do no harm." The implication is that the perfect regulatory scheme is one whose implementation creates no costs, only benefits. In a system with as many constituents and as many parts as the current auditing system in the United States, it is unlikely that there is any such change that will not harm somebody in some small way.

But there is no single patient here to be treated by the PCAOB. There are many constituencies that would be affected by this rule change. Any such change, however minor, that affects so many institutions and so many relationships, will not benefit everyone equally. Indeed, there are some individuals and organizations whose lives will be disrupted by this change. But refusing chemotherapy to a cancer patient because their hair follicles will suffer is a mistake.

You will hear howls of protest from frightened hair follicles at these hearings. Those organizations and individuals who are most likely to have their work disrupted by the reforms you are considering have mobilized to present to you the costs that the change would impose on them. They will lobby and cajole. They will fulminate and portend disaster if you act to reform the system. Those who would benefit from the change are, by and large, absent. I would like to remind us of those people, organizations, and institutions.

The hair follicles might not prefer chemotherapy, even if it is in the interest of the rest of the person. To say that we should not increase auditor independence because it is costly to do so is, in our opinion, like saying that the cancer patient shouldn't undergo chemotherapy because it might be bad for their hair. To settle for partial auditor independence, only when it requires minimal change from the highly problematic status quo, is akin to taking out just the easy part of the malignant cancerous tumor. Partial solutions violate the promise of independence on which the auditing profession is based.

The benefits of a system that delivered true auditor independence would be enormous. Equity markets depend on the truthful and reliable public disclosure of information about public companies. Indeed, that is the fundamental premise on which our equity markets are based. As the Nobel-prize winning work of George Akerlof has shown, markets break down when the key information is held only by insiders. This is because others are reluctant to trade, rightfully fearing that they could be cheated. There are, of course, high-profile examples of big public companies in which precisely that has occurred. Insiders have been able to cheat outside investors, leaving companies that collapsed when the truth finally emerged. And the complicity of the firm's auditors makes it so much easier for public companies to get away hiding the true state of their finances. If reforming our system could reduce the probability of another Enron or another WorldCom, even by a little bit, we should be willing to endure costly and disruptive change to do it.

The problem we have here today is that the innumerable market participants who would benefit from this reform are not here to speak for themselves. They do not yet know about the potential cases of audit fraud at the companies whose stock they own, and so they have not yet calculated how much they would benefit from avoiding the resulting bankruptcies. Because the benefits of greater auditor independence would be so widespread, those with an interest in seeing it occur find their members and their voices too diffuse to organize action. They do not have enough spokespeople or lobbying organizations.

The public really only starts to pay attention when a high-profile accounting scandal raises their outrage enough for them to take action. It is only then, with public esteem for our business leaders falling to a new low, that the public expresses its will loudly enough for lawmakers to be able to hear it above the coordinated concert of voices coming from those concentrated industries like the accounting firms that are resisting change here today. It was this sort of public outrage that enabled passage of Sarbanes-Oxley, which is an important piece of legislation, even if it left the task of audit reform unfinished.

One reason why it is unfinished is that in the long intervals during which the investing public is not really paying close attention, concentrated industries work with regulators to soften the edges of legal constraints, to find new ways to make money, and work around regulations. Indeed, it happens too often that these concentrated industries are savvy enough to capture the regulators whose job it is to supervise them.

What you all are considering today is something remarkable. You are considering a meaningful and useful reform without the angry demands of an outraged public fresh from some new scandal. You are wise enough to anticipate the potential scandals and take action now to reduce their probability. Allow me to commend you for it, and to wish you courage. It will take courage for you to treat the cancer of conflict of interest in auditing.

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