

WRITTEN STATEMENT OF GILBERT R. VASQUEZ

BEFORE THE

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

JUNE 28, 2012

SAN FRANCISCO, CALIFORNIA

**Enhancing the Auditing Ability and Reputation of CPA Firms
Through the Public Company Accounting Oversight Board (PCAOB) Standards**

Good afternoon. My name is Gilbert R. Vasquez. I am the Managing Partner of the certified public accounting firm, Vasquez & Company LLP. I have been a CPA for 45 years. Our firm, with over 50 employees, is one of the largest minority CPA firms in the state of California.

I am past president of the California Board of Accountancy, which licenses and regulates CPAs in California. I am proud to say that I was the founder and past president of ALPFA, the Association of Latino Professionals in Finance and Accounting which now has over 18,000 members. I also have the distinction of serving as a director on more than 10 private and public companies. Currently, I serve on the board of Manufacturers Bank, Entravision Communications Corporation, and until recently, our State's most prominent Latino owned bank, Promerica Bank. Lastly, I am the vice chair and a founding board member of California's largest business chamber, the Latino Business Chamber of Greater Los Angeles.

Our Firm requires its staff auditors to use the multi-media AICPA Staff Training Level I which reminds us what the Supreme Court has said:

“This public watchdog function demands total independence from the client at all times and requires complete fidelity to the public trust.”

If an incumbent audit firm has a relationship with a client spanning decades, the partners in an audit engagement team may have an unconscious bias in not being the cause of losing the client. That has a corrosive effect on independence. It also affects the public's perception of independence.

Here is my perspective on auditor rotation based on my personal experience.

Aside from performing audits under PCAOB standards, Vasquez & Company LLP performs audits under Generally Accepted Government Auditing Standards

(GAGAS) which is a step above Generally Accepted Auditing Standards (GAAS). When clients receive federal funds, we are required to step higher than GAGAS by performing additional audit procedures as required by OMB Circular A133. Local governments and nonprofit organizations routinely send out competitive requests for proposal (RFPs) every so many years. When such clients employ best practices, incumbent audit firms are not tenured for decades, and audit firms have to accept lower realization rates but have to provide quality service. Based on my personal experience and after reading about rotation at TIAA-CREF and CALPERS, auditor rotation is not as bad as it may sound. Our firm has to impute the cost of the learning curve over the expected RFP period but such cost has to be competitive, otherwise we have no chance of being selected. A response to an RFP has to provide sufficient detail in its audit approach because the response to the RFP is evaluated by a panel.

Our firm may not be large; however, we are well-qualified and have audited:

- Federal grants in excess of \$1 BILLION for a county.
- Part of a pension plan with assets in excess of \$1 BILLION.

Yes, that is billion with a “B”.

I read speakers’ comments that 52% of public companies voluntarily changed auditors between 2003 and 2006. Auditor rotation is already a way of life for our local government and nonprofit audit clients and the costs are not prohibitive. In fact, there is a high probability that audit costs will decrease in a competitive environment, such as a mandatory auditor rotation under multi-year engagements that is open to bidding by several audit firms.

The European Commission Green Paper is considering a joint audit. Based on my experience, a similar team approach is currently being used in the audit of large local government and nonprofit clients. There is a prime contractor, such as a large regional or national audit firm, and a minority subcontractor. I believe such a team approach will be beneficial for mandatory auditor rotation under multi-year engagements that is open to bidding by several audit firms.

As a CPA with 45 years experience and as former president of the California Board of Accountancy, I strongly recommend the following :

1. Mandatory rotation of accounting firms after a pre-determined period.
2. Mandatory auditor rotation under multi-year engagements that is open to bidding by several audit firms with a team approach.
3. No publicly traded corporation be permitted to use the same CPA firm for its audits that has been found in violation by the SEC or PCAOB until at least three years after the violations have been resolved.

4. Similar to many federal contracting programs and the National Football League's policies on recruiting minority coaches, minority owned firms should be given every opportunity to join an audit team to bid for auditing and other accounting services.

It is my pleasure to be here and thank you for allowing me to present my perspectives on this issue.