



PUBLIC OVERSIGHT BOARD
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April 4, 2002

VIA FEDERAL EXPRESS

Robert K. Herdman, Chief Accountant
United States Securities and Exchange Commission
Room 11213, Mail Stop 1103
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Bob:

I. Purpose

The purpose of this letter is to follow up on my letter, as Chair of the Public Oversight Board ("POB"), to Harvey L. Pitt, Chair of the Securities and Exchange Commission ("SEC"), dated January 21, 2002, concerning the POB's intention to terminate its existence and the need for arrangements to be made for a transition of the POB's responsibilities. In that January 21st letter, I stated that, in voting its intent to terminate, the POB recognized that arrangements must be made for a transition of its responsibilities, especially with respect to, among other matters, monitoring the implementation of the recommendations of the Panel on Audit Effectiveness ("Panel"). The Panel's recommendations are set forth in its Report and Recommendations dated August 31, 2001 ("Panel Report"). This transition of responsibility for monitoring the implementation of the Panel's recommendations is important to the public interest.

II. GAO Reports on the Status of Panel Recommendations

In a letter to David M. Walker, Comptroller General of the U.S. General Accounting Office ("GAO"), dated January 17, 2001, Congressman John D. Dingell, Ranking Member on the Committee on Energy and Commerce of the U.S. House of Representatives, requested that the GAO, among other things, review and report on the status of the accounting profession's response to the Panel's recommendations on the profession's self-regulatory system.¹ Congressman Dingell, in a second letter to Mr. Walker dated June 7, 2001, asked that the GAO review and report on, among other issues, the adequacy and effectiveness of the response of the governance system of the accounting profession to "the sharp increase in misleading and fraudulent accounting."²

In a letter to Mr. Walker of the GAO dated January 7, 2002, Senator Paul S. Sarbanes, Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, requested that the GAO "analyze the steps taken by the accounting industry and the SEC to implement the recommendations developed by the Public Oversight Board's Panel on Audit Effectiveness since those recommendations were released on September 6, 2000."³ Senator Sarbanes noted in this letter that he was particularly interested "in the Panel's recommendations regarding the use of forensic-type procedures in all audits, stronger disciplinary processes, a unified governance system, and a global oversight structure for the accounting profession."⁴

¹ Letter from Congressman Dingell to Mr. Walker dated January 17, 2001, at 1.

² Letter from Congressman Dingell to Mr. Walker dated June 7, 2001, at 2.

³ Letter from Senator Sarbanes to Mr. Walker dated January 7, 2002, at 1.

⁴ Id.

The following month, in a letter to Mr. Walker dated February 14, 2002, Congressman Dingell said, among other things, that he understood that the GAO's review of the Panel's recommendations for the governance system of the accounting profession, in response to his January 2001 letter, had been completed, and that the projected date for the final report was late March 2002.⁵ In this letter, Congressman Dingell also noted that, in connection with his June 7, 2001 letter to Mr. Walker, the GAO would be doing additional work, which would include "a review of the findings and recommendations of the Panel on Audit Effectiveness regarding earnings management and fraud and the responsibilities of auditors and others."⁶ This work would also involve "a determination of whether the Panel's recommendations [in this area] have been accepted and how the recommendations that have been accepted, including those to be implemented by the Auditing Standards Board, are being implemented and within what timeframes."⁷

III. Proposal for Monitoring Implementation of Panel Recommendations

Given the importance of the Panel's recommendations, and Congressional interest, the POB recommends that the SEC take appropriate steps to assure that monitoring the implementation of those recommendations is taken on, and fulfilled, by an independent entity. This would serve the public interest by promoting implementation of the Panel's recommendations, while at the same time assuring the independence and objectivity of the monitoring process.

The POB also recommends that such independent entity, in monitoring implementation of the Panel's recommendations, give appropriate consideration to the reviews and reports on those recommendations being done by the GAO, discussed above. In this regard, the POB notes that the work being done by the GAO in response to Congressman Dingell's requests does not include all the Panel's recommendations, but only those to the accounting profession concerning governance of the profession and those pertaining to earnings management and fraud. Senator Sarbanes' request also did not cover all Panel recommendations. He asked that the GAO review the steps taken by the accounting industry and the SEC to implement the Panel recommendations addressed to them, and particularly those recommendations regarding forensic-type procedures in audits, disciplinary procedures, a unified governance system, and a global oversight structure for the accounting profession. Accordingly, in monitoring implementation of the Panel's recommendations, the POB recommends that the work of the independent entity go beyond the work being done by the GAO in response to these Congressional requests.

It is also recommended that the independent entity responsible for monitoring implementation of the Panel's recommendations issue periodic status reports that would be available to the public. These reports should include four categories of information for each Panel recommendation: (1) the recommendation itself; (2) action taken and/or proposed to implement the recommendation; (3) a description of any deviation from the Panel recommendation with an explanation and reasons for that deviation; (4) and the estimated time to complete implementation of the Panel recommendation.

⁵ Letter from Congressman Dingell to Mr. Walker dated February 14, 2002, at 1.

⁶ Id.

⁷ Id.

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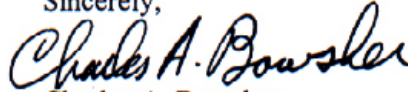
IV. Independent Entity

The POB recommends that the SEC consider establishing an independent entity, such as The Committee of Sponsoring Organizations of the Treadway Commission (COSO), to monitor implementation of the Panel's recommendations. The POB also recommends that the persons who serve on this independent entity meet the eligibility requirements for membership on the POB as set forth in Section II.A. of the POB Charter.

V. Conclusion

Timely implementation of the Panel's recommendations is important to the public interest. Accordingly, the POB recommends that the SEC assign responsibility for monitoring implementation of the Panel's recommendations as soon as feasible.

Sincerely,



Charles A. Bowsher

Chair

cc: Shaun F. O'Malley
Chair
Panel on Audit Effectiveness

Robert J. Kueppers
Chair
SEC Practice Section Executive Committee



OFFICE OF
THE CHIEF ACCOUNTANT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

April 10, 2002

VIA Facsimile

Mr. Charles A. Bowsher
Chairman
Public Oversight Board
4503 Boxwood Road
Bethesda, MD 20816

Dear Mr. Bowsher:

Thank you for your two letters dated April 4, 2002. The first letter indicates the importance of monitoring the implementation of the recommendations of the Panel on Audit Effectiveness and suggests that an independent body be created for that purpose. Let me assure you that creating an independent body will not be necessary, as the Office of the Chief Accountant is capable of, and will carry out the task.

An important step in that endeavor would be receipt of the work of the Staff of the POB to assess the status of the implementation of the Panel's recommendations. We eagerly await that report, which the second letter indicates is one of the four tasks necessitating a further one-month extension of the POB's existence. The three other matters noted in your letter cover the completion of the POB's annual report for 2001, approval of minutes of recent Board meetings, and assurances that all outstanding bills of the POB are paid.

When the POB voted to terminate, you recognized the importance of making arrangements for the transition of responsibilities, "especially with respect to the continued oversight of the SECPS, the Auditing Standards Board, the Peer Review Committee, and the Quality Control Committee..." The staff of the SEC has been actively engaged with the Practice Section and the POB staff in making these vitally important arrangements for an orderly transition, absent any input from the members of the POB. In light of that I urge the POB to arrive expeditiously at the point where it terminates its activities.

Sincerely,

A handwritten signature in black ink that reads "Robert K. Herdman". The signature is written in a cursive style and is followed by a horizontal line.

Robert K. Herdman
Chief Accountant

cc: Mr. Robert Kueppers, Chairman, SEC Practice Section
Mr. Jerry Sullivan, Executive Director, Public Oversight Board
Mr. Harvey Pitt, Chairman, Securities and Exchange Commission