54th Annual Virginia Accounting & Auditing Conference

Is Auditor Bias Inhibiting the Ability to Find and Report Fraud?

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Dave Cotton is founder and Chairman Emeritus of Cotton & Company, Certified Public Accountants, headquartered in Alexandria, Virginia. Cotton & Company was founded in 1981 and has a practice concentration in assisting Federal and State agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than three dozen Federal inspectors general as well as numerous other Federal and State organizations, programs, activities, and functions. In April 2022, Cotton & Company became a wholly owned subsidiary of Sikich LLP.

Cotton & Company's Federal agency audit clients have included the U.S. Government Accountability Office, Public Company Accounting Oversight Board, U.S. Navy, U.S. Marine Corps, U.S. Transportation Command, U.S, Defense Security Cooperation Agency, U.S. House of Representatives, U.S. Capitol Police, U.S. Small Business Administration, U.S. Bureau of Prisons, Millennium Challenge Corporation, U.S. Marshals Service, and Bureau of Alcohol, Tobacco, Firearms and Explosives. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management, accounting, and internal control systems.

Dave received a BS in mechanical engineering and an MBA in management science and labor relations from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago Graduate School of Business. He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Dave served on the Advisory Council on Government Auditing Standards (the Council advises the United States Comptroller General on promulgation of ***Government Auditing Standards***—GAO's yellow book). He served on the Institute of Internal Auditors (IIA) Anti-Fraud Programs and Controls Task Force and co-authored ***Managing the Business Risk of Fraud: A Practical Guide***. He served on the American Institute of CPAs Anti-Fraud Task Force and co-authored ***Management Override: The Achilles Heel of Fraud Prevention****.* Dave is the past chair of the **AICPA Federal Accounting and Auditing Subcommittee** and has served on the **AICPA Governmental Accounting and Auditing Committee** and the **Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee**. Dave chaired the Fraud Risk Management Task Force, sponsored by COSO and ACFE and is a principal author of the ***COSO-ACFE Fraud Risk Management Guide***. Dave co-chaired a task force to update the ***COSO-ACFE Fraud Risk Management Guide.*** In May 2022, Governor Glenn Youngkin appointed Dave to the Virginia Board of Accountancy.

Dave served on the board of the Virginia Society of Certified Public Accountants (VSCPA) and on the **VSCPA Litigation Services, Professional Ethics, Quality Review, and Governmental Accounting and Auditing Committees**. He is a member of the Association of Government Accountants (AGA) and past-advisory board chairman and past-president of the AGA Northern Virginia Chapter and past Vice Chair of the **AGA Professional Ethics Board**. He is also a member of the IIA and the Association of Certified Fraud Examiners. Dave is presently serving on the National Association of State Boards of Accountancy (NASBA) Regulatory Response Committee.

Dave has testified as an expert in governmental accounting, auditing, and fraud issues before the United States Court of Federal Claims, the Armed Services Board of Contract Appeals, and other administrative and judicial bodies.

Dave has spoken and written frequently on cost accounting, professional ethics, and auditor fraud detection responsibilities. He has been an instructor for the George Washington University Master of Accountancy program (***Fraud Examination and Forensic Accounting***) *and* has instructed for the George Mason University Small Business Development Center (***Fundamentals of Accounting for Government Contracts***).

Dave was the recipient of the **ACFE 2018 Certified Fraud Examiner of the Year** Award ("presented to a CFE who has demonstrated outstanding achievement in the field of fraud examination … based on their contributions to the ACFE, to the profession, and to the community"); **AGA's 2012 Educator Award** ("to recognize individuals who have made significant contributions to the education and training of government financial managers"); and **AGA's 2006 Barr Award** ("to recognize the cumulative achievements of private sector individuals who throughout their careers have served as a role model for others and who have consistently exhibited the highest personal and professional standards").

Disclaimer

The views expressed in this presentation are my views and do not necessarily align with the views of the Virginia Board of Accountancy.

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Preview

- What is bias, anyway?
- It's the conflicts of interest, stupid
- The pernicious problem of unconscious bias
- The Bazerman, *et.al*, solutions
- The Dave Cotton solutions
- What should you do to guard against biases?

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What is ***bias*** anyway?

3

Bias

Merriam-Webster:

a: an inclination of temperament or outlook
*especially***:** a personal and sometimes unreasoned judgment**: PREJUDICE**

b: an instance of such prejudice

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Bias

Dictionary.com:

a particular tendency, trend, inclination, feeling, or opinion, especially one that is preconceived or unreasoned:

The hiring manager was found to have shown bias against job applicants who wore less expensive clothing.

The magazine's bias is toward art rather than photography.

We need to set aside our strong bias in favor of the idea and evaluate it logically.

Synonyms: leaning, bent, proclivity, partiality, predilection, pre-conception, predisposition

Antonyms: impartiality

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Bias

Cambridge Dictionary:

the action of supporting or opposing a particular person or thing in an unfair way, because of allowing personal opinions to influence your judgment:

The senator has accused the media of bias.

Reporters must be impartial and not show political bias.

Unconscious bias (that the person with the bias is not aware of) can influence decisions in recruitment, promotion, and performance management.

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The Bias Threat

The threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective.

[GAGAS 3.30]

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AICPA Threats vs. GAO/Yellow Book Threats

AICPA	Yellow Book
• Adverse Interest	~~• Adverse Interest~~
• Advocacy	~~• Advocacy~~
• Familiarity	• Familiarity
• Management Participation	• Management Participation
• Self-Interest	• Self-Interest
• Self-Review	• Self-Review
• Undue Influence	• Undue Influence
	• Bias
	• Structural

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The Threats & Safeguards Approach

- Recognize threat
- Apply safeguards to mitigate threat

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The Threats & Safeguards Approach

- Recognize threat
- Apply safeguards to mitigate threat

- But, how do you recognize unconscious bias?

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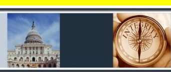

Do you think you can always remain objective?

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CPAs are "Professionals"

A *member* should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities.

Objectivity is a state of mind, a quality that lends value to a *member's* services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest

AICPA Code of Professional Conduct 0.300.050.01 & .02

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As "professionals," we should be very, very good at being objective.

But, how do you manage and deal with unconscious bias?

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Let's examine a hypothetical …

You are auditing the financial statements of Dimensions Unlimited Electronics (DUE) as of and for the years ended December 31, 2022 and 2023, because Capacitors-R-Us Development and Engineering, Inc. (CRUDE), a large corporation is considering purchasing DUE.

In testing revenues, you discover some instances of inconsistent treatment of accrual adjustments at year end. It appears that if revenue accrual policies had been followed more consistently, revenues for 2022 would have been slightly lower and revenues for 2023 would have been slightly higher.

Translated to the bottom line, it looks like profits for 2022 and 2023 should have been 6.5% and 11.8%, respectively, instead of the recorded 9.8% and 10.1%.

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Let's examine a hypothetical …

Based on the materiality calculations you developed in planning the audit, the adjustments are on the borderline of being material.

You discuss proposed correcting entries with DUE's founder and president, Dr. Tran Zister, at the end of the audit. He asks if adjustments are really needed, since he is trying to assemble other parts of the due diligence prospectus.

You explain that the anomalies are near, but not above, your materiality threshold, and that the adjustments would be easy to record.

Dr. Zister responds that if there's no actual material misstatement, he wants to just go with the numbers as is.

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Let’s examine a hypothetical …

Select the most appropriate conclusion.

[ ] A. There is no problem here. Since the adjustments are not above your numerically defined materiality level, you have no obligation to insist that the corrections be made to the financial statements.

[ ] B. This is a problem. Although the adjustments are below your numerically defined materiality level, you have an obligation to insist that the corrections be made to the financial statements so that the user can be fully informed.

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Should your answer depend on who is paying you?

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Should your answer depend on who is paying you?

I recently presented this problem to several hundred CPA ("professionals") at a conference.

Half were told that they were hired by DUE (the company being acquired)

Half were told that they were hired by CRUDE (the acquiring company)

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Should your answer depend on who is paying you?

Of the CPAs being paid by DUE (the company being acquired)

- 47.5% thought the financial statements did not need to be corrected
- 47.5% thought the financial statements needed to be corrected
- (5% said "it depends")

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Should your answer depend on who is paying you?

Of the CPAs being paid by CRUDE (the acquiring company)

- 41% thought the financial statements did not need to be corrected
- 59% thought the financial statements needed to be corrected

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Unconscious Bias

"[Auditors'] judgments were strongly biased toward the interests of their clients."

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[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.]

22

Let's examine a hypothetical …

Based on the materiality calculations you developed in planning the audit, the adjustments are on the borderline of being material.

You discuss pr… esident, Dr. Tran Zister, … eally needed, since … nce prospectus.

You explain tha… iality threshold, and …

The (un)safe harbor of quantitative materiality

Dr. Zister responds that if there's no actual material misstatement, he wants to just go with the numbers as is.

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AICPA Threats vs. GAO/Yellow Book Threats

AICPA

- Adverse Interest
- Advocacy
- Fam…
- M… Pa…
- Self-…
- Self-R…
- Undue …

…y

- …t
- …eview
- Undue Influence
- Bias
- Structural

These threats are all simply variations of conflicts of interest

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It's the conflicts of interest, stupid

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Our Current Audit Model

Is this a conflict of interest?

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Congressional Hearing on Audit Quality

Managing partner of firm that failed to note material misstatements in a governmental audit was being grilled by a congressman …

Congressman: “Isn’t it true that in the year of this audit period, your firm received more than $20 million in consulting fees from this government?”

Managing partner: “Congressman, my firm had $8.9 billion in global revenue last year. We would never compromise our integrity for $20 million in consulting fees.”

Congressman: “Well, how much *would* it take?”

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The Pernicious Problem of Unconscious Bias

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Unconscious Bias

Ambiguity and Approval

- *Bias thrives wherever there is the possibility of interpreting information in different ways.*
- *Auditors have strong business reasons to remain in clients' good graces and are thus highly motivated to approve their clients' accounts.*
- *An audit ultimately endorses or rejects the client's accounting—in other words, it assesses the judgments that someone in the client firm has already made. Research shows that self-serving biases become even stronger when people are endorsing others' biased judgments—provided those judgments align with their own biases—than when they are making original judgments themselves*

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.] 29

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Unconscious Bias

Familiarity

- *People are more willing to harm strangers than individuals they know, especially when those individuals are paying clients with whom they have ongoing relationships. An auditor who suspects questionable accounting must thus choose, unconsciously perhaps, between potentially harming his client (and himself) by challenging a company's accounts or harming faceless investors by failing to object to the possibly skewed numbers. Given this tension, auditors may unconsciously lean toward approving the dubious accounting. And their biases will grow stronger as their personal ties deepen. The longer an accounting partner serves a particular client, the more biased his judgments will tend to be.*

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.] 30

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Unconscious Bias

Discounting

- *People tend to be far more responsive to immediate consequences than delayed ones, especially when the delayed outcomes are uncertain…. auditors may hesitate to issue critical audit reports because of the adverse immediate consequences—damage to the relationship, potential loss of the contract, and possible unemployment. But the costs of a positive report when a negative report is called for—protecting the accounting firm's reputation or avoiding a lawsuit, for example—are likely to be distant and uncertain.*

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.]

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Unconscious Bias

Escalation

- *…an auditor's biases may lead her to unknowingly adapt over time to small imperfections in a client's financial practices. Eventually, though, the sum of these small judgments may become large and she may recognize the long-standing bias. But at that point, correcting the bias may require admitting prior errors. Rather than expose the unwitting mistakes, she may decide to conceal the problem.*

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.]

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Unconscious Bias

Research to test the theory

- *We gave undergraduate and business students a complex set of information about the potential sale of a fictional company and asked them to estimate the company's value. Participants were assigned different roles: buyer, seller, buyer's auditor, or seller's auditor. All subjects read the same information about the company. As we expected, those who hoped to sell the firm thought the company was worth more than the prospective buyers did. More interesting were the opinions offered by the auditors: Their judgments were strongly biased toward the interests of their clients.*

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.] 33

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Unconscious Bias

Research to test the theory

- *[A] study, of 139 auditors employed full time by one of the big U.S. accounting firms, illuminated the professionals' vulnerability to bias and their tendency to be influenced by clients' biases.*
- *Each participant was given five ambiguous auditing vignettes and asked to judge the accounting for each. Half the participants were asked to suppose that they had been hired by the company they were auditing; the rest were asked to suppose they had been hired by a different company, one that was conducting business with the company that had created the financial statements.*

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.] 34

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Unconscious Bias

Research to test the theory

- *For all five vignettes, the auditors were on average 30% more likely to find that the accounting behind a company's financial reports complied with GAAP if they were playing the role of auditor for that firm.*
- *The study showed both that experienced auditors are not immune from bias and that they are more likely to accede to a client's biased accounting numbers than to generate such numbers themselves.*

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.]

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Unconscious Bias

Research to test the theory

- *These experiments show that even the suggestion of a hypothetical relationship with a client distorts an auditor's judgments. Imagine the degree of distortion that must exist in a long-standing relationship involving millions of dollars in ongoing revenues.*

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.]

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The Bazerman, *et.al.*, Solutions

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SOX Does Not Get Us There

SOX

- Prohibits auditing firms from providing certain consulting services—but still allows some and PCAOB can override the prohibition
- Requires independent board members on audit committees—but in practice, company management still hires/oversees the auditors
- Requires "auditor rotation"—but this is interpreted as audit partner rotation, not audit firm rotation

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.]

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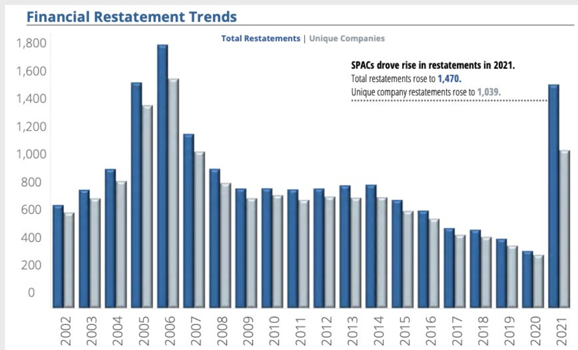
SOX Ain't Working



[Source: 2021 Financial Restatements, A Twenty-One Year Review, Audit Analytics, May 2022.]

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Bazerman, et.al., Solutions

- Full divestiture of consulting and tax services
- Fixed, limited, audit contract periods which cannot be terminated by the auditee
- Mandatory audit firm rotation
- Prohibit clients from hiring audit firm personnel

[Source: Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, Harvard Business Review, November 2002.]

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The Dave Cotton *S*olutions

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Dave Cotton Solutions

- Don’t audit where you consult
- Don’t consult where you audit
- (Consult *after* you’ve audited)
- Remove the conflicts of interest by using “three-party” audits

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The Washington Post January 27, 2002

CPAs Can Reverse Their Losses

By Dave Cotton

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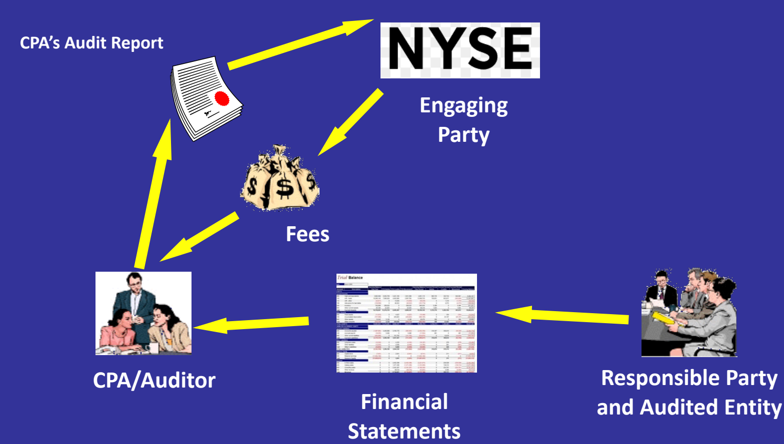
A Better Audit Model



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Three-Party SEC Audits—Potential Flaws

"Call me cynical, but it seems to me the exchanges could be viewed as having an incentive to hype their listed stocks."

-- Stuart Fribush (2/4/02)

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Three-Party SEC Audits—Potential Flaws

"Radical changes could have unintended consequences. The stock exchanges' main constituents are the listed companies, not individual shareholders."

-- AICPA President Barry Melancon (2/22/02)

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Wait, wait, what about private company audits?

- Who wants/needs the company audited?
  - Lender?
  - Outside investors?
  - Parent company?
- Whoever wants/needs to know the truth about the financial statements should hire the auditor

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Wait, wait, won't auditors always try to please the people who hire them?

- Yes, exactly
- If the people/entity that hires the auditors wants to get to the truth, their interests are aligned with the auditor's interests

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Won't auditors try to find issues just to ingratiate themselves to those who hire them?

- That's a losing strategy
- Creating unnecessary conflict and extra work damages the auditor's reputation
- Example: 3-party audits of EPA grantees

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What if there's fraud….?

- If unconscious bias can inhibit objectivity regarding boarder-line materiality issues …
- Imagine having to deal with possible fraud in the financial statements …

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What if there's fraud....?

- If unconscious bias can inhibit objectivity regarding boarder-line materiality issues …
- Imagine having to deal with possible fraud in the financial statements …
- If there's possible fraud, would you rather be working for
  - The financial statement preparers?
  - A third party?

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What should you do to guard against biases?

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End Thoughts …

- Focus on conflicts of interest
- Use the threats & safeguards method where applicable
- Don’t audit where you consult or consult where you audit
- Avoid 2-party audits where possible; if impossible, put strong safeguards in place
- Always be prepared to walk away from an audit client

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More Reading…

- Why Good Accountants Do Bad Audits, Max H. Bazerman, George Lowenstein, and Don. A. Moore, *Harvard Business Review*, November 2002.
- The Impossibility of Auditor Independence, Max H. Bazerman, Kimberly P. Morgan, George F. Loewenstein, *Massachusetts Institute of Technology*, Summer 1997.
- Most Accountants Aren’t Crooks—Why Good Audits Go Bad, Max H. Bazerman, George F. Loewenstein, Don Moore, *Harvard Business Review*, December 2002.
- Conflicts of Interest and the Case of Auditor Independence: Moral Seduction and Strategic Issue Cycling, Don A. Moore, Philip E. Tetlock, Lloyd Tanlu, Max H. Bazerman, *The Academy of Management Review*, Jan 2006.
- Eliminating biases that jeopardize audit quality, Billy Brewster, Janet Butler, Ann Watkins, *Journal of Accountancy*, August 1, 2019.
- I’m not biased, am I?, Rebecca Fay, Norma R. Montague, *Journal of Accountancy*, February 1, 2015
- Are Auditors Biased?, *Stanford Graduate School of Business*, August 1, 2001.
- 2021 Financial Restatements, A Twenty-One Year Review, *Audit Analytics*, May 2022.

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CPAs (and I'm One) Can Reverse Their Losses

By Dave Cotton

Sunday, January 27, 2002; Page B01

Last year, a public opinion survey put certified public accountants solidly in the middle of a short list of most-trusted professionals. Thanks to Enron Corp. and Arthur Andersen LLP, we CPAs might be lucky to outrank journalists, lawyers or used-car salesmen in the next survey.

We in the accounting business are fooling ourselves if we think that there aren't more Enrons in the pipeline. Until we fix the problems of auditor dependence on and coziness with clients, Enrons will continue to happen. Our reputations will suffer and, above all, investors' confidence will be shaken.

We can restore trust in the CPA profession, and there are two ways to do that with minimal government intervention, red tape and regulation. One is to make accounting firms work directly for the people with the most to lose -- investors. Let's set up a system by which the stock exchanges would use a competitive process to select CPA firms to audit the financial statements of companies whose stock is traded on their exchanges. That would take auditors off the payroll of the firms they're supposed to be monitoring.

Another measure would be to beef up the strength of the accounting industry's ethics review panel. I have just started my second stint as a member of the ethics committee of the American Institute of Certified Public Accountants (AICPA) and I have seen ethical lapses that resulted in millions of dollars of losses get punished with as little as 16 hours of continuing education. Meanwhile, only state accountancy review boards -- with varying levels of ability, different standards and their own potential problems of cronyism -- possess the power to strip an accountant of his or her license.

Unfortunately, the plan announced Jan. 17 by Securities and Exchange Commission Chairman Harvey Pitt and my own organization, the AICPA, is a collection of cosmetic half-measures. Setting up an autonomous body to oversee ethics enforcement, discipline and SEC practice-monitoring processes is not a bad idea, but it does not address the root causes of the Enron debacle.

Nor is it enough, as many people have suggested, to prohibit accounting firms from collecting lucrative consulting fees from the companies they are auditing. That's only half the solution. Andersen got $27 million in Enron consulting fees in a single year and $25 million for the Enron audit. Take away the consulting fees, and the audit fees are still enough to undermine independence and cloud auditor judgment.

Better to simply end the links between companies and their auditors than to establish new mechanisms to monitor a relationship that naturally lends itself to abuse. Even though in theory the auditors are employed by independent directors representing the interests of shareholders, in reality the chummy relationship between management and directors often glazes over any distinction between them. And the interests of potential investors and lenders have been neglected. If auditors went to work for the stock exchanges, the exchanges could pay them by either billing the publicly traded companies or pooling money derived from a new, small (it would be very small) surcharge to trading transactions. Or both.

Relieved of the fear that they might be dismissed by corporations for being "too tough," auditors could focus on telling investors what they need to know -- and alerting accounting and auditing standard-setters about emerging techniques of dubious propriety. Andersen knew long before Enron's demise that the company's use of special-purpose entities to keep debts and losses off its balance sheets was an "aggressive" accounting treatment. (Translation: questionable or misleading.) It would have been seen as a "disservice" to Enron management, to say the least, for Andersen to have informed the Financial Accounting Standards Board or the Auditing Standards Board -- which set accounting industry guidelines -- that a new standard was needed in that area.

The new audit process would be more contentious, at least in the short term. But eventually firms would compete on the basis of being "tough but fair." The exchanges would also be able to compete for investors by touting their ability to provide honest audits. The CPA industry would change, too. The 11 largest CPA firms audit the vast majority of publicly traded companies now. The change I propose would probably result in several dozen or perhaps hundreds of firms competing for these audits. In some cases, audits could become less lucrative. In others, where they would no longer be used as loss-leaders to win consulting contracts, audits could become more expensive. But they might actually be worth something.

CPA ethics enforcement also needs an overhaul. The current process was never designed to be the punitive process that the public thinks it is, or that it should be. It was designed to be remedial. It recognizes that accounting is complex and that honest people make mistakes.

In addition, AICPA is a voluntary-membership organization, not a licensing board. The ethics committee lacks subpoena power, and, therefore, effective investigative power. The worst the committee can do is expel someone from the organization. This happens five to 10 times a year, usually in cases when a CPA refuses to cooperate with the committee. But that doesn't affect an accountant's license or prevent him or her from continuing to practice. More typically, when the AICPA ethics committee finds that a CPA has violated professional standards, it orders continuing professional education classes. A CPA found to have violated an accounting standard in connection with a multibillion-dollar corporate collapse, causing massive damage to investors and the public, might receive this sort of minimal sanction. Since all AICPA members are required to get 40 hours of continuing education classes per year anyway, this is not much of an imposition. Moreover, unless a CPA is expelled or suspended from AICPA, punishment or censure by the ethics committee remains a secret.

The deferral procedure is another flaw. A CPA under investigation about ethics can ask the AICPA to defer its investigation until other investigations and legal proceedings are resolved. The ethics committee members, volunteers who are eager to avoid subpoenas, always agree. As a result, accountants who have committed the most egregious ethical lapses -- the ones resulting in SEC investigations, bankruptcy and litigation -- can often continue to practice for 10 years or more after the alleged violation until all the cases are resolved.

The ethics committee should be given the power to revoke a CPA's license to practice. Currently, licenses are issued on a state-by-state basis. While the state accountancy boards can levy fines and take licenses, in many cases investigations are not very rigorous. Accountancy regulation usually falls under a state's department of commerce; a typical investigator may examine a CPA one week and a dog-grooming parlor the next. Understanding accounting principles and auditing standards is not usually a requirement to be a state licensing investigator. Congress should establish national rather than state-by-state licensing. Accounting and auditing standards don't change from state to state. Licensing requirements shouldn't either.

These measures should still be accompanied by moves to prohibit accounting firms from performing consulting services for audit clients. This should, and would, have been done long ago, except that the bigger accounting firms control the AICPA, which writes the Code of Professional Conduct, the profession's ethics rules. Many of the people involved in that ethics rule-writing process honestly thought we could maintain our independence and objectivity while performing such lucrative services. Human nature is what it is, however. Records reportedly show that when Andersen managers mulled whether to drop Enron as a client because of accounting risks, they discussed the hope that fees from Enron could grow to $100 million a year. Fee growth should be irrelevant in deciding whether a client is too risky. At the very least, Andersen's hopes about Enron fees created the appearance that its audit judgment was affected.

My colleagues will condemn me for this recommendation, but it is essential if we want to restore public confidence in the audit process. Andersen's defense that $100 million is only a drop in the bucket compared with its multibillion-dollar global revenue is a red herring. The Enron engagement team members in Andersen's Houston office cared not a whit for Andersen's worldwide revenue. They cared about not losing their bread-and-butter client -- the source of their individual livelihoods. This is an untenable position in which to put anyone.

Finally, the AICPA must be restored to its proper role as a professional association. A news story in last week's Washington Post referred to the AICPA as a "lobbying and trade group." Once, the AICPA was devoted to protecting our profession's reputation and future. Instead, for at least the past three years, the AICPA's leadership has squandered resources and energy on an ill-fated "global-credential" concept and a quest for profit-making spinoffs such as a dot-com Web portal. We need to return our attention to the AICPA's core purpose, and work with Congress and others to restore auditor independence. "Let's ask a CPA" should be the first thought that comes to mind when someone wants objective, accurate answers to business questions. It once was. It can be again.

Dave Cotton is a partner with Cotton & Company LLP, an auditing firm in Alexandria, and a member of the AICPA's Professional Ethics Committee's Technical Standards Subcommittee. The opinions expressed in this article do not necessarily represent the views of the AICPA.