



Support AB 1995 – Assembly Member Correa

The Supreme Court, in a case concerning Arthur Young, said that auditors are "public watchdogs" and are to work on behalf of investors and the public interest. Yet, the California marketplace is plagued by increasing conflict-of-interest problems between auditing firms and their clients, resulting in inaccurate corporate audits, billions of dollars in bad investments and a loss of investor confidence.

Large auditing firms have grown overly reliant on consulting business from their audit clients resulting in inaccurate and misleading audit reports.

- For instance, Puget Energy paid PricewaterhouseCooper \$17 million for non-audit fees and just \$534,000 for its audit, and Marriott International Inc. paid \$30 million to Arthur Andersen for non-audit services, compared with only \$1 million for its audit.
- A recent Business Week study found that the more a company paid an auditor, the greater the incident of doctored earnings on the balance sheet.

Inaccurate and misleading audits have resulted in huge financial losses to investors and business.

When inaccurate audits are identified, companies are required to produce a restatement of their previously audited financial statements:

- In the mid-70s through the early 80s, there were only a handful of restatements issued annually. By 1998, restatements began to spike. In 1999, there were over 200 restatements.
- From 1990 through 1997, market value losses due to restatements averaged less than \$1.2 billion per year. In 1998 the market value of losses were over \$17 billion – for just one year – in 1999 losses reached \$24 billion and in 2000 losses top \$31 billion.

Half of the adults in the United States are at risk.

With 100 million Americans invested in the stock market either directly or through mutual funds, retirement accounts and pension plans, any issue that affects investor confidence or the flow of accurate information in the marketplace jeopardizes consumers, investors and businesses alike.

Accountants support accountability.

Accountants support accountability in their profession as a mechanism to help raise investor confidence and increase the fiscal stability of markets. The Society of California Accountants supports a ban on auditors from providing consulting services to their clients.

Support AB 1995 - Ban Accountants From Selling Consulting Services to their Audit Clients.

Auditors are "public watchdogs," but this role is jeopardized by the conflict-of-interests arising from providing consulting services to audit clients.