VIA E-MAIL

From: Frank Gorrell
Sent: Monday, January 19, 2004 3:01 PM
To: EDComments@ifac.org
Subject: Attn: Jan Munro

Expires: Sunday, February 15, 2004 5:00 PM

Regarding Proposed Revision to Code of Ethics for Professional Accountants issued November 2003.

To Whom It May Concern:

Rotating engagement partners, managers and seniors is not enough. Unfortunately, this rotation is the only method presently available to us. What is truly needed is a complete change in who hires the firm.

For example, if ABC Company is listed on a stock exchange in the United States of America, the company's reporting responsibility is controlled by the Securities and Exchange Commission. ABC hires Bigg and Huge, LLC as their accounting firm. The fees paid to Bigg and Huge, LLC are substantial to the engagement partner. Even after "rotation" of ABC's business to a new engagement partner, it is necessary to remember that the new partner rotated work to another partner. Since bonuses and other productivity measures are based upon collected fees, it is in Bigg and Huge's best interest to satisfy ABC, regardless of generally accepted accounting principles and other considerations.

What is better? In the case of publicly traded companies, in this example within the United States, audit fees are sent to the SEC, who assigns audit work to firms licensed to audit public ally traded firms. This way ABC gets a truly independent audit because ABC is not paying. The firm of Bigg and Huge, LLC can do their work without fear of losing "a client." Their client is the SEC.

For smaller companies who may need audits because of federal grants, bank loans, or other such need, having a third party collect and disburse audit fees is harder; but the stakes are lower.

Certainly, the change proposed to paragraph 8.151 is commendable, but it really will not eliminate the root cause of large fraud overlooked by auditors. What should be put forth by the International Federation of Accountants is legislative changes either mandating or permitting the "pooling" of audit fees for public ally held companies. The measure should include language stating that only firms licensed to audit such companies will be considered for audit engagements. Finally, the law would make it clear that the body requesting the audit (the SEC, bank, governmental agency, etc.) would distribute the engagements based upon the match between auditee and auditor. Auditees that dislike

their auditor or in any other way hamper an audit will lose the rights and privileges they seek or wish to maintain. Finally, auditors who cannot issue a "clean" opinion due to scope limitations need not worry about their fee. The firm will be paid the agreed upon amount by the requesting agency.

Sincerely,
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