



SECURITIES AND EXCHANGE COMMISSION

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COMMISSION REVIEWS ACCOUNTING PROFESSION'S PROGRESS TOWARD SELF-REGULATION

The Commission advised Congress today that while it was not completely satisfied with the accounting profession's 21-month-old effort at self-regulation, "nothing has happened in the past year which is inconsistent with the Commission's continued support for the profession's program."

In its "Second Report to Congress on the Accounting Profession and the Commission's Oversight Role," the Commission pointed out that because of the novel and complex nature of the profession's initiative, "it is still too early to reach any definitive judgments" as to its ultimate success.

"The Commission believes that progress has been sufficient to merit continued opportunity for the profession to pursue its efforts at self-regulation," the Report said. "Consequently, the Commission is not recommending, at this time, legislation to supersede or control the regulation of accountants."

The Report cautioned that if the profession's initiatives are not successful "a legislative alternative might well be required" but added that, "the Commission remains unconvinced that comprehensive direct governmental regulation of accounting

or accountants would afford the public either increased protection or a more meaningful basis for confidence in the work of public accountants."

Chairman Harold M. Williams, in a letter of transmittal accompanying the Report, noted that the accounting profession "is undergoing significant changes and development."

"The Commission," Mr. Williams said, "while not fully satisfied with the profession's progress, nonetheless recognizes that important strides have been made and that the profession's leaders confront deep and sincere divisions among accountants concerning the wisdom and direction of future changes."

Mr. Williams highlighted the Commission's concern over the level of firm membership in the AICPA's SEC Practice Section; lack of access by the Commission's staff to peer review workpapers; the ability of firms to exclude certain engagements from peer review; the "advisory" status of the Public Oversight Board; and the need for accounting and auditing standard-setting processes that are responsive to changing circumstances.

The Report, and its predecessor which was submitted one year ago, is pursuant to a commitment which Chairman Williams made in testimony before the Subcommittee on Reports, Accounting and Management of the Senate Committee on Governmental Affairs

on June 13, 1977. He said the Commission would report annually to Congress on the accounting profession's response to the various challenges which Congress and others had placed before it, and on the Commission's own initiatives in this area.

As it did last year, the Commission found that in order to give a comprehensive and understandable picture of developments in this complex field, it was necessary to divide the Report into three parts:

- . The Commission's conclusions concerning the profession's program during the past year and its expectations concerning the objectives toward which the profession must continue to work.
- . A report of the Commission staff which includes a description and analysis concerning the independence of accountants, the self-regulation efforts of the profession and the accounting and auditing standard-setting processes under which the profession operates.
- . A volume of relevant documentary exhibits.

An area which the Report identified as "one of the most crucial elements in evaluating the profession's self-regulatory structure," is the effectiveness of the peer review program. However, of the ten peer reviews conducted during the past year, six involved firms with no public clients and two were mandated by Commission or court orders. Accordingly, at least one additional year of experience will be necessary

before the Commission will be in a position to observe how the profession handles the difficult issues that the peer review program entails. The Report expressed the Commission's belief that the Public Oversight Board is in a position to fill the leadership role necessary to the success of the profession's self-regulatory efforts. But, it said, "The POB must be sufficiently detached from the accounting profession to be able to objectively guide an effort to ensure that the profession does not lose sight of the goals which it must achieve. While the POB's authority is advisory only, it can and should -- by virtue of its stature -- serve as the conscience, critic and leader of the profession."

With respect to the accounting standard-setting process, the Report said the Commission believes that the initiative for establishing and improving accounting standards should remain in the private sector. However, to retain that prerogative, the FASB must continue its effort to provide leadership and take necessary action in controversial areas. And, the members of the accounting profession and the corporate community must encourage the FASB to provide that leadership, support the FASB's decisions and join more actively in the standard-setting process.

The full, three-part Report is expected to be printed in the near future and available for purchase from the Superintendent of Documents, U.S. Government Printing Office. Appropriate notice will be published in the SEC News Digest when the Report is available.

In the interim, the full Report is available for inspection and copying at the Commission's Public Reference Room, 1100 L Street N.W., Room 6101, Washington, D.C. Single copies of that part of the Report containing the Commission's conclusions may be obtained by writing to Publications Section, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549.