February 11, 2005

Mr. Donald T. Nicolaisen
Chief Accountant
Securities and Exchange Commission
450 Fifth Street NW
Washington, DC 20549

Dear Mr. Nicolaisen,

I am an Assistant Professor at Iona College and I am submitting this rulemaking petition because I believe recent scandals have caused a need to change the paradigm of how the audit process is handled by public companies. The public has lost faith in the role of the independent auditor and despite the best attempts of certain individuals and groups, there does not seem to be a solution on the horizon.

Sarbanes-Oxley forced the largest change by requiring the audit committee to be comprised of outside directors, at least one of whom must be familiar with accounting issues. Unfortunately, “outside” is not synonymous with “independent.” The outside directors receive compensation in the form of cash and/or stock, which gives them the same motivations as inside company directors and management.

Others have proposed mandatory auditor rotation, but the literature seems split on whether this will improve the audit process or weaken it. Yet another proposal is that the auditor be hired and paid by a third party agency, on the basis that, by definition, an audit firm cannot be considered independent from the company being audited because of the financial considerations involved in being hired as the auditor.

All the proposals have strengths and weaknesses, and all would involve a certain complexity to implement, as well as substantial cost. The major downside is that there is no evidence that any plan would achieve the goal desired – having a true audit process, and representation on the audit committee of members whose only interest is the integrity and efficacy of the process.
I suggest that this goal can be obtained by having a third party select, assign and remunerate audit committee members. This third party could be the SEC, the stock exchanges or a new entity to be established. I would be willing to establish a company that would solicit, interview and vet potential audit committee members. The background and experience would be matched to company needs. The individuals assigned to audit committees would be portable, meaning that they would have consistent employment based upon how well they carried out their duties, but perhaps not at the same company. Currently, finding trouble or raising issues could lead to their loss of board membership.

It is a trivial matter to calculate how much each company spends on their audit committee members annually. In the system I propose, this money would be paid to the third party entity. The entity would disburse the money to the audit committee members.

Another advantage of this system is that it will reduce the likelihood of cross-board membership and allow qualified others to serve the public’s interest as audit committee members.

With the consolidation occurring between audit firms it is likely that there will be a small nucleus of firms large enough to perform the audits of the biggest companies. It therefore seems that the best way to insure the integrity of the process is by having independent audit committee members with a duty of care to the public, not the company. This can only happen if a third party is responsible for their hiring, placement and compensation.

If I can provide any further information, do not hesitate to contact me.

Sincerely,

Jeffry R. Haber