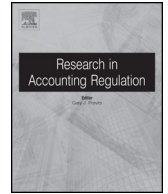




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Recalling the Public Oversight Board (1977–2002) and winners of the John J. McCloy Award

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ABSTRACT

The Public Oversight Board (POB) was an independent, private sector body that, between 1977 and 2002, monitored and reported on the self-regulatory activities of the SEC Practice Section of the Division for CPA Firms of the AICPA. In retrospect, the POB served an important developmental purpose prior to legislation that established the Public Company Accounting Oversight Board (PCAOB) in 2002. As a part of its activities, the POB began in 1989 to honor individuals who had made major contributions to auditing practice. This paper features profiles of individuals who contributed to the development of financial auditing in the United States and who were nationally recognized when the POB selected them as recipients of the John J. McCloy Award. The McCloy Award, given to recognize individual contributions to the achievement of audit excellence by the POB between 1989 and 2001, honored those who advanced the activities of the external auditing profession. McCloy, for whom the award was named, served as the POB's chairman from its inception in 1977 to 1984. As a diplomat and public servant, this non-accountant accumulated a distinguished record of service over his career. The McCloy Award winners were the exemplars of public accountability. Winners had a mix of backgrounds; some had been president or chairman of the AICPA or had won the AICPA Gold Medal for Distinguished Service. Still other McCloy winners were not involved with publicly-held clients on a regular basis, or were not practicing accountants, but whose recognition was merited because of their insistence on the public accountability of the auditing profession. Regardless, the McCloy Award recipients represent those who contributed to the effectiveness of the public auditing process in the United States. To date the PCAOB has not elected to continue the McCloy Award or to establish a similar recognition.

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Introduction

The formation of the Public Oversight Board (POB) in 1977 marked the origins of a quarter century of activity. The POB was an independent, private sector body that, between 1977 and 2002, monitored and reported on the self-regulatory programs and activities of the SEC Practice Section of the Division for CPA Firms of the AICPA. Throughout the POB's existence, the AICPA, through the POB, attempted to

provide a self-regulatory oversight function of the auditing profession and its impact on U.S. capital markets. This article briefly summarizes the work of the POB and then profiles the individuals who were honored by the POB for their efforts in promoting auditing in America. The intent behind the profiling of the award winners is because having role models is a useful way of serving the purpose of improving audit quality, and yet it is not one that is currently used by the POB's successor, the Public Company Accounting Oversight Board (PCAOB).

The reason that the POB was so important during its time of existence was because independent audits of financial statements, performed by certified public accountants (CPAs),

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impact the decision-making process of users of these audited statements. The external auditor provides the pillars of credibility, fairness, full disclosure, integrity, reliability, and transparency in the financial reporting process that instills public confidence in the system. Given that accounting is viewed as a social science, the audits of public companies' financial statements affect the lives, decisions, and behavior of people who are affected by them. The nation's economy relies on the quality performance of dedicated auditors. Therefore, the CPA profession has and continues to serve a vital role in society. To further assure the contributions of public accountants, the POB was viewed in the late 1970s as essential in insuring that CPAs consider the interests of the public during the auditing process. As a part of its activities, the POB began in 1989 to honor individuals who had made major contributions to the auditing practice. This paper features profiles of 16 individuals who contributed to and supported the development of financial auditing of publicly-traded corporations in the United States. The first to be honored was John J. McCloy, the POB's first chairman, who had the award named in his honor. Thereafter, 15 others were nationally recognized when the POB selected them as recipients of the John J. McCloy Award for their contributions in strengthening the audit process.

Following a series of rapidly transforming episodes, the POB was disbanded in 2002 following the Enron scandal, when it appeared that a government agency was soon to be created to take over the POB's role ([Public Oversight Board, 2001, pp. 2–5](#)). Subsequently, the passage of legislation (the Sarbanes–Oxley Act of 2002) created the PCAOB. To date the PCAOB has not elected to continue the McCloy Award or to establish a similar recognition. Thus, one of the objectives of this article is to encourage the PCAOB to continue such award, or create a similar award. Indeed, idolizing audit role models would be a positive (non-punitive) means of bettering the audit environment.

The POB and the award

The federal government spurred the birth of the POB as the U.S. Senate Subcommittee on Reports, Accounting and Management of the Committee on Government Operations (chaired by Senator Lee Metcalf) completed its investigation in 1977 regarding the federal government's role in setting accounting practices for publicly-owned companies. The environment of audit failures, bankruptcies, bribes, scandals, and deteriorating public confidence surrounding the accounting profession in the 1970s triggered the Metcalf Committee study. The issues of eroding auditor independence and delegation of the SEC's duties to private organizations caused concern for the investigating group of senators.

Following months of testimony and hearings, the Metcalf Committee issued its report recommending additional governmental regulation of public accountants and moving the standards-setting process from the private sector to the federal government. The AICPA responded to these findings by first consulting with the SEC and then creating a self-regulatory framework. This response avoided additional legislation and gained the approval of the Congress as a way to satisfy the concerns raised and to bolster public confidence. As part of the accepted solution, the governing Council

of the AICPA acted on the matter and created the SEC Practice Section (SECPS) and the POB on September 17, 1977.

The POB

The AICPA, in an attempt to monitor and regulate the profession, unveiled the SECPS as a voluntary association of CPA firms seeking professional excellence in the auditing services they perform for their SEC registrant clients. The major goals of the SECPS for member accounting firms include improving the quality of the audit practice and establishing and sustaining required peer reviews. This mandatory peer review program sought to gain the public's trust that the accounting and auditing firms were in compliance with generally accepted auditing standards and implementing effective systems of quality control.

The POB was created to provide independent oversight of the accounting profession's self-regulatory programs for independent auditors of entities registered with the SEC. The Board, over the years, informally expanded its mandate to monitor and comment on matters that related to the quality of auditing and financial reporting ([Public Oversight Board, 1998, p. 2](#)). As a private sector body, the POB possessed oversight responsibilities for all activities of the SECPS. Regular reviews of the POB's files were conducted by the staff of the chief accountant of the SEC. In 1998, the POB established the Panel on Audit Effectiveness at the urging of the SEC to study the quality of independent audits of public companies. Thus, the AICPA, POB, SEC and SECPS worked closely together for the critical benefit of the public interest.

On January 20, 2002, the POB members resigned altogether and passed a resolution reflecting their intentions to end the organization's existence by March 31, 2002. These actions demonstrated the POB's displeasure with challenges to conditions relating to its financing and reflected its awareness of ideas fostered by individuals such as the then SEC Chairman Harvey Pitt to form an external and more independent organization to provide auditor oversight.¹ The POB's operations filled an important need for a period of years as the auditing profession's role continued to develop to levels of global importance at a time when equity market capitalization was growing rapidly and greater public involvement in oversight of the auditing function was being sought. Although the POB was scheduled for formal dissolution on March 31, 2002, the board members' resolution brought an official end to the POB on May 1, 2002. A few months later, the Public Company Accounting Oversight Board (PCAOB) came into existence as part of Section 101 of the 2002 Sarbanes–Oxley Act passed by the Congress as a response to the escalating concerns about the integrity of the capital markets and the number of financial statement restatements. The PCAOB, and its unique structure, replaced the POB to oversee the auditors of public corporations and began to conduct inspections of audits.

¹ One reviewer who was involved in the issue at the time suggested that what Pitt really wanted was for the POB to be less independent. According to the reviewer, both Pitt and the American Institute of CPAs were concerned that the POB, led since 1999 by Chairman Charles Bowsher, a former U.S. Comptroller General, was becoming too independent.

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