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**Written Testimony of Wayne Kolins  
National Director of Assurance and Chairman of the Board of BDO Seidman, LLP  
Relating to Section 4 of the Working Discussion Outline of the United States  
Treasury Department Advisory Committee on the Auditing Profession**

November 25, 2007

Advisory Committee on the Auditing Profession  
Office of Financial Institutions Policy  
Room 1418  
Department of the Treasury  
1500 Pennsylvania Avenue  
Washington, D.C. 20220

Ladies and Gentlemen:

Thank you for the opportunity to present my views and those of my firm on important issues about the future of the auditing profession, particularly relating to the section of the Advisory Committee's Working Discussion Outline entitled *Auditing Profession Structure: Competition, Concentration, Independence, and Other Professional Standards*.

BDO Seidman is a national accounting firm providing services to a wide range of publicly traded and privately held companies. Guided by our core values of competence, honesty, integrity, professionalism, dedication, responsibility, and accountability, we have provided quality service and leadership in the profession for almost 100 years through the active involvement of our experienced and committed professionals.

We serve clients through 35 offices and more than 150 independent accounting alliance firms nationwide. As a Member Firm of BDO International, BDO Seidman serves multinational clients by leveraging a global network of resources comprised of over 600 Member Firm offices in 107 countries. Each BDO International Member Firm is an independent legal entity in its own country.

My firm currently audits well over 300 U.S. publicly traded companies, including four in the Fortune 500. Many of these clients have foreign subsidiaries that are audited by other Member Firms of BDO International. We also review the filings of approximately 70 foreign filers audited by other BDO International Member Firms. Over the last three years, we have gained a substantial number of large publicly traded audit clients. During that same period, we also audited companies that participated in 80 public and private offerings, 30 of which were initial public offerings. The proceeds of these offerings aggregated over \$11 billion.



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In framing my comments, I thought it would be useful to mention a recent conversation I had with the CEO of one of our largest clients. The CEO told me that he looks to us to have a deep understanding of his business, be promptly responsive in dealing with issues and, most importantly, to “make sure the company gets things right.” Similar priorities were echoed by the client’s audit committee. I believe these views demonstrate the attributes most highly valued by management and audit committees in this Sarbanes-Oxley environment.

Because of the brief time allotted to my testimony, I have focused my comments on the most important issues—audit firm capabilities and competition. I will also offer suggestions to enhance both of these areas. In addition, I urge the Committee to consider the following:

- Obtaining an in-depth understanding of the path that has led to the current environment in the accounting profession, including the interplay between the national regulatory structures and global markets
- Appreciating the perceived and real barriers (such as liability risks and overly complex independence rules) faced by audit firms in entering or expanding their services to the public company audit markets
- Soliciting and assessing proposals to enhance audit firm capabilities and the supply of audit firms that could contribute to the continued usefulness and credibility of audits to investors and other participants in the capital markets. I understand that separate submissions from the Center for Audit Quality will provide specific recommendations in these and other areas.

### **Audit firm capabilities**

Investors in public companies and other stakeholders want and deserve to have high quality audits to protect their interests. For many years, the auditing profession has had a tradition of fulfilling that need and, since 2003, that part of our practice has been actively overseen by the Public Company Accounting Oversight Board.

Audit firms are not fungible or homogenous. Accordingly, there is no “one size fits all” concept with respect to them. To ensure high quality audits, audit committees may review an array of factors in choosing an auditor that best matches the nature, location, and operations of the company.

These factors include:

- Accounting expertise/experience—Companies that frequently engage in complex transactions want to ensure that their auditor has the resources to analyze such transactions to ensure conformity with appropriate accounting rules and regulatory standards. In that regard, audit committees will likely want to be comfortable with the nature and accessibility of the firm’s technical resources.



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- Industry expertise/experience—Some firms have extensive experience in certain industries. Audit committees want to deal with a firm that has demonstrated a deep understanding of the industry in question.
- Experience in auditing public companies
- Track record in adherence to professional accounting and auditing standards (e.g., PCAOB inspection results)
- National and international reach—With the increasing expansion of business operations, audit firms often need to have sufficient resources located in multiple states and countries
- Quality of the firm's audit methodology and the consistency with which it is applied globally
- The firm's client service model, including the extent and nature of partner involvement in the audit process and partner interaction with the company
- Firm technology, including technical support provided to audit professionals
- Composition of the engagement team, including technical and industry skills
- Nature and extent of firm training programs
- Quality of communications within the firm (e.g., between audit and tax professionals on the engagement teams and from the National office to the practice offices)
- Firm culture and tone at the top (e.g., emphasis on audit quality and ethical standards)
- Nature of and reasons for client restatements

While size of the accounting firm is one of the factors that may be considered by an audit committee in selecting an auditor, it should never be a *prima facie* bar to selection, except perhaps for the very largest of public companies.

The BDO Seidman service model is well suited to handle large multinational companies, as we have demonstrated by our client base.

### **Competition**

According to the PCAOB, there are over 500 accounting firms currently providing audit services to public companies in the United States, and more than 400 additional firms that had no public company audit clients at the time they registered with the PCAOB.



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Over the past several years, my firm has participated in a number of significant proposals, competing against other large firms. While fees were certainly a consideration in the audit committees' appointment decisions, their primary focus was the industry expertise of the proposed engagement team, the firm's technical resources, and the coordination between the engagement team and the company to ensure timely identification and resolution of questions that may arise on accounting and disclosure matters. Based on this experience, I view the market for audit services to be highly competitive, with retention decisions predominately triggered by qualitative factors, and fees determined by frank and open discussions between the company and the firm through a balanced consideration of the costs and benefits of the services provided.

### **Possible courses of action to consider to enhance audit capabilities and competition**

Consideration should be given to the following achievable means of increasing (a) audit capabilities and (b) the number of audit firms capable of performing high quality audits, which I view as market-based initiatives rather than regulatory mandates:

- Issuance of guidance by regulators and exchanges that would strongly encourage audit committees and other participants in the financial markets to consider suitable qualitative factors in evaluating audit firms. Such criteria could include the drivers of audit quality discussed above in the Audit Firm Capabilities section. The active focus on this objective by these regulatory bodies should emphasize their concern for the enhancement of audit quality and communicate their belief that there are many firms with the requisite qualifications to serve large public companies.
- Encouragement by regulators and exchanges of small-medium size firms to join a domestic alliance of independent firms to obtain services similar to that of a larger firm's National office—e.g., training; accounting and auditing updates; online professional literature resources; and access to accounting and auditing experts—including industry experts (The BDO Seidman Alliance has functioned successfully in that regard.)
- Enhancing the availability of industry and specialized accounting and auditing training—e.g., from the AICPA or other professional bodies—to audit professionals from small-medium size firms
- Renewal by the SEC Division of Corporation Finance of its practice fellow program. This program, as well as the existing program of the Office of the Chief Accountant, should provide opportunities for professionals from small-medium size firms.
- Creation of a PCAOB practice fellow program, reaching out to professionals from firms of all sizes



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I hope you find these views helpful and look forward to discussing them and other issues with you during the hearing on December 3.

Sincerely,

A handwritten signature in cursive script that reads "Wayne Kolins".

Wayne A. Kolins  
National Director of Assurance  
Chairman of the Board  
BDO Seidman, LLP