Comptroller of the Currency
Administrator of National Banks

Audit Roundtable, Part 2
Work Papers and Audit Committee Reporting

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Jim: This program is being sponsored by the OCC. However, the views of the outside presenters do not necessarily represent the views of the OCC. Today's seminar is entitled, "Audit Roundtable, Part 2; Work Papers and Audit Committee Reporting." Today's program will be hosted by Zane Blackburn, chief accountant officer, Comptroller of the Currency. And now please welcome Zane Blackburn.

Mr. Blackburn: Good morning. I am Zane Blackburn, the OCC's chief accountant. It is a pleasure to welcome participants from around the country to part 2 of the OCC's Audit Roundtable. These audit roundtables are intended primarily to reemphasize the importance of strong audit and internal control programs. Additionally, these sessions seek to improve the lines of communication among banks, examiners, and the external auditors to obtain a better understanding of each other's audit approach. This is in part because of the fact that in recent examinations we have identified an increasing number of audit and internal control deficiencies at many national banks. The previous discussion focused on risk assessment and internal controls. Today's Audit Roundtable will focus on work papers and audit committee reporting, since these two areas have been of particular concern to the OCC for the past several years.

I would like to provide an overview of the OCC's views on work papers and audit committee reporting. The OCC's review allows examiners to determine how much reliance we can place on the overall audit program and internal controls. The extent of the exam work to be performed will be developed from that assessment. Examiners also review work papers and audit committee reporting to determine whether statutory and regulatory requirements for external audit and the audit committee have been met; whether the board has implemented an appropriate external audit program; and whether the board effectively oversees the external audit program. When reviewing external audit activities, the external auditors' conclusions, findings, and communications to the board and management, and management's response to those findings are essential to the OCC's evaluation of a bank's overall audit program. However, a review is not intended to be an audit of the auditors nor is it designed to determine whether the audit conforms to the AICPA professional standards. An examiner's review of an external audit program focuses on information readily obtainable from bank management or, if management cannot furnish that information, from external auditors. Examples of such information include, engagement letters, management letters, audit reports, opinions rendered, matters of internal control structure, and attestations, material weaknesses disclosures, audit differences, and adjusting entries.

Examiners should communicate directly with management and the external auditor early in the examination process and, as appropriate, throughout the supervisory cycle. It is through these communications that examiners learn the scope, results, and ongoing plans for external audits.

Examiners will also inquire about how much the external auditors rely on the work done by internal auditors. How extensive was the external auditor's internal control attestation of financial reporting controls? And how much the external auditor relies on those controls when auditing financial reports?

Examiners will also review the external auditor's communication with the bank's board or audit committee on audit findings and independence issues. The OCC encourages examiners to discuss their findings with external auditors prior to meetings with bank management or audit committees, especially if any problems or issues are noted with external audit. If supervisory issues are identified, the OCC will look to the bank's board of directors typically through its audit committee to correct the audit deficiencies. The board is responsible for maintaining an effective audit program.

Except for director's examinations, examiners are not required to review the external audit program work papers during the supervisory cycle. Examiners typically will not review these work papers, unless the review of the internal audit program discloses significant issues, or unless questions are raised about concerns or matters that fall normally within the scope of the external audit program.

Other circumstances that might trigger an examination or examiners' review of the external audit program work papers might include unexpected or sudden changes in the bank's external auditor. In these instances, examiners may wish to have discussions with the previous and current external auditor before embarking on a review of the work papers. If the discussions raise unanswered questions that may be addressed in the work papers, a review of the work papers may be warranted.

Another instance may result from significant changes in the bank's external audit program. Examiners may wish to contact the external auditor to discuss these changes and determine whether a review of work papers is warranted. Issues that effect the institution's safety and soundness would be another. There may be times when the external auditor raises safety and soundness concerns or when examiners or internal auditors surface safety and soundness concerns in areas normally within the scope of the external audit program. In such instances, examiners should obtain information from the bank, discuss the issues with bank management and the external auditor, and consider reviewing the external audit program work papers related to those matters or findings.

Issues about independence, objectivity, and competence of the external auditor are other considerations. In such instances, the examiner would discuss the issues with the external auditor. If questions remain the examiner would seek counsel with the office of the chief accountant.

When the examiner determines that the external audit work papers should be reviewed, he or she should discuss the request with bank management and the external auditor. This discussion may make the review unnecessary or help examiners focus their review on the most relevant work papers. Rather than making a blanket request to review all external audit work papers, examiners should make their requests specific to areas of greatest interest and give the reasons for the request. Examiners will also consider requesting that the auditor make available for specific areas under review, related planning documents and other information pertinent to the area's audit plan including, for example, the sample selection process.

I hope this brief overview of the OCC's views on work papers and audit committee reporting has been informative. I strongly urge you to participate during the question and answer session to help make this session the most informative for you. Now let me turn the Audit Roundtable over to Wynne Baker, chairman of the AICPA financial services expert panel, and our two main presenters, Mark Niswonger of KPMG and Carol Larson of Deloitte & Touche.

Mr. Baker: Thank you, Zane. Good morning, this is Wynne Baker. It is a privilege for us at the AICPA to be involved in these roundtables. We enjoyed the opportunity for the first one, and Mark and Carol and I, after the presentations, look forward to the question and answer period. We try to work closely with the regulators to help make sure that we are working together. So with that, Jim, I will turn it back to you.

Jim: Alright, thank you. At this point, we would like to find out how many people are attending today's seminar. So if you are attending alone at your site, merely press the number 1 on your telephone keypad. If there are two people at your site, go ahead and press the number 2 on your telephone keypad. Three, for three people and so on up. Now if there are nine or more people at your site, merely press the number 9 on your telephone keypad. You can go ahead and register in those numbers now.

So once again, press 1 if you are alone at your site. Two, for two people. Three, for three people at your site and so on up. Again if there are nine or more people at your site, merely press the number 9 on your telephone keypad. And we will have these results in a little while. At this point, we will turn things over to Mark Niswonger. Mark?

Mr. Niswonger: Thank you, Jim. Let me tell you of the three areas I want to cover today. They deal with one broad area that encompasses the quality assurance programs within firms and within the profession. Then I will spend a few minutes discussing what goes into work papers to support the accountant's reports on the financial statements around an audit.

First I will discuss the internal quality review programs. Each firm that is a member of the AICPA must have a quality review program in place to meet its quality control standards. I will quote from the actual standard, which is Statement on Quality Control Standards. Section 20 says, "Member firms should practice in firms that have in place internal control procedures to ensure that services are adequately supervised and competently delivered." Once again, adequate supervision, competent delivery of services. Once again, the firm is required as a member of the AICPA to develop internal control standards to monitor how well the practice is performed. It covers such items as organizational structure, policies, and procedures established to assure compliance with the standards.

One thing that is interesting as you look at the actual standard is that it is written fairly broadly. It is written broadly because firms differ in size, shape, and form. So each firm really can establish a program based upon the complexity and size of its audit and accounting practice. For example, if you were a small firm that primarily performed compilations, reviews, and a few audits, and you were more focused on tax work, you may have a quality control program that is a little smaller or less robust than one of the big five, that obviously have the depth and breadth of the practice that will require a much more rigorous program.

Let me spend a few minutes, and I will actually speak to KPMG's program, because that is the internal program I know best. Our program requires an inspection carried out annually. It lasts for about two months of the year. Each year we try to cover one-third of the partners in the assurance practice, so that each partner is reviewed at least once every three years by the internal review.

The engagements really focus disproportionately on large, publicly traded companies or any other high-risk clients as defined by the firm. Once again we are looking at the bigger, public companies X the higher risk clients. What you are doing effectively, for an engagement that is selected, is an in-depth review of those working papers. You review the audit reports and the work papers that support them. Now you may not look at all of the work papers, but they are subject to selection and review X correspondence, files, and any other related data assembled as part of the review. You will perform again an in-depth review of an engagement after the fact by someone unrelated to that engagement team. The materials really used are questionnaires and checklists. They are developed by the risk management group in our national office. Each year those questionnaires are tweaked and modified as standards and policies change, and as we continue to refine the things that we are focusing on more this year than last year.

And again for each selective engagement, ultimately a rating of that engagement is made at the end of the review, to rank it relative to the standards to which its being compared. The end result is that the risk management group ultimately will issue practice letters to the field to remind people of areas where an exception rate to a specific item exceeded some threshold. For example, if a specific area had more than a 5 percent error rate, the group would make sure that that fact is embedded both in the professional practice letter and we tailor our training when we see items to remind our staff in the field. It is kind of an internal review.

Now I would like to discuss the second component of this professional practice review, the peer review. And I will spend several minutes discussing the peer review. The peer review is a review handled by another peer firm. For example, I am with KPMG. Another independent accounting firm comes in and looks at our practice. Every three years, a full review is done. TWC actually does our review and we do DNY's peer review. So again, that is kind of the way it is set up. The big five basically review each other. As you are aware, this is a pretty contentious issue in DC right now with some of the press that is going on right now. But I will spend a minute on that in a few minutes.

Again it is performed every three years. Within the last year there has really been a focus to move to what is called, "a continuous peer review." Our internal review this past summer included our peer review firm coming in and reviewing two of our offices that were actually part of the review this year. So again, instead of coming in every three years, they will actually be involved every year. There will be a full review every third year.

Let me give you an example of what a peer review may resemble within our firm. Let's assume, and these numbers are lower than they really are, but let's assume that we will look at 300 engagements in a peer review year and actually come back in and review those engagements. Say 100 of them will actually be performed by KPMG people in the normal internal review program. About 100 of the engagements will be done completely by our peer review firm where there is no KPMG involvement. And then 100 of them will actually be where both KPMG and its peer review firm will actually jointly do those reviews. At the end we take the results and compare them and make sure that we have consistent findings for the various issues within the review. To the extent that everything is consistent, we develop the overall observations from the review. The people actually involved in the review are line partners and managers from the other firm that is actually our peer review firm, and that is true for the internal review as well.

The authority for this program is the FCC practice section of the AICPA, formed in 1977. One of the membership requirements for its members is that they must participate in a peer review program every three years. The peer review is a self-regulatory program to help ensure that member firms adhere to the firm and professional standards.

The whole peer review issue right now is being challenged by a number of people. Congressman Dingel most recently made a comment that the entire thing needed to be reconsidered. I believe that he referred to it as a clubby atmosphere and said that one firm reviewing another firm may be questionable. So obviously there will be a lot of press around that. It is an issue that has attracted attention already and will continue to do so. It will be debated quite vigorously for the next several months. We must consider whether the person actually performing the review in the future will be someone independent from one of the other firms. That is one issue that will be discussed.

Let me also talk about several other quality control matters in the FCC practice section, and it really is called the Quality Control Inquiry Committee. That committee is also charged with reviewing situations when litigation has been filed against an accounting firm or against people within the firm in connection with an audit. This could be referred as a Q section. That is basically a review of the engagement that says, "Did they do a quality audit?"   They rank the engagement to determine whether it needs further review.

The FCC practice section has about 1,300 member firms. Virtually all the firms that audit public companies are members of the FCC practice section by requirement. At the same time in 1977 a public oversight board that was an independent private sector body was also created to effectively supervise and oversee the FCC practice section. On top of the FCC practice section, there is an independent oversight board X a completely private sector body that oversees the peer review, all the things that occur underneath the FCC practice section. It is an independent board that gets very involved in the peer reviews of firms. In two or three of the issues around the POB, there have been some suggestions that the POB should take a more robust role in both setting auditing standards, as well as more engaging reviews and the peer review. That issue is on the table with O'Malley and the FCC. Discussions have centered on the independence of some of these functions that are actually currently being dealt with in the profession.

The only other comment that I would like to make about the peer review came from some observations of late. Certainly one regulatory agency suggested in the latter of comment from the peer review that there needs to be more transparency in the comments. Those comments are really like a management letter that someone would issue in an audit. For example, if you saw things around the internal control structure that you wanted to make sure management and the committees were aware of, you would issue this management letter. Well, that is similar to the letter of comments around the actually peer review report. Those are areas where more attention needs to be focused around some of the control standards. That was one suggestion in the last several years that a better way must be found to communicate comments so that the readers can actually understand the issues better.

And the only other thing is that this summer there was approval of an attachment to the actual peer review report. The peer review report basically resembles an audit report or an accountant's report. It is an opinion on the quality of the firm's audit accounting practice. But there has been a suggestion, and in the future a description of the peer review process will be attached to the peer review report. It will talk about the objectives of the review and the peer review committee that actually establishes and reviews the standards, accepts the letters, examines every report, looks at the response to the letter of comments, and interfaces with the public oversight board.

And just so everyone knows, those files are a matter of public record. They can be obtained by anyone. They are available for anyone who has an interest in a specific firm.

Let me spend the last few minutes discussing work papers. This has been an issue that continues to evolve as the profession evolves. Obviously you are starting to see two or three issues arise around work papers.

One is, many firms are becoming more electronic-based. You have to find the work on the computer. It is either on a disk or on a mainframe stored somewhere. And so you are not seeing in some of the firms a lot of the documentation, hard copy, you previously saw in binders or files. A lot is stored on a different media than has been in the past.

The work paper standards have been around for a long time, since 1967, and they are being updated only this year. Merely a handful of things must be documented in the work papers. Much is left to judgment under the standards as to what ultimately goes into the work papers. But what affects that judgment, things an auditor will consider about the quality or quantity or type of work papers, would be the nature of the engagement, and: What type of reports will be issued? What types of financial statements are being issued? The condition of the client's records? The assessed level of control risk? In other words, how well is this entity controlled? For an entity that is not well controlled, you may put more information in the papers than you would otherwise. And the particular circumstances that surround supervision and review of the work. For example, the work must be reviewed, that is one of the fieldwork standards, it must be supervised and adequately reviewed.

You must have enough documentation to make sure that you can meet that standard. Examples of papers would include audit programs, which can be narrative. They could be in different formats, embedded in memos. They could be various analyses in the memoranda, representation letters, or confirmations. They could be abstracts of company documents. Some firms require that as long as the company maintains adequate documentation for the required period, those things do not have to be repeated necessarily in the work papers.

Some people struggle with an issue around work papers when they were debating this new standard whether you should have what I will call a 'reperformance' standard within the work papers? And the issue is whether someone could come behind them prepare those work papers based on the information in the work papers, reperform that work, and reach the exact same conclusion? And the audit standards of work really did not want to move to that model, although there were some suggestions from others to go to that standard. The reason they did not was that auditors have a lot of information that they have gathered over the years working with clients. Much of that information helps them guide, direct, and determine the extent and level of work that must be documented in the work papers to reach an audit conclusion. When someone comes in fresh without that perspective, it is hard for that person to reach the same conclusion. So it is not in the standard, and it probably will not be for sometime, but it is something that generates a lot of discussion.

I will make several other final points, as Zane has mentioned. There is clearly more of a focus on internal controls. In the last several years our firm specifically has said we must spend more time around this area. There is some renewed interest in the control structure. You are seeing that in many organizations a lot of the controls are getting embedded in the technology and the software. The people that were performing manual controls are starting to disappear, and we must understand the systems better, we cannot ignore them in the future. We have spent a lot of effort this year continuing to refine our audit methodology and train our staff around that issue.

Finally, I will spend another minute on internal audit. If an organization has an internal audit department, under the standards, we must consider that audit department as we consider the overall internal control structure of the organization. The internal audit department must be reviewed in the overall context of establishing our audit base.

There are two ways internal audit can be used. One is in a direct assist mode. And that mode is that they are part of the engagement team, and we supervise and review their work as they were a member of the team. And then we reperform some of their work to make sure that their work is consistent with our findings. The second way we can use internal audit is when we rely on the work performed throughout the year to modify the work done by the external auditor.

When, in either one of those situations you will supervise, review, and reperform some of the work to make sure that you agree with the conclusions reached. But you also will make sure before you go down that path that the internal audit is competent; the auditors are objective; they report internally to the right location within the organization; they have unfettered ability to move through the organization; they are independent; they have a direct line to the audit committee; and the tone at the top of the organization really supports their effort. Internal audit can be effective in that scenario helping to modify the work that the externals must do.

That concludes my presentation.

Jim: Alright. Thank you very much. At this point I would like to give the results of the first polling question that we had. Of the 313 sites that we had registered for today's program, 259 sites responded. So we have a minimum of 743 people attending today's seminar.

Now we do have a second polling question to ask everyone. This question is, which of the following categories best describes your company? And we have five choices. Press 1, if you consider yourself to be a financial institution. Press 2, for a public accounting firm. Three, law firm. Four, regulatory agency. Or 5, other. Go ahead and press in the appropriate button now or the number. Again, which of the following categories best describes your company. Press 1, for financial institution. Two, a public accounting firm. Three, law firm. Four, regulatory agency. Or 5, other. We will have these results in just a little while.

At this point we would like to turn the program over to Carol Larson. Carol?

Ms. Larson: Thanks Jim. And hello to everyone out there. My discussion will focus on the audit wrap-up today.

A good friend of mine absolutely loves that old TV show, The A-Team, and so he is always saying, "I love it when a plan comes together." And I think that phrase summarizes well the audit wrap-up. At this point in the audit process, a plan has been laid out, the risk assessment has been performed, control and substantive testing has been done, and the working papers reviewed. And now it all needs to come together, hopefully according to the original plan or the plan that was revised throughout the audit process.

The audit wrap-up really includes the activities that I have listed in your handout. Number one, evaluating the results of testing. Secondly, performing the overall review of the financial statements, making sure that we do not lose the forest for the trees, that after all that testing the financial statements really do reflect the testing that we have seen done throughout the audit. Third, performing the review for events that have occurred subsequent to the balance sheet date that may really need to be reflected in the financial statements being issued, obtaining management's representations, and finally reporting to the audit committee.

Jim: Excuse me, Carol, could we have you switch to your handset, we are getting a nasty buzz on your headset.

Ms. Larson: How's that?

Jim: That's a little bit better. Good to go. Thank you.

Ms. Larson: I want to focus on three of these areas in the short time I have. Namely, evaluating the results of testing, obtaining management's representations, and finally reporting to the audit committee. These are the areas where I get the most amount of questions.

First let us start with the evaluation of the results of testing. I am talking here about the substantive testing, not the control tests. The control tests, the evaluation of those outcomes should have been done probably earlier in the audit or maybe a bit into the audit, so that the auditor could conclude based on the controls how much and what nature of substantive testing should be performed. So now in the evaluation of testing I am really focusing on the substantive testing. And to be specific, I am really talking about the secret code for the proposed adjustment sheet, that mystery document that is most sought after by anyone outside of the audit, including management and examiners and all sorts of people. It is the place where the audit team really tries to capture the adjustments that have been identified throughout the audit.

Several things to note about that proposed adjustment sheet, first, not every adjustment gets into that sheet. It is common for the auditor to identify small amounts that will be passed in the work papers with no further consideration necessary. For example, it is unlikely that a $2,000 on a billion dollar bank really needs further consideration, assuming that it was not identified in the sample. It is common for the auditor to pass those items in the work papers without ever getting them into the proposed adjustment worksheet.

The second point is that not all errors are created equal.

Jim: Excuse me, Carol.

Ms. Larson: It is still buzzing.

Jim: Yes, it is. I am sorry. Neil our engineer will work with you here and see what is going on here.

So for the interim, while we work with Carol and see if we can solve her problem, I will give you the polling results that we had. Those polling results include, let us go back to the question, "Which of the following categories best describes your company?" We had 91 percent registered as being a financial institution. Five percent registered as a public accounting firm. We have no law firms on the program today. Four percent of our audience is a regulatory agency, and no one chimed in as another for this program. So the way it stands, again, 91 percent are financial institutions that are with our program for today.

And I think we are still actually working on Carol's program. Zane, do you have anything that we could go to while we work on Carol's buzzing problem?

Mr. Blackburn: I was wondering, Jim, if it is appropriate at this time to consider anyone that has any questions on the material that has been covered so far? And I know that you would have to explain how that system would work.

Jim: Yes, and actually it will take me a second to reconfigure things here. Actually we have Carol back with us now.

Ms. Larson: So did you finish the discussion for me, Jim?

Jim: Yes, I certainly did. No, I do not think so.

Ms. Larson: I was talking about a proposed adjustment sheet. The second point I was trying to make was that all of the adjustments that go on that proposed adjustment sheet are not of the same ilk. Auditors often break them into two groups, known misstatements and likely misstatements. A known misstatement is what it sounds like, an amount that we can pretty specifically identify. It is pretty clear what the amount is. An example would be an invoice that got paid after year-end that should have been accrued. We know the amount exactly, and we post it to the proposed adjustment sheet.

A likely misstatement is when things get a bit more difficult. A misstatement occurs when we cannot quantify the misstatement precisely. An example here might be when an error is found in a sample, and we need to extract it or blow that error across the population. The error in the sample would be a known amount, but the estimate that we come up with for the population would likely be a misstatement.

The reason the auditor is interested in identifying these amounts as likely or known is merely because it feeds into the overall evaluation of these proposed adjustments, which is the purpose of capturing all these amounts on one sheet. The auditor will take that sheet and evaluate the effect of those adjustments on the financial statements.

Now let me say first and foremost, our objective is for the client to record all of the adjustments on that sheet. It would be great to have a clean sheet and have all of those amounts recorded. But there can be good reasons why a client might not want to record the adjustments. The best reason is that they do not agree with them and hopefully that generates a discussion between the client and the auditor to resolve the disagreement. Either the client agrees and books the adjustment, or the auditor sees the client’s point and takes it off the past adjustment sheet. But it is possible that you do not get to that agreement and the adjustment stays there, or there could be other reasons why a client does not want to record those amounts. Then the auditor must consider this and decide what is the appropriate opinion to express on financial statements given that they have identified these errors or differences in the financial statements. That is not an easy conclusion to make.

The auditor typically takes into consideration both qualitative and quantitative issues in coming to a conclusion. The quantitative is based on materiality, which sounds easy, but in of itself requires a lot of judgment in determining what is material. You have often heard that for public companies, people use as a rule of thumb that 5 percent or less of income is immaterial. But that rule does not always hold, and it is not written in stone anywhere. It is a measure people use as a starting point. The real concept on materiality is that at the end of the day would the user of the financial statements have a different conclusion if the amounts were adjusted. That is really the essence of materiality. So it is a difficult concept to really implement.

Which brings us to the qualitative aspects at which the auditor looks. I have listed them in your handout material. What those qualitative considerations are really saying is you could look at all these adjustments and taken together conclude they are not material, but once you look at some of the qualitative factors you may decide that some of them really are so individually significant they need to be reflected. One example is when an adjustment may change a significant line item in the financial statements so much that the auditor believes the user's conclusions might be altered had the amount been reflected.

So the overall purpose of this evaluation of the results of testing and looking at these proposed adjustments is really to say in total, what should the auditor's opinion be? Are these financial statements fairly stated taking into consideration the amounts that have been identified?

This whole area has received more focus particularly over the last year. Beginning in the year 2000, the auditor is now required to communicate to the audit committee adjustments that were not recorded. So you have likely seen that notation in minutes or audit committee presentations. In addition, beginning in 2000, auditors ask management to include in their written representations management's responsibility for those unrecorded adjustments. And both of these changes to what auditors do, were really brought about to enhance the financial reporting structure and to be sure that management and the audit committee understand the importance of these matters at least in the auditor's judgment.

All this brings me to my second topic, and that is management representations. During an audit, an auditor gathers evidence to support the overall conclusion regarding the financial statements. That involves lots of paper and lots of testing and lots of stuff that happens. But throughout that process, an essential element of the process is management's discussions and the information that management provides for the auditor that many times may not be available in documents, or even if it is available in documents, it is such a critical aspect of the auditor's overall conclusion that the auditor must get a confirmation of the understanding. That is really the purpose of the management representation letter. It is important for those representations to be clear on both sides.

Management should read that document carefully and discuss with the auditor any questions. Some people think that it is great if you give a client the management rep letter, and it comes back in two minutes flat signed. To be candid, that does not make me real comfortable. I would like to know that management has really considered each of the points on which we have asked them to give us representations, and they are comfortable with what those points are.

As a result, my personal practice is that I like to have a meeting with the client after having given them a draft to consider for several days. And I like to walk through it in person, so that we can make sure that we are in agreement on what it really says, and what the client is representing to us.

Management representation letters for banks often includes issues asserted in the financial statements, such as the adequacy of the loss allowance. That certainly is important in the financial statements, and it is not a precise measure. It is an estimate, and the auditor often likes management to assert in writing its views on the adequacy of the loss allowance. You might also see a representation on selection of assumptions in determining the fair value of certain financial instruments X certainly in determining fair value, if there is not a market that you can look at where you need to, look at cash flows. Some of the assumptions that management uses can be important and can alter the outcome. We want to make sure that management has carefully considered what those alternatives are. So the management rep letter is an important aspect of the wrap-up of the audit in making sure that everyone is on the same page in terms of what is asserted and what is actually in those financial statements.

Last, but absolutely not least, is the issue of reporting to the audit committee. This whole area has taken on more importance over the past several years. I will show my age when I say I remember the day when an audit committee presentation was in and out in 10 minutes. It was a short discussion. Those days are long gone. And I think that is good, because the audit committee must understand the key aspects of the financial statements from management's perspective, as well as an overview of what the audit process is both internal and external. Certainly, based on the recent Enron discussions referred to by Mark, I do not think this trend is likely to change in the near future with the focus on audit committee discussions. The technical requirement for the communication is found in FAS 61. And that spells out what the auditor must communicate. I have summarized those points in your handout in terms of what FAS 61, as modified by some other documents, says that the auditor really must communicate to the audit committee.

But the spirit of the requirement is essentially that the auditor provides the audit committee with the information they need to fulfill their oversight responsibility. That is really what it boils down to.

For a bank, that will likely involve discussions around some of the key estimates in the financial statements X the loss allowance, what are some of the key estimates included in the loss allowance, and how the auditor reached a conclusion as to the appropriateness of the overall loss allowance? Certainly discussion around difficult accounting areas, like derivatives, or the many issues around mortgage servicing rights, or residuals or gain on sale accounting. Some of these points are discussed with the audit committee to make sure they understand the key issues, and both management's and the auditor's approach to it. You might also see a discussion of significant one-time transactions, such as a purchase of a business, say a bank or a mortgage banking operation or possibly a large loan sale, or anything about the accounting that the auditor believes the audit committee should know.

I think people too often get tripped up focusing on the nature of the required communications versus what information the audit committee really needs to do its job and fulfill its responsibilities. Those two things may or may not be exactly the same. And the latter certainly is where I think the emphasis should be. The Auditing Standards Board did not require that these communications be in writing. They can be oral, or they can be in writing. But there is no requirement one way or another. And the auditing standards board did that specifically by trying to preclude those communications from being boiler plate, i.e., the Auditing Standards Board believed that if they required something specific in writing that soon the communications would lose meaning as everyone looked for standardized language from one institution to another. You may see these communications documented in writing, but it is appropriate and alright to do it orally. It is the essence of the communication that is really what is important.

Mark and I have just covered in 35 minutes topics that could justifiably take days to discuss. Surely there will be some questions, and I will turn it back to you.

Jim: Alright, thank you very much. If anyone does have any questions, all you need to do is merely press 1 on your telephone keypad. That brings you into the lineup here in our system. I will give you complete directions in just one moment. But that is the bottom line, press 1 on your telephone, if you do have a question.

A little quick programming note, before we get to the Q&As. On your evaluations you can see the list of presenters for today. Mark O’Dell is not able to join us unfortunately, but we do welcome Marianne Kennedy to the program. So if you could cross Mark O’Dell’s name off your evaluations and write in Marianne Kennedy’s. Marianne will join us here in the Q&A session in one moment.

So once again if you do have a question or a comment to share with our panel, merely press 1 on your touchtone telephone keypad. That brings you into the lineup here in our system. I will call on you by the city and the state and the first name of the person who registered at your site. Now if your question is answered before your turn comes up, merely press the pound sign on your telephone and that takes you out of the lineup. If you are listening on a speakerphone, it is best that you pick up your handset when you ask your question, that way we are better able to hear you. Then as a quick reminder, when replacing that handset remember to press and hold that speakerphone button so you do not become disconnected. But if you should become disconnected for any reason, merely dial back into the program, reenter your PIN number and you will be reconnected to this program.

If you do have a question or a comment, merely press 1 on your telephone. And again I will call on you by the city and state and the first name of the person who registered at your site. You can also fax in a question. 715-833-5469 is the fax number. Let us go to River Falls, Wisconsin. This is Laura's site, so River Falls go ahead.

River Falls: Hi, this is Phil Drexel. I am the CFO here. We are a $210 million bank only doing director's exams. At what level will we be required to have certified audits?

Mr. Blackburn: Marianne do you want to try to answer that? Or I can answer that.

Ms. Kennedy: You would be required to have certified audits, Phil, as a $500 million and over bank. We would require you to have certified financial statements.

River Falls: OK, thank you.

Ms. Kennedy: You are welcome.

Jim: Alright, thank you very much, caller. Let us go on to East Brunswick, New Jersey. And this is Amit's site. So East Brunswick, go ahead.

East Brunswick: We have a question for Carol Larson regarding the management representation letters. The question is, "Do you document your meeting with management to discuss the element of the representation letter that you spoke about earlier?"

Ms. Larson: Do we document having the meeting?

East Brunswick: Right.

Ms. Larson: Typically not, because the outcome of the meeting will be reflected in the final management representation letter. So no, typically I would not have a document that talks about the meeting itself. I may have a reference in the work papers that we had a meeting, but it will not really go into the discussions.

East Brunswick: Thank you. As a follow-up, can I have one more question? The communication to the audit committee that you said it could be either oral or in writing, when the communication is oral, should the minutes at least reflect the discussion?

Ms. Larson: That is usually the responsibility of the institution's secretary of the board to determine the extent and nature of what they will put into the minutes. So the detail of the discussion they will enter into those minutes varies by institution.

East Brunswick: Thank you.

Ms. Larson: You are welcome.

Jim: Alright, thank you very much, caller. Let us continue on to Elkins, West Virginia. Elkins go ahead.

Elkins: This is Bob, I am the CEO. We presently have internal loan review. We are a $160 million bank. If we outsource the review, what are the OCC and the FCC positions on our having our existing external auditors do that work?

Mr. Blackburn: This is Zane Blackburn. Let me try to answer that for you. I think it really depends on the extent of the actual review. If the review would be done normally, it is something separate and aside from making decisions on classification versus merely reviewing the classifications. They are actually made by the institution. I can ask either Mark or Carol to share their opinions with you as well, but I do not believe in that situation that there would be that type of concern. I think that the size of your institution is the actual cutoff in terms of the FCC's requirements, which deals with banks under $200 million. Now again that really depends on what that loan review involves in terms of the independence issue. You still could be concerned about the type of work performed that would be covered by the standards of independence under existing AICPA ethical rules.

I can ask Carol or Mark if you have any other comments on that?

Mr. Niswonger: This is Mark. I would agree with the adage you can't step in the shoes of management and actually make decisions, but you certainly could be involved in doing a review similar to the internal audit or internal credit or other types of reviews. Certainly those items are allowed to be outsourced, and you must follow the guidelines to make sure that management still maintains ownership of the conclusion as well as the process and that they are fulfilling their part of the whole.

Ms. Larson: What Mark said is to me an important consideration. It is hard to draw only a black and white line. We had a situation once, an institution that we did not believe, from an internal perspective, had someone who would really take responsibility for looking at the work we were doing and make judgments about it. So we declined to do the internal work, because of that. We tried to work with them to help them find other options, so that they really got the assistance they needed. But it is really important to have someone internal who can really take responsibility to look at the work that is being done and make judgments about what is happening. Is that extent as far as necessary? Is it looking at the areas that are important? Those sorts of decisions. It's a hard one to call.

Jim: Alright. Thank you very much, caller. And just a quick reminder that if anybody does have a question or comment to share, all you need to do is merely press 1 on your telephone and that brings you into the lineup here in our system. And again I will call on you by the city and the state and the first name of the person who registered at your site. Let us go to San Francisco, California. This is James' location. So San Francisco, go ahead.

San Francisco: Hi, we are examiners with the OCC. What have you seen about examiners talking to the auditors about their management letters without actually going through the work papers? I am concerned about how can we be sure that adequate procedures have been applied to look for fraud so we can avoid situations, such as Keystone Bank or Enron.

Mr. Blackburn: Mark, do you want to try first?

Mr. Niswonger: Yes, in reviewing work papers, being involved, and having documented discussions, there must be a good working relationship with the examiners as well as the external audit firm. There needs to be proactive communication that is consistently updated. The work papers are available to the examiners, the documentation must be there and be able to stand on its own. So I think that a proactive relationship in which both management and examiners understand the content of the work papers seems to be the best strategy and certainly one we encourage in all of our audits of a regulated entity.

Mr. Blackburn: Carol, do you have a similar view?

Ms. Larson: Yes, and I am not sure that I really have anything to add.

Mr. Blackburn: Great. Jim?

Jim: Alright, thank you very much, caller. And a quick reminder that if anyone has any questions or comments, press 1 on your telephone, that brings you in line. You can also fax in your question at 715-833-5469. Zane, at this point no other questions are pending at this time.

Mr. Blackburn: Let me pose a question to Mark, and obviously, Carol, I would like the benefit of your comments as well, but from your own firm's perspectives. Mark, in terms of the peer review, in your experience have you seen significant deficiencies noted by the firm as it looked at your firm? I am not trying to suggest that you should. But I think that one of the concerns dealing with the clubby atmosphere, or what some of the congressmen have talked about is its effectiveness. I do not know. Could you comment on that?

Mr. Niswonger: Sure, I will give you some color. It is a rigorous process. I have been involved when I was part of the team that was reviewing one of the other big five firms. And obviously I have been in our national office for a while and within our national office when we were trying to resolve the last peer review. We had a letter of comments as a matter of public record. There was a lot of discussion around the observations that were made by the review firm. The comments ultimately were published, they are public, and we take things like that extremely seriously. We take our internal review equally as seriously every year. We have a fairly extensive training effort around some of the issues that arise from both the peer review and our internal review.

So the issue that you have with peer reviews is taken extremely seriously. It would be a significant negative finding if you had an adverse or modified report or a report that states that you lack good established standards and control procedures. Comments are also to be avoided, but certainly when you get comments you want to deal with them quickly and make sure that they are not repeated. So we take it extremely seriously.

To give you a testimonial, within our firm in the last month, we have had a mandatory two-day training of all of our senior level people, who are the three-, four-, five-year people up through partners. The training dealt specifically with issues that came out of the internal review this summer, so it was focused on by everyone. We want to make sure we have quality audits. We want to make sure that we protect the system that we have in place that we really believe is the right system. The best way to regulate and to supervise our profession we believe is that the other firms are best able to do that and they understand our business best, and to the extent the system is failing then we understand what the consequences are. So we really want to take it seriously and give it its due process.

Mr. Blackburn: Thanks. Carol?

Ms. Larson: I would make two points. First of all the mere existence of the peer review process I think elevates what we all do. And I do not think there should be any real surprise there. It is like the speed limit laws, you obey the speed limits even if the policeman is not there in the event that the policeman might appear. The fact that the peer review process exists elevates, on its own, what we all do.

Secondly, as an individual audit partner, the idea that this is a clubby atmosphere, I promise you, when our external firm comes in and selects my engagement I am not expecting any 'gimmes' from my competitor. And that is what it is, my competitor is looking at my work papers. I can promise you I am not thinking I will get any 'gimmes,' because we are all in the same profession. So I think the peer review process is important to have. It is rigorous, and we are all in the same profession, but we are still competitors. We do not want to be the first one to have any kind of problem with our report. We believe we do good work regardless of that fact, but that certainly does add to the pressures. So the fact that there have not been huge issues found in the peer reviews of certainly the big five, I guess I do not see that as really surprising.

I would if I may bounce this off to Wynne, because Wynne has been involved in peer reviews of regional firms as well. I do not know if you have comments on peer review for non-big five firms.

Mr. Baker: Yes, Carol and Zane, I have some very definite comments. I think that it is not a clubby situation. Our firm is involved in the FCC, so we have FCC qualified people do our peer review. On the off years we literally have outside people, we do not have any of our partners look at anyone else's engagements. We have strictly outside persons, not only do it every three years, but also do it every year. Their job, frankly, is to try to put us to the test. The oversight board, having done a number of peer reviews for firms, typically goes out on a lot of peer reviews to review the work of the reviewers. I do not think it is a clubby situation.

One focus of the peer review program is to look at high-risk engagements. Typically for a lot of us that is the banking and we try to get people that not only understand the FCC rule, but also banking and try to bring a lot of expertise and professional quality to it. I know when we look at our firm we have a high quality audit practice. We use electronic work papers. So we try to find people that have a great deal of expertise in those areas to do our peer review. We began our first one in 1974. We have been through a number of them. We take the comments seriously. When the reviewers finish even an internal review, they sit down with all of the partners, managers, principals, supervisors, and seniors and discuss the issues. It is important that we run a quality practice. I think this is true, even speaking for a smaller firm.

Jim: Just a quick reminder to everyone that if you do have a question or comment to share with our panel, again all you need to do is merely press 1 on your telephone. That brings you into the system and again I will call on you by the city and the state and the first name of the person who registered at your site. You can also fax in your question at 715-833-5469.

Let us go to Washington D.C. and this Linda's location. So Washington, go ahead.

Washington: This is Bill in Washington. For the benefit of the listeners out there, you mentioned that the peer review reports are public information. How would one get a copy of a report?

Mr. Blackburn: Mark?

Mr. Niswonger: Yes, we are required to file the reports with the FDIC, whenever we have a report. Also the actual AICPA Peer Review Committee actually receives those reports, and they are available if I am not mistaken, Wynne you may know better, I think you could go to the Web site and receive that information or request that information.

Ms. Larson: You can also ask the firm for a copy. Most firms actually make copies readily available. So you could also ask the firm.

Mr. Niswonger: Absolutely, and I think that is exactly right, Carol. And I think many audit committees in the future will probably have more interest in what types of peer review reports are available with their accounting firms. No question there will be increased emphasis on that.

Mr. Baker: This is Wynne. I agree with everything that Carol and Mark have said. One other issue if you are talking of a smaller firm that does not do $500 million institutions, its report would be shared with the FDIC, the state Board of Accountancies in the various states that conduct those peer reviews. I know in our case, we do several $500 million in the FCC, so our report is public, but we publish it also.

Mr. Blackburn: Great. Thanks.

Jim: Alright, once again a quick note for everyone. If you do have a question or comment, all you need to do is merely press 1 on your telephone and that brings you into the lineup here in our system.

We do have a caller on line. We will go to Christine, and Christine is in Hermitage, Pennsylvania. So Hermitage, one second. Hermitage go ahead.

Hermitage: Hi, my question is for either Mark or Carol. I wondered what you are suggesting to your financial institution clients that have internal audit functions that will fall under the peer review requirements under IIA standards? Specifically, I am wondering if there is a leverage opportunity for the SAS 65 work that is already being done by the externals to constitute at least part, if not all, of the peer review. Thank you.

Mr. Blackburn: Carol, why do not you start since I have been picking on Mark lately?

Ms. Larson: Well, I will address the second point in terms of whether leverage can be gained from the SAS 65 work. Yes, there could be leverage. But I personally do not think in most cases the SAS 65 work would substitute for the complete review quality assessment in accordance with the internal auditing standards, the IIA standards. To me that is somewhat like comparing what an auditor does to look at internal controls only to determine the amount of testing versus expressing an attestation report on controls. I mean to me those are that much different. So, yes, I think what the auditor does in looking at the SAS 65 requirements, as Mark mentioned them, the objectivity, the training experience, those sorts of things of the internal audit group, that can certainly be leveraged, but I do not think it probably would really be sufficient for the IIA standards.

Mark, other comments?

Mr. Niswonger: No, I think that is right, Carol. I mean I am not that familiar with the IIA peer review requirements, but I would certainly agree with you it seems like you certainly could get something out of it. But I would be surprised if that much will be contributed to that effort.

Jim: Alright, again a quick note, if anybody has a question or a comment, pressing 1 on your telephone brings you into the system. Zane, at this point no other live questions are pending.

Mr. Blackburn: Let me pose another one for Carol or Mark. Carol, you mentioned about the client's letter of representation, I think you have both talked a little bit about the latest newspaper articles dealing with Enron and one of our questioners dealt with Keystone. This is not particularly on subjects here, but I think it is a current event. How do you overcome situations, as a partner from Arthur Andersen indicated in congressional testimony, when the client withheld information from them? What are the additional audit procedures that you do to try to overcome those situations?

Ms. Larson: Candidly, in my view, there is little you can do to overcome it. To me, just as the OCC looks at various areas of the bank, capital adequacy, asset quality, management, etc., assessment of management is the number one issue that you have to deal with from an audit perspective. I can deal with a client on risky transactions or difficult accounting issues. I can risk manage my way through those. I cannot risk manage my way through dealing with a management that I cannot trust. So it is extremely difficult and probably in my view the number one reason why firms resign from working with clients. As I have said, I have worked with, cover your ears Zane, five-rated institutions that have come back from five ratings and moved their way up the scale and managed to get themselves back on their feet. And the only reason I have been willing to do it, is if we have a management that is open, honest, and we can trust and work with, I can deal with those situations. I cannot deal with a management that withholds information. Mark?

Mr. Niswonger: Yes, I would echo that. I think that if you have an integrity issue with management, and it bears itself out time and time again. When you think about some of the larger recent issues, Cyndad showed a consistent pattern that occurred over a long period of time, where there were management override and blatant issues within the company. If you see any evidence of that, you have to step back and say, "How much more work do I need to do to be able to issue my report?" That is where it is important to have the right types of skill sets on the accounts. You know that they understand the business, that they are deep into the organization, and that they are validating whatever representations are coming from management. You should dig harder when you ask for something: and it takes a while to get it; they do not get it to you; it is not in the format you thought it would be in; or there is information that is inconsistent with the previous comments made by management. One audit does not fit everyone. You must have your antennas up to make sure as you see issues that would question integrity that you absolutely will be forced to dig in much deeper.

Ms. Kennedy: This is Marianne Kennedy. On probably a less grand scale, in some of our community banks it is difficult when you are dealing with a management that is offering misrepresentations. But one thing that we have seen as key is how the audit function reports within the organization and that rests solely with the board of directors who were to designate the audit committee. Often the audit committee, either through inexperience or consistent dealings with management, tends to accept misrepresentations made by management, and/or allows management to respond to issues that may have arisen through the audit process and not have challenged or followed up to see that those things are corrected appropriately. We have even seen issues of blatant fraud occurring when the audit committee has not been on top of what is being shown to them by their external audit or their internal auditor.

Mr. Blackburn: Let me make one other point in this area. One of the issues in Enron was the use of off-balance sheet structures and special purpose entities. It seems to me, as everyone is working with their audit committees, and I am speaking more to the people from the banking institutions, that there is a requirement to discuss the qualitative aspects of the accounting policies that the company has put in place. That discussion really is encouraged to be more verbal and less written for the reasons Carol talked about X the SAS, the auditing standards 61, that state it could be verbal or written to hopefully encourage candid conversations. We try to work with our clients within my firm, so that management really would present kind of this qualitative discussion of the accounting policies, the areas that are gray, or where there is interpretation or are significant estimates. They really spend a good amount of time educating the audit committees. What are some of the risk areas? How much accounting risk are we assuming? People will have to think seriously about those discussions in the future, about the level and the quality of the communications at the audit committee level. Because I hope that the audit committees, when they think about Enron and other matters, not only Enron specifically, they will ask, "Are we getting the information we need to really carry out our fiduciary roles?"

Mr. Baker: Zane, this is Wynne. Can I talk a little bit about Marianne's comment about the community bank arena?

Mr. Blackburn: Certainly.

Mr. Baker: There is an issue with education. Many times the external auditor in the community bank arena works strictly through management. We try to focus on the audit committee or the board, from an education standpoint, to make sure it understands its responsibilities. One of our firm requirements is that when we deal with the audit committee or the board, at some point in those discussions, management must leave the room, so that we can have a candid discussion. I think Carol is right on point, management is the number one issue that we deal with, and there has to be trust. So many times in community banking, there is an issue of segregation of duties, or management has an excessive amount of power. Often the board does not understand, perhaps they are ultimately the ones who have the fiduciary responsibility. One of our firm requirements when we work with anyone is that at some point we will have a candid discussion about management. We meet with most of our audit committees and boards at least quarterly or every six months. Sometimes that discussion is difficult in small communities, but it is part of quality control X the peer review process that we go through to try to offset a little of the control environment that management has in the small community bank. It is a concern, and again I agree with what Carol is saying. Management is the number one issue that you have to deal with.

Mr. Blackburn: Thanks, Wynne. Mark, I have a question from some of the examiners who are listening in on this call. You had mentioned about the quality of some of the audit principles employed by the institutions, or how they were actually employing those principles, i.e., the Enron-type situation. You indicated that typically they were verbal. How would the examiner learn about those principles during the supervisory cycle?

Mr. Niswonger: Sure. The reason many people want the discussion to be verbal is so that you can have more candid discussions. But I think certainly in your supervisory and oversight role those same discussions can occur. In fact, we have encouraged the actual communication to come from the CFO, or whoever has responsibility for reporting to the audit committee. We basically validate what they are saying, so they may have a written document that talks about some of the more significant policies, the grayer areas, or the larger estimates and judgments. Some color will be provided outside of that, and I think clearly that any CFOs that I have ever worked with would be willing to have those similar conversations with the examiners. Certainly we would be willing to have the same conversations. In fact if we were concerned that things were not being shared with the examiners, we would certainly want to bring that to everyone's attention.

Mr. Blackburn: Great. Thanks Mark.

Jim: Alright.

Mr. Blackburn: I understand we have a question?

Jim: Yes. A reminder if anyone has a question or a comment, merely press 1 on your telephone. That brings you into the lineup and I will call on you by the city and the state and the first name of the person who registered at your site.

Let us go to Goleta, California. And this is Brad's location. Goleta, go ahead. Are you there? Unmute your telephone and go ahead. I guess Goleta has to go ahead and press 1 again. Then we will bring him into the site. Are you there, Goleta? Alright, I guess we will wait on that one a little bit.

A quick reminder that if anybody has a question or a comment, merely press 1 on your telephone keypad. Zane, at this point, we have no live questions that are pending.

Mr. Blackburn: Alright, let me get back to Carol on one of her subjects dealing with the differences that are reported to the audit committee. Carol, you indicated that you make both qualitative and quantitative judgments on that. Can you provide some examples of items that would be included in that list that would not necessarily be considered material, or can you expand on that a little bit?

Ms. Larson: Well, typically the materiality, the auditor would start with a judgment about materiality, and some sort of look at a percentage of it depends on the institution, public/private, who are the expected users of the financial statements. But as I mentioned, for many public companies, people also often view earnings as being probably the primary item that users are looking to. That is why some percentage of income often is used from a materiality standpoint. There is also this rule of thumb that many folks start with at least 5 percent. Although the FCC in the last year or so, did not even begin to think that that was any kind of a safe harbor.

So the first thing that folks really look to is materiality. The real issue on materiality comes when you begin to view the combination of items, i.e., you can have a number of proposed adjustments that offset each other. The total might reach an amount that is clearly immaterial, and yet you can have large items going opposite directions. For example, you might have a proposed adjustment to increase significantly the provision for loan losses. You also might have a proposed adjustment that says you must recognize a gain when a client may believe they are being conservative on revenue recognition to the point that the auditor says, “Well you are not only conservative, you are not in accordance with GAP.” So you could have two large adjustments that individually are significant that offset each other so that you can sit back and say, “Well, from a materiality standpoint, the financial statements are fairly stated.” Yet would you really be comfortable publishing financial statements when the provision for loan losses, clearly an area in a bank viewed closely by many, does not look where it should be and similarly a gain especially on a one-time transaction? Many analysts are looking for some kind of recurring core earnings. They might be looking at the effect of those one-time type gains. That would be an example of where your total conclusion on materiality would say, "Well, the financial statements are fairly presented." The bottom line will not change, but from a qualitative standpoint, you might say that you are uncomfortable publishing these financial statements with two line items misstated in that amount or by that much. Analysts look so much at trends, particularly credit quality that would be difficult.

Mr. Blackburn: Mark?

Mr. Niswonger: Yes, Carol. I would also like to add to that. It reminds me that at the FCC conference last week the people in enforcement were discussing the top seven areas where there were some enforcement matters. One of those areas dealt with changing estimates, moving within ranges of estimates to meet analyst's expectations without adequate disclosure or support for the movement in the range. The allowance task force says this is the directional consistency notion with which I know you are familiar, Carol, but that is one area also you think about audit differences, and as you think about adding recurring core differences with nonrecurring one-time things, you must be careful about the content of the disclosures, and whether you are comfortable adding those items that may be viewed differently by an analyst or others. I mean two audit differences may not look at all alike to an analyst. But if you start moving around ranges around estimates that are not adequately disclosed or if you have one-time gains which you are netting against core operating expenses, and it is clearly one of the issues that I think emerged from the Waste Management matter. So if you have things like that you must be very sensitive about your disclosures as well as what lines you are putting those on.

Mr. Blackburn: Wynne, did you have anything to add?

Mr. Baker: No, I agree with the points that they are making.

Mr. Blackburn: Let me return to a current event. Mark, I think you mentioned the FCC. Bob Hurdman from the FCC's chief accountant recently said that, and I think, Harvey, the chairman, has indicated that there is most likely additional scrutiny of the accounting firms. Any views on what that might involve?

Mr. Niswonger: Yes, I am not sure how it will play out. But with the testimony in Congress occurring and with a number of issues to emerge from this most recent issue, we must really try to determine whether in fact the peer review process works appropriately. The public's confidence, the investor confidence, is with our profession, and we believe that is the case.

But certainly there may be some things that get expanded in the future. There may be a larger role from the POB. There may be more independent third parties involved in some of the things that we do that may take on more ownership or oversight. So again I am not sure where it will go, but we hope it will stay similar to where it is. Certainly we would embrace fine-tuning and improvement, where they are needed. The profession must actually stand up and take responsibility, and we must make sure that we do what secures the confidence of the people in Washington and the investing public in general.

Ms. Kennedy: This is Marianne Kennedy. Returning to some of the work paper issues that were being discussed a few moments ago. But in terms of the OCC and the times in which we as examiners would choose to actually take a look at external work papers, I think it is important to note that generally we will not be looking at external work papers in every exam cycle. However, we might look at external work papers for what is being done and why as we are examining the engagement letter or findings revealed from our exam process and/or certainly the discussions that we see noted in either the audit committee board minutes or the full board minutes. Certainly if we found, in the course of our examination, internal control breakdowns as often we do, we would want to turn around and perhaps take a look at the work papers of the external accountant to see how much was done and to what extent it was taken. We might also look at those work papers when there is a CPA firm functioning as internal auditor and performing the financial statement audit. Again I think that topic was raised a few moments ago, but certainly trying to decide whether the activities of this outsourcing vendor, CPA, constitutes their acting in some type of management capacity. So in addition to looking at work papers, we definitely have a questionnaire grid that we go through to make sure that those independent factors are being considered.

Mr. Blackburn: Thank you, Marianne. I think that really concludes our question session and this second in our Audit Roundtable series. I want to thank you personally for your participation and excellent questions, although we had to end up with some as well. But we appreciate the opportunity to do that. And I want to thank our speakers as well for their informative remarks. As a reminder, last of the series takes place on April 3, 2002. Also we would very much appreciate you completing the conference evaluation form, which will assist us in improving our last session and future ones. Again, thank you. Jim?

Jim: Alright, thank you. And this concludes today's telephone seminar entitled, "Audit Roundtable, Part 2; Work Papers and Audit Committee Reporting," brought to you by the Office of the Comptroller of the Currency.

As a quick reminder as Zane mentioned, please fill out and return the evaluation forms in the manner listed on those forms. Your comments and suggestions are important to us. As an added note when filling that out, if you could just cross off Mark O'Dell's name as he unfortunately was not able to present with us today and in his place please put Marianne Kennedy's name. That would be appreciated. We would like to thank you for joining us today and be sure to enjoy the remainder of the day and you may hang up your telephone now. Thank you.