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## United States Senate

COMMITTEE ON  
GOVERNMENTAL AFFAIRS  
SUBCOMMITTEE ON REPORTS,  
ACCOUNTING, AND MANAGEMENT

(PURSUANT TO S. RES. 4 AND S. RES. 76, 95TH CONGRESS)  
WASHINGTON, D.C. 20510

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E. WENSLAW TURNER, CHIEF COUNSEL  
161 RUSSELL BUILDING

(202) 224-1474

2 June 1977

Mr. John R. Evans  
Commissioner  
Securities and Exchange Commission  
Washington, D.C. 20549

Dear Commissioner Evans:

This subcommittee is presently holding hearings on accounting practices promulgated or approved by the Federal government. The hearings are focusing on the issues raised in the subcommittee's staff study, "The Accounting Establishment."

As documented in the staff study, Congress gave the Securities and Exchange Commission substantial authority and responsibility on accounting matters in the securities legislation of 1933 and 1934. The SEC decided by a narrow vote in its early years to rely on the accounting profession for resolving many important accounting matters assigned to the commission by Congress. That decision is now being questioned as Congress and the public have become aware of numerous problems related to accounting and auditing which have eroded confidence in the integrity of major publicly-owned corporations.

The subcommittee's accounting hearings have produced a broad array of pledges from the accounting profession to reform itself. However, many witnesses have emphasized that an active SEC is essential to achieving necessary accounting reforms. Congress originally intended that the SEC would actively exercise its accounting responsibilities, and I believe the members of this subcommittee realize that the commission is the key to meeting our concern that the public is protected.

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Our subcommittee is focusing its efforts on improving accounting practices for the future, rather than dwelling on past problems. Because of the importance of the SEC in achieving accounting reforms, we are inviting the entire commission to share their individual views with the subcommittee. Accordingly, I am requesting that you appear and testify before the subcommittee on Monday, 13 June.

Although you should be prepared to discuss the role of the SEC in achieving a broad range of accounting reforms, I ask that you specifically address the following issues:

- 1) the need for the SEC to improve the independence of accountants who act as auditors for publicly-owned corporations;
- 2) the need for the SEC to broaden public representation and participation in the establishment of accounting, auditing, and ethical standards used by independent auditors;
- 3) the need for the SEC to establish a program to periodically review the work of independent auditors of publicly-owned corporations;
- 4) the need for independent auditors of publicly-owned corporations to report relevant financial, operating, and client data to the SEC and the public.
- 5) the need to permit damaged parties to sue independent auditors for negligence under the Federal securities laws;
- 6) the need to treat accountants from large firms and small firms equally in disciplinary proceedings; and
- 7) the need for the SEC's chief accountant to represent actively the public on accounting matters affecting publicly-owned corporations.

I hope you will feel free to comment on specific proposals and assertions which have been made by previous witnesses. In particular, I refer to the Price Waterhouse review proposal and the assertion by Peat, Marwick, Mitchell

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and Co. that the firm was not culpable in the Penn Central failure.

Congress and the public have a new awareness of the importance of accounting practices in achieving sound corporate reporting. At the same time, the SEC has undergone changes in its membership and leadership. I believe we have a beneficial opportunity to work together toward substantial improvements in accounting practices.

The 13 June hearing will commence at 10:00 a.m. in room 6226 of the Dirksen Senate Office Building. I invite each member of the commission to submit a prepared statement for our hearing record and present a brief oral summary of his views at the hearing. Twenty copies of the prepared statement should be delivered to Miss Jeanne McNaughton in room 161 of the Russell Senate Office Building by the close of business on Wednesday, 8 June. An additional 80 copies should be available in the hearing room on 13 June.

Any questions regarding your appearance or testimony should be directed to subcommittee counsel Jack Chesson at 224-1474.

Very truly yours,

A handwritten signature in cursive script, reading "Lee Metcalf". The signature is written in black ink and is positioned below the typed name "Lee Metcalf".