

Thoughts on Lone Dissenters and Accounting Firm Rotation

I enjoyed the joint interview with Tony Menendez and Steven Mintz, “The Ethical State of the CPA Profession” (December 2016). I would like to expand on two of the points covered.

First, there is an unstated assumption in the interview that the lone dissenter is always right, and that not following his view leads to the wrong answer. By way of background, I was the senior partner for accounting and financial reporting matters at one of the major accounting firms for many years and dealt with many lone dissenters on difficult client issues. I can assure you that the lone dissenter was wrong in many instances. I made sure I understood such positions, but did not always accept them. There were many reasons for this, including the lone dissenter not fully understanding the issue or the related accounting or basing her position on what she would like GAAP to be, rather than what it was. A common example of the latter issue was lease accounting. In my day, the lease accounting standard was known as the “Swiss cheese standard,” because it was so full of holes. Avoiding capitalization was easy, although objectionable to many people.

Second, there is a belief among some observers that a longstanding audit firm is more likely to agree to misleading financial reporting, whether intentionally or not, and that mandatory rotation of audit firms can prevent this. Research done a number of years ago, however, indicated that more errors occurred during a new firm's first year audit, whether because of lack of knowledge about the new client or for other reasons. I'm not saying this fact should resolve this longstanding and contentious issue, but I do think those interested should be aware of this earlier research and consider its ramifications. In addition, perhaps the research should be updated to see if the results are still the same. I think we would all agree that the final answer should result in improved financial reporting.

Ronald J. Murray, CPA (inactive). Stamford, Conn.

The Author Responds

First of all, let me thank Ronald Murray for his input. To be clear, the “lone dissenter” reference was not to suggest that these individuals are always right, but to reference the language and tone used by management to discourage opinions or conclusions that may differ from management. The real issue isn't whether an employee is right or wrong; what matters most is that employees have the courage to come forward and, when necessary, stand up. Companies need to encourage debate instead of squashing it.

Tony Menendez. Austin, Tex.

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