ASSOCIATION FOR INTEGRITY IN ACCOUNTING (AIA)

PROSPECTUS

An Incubation Project of CITIZEN WORKS

June 2003

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INTRODUCTION

Recognizing the role that the accounting profession has played in the recent well-publicized corporate collapses of the past two years—Enron, WorldCom, Global Crossing, Tyco, HealthSouth, and Adelphia, to name some of the more spectacularly outrageous—Citizen Works, in its role as incubator of public interest organizations, has encouraged accountants and academicians to form an Association that will serve as a public interest watchdog for issues of professional integrity. The Association for Integrity in Accounting (AIA) was launched publicly on March 3, 2003, at a press conference in Washington, DC, culminating a weekend meeting of a steering committee composed of professionals from the United States and the United Kingdom representing private, public, and academics interested in the advancement of accounting to support a more informed public. Statements by Ralph Nader, Tony Tinker, and Linda Ruchala at the March 3 press conference are attached (Attachment I).

Preview coverage appeared in The *New York Times* in an article by its banking correspondent, Riva Atlas, in editions of Sunday, March 2, 2003 and on National Public Radio's *Marketplace* the morning of March 3. In the weeks since, there has been substantial coverage of AIA in both the general press and the more specialized press. We provide a list of some of the coverage in Attachment III.

MEMBERSHIP

Membership in AIA is open to accounting practitioners, academicians, and full-time students, as well as individuals interested in professional accounting. Until such time—anticipated to be during the third quarter of 2003—as AIA is able to secure office space and put in place an independent staff, the Association will rely on Citizen Works for managerial and administrative assistance.

MISSION STATEMENT OF AIA

- Whereas the integrity of the accounting profession is premised on individuals who acknowledge their responsibility to maintain expertise, to exercise independence of thought and action, and to serve and be guardians of the public interest; and
- Whereas the influence of corporate pressures on professional standards have eroded and compromised this integrity;

The mission of the ***Association for Integrity in Accounting*** is to provide an independent forum to present and advance positions on a wide range of critical accounting and auditing issues, standards and regulations affecting the accountability and integrity of the profession and the public interest in maintaining trust and confidence in accounting.

GOALS OF AIA

Pursuant to its mission, the AIA has identified the following four goals:

1. Watching the Watchdogs

The AIA will evaluate the system of financial standard setting and regulatory structure from square one. It will examine regulatory agencies. Using as their baseline the securities laws of 1933-34 and the mandates they established for the SEC, they will consider the elimination of the FASB.

2. Restoring Professional Independence

The AIA will propose legislative and rule changes to address the conflicts of interest inherent in the current funding, selection of, and rotation of CPAs and consultants.

3. Assuring Corporate Accountability and Disclosure

The AIA will propose increased transparency on stock options and derivatives in order to avoid a banking crisis. It will resurrect interest in the concept of expanded social and environmental accountability, including work on sustainability reports.

4. Redeeming Accounting Education

The AIA will be a voice for openness and transparency to educate students, professionals, and the public on the lessons of Enron and other failures. It will work to gain access to information in order to analyze these failures. It will help accounting students to think critically and independently.

To achieve these four primary goals, the AIA has established these objectives:

1. Educate the public on accounting issues;
2. Provide an informed counter-analysis to inside interests;
3. Propose alternative legislative regulatory options to reform;
4. Create understanding of the structural problems of financing the FASB and regulatory structure;
5. Provide expert testimony on key regulatory proposals for reform in these areas; and
6. Be a media resource for public interests on current reporting issues.

At its founding conference, the steering committee established a Substantive Issues Committee for each of the four goals; all members of AIA are invited to participate in one or more of these Substantive Issues committees.

Position papers of 40–50,000 words developed by each of the Substantive Issues Committees are tentatively projected for inclusion in a book to be published by a major academic press about the contemporary difficulties facing accounting. The book is envisaged as a publication that appeals to a broad audience, including regulators, investors, public interest accountants, accounting practitioners, teachers, etc. The international dimension will also be an important part of this work.

Attachment III lists the numerous citations in both the general press and in scholarly publications that AIA has garnered in the few weeks since its public launch. In addition, the Association has already begun to achieve the final objective listed above, in that Lee Drutman, Citizen Works' Communications Director, has regularly received calls from the general press inquiring about the Association's position or requesting information on accounting issues that have been in the news. Mr. Drutman has referred these requests to appropriate Association members who have agreed to participate in the deliberations of the four Substantive Issues Committees.

ATTACHMENT I. Statements Read at the Press Conference Announcing Formation of the Association for Integrity in Accounting, 3/3/2003

A. Statement by Ralph Nader Consumer Advocate; Founder, Citizen Works

The recent tidal wave of corporate crimes and scandals has done severe damage not only to our economy but also to the reputation and functioning of the accounting profession. We are joined today by eminent accounting professors and professionals to announce a new effort to restore integrity and responsibility to the profession.

In the last five years, there have been 919 earnings restatements at 845 public companies. In 2002 alone, there were restatements at 330 companies, a new record. The Government Accounting Office estimates that restatements have cost investors $100 billion. A total of 186 public companies with $368 billion in debt filed for bankruptcy protection in 2002, shattering the record for a second straight year.

Today, more than half of American households own stock. When companies lie about their finances, millions of Americans and their pensions are victimized, our markets fail to function effectively, and our entire economy suffers.

Accountants are supposed to be a major bulwark against this rampant fraud. But, as should be abundantly clear by now, accounting firms not only didn't stand up to corporations that were deceiving the public, in many cases they were the architects of the fraud. Seduced by the promise of easy money, accounting firms time and again cozied up to their corporate clients.

Every one of the Big Five accounting firms failed to alert the public of major fraud. Andersen signed off on both Enron and WorldCom's books. Deloitte and Touche signed off on Adelphia's books. Ernst & Young signed off on AOL Time Warner's books. PricewaterhouseCoopers signed off on finances at Lucent, which just last week settled with the SEC on a $679 million restatement. The SEC has charged KPMG with fraud for its role in helping Xerox overstate profits by $1.2 billion. Clearly, this is an epidemic. Perhaps the most glaring problem is that auditors are not independent. According to the Wall Street Journal, even in September, after selling off their consulting arms, auditing firms still were getting more than 50% of their revenue from non-auditing services. The Securities and Exchange Commission has since taken some steps toward promoting independence by banning a number of non-audit services, in accordance with the much-vaunted Sarbanes-Oxley Act. However, as long as accountants must "police the very companies that pay their fees," as Business Week put it, the audit will be inherently compromised.

In its recent rule-making on auditor independence, the SEC notably declined to ban auditors from performing tax planning services. Why? Because big tax-planning services are a lucrative and growing business for the big accounting firms, who heavily lobbied the SEC as not to impede their profits. If you look at the comments the SEC received on this issue, the majority were in favor of allowing auditors to perform tax planning services. That's because there are too few public interest voices in the accounting industry.

Just a few weeks after the SEC caved to the big firms on the tax-planning rule, the Joint Committee on Taxation released a 2,700-page report that documents how Enron used tax shelters to avoid paying taxes on more than $2 billion and not pay anything at all in four out of five years. This report revealed the key role that accounting firms had in crafting this fraud. For example, Enron paid accounting firm Deloitte & Touche $16.3 million for tax shelter consulting. All told, Enron spent $88 million on tax shelter services. Half a million of that, by the way, went to Arthur Andersen. Think about that - these are accounting firms, whose job it is to keep the company honest, who at the same time are making millions in consulting fees to help companies bend or maybe break the laws. Hardly a portrait of integrity.

One of Enron's most lucrative accounting tricks was taking advantage of the tax treatment of stock options, which under current rules can be counted as an expense for tax purposes but don't need to be counted as an expense in financial statements. That means, for example, that in 2000 Enron deducted $1.6 billion for stock option grants, but never told investors. More than $1.4 billion of those options went to just 200 top executives, who got very rich at the expense of unwitting investors.

Having all those options, as we now know, inspired top executives to engage in all kinds of fraud to keep the stock price high so they could cash out big, leaving workers and pensioners holding the bag when the stock inevitably tanked. It was the same story at countless other companies: Top executives got big stock option grants, pulled all kinds of accounting tricks so they could cash out, and left helpless investors with billions in losses. The Financial Times reported last year that executives at the top 25 bankruptcies since 2001 made off with $3.3 billion. Gary Winnick, the Global Crossing chairman, sold $735 million in stock as his company spiraled into bankruptcy. AOL Time Warner chairman Steve Case sold $475 million as his company's stock fell hard; Cisco CEO John Chambers sold $239 million as his company's stock plummeted. As Fortune magazine documented, at 1,035 major corporations where stock price fell by 75% or more, executives cashed out on $66 billion worth of stock. About $23 billion of that went to 466 insiders at just 25 corporations.

But stock options, the steroids of corporate greed, are not only still legal, they still don't even have to be expensed. That means investors are still being deceived, the IRS is still being cheated, and executives are still getting ridiculously rich and given every incentive to lie to keep the stock high. It was a formula for financial ruin the first time around, it's still a formula for financial ruin.

Of course, we have been given assurances that our leaders are serious about cleaning up this mess that in many ways they helped to create by not properly watching over the accounting industry. In fact, they've even created a new board to keep tabs on the accounting industry as part of the Sarbanes-Oxley Act - the Public Company Accounting Oversight Board. But after just a few meetings, this supposed industry watchdog board looks like it needs its own watchdog. In its very first meeting, members voted themselves annual salaries of $452,000 apiece, and $560,000 for their chairman. The President of the United States, by comparison, makes $400,000. Cabinet members earn $171,900; Federal Reserve Board Chairman Alan Greenspan earns $166,700; the chairman of the Securities and Exchange Commission earns $142,500. This salary level is a contagious precedent.

But while board members have shown themselves capable of the same infectious greed that has wreaked havoc on our economy, they've so far not taken any notable actions to restore integrity to the accounting profession.

Over at the Securities and Exchange Commission, we've been given the same promises about "a new climate of confidence" now that longtime Bush family friend and Wall Street insider William Donaldson has replaced Harvey Pitt. It's too early to tell whether Donaldson can rise to the challenge. But without significant pressure from the public interest community, it's unlikely he'll turn against his old friends.

Donaldson already has one strike against him - he's the head of an agency that has been chronically underfunded and lacks the resources to effectively unravel many of the complicated accounting frauds plaguing the economy. President Bush has promised an $841 million budget for the SEC in 2004, almost double the budget from last year. But like many Bush promises, it's far enough in the future that it will do little to help the present situation and only constant watchdog pressure will keep it from being forgotten. Bush already tried to stiff the SEC last year, recommending only $568 million in funding even though the Sarbanes-Oxley Act, which he signed, called for $776 million. This issue is key. As the Government Accounting Office concluded in a report on SEC funding, "[T]hese delays have resulted in foregone revenue and have hampered market innovation."

The SEC also needs to get serious when it comes to enforcement and cracking down on corporate crime. Unbelievably, the SEC settled with WorldCom, responsible for the largest financial fraud ever, without even a fine. What kind of example does this set if WorldCom, which restated its earnings by more than $9 billion, gets off without a fine? We will be watching closely to see what happens with KPMG, which the SEC has charged with fraud for helping Xerox improperly inflate its profits by more than $1.2 billion.

Another positive step the SEC could take is to expand disclosure. After all, the SEC was founded to make our capital markets work fairly by making sure the public had good information about corporations. But right now the public is lacking significant information about corporations in a number of areas, including environmental and social liabilities. Even though public companies give very different profit pictures to the IRS and to the investing public, the public has no access to the tax returns of public companies. IRS estimates put the gap between tax return profits and financial statement profits in 1998 at $159 billion, up from $92.5 billion just two years earlier.

We know that the health and justice of our economy depends on good, accurate information. And we know that the role of accountants is to make sure that the information is indeed good and accurate. Unfortunately, too many accountants, blinded by greed and corporate pressures, seem to have forgotten that this is their role. For too long, the public interest voices in the accounting industry have been overwhelmed by corporate pressures. Today, we are pleased to introduce a new public interest voice to restore integrity to the accounting profession, to remind the profession of its public interest duty, and to make sure that we can all benefit from their work honestly and well done, no matter how large, how powerful and how demanding their corporate clients.

And now, to discuss the state of the profession and the new association further are Tony Tinker and Linda Ruchala.

B. Statement of Tony Tinker
Professor of Accountancy, CUNY-Baruch College

No other profession in history can boast the dubious distinction to having precipitated at least one, and possibly more economic downturns, by blighting financial markets. It is not as if the 2002 U.S. recession was new. The bubble economies of the 1920's, and 1970's in the U.S, the decade long malaise of the Japanese economy, and the now faltering European (i.e, Franco-German) economy, each reveals the same professional fingerprints at the scene: accountants.

The accountant's M.O. is similar in each case: they fueled a culture of irrational exuberance with lax accounting and auditing practices. The holy grail of earnings per share has been pursued voraciously by the overstatement of earning (either by expense understatement and/ or revenue padding - Xerox, Tyco, etc, al) and/ or the misrepresentation of risk (e.g, Enron). In each case, the profession would have us believe that accounting isn't a perfect science, and that estimating future financial viability in auditing financial statements is more of an art than a science.

History and incriminating circumstantial evidence casts doubt on the credence of this plea of innocence. Regarding the incriminating evidence, auditors have formed a syndicate with management, financial advisors, consultants, tax specialists, politicians, etc, in order perpetrate a massive redistribution of wealth, away from outside investors, creditors (and in the event of a corporate collapse) employees, pension holders, and local communities. Using techniques that are structurally homomorphic with those of the pools and syndicates of the 1920's, gullible outsiders (including banks, pension funds, and individuals) are enticed to invest in stock prices, inflated by accounting numbers, that have been sanctified by 'independent' auditors, who themselves are authorized under the 1933-4 Acts by the U.S. government. Accounting firms are writing their own checks in this scenario: the non-expensing of options at Sprint or Microsoft, or the stretching of depreciation charges at Waste Management, each provides a cornucopia of phantom earnings from which consultants, auditors, brokers, and bankers might feast. The claim that accounting is intrinsically an uncertain science is not borne out by the predictable manner in which these firm have been able to systematically loot corporate treasuries.

Nor does comparative or U.S. history support the Profession's protestations of innocence. Before CISCO's pooling and purchase takeover binge, we had (nearly two decades ago) National Student Marketing, Leasco, and Paramount Pictures. Before Xerox's revenue inflation, we had Regina Vacuum Cleaners. Even Enron's con of a $200,000 trading room, fabricated for a 'meet-the-press' visit, had antecedents in ZZZ Best's phony fire restoration business (also specially prepared for on on-site visit). And again, those employee pension holders that lost massively at Enron, can take solace in the thought of the company they share with employees whose pensions fell foul of Robert Maxwell's publishing empire (indeed, in terms of our accounting 'history': Maxwell has appeared twice, first as tragedy in the 1960's Leasco affair (where the Board of Trade divined him 'not a fit person to serve as a director of a public company) and second as farce, in the 1990's, where he misappropriated some $700 million pension funds.

Lest this dismal account of accounting mishaps be thought to be unique to the U.S, other comparisons from abroad also give cause for skepticism. Is the Japanese banking crisis (with overvaluation of crossholdings, and therefore an overstatement of assets and therefore minimum capital) so different from the $500 million Savings & Loan's debacle in the U.S. In both cases, overvaluation of real estate holdings was an additional common feature. Is the giddy expansion by takeover, merger, and inflated earnings, and earnings per share, so different between Vivendi International in France, and CISCO Systems here at home?

C. Statement of Linda Ruchala Associate Professor of Accountancy, University of Nebraska-Lincoln

We believe that the problems catalogued by Ralph and Tony this morning are not anomalies. Instead, we believe that the roots of these financial failures and frauds are found in the regulatory, social and economic institutions that characterize the current corporate reporting and accounting environment.

This weekend the Association for Integrity in Accounting held its founding conference. The Association's members include accountants from private, public, and academic accounting sectors (as well as students and others), both domestic and international, who are interested in advancing accounting to support a more informed public. The Association intends to provide an independent initiative to work in the public interest on what we see as the systemic issues facing the profession.

Our mission is to provide an independent forum to present and advance positions on a wide range of critical accounting and auditing issues, standards and regulations affecting the accountability and integrity of the profession and the public interest in maintaining trust and confidence in accounting.

Specifically, we have identified four starting components as our initial operating priorities:

First, watching the watchdogs. We believe that current patchwork of financial standard development and regulatory structures must be reevaluated from square one. Our preliminary evaluation suggests that the Financial Accounting Standards Board should be eliminated and the SEC required to live up to its original mandate for establishing financial reporting standards. The evaluation and development of alternative structures for accomplishing fair and adequate financial reporting is our underlying top priority for the coming year.

Second, restoring professional independence. During the coming months, we intend to propose changes to the conflict of interest issues that are pervasive in the current funding and selection of CPAs and consultants. We will also address issues of auditor rotation within this priority area.

Third, assuring corporate accountability and disclosure. We believe in, and plan to promote, an expanded concept of corporate accountability. Corporations are public institutions whose license to exist comes from the public. Shareholder value is simply too narrow a perspective for the measurement of accountability within corporations. The mantra of maximizing shareholder value is a limited—and limiting—notion of the role of the corporation within our society. One pressing disclosure issue involves developing increased transparency for the reporting of stock options and derivatives. Another important issue is expanded environmental reporting, known as sustainability reports, which already exists in many countries around the World. This kind of reporting is a further example of the type of public interest accountability that we seek for American taxpayers and citizens.

Our fourth priority focus is to redeem accounting education. We believe that the Association of Integrity in Accounting must be a voice for open and transparent reporting in order to educate students and the public on the lessons of Enron and other corporate frauds. We must work to gain access to archival information that will enable us to understand how these frauds could be perpetuated in order that we might prevent further failures. Opening up the files on Enron and other like cases to permit a thorough analysis of their causes is analogous to performing a post-mortem in medicine and is crucial for the proper functioning of a democratic society.

We welcome the opportunity to engage the media and others in continued dialogue on these and other related points as we develop our agenda. We invite everyone sharing our concerns to participate in our activities.

ATTACHMENT II. Participants in the AIA Planning Conference, Washington, DC, March 1–3, 2003

The following accounting professionals from the United States and the United Kingdom came to Washington for an organizing conference to lay the groundwork for the Association for Integrity in Accounting and to attend a press conference on March 3 announcing formation of the Association.

Professor David Crowther, Corporate Social Responsibility, London Metropolitan University

Professor Jesse Dillard, School of Accounting, University of Central Florida

Professor Ralph Estes, Department of Accounting, American University

Professor Steven Filling, Department of Accounting and Finance, CSU-Stanislaus

Professor Martin Freedman, Towson University

Associate Professor Linda Ruchala, School of Accountancy, University of Nebraska-Lincoln

Soon Nam Kim, Lecturer, School of Accounting and Finance, University of Wollongong, New South Wales

Professor Bill Schwartz, School of Business, Indiana University South Bend

Professor Tony Tinker, Department of Accountancy, Baruch College-CUNY

Professor Paul F. Williams, Department of Accounting, North Carolina State University

Professor Kristi Yuthas, Kogod School of Business, American University

Others who participated actively in the organizing conference were:

Theresa Amato, Esq.
President, Citizen Works

Ralph Nader
Founder, Citizen Works

Although unable to attend the organizing conference in Washington, DC, the following have been active in discussions leading up to the public launch on March 3, 2003:

John W. Argo, CPA and Partner, Medical Business Consultants

Professor Mary Beth Armstrong, California Polytechnic State University

Professor Edward Blocher, University of North Carolina.

Professor Douglas Carmichael, Department of Accountancy, Baruch College-CUNY

John Demetrius, CPA, Fresno, CA

Bob Dwyer, CPA, Founder of 1000 Friends of Fresno

Professor Timothy Fogarty, Case Western Reserve University

Mort Levy, CPA

Professor Steven Mintz, California State University-San Bernardino

Sue Ravenscroft, CPA and PhD in Accounting

Professor Fred Sellers, Southwestern University

Milton Zisman, CPA and Co-founder, Accountants for the Public Interest

As of June 1, 2003, the ranks of AIA's dues-paying ranks have swelled to 60 members, many of whom have been participating actively in discussions on the Association's Listserv. The membership is drawn from both practitioners and academics.

ATTACHMENT III. Press Mention of the Association for Integrity in Accounting (as of June 1, 2003)

1. "A New Accounting Watchdog in the Pack," by Riva Atlas, *New York Times*, 3/2/03
2. "Public interest group formed to monitor government oversight of accounting firms" Associated Press (wide distribution), 3/3/03
3. *NPR Marketplace* morning report, 3/3/03
4. "Nader Unleashes New Watchdog Group: Association For Integrity in Accounting," *Whitehouse Bulletin*, 3/3/03
5. "US consumer activist forms new accounting watchdog group," *Agence France-Presse*, 3/3/03
6. "New Accounting Panel Being Watched for Reform Clues," by Carrie Johnson, *Washington Post*, 3/4/03
7. "Crusader Ralph Nader Takes on Accounting Profession," *AccountingWeb.com*, 3/4/03
8. "Nader Raids Accounting Profession," *Electronic Accountant/Accounting Today*, 3/4/03
9. "Nader to Watch Accountants," by Stephen Taub, CFO.com, 3/4/03
10. "Watching the Public Company Accounting Watchdog," by William Baue, *Socialfunds.com*, 3/21/03
11. "Group addresses profession's integrity," by *Practical Accountant*, 4/03
12. "New accounting watchdog?" by Kathy Williams, *Strategic Finance*, 4/1/03
13. "Nader-led watchdog group seeks to restore profession," by Ken Rankin, *Accounting Today*, 4/7/03
14. "Public Interest Accounting Group Formed to 'Watch the Watchdogs'" *Securities Litigation & Regulation Reporter*, 4/9/03
15. "Corporate Raider," by Nick Pachetti, *Money Magazine*, 5/03 (interview with Ralph Nader about the AIA)

In addition, articles have appeared in the following scholarly publications by authors identified with an AIA affiliation:

The CPA Journal, April 2003

Critical Perspectives on Accounting

Accounting, Auditing, and Accountability

Social Text

International Tax Review

Organization

ATTACHMENT IV. The Association for Integrity in Accounting (AIA) Membership Form

You may join the Association on line at http://www.citizenworks.org/actions/aia.php, or you may use the 2-page form below and join by mail by sending this form to:

Citizen Works - AIA
PO Box 18478
Washington, DC 20036.

Name (please print) *Phone Number*

Email *Address*

☐ Please add my email address to the AIA Member Listserv.

Please check your membership type:

- ☐ Academicians and Nonprofit Accountants:.. $75
- ☐ Practitioners: $100
- ☐ Full-time Research Students: $25
- ☐ Full-time Undergraduate Students:.. $ 5
- ☐ Society Rate: $50
- ☐ Associate (Member of an allied profession, etc.):................................. $50

I am interested in participating in the following Substantive Issues Committee(s):

- ☐ Watching the Watchdogs
- ☐ Restoring Professional Independence
- ☐ Assuring Corporate Accountability and Disclosure
- ☐ Redeeming Accounting Education

The Association for Integrity in Accounting (AIA) is a project being incubated by Citizen Works, a 501(c)(3) organization. Any amount in excess of your membership fee will be considered a charitable contribution toward the start-up of the organization and is tax deductible to the extent provided by law

Amount of Payment: ______________________________

Method of Payment: ☐ Check (Please make check payable to "Citizen Works")
☐ VISA ☐ MasterCard ☐ Discover ☐ AmEx

Card No.______________________________ Exp. ____/____________

Name (Printed) as it appears on Credit Card

Signature

Please send membership materials to the following people (you may use additional sheets of paper as needed):

Name	*Name*
Address	*Address*

Please provide a short biography indicating your personal areas of professional expertise, years of experience, other professional affiliations, etc.