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Testimony

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Chairman Levitt, Chairman Nicolaisen, Members of the Advisory Committee and all of those in attendance:

Crowe Chizek, the nation's 9th largest accounting firm, was founded in 1942 in South Bend, Indiana. Crowe Chizek now employs approximately 2400 professionals who provide a range of assurance, tax, risk and consulting services at 22 locations in the United States. We also serve clients worldwide as a leading independent member of the Horwath International global professional services organization.

Crowe Chizek provides a range of services that are segmented based upon the size of the company and the role we fill. Our internal firm culture is built around investment in our people, their professional pride and satisfaction in a job well done, and the long-term development of the professional skills and judgment necessary to provide the highest possible level of client service.

On behalf of myself and Crowe Chizek, I wish to thank you for inviting me to appear before you today to share some thoughts on the future of the accounting profession and, in particular, the area we often refer to as "human capital." In other words, I want to discuss the critical issue of *people* – how to make sure that we continue to attract talented and highly skilled people to the accounting profession; how we help them maintain and enhance their skills and knowledge throughout their career; and how we retain good people within the profession for the long haul.

Current Environment

The expectations for our profession are very high. We are asked to provide the independent attestation necessary to maintain public confidence in our capital markets. We are expected to serve clients, while also exercising the independence and professional skepticism necessary to protect investors. And, we meet these obligations in a rapidly changing world in which our knowledge is constantly tested by new financial instruments that often seem to spring fully-formed overnight. These expectations place a premium on the quality and commitment of the people who choose accounting for their life's work.

Public discussion of the accounting profession and audit services tends to focus on such key issues as reporting models, standards, regulatory oversight, and independence, but I strongly believe that the success or failure of those critical policy matters ultimately depends on our ability to fill our profession with the right blend of dedicated people. What we need in our people is a trifecta of talent, commitment and integrity. A talented professional team is the first prerequisite for a quality audit.

Pipeline of Talent

Over the years, I believe the profession has performed well in this area. But the bar is moving higher and the competition for talented individuals, both recent graduates and experienced individuals who are weighing career choices, is growing more intense. Indeed, at the start of this decade the profession appeared to be losing ground as many of the brightest students chose careers in fields such as technology and finance, and the number of accounting graduates fell to new lows.

I think a few numbers can help tell the story.

The talent flow from our colleges to the accounting profession peaked more than a decade ago during the 1994-95 school year with the award of 61,220 bachelor's and master's degrees in accounting. From that high point, the number of accounting degrees fell precipitously to a low of 44,695 in 2001-2002. For a variety of reasons, including enhanced compensation packages within the accounting profession, a range of school-based partnerships to encourage interest in accounting as a career, and a strong advertising campaign implemented by the AICPA, the number of accounting students has climbed substantially in the past five years. Some 54,535 accounting degrees were granted in the 2004-05 school year, a rebound of about 20 percent, though still below the peak of the mid-1990s.

But these raw numbers tell only part of the story. The real question is whether we are graduating enough *quality* students to meet staffing needs. Not every student with an accounting degree will, in the end, choose to join our profession. For one reason or another, some recent graduates may not be a good fit for the audit firms. And, perhaps 35 percent of recent graduates are from an institution that is not accredited by the Association to Advance Collegiate Schools of Business (AACSB). While that does not automatically disqualify them from work for an audit firm, it does mean that they may not be as well prepared as we would like. Thus, the real pool of available talent for auditing is far smaller than the number of graduates. It is generally agreed within the profession that the number of graduates is just barely sufficient to meet the annual need for new hires.

I might add that not only are we looking to build a strong pipeline, but we want it to be a more diverse pipeline. Quite frankly, we have fallen short of our goals in this area and the percentage of African-Americans and Hispanic-Americans who have chosen accounting as a career is still relatively small. We need to reach out even more aggressively to minority communities and present our profession as a fulfilling option that is wide open to anybody who is prepared to make the personal commitment. We believe that a more diverse work force means a more innovative workplace that sparks creative solutions and quality service.

Development of Talent

Persuading students to study accounting is just the first step of a continuum that aims to create a corps of professionals with the technical training, the intellectual inclination, the rounded judgment, and the personal commitment to provide the level of audit service necessary in an evolving global financial marketplace.

Once a prospective CPA enters the educational pipeline, he or she must receive a top-notch education leading to a bachelor's or master's degree from an accredited college or university. That means we need up-to-date curricula and a deep reservoir of qualified faculty to help them along. In fact, the level of

academic resources, especially PhDs to direct the course of study, is an area of serious concern that I will discuss in greater detail in a few minutes.

After they have been hired by a firm, the new graduates will need extensive additional training to familiarize them with the firm's practices and also with the real world of auditing. It has been said that college prepares students to *become* an accountant, not to *be* accountants the day after they receive their degree. In some ways, *becoming* a CPA is a lifelong quest in which the learning never ends. Continuing Professional Education, or CPE, as it's called in the profession, is a way of life for a good auditor. If you doubt the need for CPE, consider how much the world has changed for an auditor who received a degree at the start of this decade – before SOX Section 404 or before IFRS. Imagine how much more the world has changed for somebody who got out of school 20 or 30 years ago. None of these old grads could do their job properly if their learning had stopped.

Retention of Talent

Finally, as we move along the continuum, we need to make sure that our best people stay in the profession. That means we need to continually reinforce their sense of professional pride and accomplishment by giving them the tools and support to do their job properly. We must recognize the inherent stresses and life challenges that are part and parcel of an auditing career – the pressure that comes with passing judgment on the financial reporting of companies with billions of dollars in assets; the new challenges and heightened career risks created by the enhanced public and government scrutiny of recent years; the travel and family relocations that affect many auditors as they move from one major client account to another. We also must recognize the frustration created by state licensing restrictions that can interfere with an auditor's ability to take advantage of professional opportunities in another jurisdiction.

At Crowe, we conduct an annual survey to gain an understanding of how engaged our employees are in their work and in the firm. We are fortunate that our professionals are highly committed to their profession and to meeting client needs. The survey also provides insights into some of the challenges our professionals face, especially the need to manage personal and professional demands on their time and the stress that comes with work as an auditor. One of our partners recently stated, "I believe our people are feeling additional stress and anxiety from managing the complexity of new audit standards. This has a direct impact on our ability to motivate and keep them engaged." At Crowe, we believe high employee engagement leads to higher quality work and we are deeply committed to maintaining those high levels.

Addressing these types of issues effectively also is crucial for maintaining morale and retaining our top personnel. I cannot say that we are unique in this respect, but Crowe Chizek assigns the highest priority to keeping our best people. Identifying talented new people at the start of their career is highly important, but we cannot fully tap the potential of new hires unless we can match them with high caliber mentors and models to learn from.

Accounting Educator Pipeline

Let me take a moment to talk a bit more about a potentially serious challenge that I noted earlier – a shortage in the number of accounting faculty that holds PhDs. The fact is that we do not have enough doctoral level accounting professors to fully train today's student body. An American Accounting Association committee recently estimated the cumulative national **shortage** of PhD level accounting faculty at 471 – or more than twice the number of new doctorates to be awarded from 2005-2008. And, a separate study published earlier this year shows that accounting is the only business school discipline in which the number of faculty declined between 1990 and 2004. The shortages are particularly acute in the

areas of tax and auditing. In auditing, for example, only 26 doctorates will be awarded in the 2005-08 period – less than a quarter of the number needed to meet demand.

Here's the bottom line -- at a time when we need to increase the number of PhD level faculty, the number of current doctoral candidates is not even sufficient to maintain the status quo. For many accounting faculty retirement is on the horizon. The average age of accounting department faculty is 54 and ½ and nearly one third of accounting professors are 60 years or older. Like other Americans, many college professors are deferring retirement beyond the traditional benchmark of 65. But eventually age will take its toll and a significant number of these professors will retire.

The faculty shortage hurts in at least three ways: 1) it can compromise the quality of instruction by stretching faculty thin and limiting their ability to interact with young students on a personal basis for guidance and mentoring; 2) The acute shortages in tax and auditing strain the ability to meet students' demand for focused work in these important disciplines; and 3) it will limit growth in the number of accounting students and could even force some colleges or universities to cut back enrollments – the wrong outcome at a time that we need more students, not fewer, to meet the profession's needs.

Over time, this drop in academic resources will limit the number of new auditors and make it increasingly difficult for the profession to meet the growing demand for high quality audits.

Conclusions

I do not have a magic solution for reversing this troubling trend in the accounting educator pipeline, but I suspect it will require a variety of incentive programs to provide financial support for doctoral candidates and/or enhance the appeal of accounting professorships as a career choice. In addition to efforts by the accounting profession, I also suspect that fixing this problem will require the participation of other public and private entities, including capital market participants, public companies, investor groups and government agencies. I urge the Committee to devote significant energy to this issue.

Similarly, we must find creative ways to attract a larger number of America's best and brightest young students to the accounting profession. While enrollments in accounting programs have risen in recent years, we are turning out just enough graduates to meet current needs. Given the growing expectations for audit quality, a widening interest in a greater amount of forward-looking information, and the coming implementation of SOX compliance for smaller public companies just to name a few demand drivers, we are going to need more auditors in the years ahead.

Public policymakers should support retention efforts that keep experienced public company auditors from exiting the profession and taking with them skills and knowledge that contribute to quality audits. To achieve our retention goals, policymakers should look for ways to reduce professional risks that may drive veteran auditors out of the profession. They also should work to remove regulatory and other policy barriers to professional advancement. For example, nationwide adoption of the Uniform Accountancy Act would make it easier for individual CPAs to practice their profession and pursue opportunities in a variety of licensing jurisdictions.

Mr. Chairmen and committee members, let me thank you again for the opportunity to appear before you today. I have tried to highlight the most significant "people challenges" facing the auditing profession and also to share a few concepts for addressing these issues. As I said earlier, I believe that people are the key to achieving our overarching policy goals and to providing the public company audit services our economy requires. I hope that the information I have provided will help you accomplish your mission.

I would be happy to respond to any questions that you might have.