



Political strategies used by the US public accounting profession during auditor liability reform: The case of the Private Securities Litigation Reform Act of 1995

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Abstract

In this paper we examine the US public accounting profession's use of political strategies during the eight-year period leading up to the passage of the Private Securities Litigation Reform Act of 1995. Our analysis is organized and interpreted within the framework of a recently developed theoretical model of corporate political strategy. Much prior research has addressed the question of *why* the US public accounting profession would promote litigation reform. However, this study is the first to provide a detailed analysis of *how* the US profession acted to obtain such reform. The study contributes to the development of a general model of public accounting profession political strategy—a stream of research that is of critical importance given the vital role the federal government plays in the survival of the profession, the significant resources that the profession devotes to political activities, and the recent accounting industry reforms passed by the US Congress.

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1. Introduction

In the aftermath of the Enron collapse, the United States Congress faced enormous pressure to reform the public accounting industry. In response, the House of Representatives, with the support of the American Institute of Public Accountants (AICPA), passed “The Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002”, on April 24, 2002. Sponsored by Representative Michael Oxley (R-Ohio), Chairman of the House Financial Services Committee, the bill was immediately criticized by investor protection groups as little more than a “kiss on the cheek” (Bjorhus, 2002) and a “gift” (Burns, 2002) for the public accounting industry. Notably, the Act did not prohibit the provision of lucrative non-audit services to audit clients, considered by many observers to be at the core of the Enron audit failure (Byrnes et al., 2002).

According to former Securities and Exchange (SEC) Chairman Arthur Levitt (Levitt and Dwyer, 2002), the Act’s lack of meaningful reform was the direct result of the powerful influence of the US public accounting industry, gained through development of long-term political relationships and monetary contributions.³ Congress did not pass the Oxley bill, however, because additional pressures for substantial public accounting industry reform arose due to subsequent concerns over accounting practices at other large corporations such as Worldcom and Xerox. Ultimately, Congress enacted a compromise version of the bill known as the Sarbanes–Oxley Act. The Sarbanes–Oxley Act included stricter provisions regarding the provision of consulting services and federal regulation of the public accounting profession.

Although the recent accounting industry reforms garnered much public attention, Levitt points out that the public accounting profession’s political influence at the federal level resulted from their long-term involvement in US federal politics. Therefore, in order to understand recent accounting industry reforms, we argue that it is important to study the public accounting profession’s involvement in federal policymaking in a broader sense. Our study

³ Anecdotal evidence is generally supportive of Levitt’s charge. Representative Oxley, for example, was the leading recipient in the House of Representatives of accounting industry contributions in 2002 (FEC, 2002). During the period 1989–2001, members of the House who supported the Oxley bill received, on average, \$33,150 from the accounting industry, while those who opposed the bill received only \$17,332 (Public Campaign, 2002). In the 2000 election cycle, the public accounting industry ranked 27th in contributions out of 122 sectors identified by the Center for Responsive Politics. Furthermore, each of the Big 5 members ranked among the top 20 contributors to President Bush (Levitt and Dwyer, 2002, p. 131).

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