Cisco Is One Company 'Affected' By SEC Talks at Pricewaterhouse

BY ELIZABETH MACDONALD
Staff Reporter of THE WALL STREET JOURNAL

In the latest embarrassment for PricewaterhouseCoopers LLP, the Big Five firm told audit client Cisco Systems Inc. it is one of the companies "affected" by discussions with market regulators about auditor independence problems.

The disclosure, which came in a routine filing Cisco made with the Securities and Exchange Commission to register a securities offering, implies one or more individuals at the world's biggest accounting firm owned stock or other kinds of investments in the world's largest maker of computer-networking equipment.

The disclosure comes as PricewaterhouseCoopers, which counts Cisco as one of its most important audit clients, has been dealing with fallout from a report the SEC released last month showing close to half its 2,700 partners owned investments in audit clients, in violation of the SEC's auditor-independence rules. All told, the report found 1,885 staffers committed a total of 8,064 violations. That included six top partners responsible for enforcing the rules at the firm; 45% of the infractions were carried out by partners who work on audits of public companies. The firm has since forced divestitures and fired 10 people.

"This doesn't have any material effect on Cisco," said a Cisco spokesman. The accounting firm declined to comment.

It's unclear whether the SEC will demand that Cisco, based in San Jose, Calif., hire another auditor to redo its fiscal 1999 financial statements. Both the SEC and PricewaterhouseCoopers have said none of the 2,159 audit clients affected by the earlier infractions committed by the firm's employees had problems with their audits. It's unclear whether Cisco is included among that number.

PricewaterhouseCoopers "has advised Cisco that Cisco is one of the companies affected by such discussions," the SEC filing said, which added: "Cisco is not involved in the discussions between the Commission and PwC and cannot predict the result of those discussions."