Money & Investing

Pricewaterhouse Hit With an SEC Salvo In Lingering Conflict-of-Interest Feud

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The Securities and Exchange Commission has notified 52 companies audited by PricewaterhouseCoopers that conflicts of interest stemming from firm employees' personal investments in the concerns could affect the integrity of their financial statements, people at the auditing firm say.

The unusual action comes on the heels of an SEC report last month that was harshly critical of the accounting concern's adherence to federal rules requiring strict independence of auditing clients. The newest move relates specifically to cases in which PricewaterhouseCoopers auditors, consultants and other employees owned stock in the very clients the firm was auditing at the same time they were directly providing services to the companies.

The SEC suggested some of the 52 companies hire another firm to replace PricewaterhouseCoopers as auditor of their year-2000 financial statements, the people familiar with the situation said. These include Compaq Computer Corp., which Thursday said it replaced PricewaterhouseCoopers, its auditor of more than a decade, with rival Ernst & Young LLP.

A Compaq spokesman confirmed that the SEC had asked it to name a new auditor to review its 2000 financial statements; PricewaterhouseCoopers is finishing its audit of Compaq's 1999 books, with the SEC's approval. A senior associate working on the audit was found to own 100 Compaq shares, triggering the violation, people at the accounting firm say. The Compaq spokesman noted that the computer maker would continue to work with PricewaterhouseCoopers technology consultants, among others, "when and where it makes sense."

A spokesman for Lucent Technologies Inc. also confirmed the SEC recently notified it about the conflicts. But the spokesman said, "We were not told to switch auditors." Meanwhile, Cisco Systems Inc. recently disclosed in SEC filings that PricewaterhouseCoopers had warned that its audits could be "affected" by the conflicts; a spokesman for the computer-networking company said the SEC hasn't asked it to switch auditors. The SEC declined to comment on the notifications. A top PricewaterhouseCoopers official said the firm "recognizes there's an issue here. We've dealt with it in terms of notifying the SEC and our clients. We are rooting these problems out." He added: "We're unhappy to have caused any pain to Compaq, and we're doing everything we can to prevent anything like that happening to our other clients." Top PwC officials maintained that Compaq is the only company among the 52 that has decided to switch.

In its report last month, the SEC detailed that 1,885 PricewaterhouseCoopers' employees committed a total of
8,064 violations of the SEC auditor-independence rules because they or their relatives owned investments in 2,159 of the firm's 3,170 corporate audit clients. The rules stipulate that audit-firm partners can't own investments in audit clients; relatives such as spouses, dependent children or grandparents, among others, can't own significant financial investments in audit clients. Most of the violations are believed to have involved investments owned by family members, not the actual auditors on the job.

In response, the firm fired 10 people, forced divestitures and set up an expensive computer system to track employee holdings. SEC and firm officials said the agency found no problems with the books of the 2,159 audit clients.

Currently, the Public Oversight Board, an auditing oversight panel, is investigating possible conflicts at the other Big Five accounting firms; such conflicts are widely believed to exist at these firms.

Meanwhile, the SEC's strict enforcement of the independence rules is creating consternation among many accounting-industry employees, including some who view the rules as outdated and too complex and confining.

For example, people close to the matter say the Cisco notification partly stems from a divorce dispute involving a senior audit manager and his spouse, a Cisco executive. These people say that because the wife's multimillion dollar package of Cisco stock options is part of the divorce proceedings, the firm had to order the manager to either give up his pursuit of the options as part of the divorce or quit the firm. He has since left, these people said.

There is widespread consensus, too, that the SEC rules may be hurting more women than men. For example, the majority of people being forced to quit over the conflicts are women, people at the firm said. One female spouse of a top firm partner recently had to quit her top-level job at J.P. Morgan & Co. because PricewaterhouseCoopers audits the bank.

The SEC rules have forced PricewaterhouseCoopers to lose one of its top guns, Jennifer Taylor, 51, who ran the firm's telecommunications practice for the Americas region in San Francisco. Next week, Ms. Taylor is taking early retirement, after a 16-year career. Reason: Ms. Taylor's husband is a general counsel for SnapTrack Inc., a software-technology concern that recently was acquired by telecommunications company Qualcomm Inc., a PricewaterhouseCoopers' audit client. Because his position put the firm in violation of the SEC rules, Ms. Taylor had to either quit her job, get her husband to quit his job or get divorced.

"The firm is not at fault here in any way shape or form," Ms. Taylor said. "They've gone out of their way to look for ways to keep me, and still be in compliance with the rules." She added: "I think the disparate impact falls on women executives at the firm."

PricewaterhouseCoopers declined to comment on Ms. Taylor's case.

-- Gary McWilliams contributed to this article.

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