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## **Audit firms not only investor safeguard**

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By Dar Haddix

The first accounting firm review by the U.S. Public Company Accounting Oversight Board, created as part of the stricter corporate governance rules under the 2002 Sarbanes-Oxley Act, has found “significant audit and accounting issues” at all of the Big Four accounting firms. But accounting firms aren't the only buffers protecting investors from other Enron and WorldCom-like corporate meltdowns; some investment analysis companies are offering nervous investors a broader look at companies to help them make good investment choices.

The SOX act, passed in July 2002, aims to protect investors by requiring companies to show that they have internal control over their financial reporting. It also requires independent review of auditing firms instead of peer review -- hence, the creation of the PCAOB.

Reports on each of the big audit firms -- Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP, and PricewaterhouseCoopers LLP -- were released by the PCAOB Friday. The public portions of the reports indicated audit and accounting fumbles, including one problem that eluded all four firms, resulting in several companies revising their balance sheets. That doesn't include whatever quality-control concerns could be in the private portions of the reports, available only to the audit firms.

But auxiliary troops are massing to protect the wary investor. Morningstar Funds is now giving fund companies a “fiduciary rating” based not only on their financial statements but also other elements of their fiduciary conduct, the investment research firm announced on Wednesday. The full ratings list will eventually include 2,000 fund companies.

“Our new Fiduciary Grades are designed to help investors like you find funds that put shareholders first. Specifically, the Fiduciary Grades can help identify which funds' managers, directors, and management companies have their interests aligned with those of fundholders,” Morningstar said. “The Fiduciary Grade goes beyond the usual analysis of strategy, risk, and return ... (it) tries to capture some of the intangibles associated with making an investment decision.”

New York-based RateFinancials Inc., is offering a report that shows how some companies are not doing a good enough job of creating understandable financial statements.