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July 9, 2008

Advisory Committee on the Auditing Profession
Office of Financial Institutions Policy
Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 1418
Washington D.C. 20220

Re: Draft Report Dated May 5, 2008 and Subsequent Addendum

Dear Committee Members:

Entwistle & Cappucci LLP appreciates the opportunity to comment on the Draft Report issued by the Department of Treasury's Advisory Committee on the Auditing Profession (the Committee) on May 5, 2008, and the subsequent Addendum to Chapter VI of the Draft Report, distributed on May 30, 2008.

By way of background, we represent major institutional investors in connection with shareholder litigation and related corporate governance issues. Among these clients are some of the nation's largest and most sophisticated public pension funds. We strongly support the Committee's efforts to improve the quality, accountability, and sustainability of the audit profession.

Set forth below is our response to the Committee's recommendations found in the May 30, 2008 Draft Report and Addendum.

I. Auditor's Reporting Model

We support the Committee's recommendation to improve the auditor's reporting model, which currently operates on little more than a pass/fail basis. First and foremost, we agree with the Committee's recommendation (as set forth in Recommendation 1(b) in Chapter VI of the draft report) that the PCAOB and the SEC should clarify the auditor's role in detecting fraud in financial statements. Despite sometimes puzzling assertions to the contrary, audit firms are responsible for taking objectively reasonable steps to detect fraud. AU Section 316,

Consideration of Fraud in a Financial Statement Audit, states that the “auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.” Moreover, Section 10A of the Exchange Act of 1934, *see* 15 U.S.C. § 78j-1, requires auditors to design audit procedures to test for illegal acts, and in certain instances to report illegal activity to the SEC. We respectfully submit that not only should auditors be required to acknowledge their obligations to detect and report fraud, but also should be required to disclose the steps taken to meet their obligations. Additionally, audit firms should be required to disclose their obligations to detect and report illegal acts as well as the steps taken to do so.

We further believe that auditor reports should be refined to require auditors to identify, consistent with the findings of the February 2008 CFA Institute survey: (1) key risk areas; (2) significant changes in risk exposure; and (3) amounts either involving a high degree of uncertainty in measurement and significant assumptions or requiring a higher level of professional judgment.¹ Disclosure of this information would clarify the audit firm’s role and enable investors to make more informed decisions regarding the risks and assumptions underlying the company’s financial statements.

II. Engagement Partner Signature

The Committee should recommend that the PCAOB revise the auditor’s report standard to require the engagement partner’s signature on the auditor’s report. The Committee’s proposal would not impose a significant burden on auditors as it would not increase or decrease the liability or responsibilities of the engagement partner; indeed, the European Commission’s Eighth Directive already requires engagement partners to sign auditor reports. The proposal would, however, serve to increase the auditor’s accountability in the same way that officer certifications function under Section 302 of the Sarbanes-Oxley Act. Namely, the proposal would promote transparency and foster a greater sense of personal responsibility upon the signatories and the auditing team that the signatory supervises. For the same reasons, we submit that the audit’s concurring partner should also be required to sign the audit report.

III. Transparency

We support the Committee’s recommendation that, beginning in 2010, the PCAOB require larger audit firms to produce a public annual report that will increase the transparency of audit firms.

While the Committee recommends leaving the precise disclosure obligations to be determined in the future by the PCAOB, we believe that auditor reports should include the kind of financial information required by the European Union’s Eighth Directive, Article 40 Transparency Report, concerning the audit firm’s: (1) legal and network structure and ownership description; (2) governance structure; (3) most recent quality assurance review; (4) public company audit list; (5) independence practices and confirmation of independence compliance

¹ CFA INSTITUTE, FEBRUARY 2008 MONTHLY QUESTION RESULTS (Feb. 2008), *available at* <http://www.cfainstitute.org/memresources/monthlyquestion/2008/february.html>.

review; (6) continuing education policy; (7) financial information including audit fees, tax advisory fees, and consulting fees; (8) partner remuneration policies; and (9) quality control system and a statement by firm management on its effectiveness.

We further support the Committee's recommendation that key indicators of audit quality be included in the report, such as those described in Recommendation 3 of Chapter 7 of the Draft Report. We submit that the PCAOB should require disclosure of indicators such as (1) average headcount; (2) staff turnover; (3) diversity; (4) client satisfaction; (5) audit and non-audit work; (6) proposal win rate; (7) revenue; (8) profit; (9) profit per partner; (10) engagement team composition; (11) the nature and extent of training programs; (12) the nature and reason for client restatements; (13) average experience level of auditing firm staff on individual engagements; (14) the average ratio of auditing firm professional staff to auditing firm partners on individual engagements; and (15) annual staff retention.²

The Committee is also considering whether, beginning in 2011, the PCAOB should require larger auditors to file on a confidential basis their audited financial statements prepared in accordance with either GAAP or IFRS and then either (1) determine, based on broad consultation, whether these audited financial statements be made public in consideration of their utility to audit committee members and investors in assessing audit quality; or (2) make these audited financial statements publicly available. To ensure better transparency and provide audit committees and investors with increased ability to assess audit quality, we support "Alternative 2," which would require auditors to file audited financial statements with the PCAOB and make them publicly available on the PCAOB's website.

IV. Litigation

The Committee should not recommend that Congress provide the federal courts with exclusive jurisdiction over certain categories of claims that presently may be brought in state courts against auditors relating to audits of public company financial statements. We believe that exclusive federal jurisdiction would weaken shareholder rights and remedies. In particular, this proposal would have a negative impact on the ability of investors to opt-out of class action litigation and pursue state law claims, some of which do not require proof of reliance or loss causation and others of which provide for aiding and abetting liability. The fact that some audit firms support this proposal purportedly out of fear of *negligence* claims asserted by trustees and receivers of bankrupt audit clients is hardly a basis to abolish the existing rights of investors asserting claims of *fraud*.³ Moreover, investors should retain their rights to commence individual litigation in state court regardless of who the defendant may be. There is simply no rational basis for allowing public companies to be sued in state court but not their auditors.

² These proposals are, of course, in addition to any rules ultimately adopted as a result of the PCAOB's 2006 reporting proposal.

³ See, e.g., Record of Proceedings (June 3, 2008) (Written Testimony of Kathryn A. Oberly, Americas Vice Chair and General Counsel of Ernst & Young, 13-14).

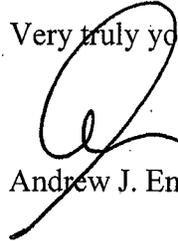
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Thank you for considering our comments concerning the issues before the Committee. Please contact me at (212) 894-7200 if you have any questions or if I may be of further assistance.

Very truly yours,

A handwritten signature in black ink, appearing to be 'A. Entwistle', written over the typed name below.

Andrew J. Entwistle, Esq.