



Advisory Committee on the Auditing Profession
Office of Financial Institutions Policy
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August 28, 2008

RE: Second Draft Report of the Advisory Committee on the Auditing Profession
of July 22, 2008

Chairman Levitt, Chairman Nicolaisen and Members of the Committee:

Grant Thornton LLP is pleased to comment on the Second Draft Report of the Department of Treasury's Advisory Committee on the Auditing Profession ("Advisory Committee"), building upon the firm's earlier comments and participation in the Advisory Committee's February 4 and June 3 hearings.

We support the Advisory Committee's efforts to develop recommendations to strengthen and sustain a strong and vibrant auditing profession that remains committed to quality. Auditors of public companies play an essential role in upholding investor confidence in our financial reporting system and in the operation of the U.S. and global capital markets. A robust auditing profession is critical to investor protection and the stability of our global economy.

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It is with this in mind that we offer our observations about the Advisory Committee's Second Draft Report. The Advisory Committee has made progress in integrating various perspectives into meaningful recommendations that address many of the issues affecting the future of the auditing profession. This comment letter centers on the few challenges that can benefit from further pursuit and clear direction. It also highlights some of the key recommendations that will likely render maximum impact.

Human Capital

The Second Draft Report addresses many of the relevant factors that support a capable, committed and diverse public accounting workforce.

- We support the addition of Recommendation 2(b) calling for new initiatives to increase the retention of minorities in the profession. Grant Thornton has intensified its efforts in recent years to recruit and retain minorities, and our experiences confirm that consistent focus on such initiatives across audit firms will generate positive results.
- We agree with the Advisory Committee that faculty must be qualified and able to teach students the latest market developments (Recommendation 3). We strongly encourage the inclusion of eXtensible Business Reporting Language (XBRL) in the list of examples provided. A recent national survey of chief financial officers and senior comptrollers conducted by Grant Thornton LLP found that only 43 percent were familiar with XBRL. The next generation of public company accountants and auditors must be fluent in the area of interactive data and its many business reporting applications.
- We support the view that accrediting agencies should continue to “actively support faculty composed of academically and professionally qualified and experienced faculty” (Recommendation 3(a)). We ask the Advisory Committee to be mindful that reliance on former or retired practitioners, while possibly alleviating the immediate-term faculty gap, must be balanced with a long-term program to attract and develop Ph.D.-level faculty who engage in relevant research and other related academic pursuits.

Firm Structure and Finances

The Second Draft Report appropriately forwards many useful recommendations in the areas of fraud prevention and detection; federal and state regulation; governance; and disclosure of auditor changes.

- Grant Thornton fully supports the creation of the “national center” described in Recommendation 1. Such a national center will serve the profession, investors, and the capital markets by enabling public company auditors to have available the most current fraud detection and prevention tools. We would like to emphasize that the center should be defined by its independence, relevance, diverse representation, deep collective knowledge, and ability to produce timely and useful output.
- We support the Advisory Committee’s recommendation that “the PCAOB and the SEC, in consultation with federal and state regulators, auditing firms, investors and other financial statement users, and public companies, analyze, explore and enable, as appropriate, the possibility and feasibility of firms’ appointing independent board members and advisory boards.” This is a very significant step in the right direction.

- We support clarification in the Auditor’s Report of the auditor’s role in detecting fraud under current auditing standards (Recommendation 5). The public interest would be further served if the PCAOB, ASB, IAASB, and the profession were to work with the user and the preparer communities to undertake research into what users really need and want in the Auditor’s Report and what can be appropriately provided.
- We believe that new disclosures required of public company audit firms should support enhancing audit quality (Recommendation 7). The Advisory Committee’s recommendation that calls for larger auditing firms to produce a public annual report featuring information required by the EU’s Eighth Directive, Article 40, and key audit quality indicators in 2010 is a sound one, because it centers on audit quality. If the PCAOB chooses to require financial statements from the larger auditing firms on a confidential basis beginning in 2011, we will support its decision, but continue to question the link to audit quality. In addition, we question the need for requiring “audited” financial statements, as third party validation is not required for other financial information provided to the PCAOB. Equally important, a PCAOB financial statement filing requirement should become part of the existing PCAOB inspection program and thus protected from the legal discovery process.
- We continue to be concerned that the Advisory Committee’s Second Draft Report does not adequately acknowledge or address the potential catastrophic legal risk facing audit firms. The unlimited, largely uninsurable, and potentially catastrophic liability risk facing public company accounting firms in the U.S. threatens their long-term sustainability and the ability to fulfill their responsibilities to the financial reporting system and investors. Grant Thornton is committed to enhancing audit performance and being appropriately accountable for wrongdoing, but there are a number of relatively modest reforms – presented in our earlier commentary and testimony – that can minimize catastrophic-level lawsuits and hold responsible parties accountable without weakening investor protections.

Concentration and Competition

- We support the Advisory Committee’s recommendation that “the Securities and Exchange Commission (SEC) and the PCAOB . . . encourage predecessor auditors to fully communicate and cooperate with the successor auditors.”
- We were pleased to see that the Advisory Committee has formally recognized the need for public disclosure of third party agreements limiting auditor choice (Recommendation 1(a)). Such public disclosure will send a clear message to the marketplace that size alone is not the best criterion when selecting an auditor.
- Grant Thornton supports the recommendation that the PCAOB, in consultation with others, determine the feasibility of developing key indicators of audit quality and effectiveness, as well as the recommendation that auditing firms should be required to publicly disclose those indicators (Recommendation 3). Determining and developing these metrics will be a major challenge. We note that audit quality cannot be measured solely with quantitative data, and urge the Advisory Committee to consider non-numeric factors as well as a research program dedicated to audit quality.

Grant Thornton deeply appreciates the Advisory Committee's examination of the important issues related to the future of the auditing profession. Please do not hesitate to contact us if you have any additional questions about the content of this letter or seek more information.

Sincerely,



Edward E. Nusbaum
Chief Executive Officer, Grant Thornton LLP