HEIN & ASSOCIATES LLP
Certified Public Accountants and Advisors

June 30, 2008

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

Re: Draft Report and Draft Addendum of the Advisory Committee on the Auditing Profession

Dear Committee Members:

HEIN & ASSOCIATES LLP (Hein) is a regional CPA firm with offices in Denver, Houston, Dallas and Southern California. Our Firm has consistently ranked, based on revenues, as one of the 100 largest firms in the United States and in 2007, we ranked 48th with approximately $50,000,000 in net revenue. We audit approximately 65 registered public companies, which includes approximately 20 accelerated filers. Revenues from our public company client account for approximately 35% of our net revenue. As a result of our public company practice, we are a member firm of the Center for Audit Quality (Center) and serve on its Professional Practice Executive Committee. Practically speaking, we believe we represent a smaller firm performing public company audits and fully appreciate the "barriers" that confront smaller firms from performing audits of public companies.

Hein expresses our appreciation to the Committee and its members for your effort, time and dedication. We are hopeful that your final recommendations will yield a constructive platform to guide the profession in the future and will consider our observations included herein.

Hein has reviewed the Center's letter to the Committee commenting on the Draft Report and Draft Addendum. We fully support the observations, concerns and recommendations included in the Center's Letter, even though for a few of the recommendations, we may, as a small firm, have stronger feelings than as expressed in the Center's letter. We have discussed those items in our letter. We also agree with many of the very constructive recommendations made by the Committee, which have also been recognized in the Center's letter. We echo the Center's appreciation for those recommendations. Rather than providing a detailed analysis of all of our concerns since, as indicated, they are generally included in the Center's letter, we would like to address those issues which we believe have been and/or ***would become even greater barriers*** to smaller firms from auditing public companies, if they were implemented as proposed. As expressed throughout the Draft Report and Draft Addendum, we understand an important objective of the Committee is to reduce such barriers and we are hopeful you will appreciate how passionately we feel about these matters.

717 17th Street, 16th Floor
Denver, Colorado 80202
Phone: 303-298-9600
Fax: 303-298-8118
www.heincpa.com

Our concerns include:

- Failure of the Committee to address a "catastrophic failure" of a CPA firm.
- Recommendations for increased financial disclosure of firms that perform public company audits.
- Recommendation for independent Board members for CPA firms.
- Recommendation for personal signatures on audit reports.

We understand one of the major "charges" of the Committee was to make recommendations to "consider and develop recommendations relating to the sustainability of the auditing profession." The most significant risk to any CPA firm is the risk of litigation. This is especially true for a smaller firm. Our current legal system provides for disproportionate sharing of the financial burden caused by a company's failure. If the Committee fails to address this issue, it would have missed the opportunity to potentially correct a significant injustice in our legal system, which in time will result in fewer CPA firms performing public company audits, whether they are a major firm or a smaller firm like us. We fully support the recommendations included in the Center's letter to address the issue of catastrophic liability caused by litigation.

Within the transparency section of the addendum, recommendations are being considered to require the PCAOB to obtain, and most likely publicly disclose, financial information of the audit firms that perform public company audits. This recommendation extends to requiring audited financial statements be filed for the "larger" auditing firms.

With 65 public companies, it is easy for us to envision having over 100. However, that is not the point. Even though we believe that in order to have the technical competence, internal training, audit policies, credibility, etc., there are a minimum number of public company audits that a CPA firm should perform. We also understand that every firm needs to start somewhere.

As indicated, public company reporting represents approximately a third of our revenues and we understand that for most other smaller CPA firms who perform audits on public companies, it represents much less. If we were to be required to publicly disclose detailed financial information, it would put us at a significant disadvantage in the prospecting for private company clients, which represents two thirds of our revenue. Our competition, which in many instances would not have this public information available, would have the opportunity to use this information to our disadvantage. We do understand a potential need for regulators to have certain financial information to evaluate the financial stability of the firms auditing public companies; we just do not have confidence that such information will remain confidential. If you conclude after your deliberations that such information is truly needed and assurances can be established that it will remain confidential, then we believe this information is best obtained during the inspection of the firm.

Depending upon the final recommendations and its implementation, we may conclude that it is in our best interest to stay below the magic number of public company audits that would require such disclosure. This unfortunately limits our opportunity to grow, which we believe is not in our or the public's interests of providing an alternative to the major firms. We are also concerned that a cascade effect may ultimately occur, which could require all firms, irrespective of the number of public clients they audit, to provide financial information, including possibly audited information. The cost of an audit would be devastating to a smaller firm and undoubtedly keep them from entering the market to audit public companies. Without considering the audit, there would be other costs involved in changing our internal reporting systems, assembling and providing financial and possibly certain other qualitative information and who will pay for these costs? With the pressure to reduce fees, this is totally inconsistent with our efforts to efficiently serve our public company clients.

We are also sympathetic towards the concerns of the "larger" firms. We do not believe any audit committee could find any significant discernable difference in comparing audit reports of the major firms, but it could impact the mid-size or smaller firm, when such financial information (irrespective of whether it is audited) is compared. We truly cannot evaluate how this information will be used, but we do question its value, because it has never been requested in any audit proposal from our Firm. In addition to our competitors, we believe this information will be used extensively by underwriters and litigators. For a smaller firm to be compared solely on a financial basis (which we believe would happen), rather than considering expertise, ability to serve, client relationship, quality of practice, etc., to larger firms by underwriters would eliminate the smaller firm from even being considered by a public company if they were considering a public offering, which generally includes most public companies. Therefore, it is highly unlikely the smaller firm will audit *any* public companies. It is also for this reason we also fully support the Committee's recommendation to require public disclosure of third party agreements that limit auditor choice. In litigation, such information would undoubtedly be used against all firms as a basis for establishing damages. We understand English accounting firms must provide increased financial information, including audited financial statements; however, they also have a totally different legal system.

We understand the spirit behind the recommendation for independent directors to serve on Boards of firm's auditing public companies; however, there would be several unintended consequences if this were required, which would be especially significant for a smaller firm. Assuming a willing director could be found, such person will require significant compensation and "D and O" insurance. While we are not certain if this insurance would be available for an accounting firm, we can imagine its cost. A smaller firm could not bear these costs and we are also somewhat skeptical a smaller firm could find a qualified independent director.

Finally, we would like to address the proposal to require partner signatures on audit reports. On the surface, this may appear to be constructive; however, it totally contradicts our audit culture. An audit is more than one partner and we believe it is a disservice, because it tries to "hang" more responsibility on a partner to increase his or her risk on the unproven assumption it will increase audit quality. Also, a successful audit is based on the quality control, training, etc., of the firm as a whole. The engagement partner is already individually accountable to the PCAOB, SEC, and, if named, in litigation. Having the partner sign his or her name does not add any individual accountability and would most likely result in the unintended consequence of disgruntled shareholders calling the audit partner and possibly even showing up at his or her home. We also have little doubt that this requirement would further significantly influence the smaller firm from performing audits of public companies.

We are hopeful this letter will assist the Committee in fulfilling its mandate. If you request additional information, you may contact either: Bill Yeates, our National Director of Audit and Accounting or Jim Brendel, our Director of Audit Quality.

Sincerely,

Hein & Associates LLP

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