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July 2, 2008

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

To the Committee:

As invited, following are my comments on the Draft Report – May 5, 2008. By way of background, I was a member of the former accounting firm, Arthur Andersen & Co., SC for thirty-four years, serving as worldwide Chief Executive Officer from February 1980 through April 1989. I retired in 1989.

The Draft Report makes many meritorious recommendations. However, in many respects it only tinkers on the edges of the major issues. Some reliable system of validation of financial data is essential to the orderly workings of the capital markets. However, unless there are fundamental changes in the present audit process, I believe it may be destined to collapse.

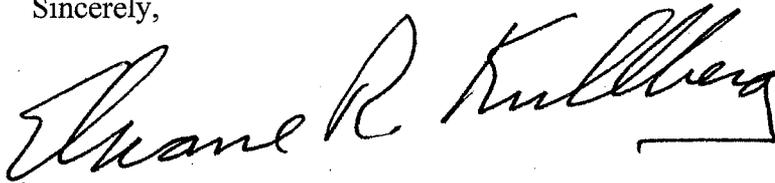
There is no single “magic bullet” approach to the many complex issues your Committee has examined. Rather, a comprehensive view is required, which, to be effective, will require resolution of the many disparate and opposing interests that now appear to be impeding progress. The observations that follow are not all-inclusive, but are among the most substantive issues to which attention should be paid.

- Allow accounting firms that audit public companies to incorporate, in order to provide a vehicle to raise capital in a protected form. The present partnership form is archaic, applicable to an era long past.
- Require accounting firms to have independent board members on their governing body (Recommendation 3.), similar to the requirements of securities exchanges. The present oversight process by the PCAOB, defines the required auditing process, and then examines the application of that process. The critical standards that are necessary to maintain quality work are left to the firms design. Documented standards of performance, factors that are used to determine partner compensation, adequacy of training, are examples of the issues that should all be under the oversight of a governing body that includes independent members.

- Require audit firms to publish an annual report, including financial statements, that reflect the results of operations in all characteristics that are important to the overview of their professional work.
- Support legislation to limit the liability for alleged audit failures. Liability for an audit failure should not exceed the relative contribution of the failure to the actual and direct damages caused. Audit firms cannot continue to provide the “deep pockets” for all damages from a company failure caused by multiple sources.
- Provide for Federal Chartering of accounting firms that audit public companies. State regulation was a concept developed when firms were essentially local and did not operate across State and National boundaries. Regulation of large firms is effectively national at present, tending toward international. A system of effective licensing at the Federal level would, among other benefits, provide a platform for addressing all of the other points made above, as well as others equally worthy of attention.

I appreciate the opportunity to offer my comments on this important issue. If you wish to contact me on any aspect of this letter, please address mail to this letterhead address, e-mail to [dkullberg@mac.com](mailto:dkullberg@mac.com) or phone to 312-440-7877.

Sincerely,

A handwritten signature in black ink that reads "Duane R. Kullberg". The signature is written in a cursive style with a horizontal line under the name.