

# McGladrey & Pullen

Certified Public Accountants

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

Dear Committee Members:

McGladrey & Pullen, LLP ("M&P") is a public accounting firm owned by over 600 partners who offer auditing and other attest services throughout the United States. We respectfully agree with substantial portions of the Advisory Committee's May 5, 2008, draft report. The May 30, 2008, Addendum to Section VI of the draft report raises several important issues including "Transparency" and "Litigation", both of which are critically important to M&P's ongoing ability to provide quality audit services to public companies.

## Transparency

M&P is inspected annually by the PCAOB. Each inspection is an opportunity for M&P to be examined by experienced peers who offer informed, unbiased judgments regarding the quality of M&P's public company audit practice.

The PCAOB is uniquely positioned to be a judge of audit quality. M&P supports collaborative deliberations with the PCAOB regarding potential publication of so-called "audit quality indicators" that may have relevance to the public.

M&P's annual financial statements are not relevant to a genuine and informed effort to assess our abilities as auditors. GAAP financials do not vouch for audit quality.

The imposition of any requirement to publish annual financials (even if limited to the Big Four) will constitute one more illegitimate impediment to the entry of the public company audit market. An audit firm should be judged on its ability to deliver quality and not because its GAAP financials ostensibly show financial "deep pockets".

## Litigation

The Committee rightly acknowledges that "catastrophic risks" of litigation are "real" and confront public company auditing firms. These risks transcend public company audits and affect the auditors of private companies that engage in significant transactions.

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Mid-sized and small public accounting firms have confronted catastrophic risk for the better part of the past two decades. Exposure to this risk has caused mid-sized and small public accounting firms to disappear. Often these firms confront the risk by consolidation with other, larger CPA firms. Sometimes, however, the CPA firms are completely overtaken by the risk.

M&P supports litigation reform which reasonably deters wrongdoers and fairly compensates victims. Our vital role as public stewards require us to accept significant responsibilities and attendant legal risks. Our critical importance as public stewards also requires a legal framework that encourages and compels the auditing profession to do more, not less, regarding the detection and disclosure of fraud, and reporting relating to significant public company accounting and internal control issues.

The current legal framework attempts to accomplish the foregoing objectives but it has not achieved the optimum point of reasonable deterrence/compensation. The Treasury Committee Addendum seeks comments on three issues that are central to an in depth legislative analysis and solution regarding litigation reform.

M&P supports exclusive federal jurisdiction regarding all audit liability claims that are asserted against PCAOB registered and inspected CPA firms. Our recommendation does not disrespect state court judges or juries. Nor do we believe that all lawsuits relating to all PCAOB registered and inspected firms should be in federal court. Our interest in this issue is limited to the important function of the audit and the need to develop a nationally uniform, consistent body of expectations, law and responsibilities.

The standard of care must be calibrated to the conduct at issue and the alleged victims of auditor wrongdoing. Reasonable deterrence implies different legal duties and responsibilities depending on the circumstances. We anticipate that the legislative process would glean from existing common law and statutory law a standard of conduct and comparative fault that would govern, where appropriate, negligence and fraud actions against auditing firms.

Litigation reform should not be limited solely to claims arising out of the audits of public companies. Small and mid-sized CPA firms audit private companies that sometimes create significant economic disruption and concomitant catastrophic exposure to their auditors. We believe that litigation reform should extend to these events provided that the CPA firm is registered with and inspected by the PCAOB. Litigation reform that is limited to public company audits would fail to address the overall goal of reasonable deterrence/compensation as it relates to all auditing firms and the vast array of institutions that rely on the continued existence of small and mid-sized CPA firms (e.g. users include private companies, governmental and not for profit institutions).

Thank you for your consideration.

*McGladrey & Pullen, LLP*