



Federal Audit Executive Council

November 30, 2007

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

Dear Advisory Committee:

Thank you for the opportunity to comment on the proposed list of issues and potential consideration points that the Advisory Committee may evaluate. Overall, we support the proposed outline. We do, however, offer the following observations and comments that we believe will help to improve the Advisory Committee's agenda.

Workload

Under the Advisory Committee's charter, the Committee will terminate on July 3, 2009, (two years after it was established) or sooner if the Department of the Treasury determines that the Committee is no longer necessary. During this time, the Committee will meet at such intervals as are necessary to carry out its duties. It is estimated that it will meet no more than eight times. Given this schedule, it is highly unlikely that the Advisory Committee will be able to comprehensively evaluate and make substantive recommendations on all of the matters proposed in the outline. At the same time, we believe that all of the areas identified in the outline are important for the Advisory Committee to consider as it makes recommendations to the Secretary of the Treasury on sustaining and improving a strong public company auditing profession.

We recommend that the Advisory Committee prioritize and evaluate in-depth one of the proposed areas (or more if the Committee believes it can complete an in-depth study in the time allowed) rather than take an "inch deep, mile wide" approach. While this approach may require extending the Committee's life or creating subsequent committees to evaluate all areas, we believe that, in the long run, it will result in more informed, substantive recommendations.

Consideration of Prior Recommendations

Because many or most firms that audit public companies also practice in other areas, we believe that the Advisory Committee should be aware of and consider concerns identified in other practice areas of the auditing profession, as it deliberates the issues affecting the auditing of public companies. In this regard, we recommend that the Advisory Committee review the findings in the *Report on National Single Audit Sampling Project*, issued in June 2007, by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency (<http://www.ignet.gov/pande/audit/NatSamProjRptFINAL2.pdf>). The report describes deficiencies in and makes recommendations for improving the quality of "single audits." Single audits cover Federal grants and other assistance provided to states, local governments and non-profits. Each year, these audits cover approximately \$400 billion of Federal funds.

Impact on the Governmental and Non-profit Sectors

Notwithstanding the focus on public company auditing, we believe that many of the matters that the Advisory Committee will consider (e.g., human capital, accounting curriculum, licensing, etc.) will influence or impact governmental and non-profit auditing as well. Therefore, as you deliberate the proposed agenda, we believe that the Advisory Committee should be cognizant of the impact of its recommendations on these sectors. Conversely, as the Committee evaluates each matter, we recommend that the Committee consider best practices from the governmental and non-profit auditing sectors to ensure that fully informed recommendations are made.

Human Capital

Given that Federal sector employers are attempting to recruit from the same labor pool as public accounting firms, we are particularly interested in the outcome of a number of the items addressing the challenges of recruiting and retaining human capital. It is critical to identify ways to increase the pool of candidates without diminishing professional competency. We recommend that the Advisory Committee consider discussing the positive and negative effects of changing the college credit requirements with the AICPA and industry professionals on the pros and cons of changing the college credit requirements for certification.

State Licensing

Given the number of different industries and the growing complexity of businesses, technology, and financial reporting, the body of knowledge needed to adequately audit different entities is quite extensive. This raises the question whether it is appropriate for the audit firm or sole practitioner to decide solely whether to accept an engagement of heightened complexity. We recommend that

the Advisory Council consider whether board certification in specialty areas is needed. The Advisory Committee should also consider the value of a national licensing body, rather than multiple state licensing bodies.

Liability

When evaluating Section 3.4.1, *Liability*, we recommend that the Advisory Committee also consider whether an audit organization has some liability when it issues an unmodified opinion on another audit organization's system of quality control that issues a report with a material error or omission.

Due Process

The Advisory Committee's charter and the Federal Register Notice do not describe how the Advisory Committee plans to share its evaluation of each issue with the auditing industry, including public, governmental, and non-profit, before presenting its recommendations to the Secretary of the Treasury. Notwithstanding the advisory¹ nature of the Committee, the Committee's recommendations are integral to Treasury's mission as stewards of the economic and financial systems of the United States and may have far reaching effects on the auditing profession. We recommend that the Advisory Committee seek public input as it deliberates these matters.

Other

We recommend that the Advisory Committee consider the following:

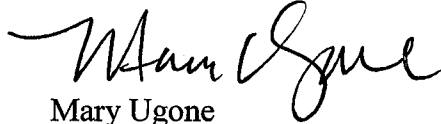
- Some issues do not seem feasible to address and others may be difficult to measure. For example, how does the Advisory Committee intend to measure its assumption that audits should lower the cost of capital to companies that are audited as a group and over time?
- In considering item 2.4.1, the Advisory Committee should consider the impact on the accounting curriculum of increased auditors' responsibility and/or emphasis on auditing internal control over financial reporting, fraud detection, forensic auditing, and auditing compliance with laws and regulations. The Advisory Committee should also consider the impact on the accounting curriculum of the widespread use of *Government Auditing Standards*, promulgated by the Comptroller General of the United States.

¹ The *Charter of the Advisory Committee on the Auditing Profession*, paragraph F, states that the "duties of the Committee shall be to identify issues, analyze information, and provide recommendations regarding objectives set forth in paragraph B above. The members of the Committee shall offer constructive observations and suggested improvements for the auditing profession. The duties of the Committee shall be solely advisory and shall extend only to the submission of advice or recommendations to the Department of the Treasury. No determination of fact or policy shall be made by the Committee."

- In considering item 3.5.7, the Advisory Committee should consider whether quality control partners should be responsible for (1) soliciting clients and (2) determining what consulting services the audit organization may accept.

We thank you for considering our comments on the proposed outline.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Ugone". The signature is fluid and cursive, with a long horizontal stroke at the beginning.

Mary Ugone
Chair, Federal Audit Executive Council, and
Deputy Inspector General for Audit,
Department of Defense