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New York, NY 10027
7 July 2008

Mr. Arthur Levitt, Jr, Co-Chair
✓ Mr. Donald T. Nicolaisen, Co-Chair
The Advisory Committee on the Auditing Profession
Department of Treasury
Washington, D. C. 20220

Dear Mr. Levitt and Mr. Nicolaisen

What level of integrity should we expect from leaders in public accounting in presentations before your Committee? It is clear that you seek the best informed individuals to participate in discussions of critical issues.

Notwithstanding the impressive credentials of participants, there are statements that fail to be objective. Just two statements from the June 3, 2008 meeting illustrate the reason for the opening question. However, I have no answer to the question.

Comment 1: The Nature of an Inspection (Firm Structure and Finances)

The General Counsel for one major public accounting firm stated orally and in written comments: *"The inspections every year the PCAOB will select a random sample of audits for a thorough and rigorous review."*

The General Counsel did not include any disclaimers to the statement. The information in the publicly disclosed inspection reports does not reflect what the General Counsel stated. This is what we read in each inspection report:

A Board inspection includes, among other things, a review of selected audits of financial statements and of internal control over financial reporting. If the Board inspection team identifies deficiencies in those audits, it alerts the firm to the deficiencies during the inspection process

Second, the Board cautions against drawing conclusions about the comparative merits of the annually inspected firms based on the number of reported deficiencies in any given year. The total number of audits reviewed is a small portion of the total audits performed by these firms, and the frequency of deficiencies identified does not necessarily represent the frequency of deficiencies throughout the firm's practice.

The audits are not selected at random. As noted, what is done is not supportive of *thorough and rigorous*. In some PCAOB annual reports that the inspectors use a supervisory approach and the outcome is not a scorecard.

What is the basis of the sentence quoted by the panelist? Is there actually a second type of inspection that is undertaken with no public disclosure? It would have been helpful if this representative of a major public accounting firm had explained in just one sentence, that the inspection report that is publicly presented is not in any way equivalent to the report firms receive. (I am attaching a letter I wrote to the PCAOB seeking an answer to the question raised, but to date there has been no response)

Comment 2: Center for Audit Quality Survey Results (Concentration and Competition)

Another General Counsel for a major public accounting firm stated orally and/or in written comments:

As the draft report notes, the Center for Audit Quality has reported that 82 percent of surveyed audit committee members believe that audit quality has improved over the past several years, 78 percent said current audit quality is very good or excellent, and another 17 percent said that audit quality was good. Given the direct relevance of this recently gathered information, we believe these findings should be included in the Advisory Committee's final report.

Information was provided about the study's strategy, which included:

This survey was completed via the internet from January 7 to February 20, 2008 by 253 individuals who served on at least one audit committee for a publicly traded company in 2007.

While conducting a probability sample with audit committee members is technically possible, it was not feasible from a cost or time standpoint. In an effort to reach as many audit committee members as possible, we elected to invite participants by partnering with a variety of organizations that had a high likelihood of representing audit committee members. We worked with these organizations to invite participants via email. Additionally, these organizations posted invitations on their websites so that the survey would be visible to as many audit committee members as possible.

With a pure probability sample of this size, one could say with 95 percent confidence that the overall results would have a sampling error of (plus or minus) 6.2 percentage points. As this survey is not a pure probability sample, theoretically no sampling error can be calculated. Percentages may not add to 100 percent due to rounding.

(On the page that followed there was a listing of the organizations that cooperated. (*National Association of Corporate Directors, KPMG's Audit Committee Institute, Association of Audit Committee Members, Inc.; The directors Forum and Outstanding Directors Exchange.*)

The sample selected was not at random. Therefore, there is no value to the percentages summarizing the data. The paragraph dealing with probability sampling is irrelevant and meaningless. There is no basis for presenting the findings as though they represent the population of audit committee members.

(the frequencies could be provided for each item – without summary—and the limitations of the numbers shown should be written in lucid, clear language.)

The presentation of the findings is misleading and, therefore, it doesn't seem wise to follow the suggestion of the General Counsel that “. . . . *we believe these findings should be included. . .*”

This does not mean that the survey is of no value. This study should be characterized as an *exploratory* research effort. Selecting thoughtful, particularly well positioned persons to answer questions in a survey is considered a fine strategy for an exploratory study to gain a sense of the range of concerns of members of a specified population. The survey does provide a listing of approximately 3 pages of responses beyond the structured responses. Based on such a listing, a carefully designed, refined survey instrument can be developed and a statistically determined sample would justify a statistical analysis of the findings and the type of presentation made by the General Counsel.

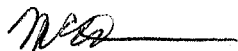
Audit quality is of great concern; evaluating quality is not a simple task. This topic is worth of *formulative or exploratory studies*, as the term was discussed so effectively in Jahoda, Deutsch and Cook's **Research Methods in Social Relations (1951)** (This is an old book; however, just recently a doctoral student sought some assistance; I did a search and was stunned that this old book was best for the questions re research that the doctoral student raised.).

If I were still teaching research methods, I would find this survey on audit quality a very good case study for student to understand the kind of analysis **not justified** in an exploratory study.

I read quickly through the **Questions for the Record** and found no question raised about the two comments quoted here. Since the topics are so central to an effectively functioning oversight process, these misstatements seem qualitatively worthy of note.

It is likely that your staff follows a verification process -- an audit! -- of such comments in presentations where there is the possibility of the presence of bias.

Sincerely



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cc: Mr. Christopher Cox , Chairman, Securities and Exchange Commission
Mr. Conrad Hewitt, Chief Accountant, Securities and Exchange Commission