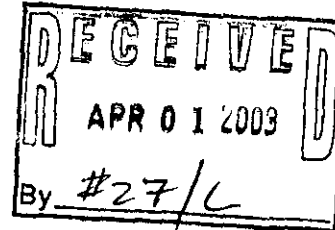


The logo for the Leading Edge Alliance, featuring the words "Leading Edge" in a serif font inside a rectangular box.

March 31, 2003

Mr. Gordon Seymour,
Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803



Re: PCAOB Rulemaking Docket Number 1

Dear Mr. Seymour:

This letter is the response of *The Leading Edge Alliance* to your request for comments regarding the PCAOB's Proposed Rule Number 1. *The Leading Edge Alliance* is an alliance of major independently-owned accounting firms that have the combined revenues of over \$600 million with over 4,000 staff. A LEA member directory is located at www.LeadingEdgeAlliance.com.

We strongly support the need to strengthen the public's perception of auditor independence and to restore the quality (perceived and, in some cases, real) of the audits of issuers of financial statements, and we appreciate the responsibility that the PCAOB is undertaking. In that regard, we agree with many aspects of the aforementioned proposed rules particularly those that would require all public accounting firms, including foreign firms, to register with the Board and meet similar quality standards as enforced by direct inspection of the PCAOB. While we support these constructive changes to enhance financial reporting in the United States, we believe that some of the Board's proposed rules may not benefit investors or serve the public interest. On the contrary, while these proposed rules are broad in scope, the implementation of them may lead to an impediment to the capital markets by smaller issuers. For decades, the capital market system in the United States has been the world's leader; we should strive for the continuance of this in our generation. Therefore, we believe that consideration of the concerns delineated below should be made before adopting final rules, as these rules defined in rulemaking docket number 1 may unfairly penalize smaller issuers and smaller quality accounting firms.

Summary of the thrust of the Sarbanes-Oxley Act as it relates to the PCAOB:

In July 2002, congress passed the Sarbanes-Oxley Act of 2002 (the "Act"). The Act, and the many rules the Securities and Exchange Commission is in the process of

*Mr. Gordon Seymour,
Office of the Secretary
PCAOB*

2

March 31, 2003

adopting, make sweeping changes to improve the reliability of corporate reporting. A portion of the act empowers the PCAOB and is intended to improve the oversight of the auditing profession. In this regard, the PCAOB will:

- Require accounting firms that audit public companies to register with the PCAOB;
- Have the authority to set auditing standards;
- Perform annual inspections of accounting firms that audit more than 100 issuers (and at least triennially for other accounting firms that audit issuers);
- Investigate and discipline accounting firms and individual auditors.

Implementation concerns related to the Proposed Rule Number 1

We agree with most of the general rules outlined for registration of accounting firms which seem to be appropriate for the implementation of the responsibilities now undertaken by the PCAOB some of which are listed above. However, we believe that some of the information may not be germane to the task at hand or undefined in the proposed rule. These include:

- The roster of accounting firm employees needs to be registered with the PCAOB;
- Disclosure of audit fees charged by issuer for past, present and estimated future year;
- The allocation of the PCAOB's fees charged to accounting firms is not delineated in the proposed rule;
- Independence and audit fees.

Roster of accounting firm employees

The necessity of accounting firms registering their employee roster, we believe, would not be an appropriate implementation of the spirit of the Sarbanes-Oxley Act. We concur that the appearance of independence is impaired if an accounting firms employee, or partners, become an employee of a registrant for whom the accountant previously audited within the past year. However, we firmly believe that the registration of the roster of employees is unnecessary and raises the cost of doing business for accounting firms.

In public accounting, our most important assets are our reputation and our people. While we have no reservation of making our roster of employees available to the PCAOB during the inspection process, and, furthermore, a listing of the companies that our ex-employees were hired by upon leaving our firm, we believe that making

*Mr. Gordon Seymour,
Office of the Secretary
PCAOB*

3

March 31, 2003

the roster available to all interested parties in a real time format will lead to an increase in corporate recruiting of our professional staff and partners.

While this could be viewed as the free market working in the accounting firm labor market, we believe that the added turnover that employee roster registration will bring about will lead to more costly and less effective audits. This is because the experience level of auditors within an accounting firms audit methodology will decrease due to professional staff turnover which will increase as a result of this aspect of the proposed rule. This lack of familiarity of professional staff with their new firms audit methodology, the companies they are auditing, and the capabilities of the fellow professional auditors they are working with will cause an unintended erosion of the effectiveness of accounting firms' audits.

As an alternative, we suggest that the "roster" be limited to the partners of the individual firms as these "owners" will generally be the ones with the responsibility for signing attest reports for publicly-held companies.

Disclosure of audit fees

Audit fee disclosure for the most recent year is currently required in registrant's filings. To require this information from accounting firms, and anticipated fees for the next year in filings with the PCAOB, is a duplication of effort. In addition, the fee estimate for the next fiscal year could change materially if the situation with the registrant changes. Currently, fees are generally negotiated on an annual basis with the audit committees of registrant companies. Many factors can enter into the consideration of fees each year, such as changes in the registrant's business, economic factors, competition, implementation of new accounting standards, and performance of additional audit procedures as being contemplated under the Act and proposed Statements on Auditing Standards. Therefore, we believe that this information, which is already available on an actual, historical basis, adds little value in the PCOAB discharging it's above stated responsibilities.

Allocation of the PCAOB charges

The allocation of fees that are anticipated to be imposed on accounting firms is also potentially disruptive to small registrants and small accounting firms. It is generally anticipated that many accounting firms in the United States that will cease auditing of registrant even though the partners and employees may be some of the best and brightest serving clients in the market space. William Ezzell, Chairman of the American Institute of Certified Public Accountants, made a speech at the Orange County Public Company Forum on February 27, 2003. In that speech, he suggested there will be a further consolidation of accounting firms such that the estimated 775 public accounting firms that audit public companies will be reduced to

*Mr. Gordon Seymour,
Office of the Secretary
PCAOB*

4

March 31, 2003

400-500 in within one year and be further reduced to 200-300 in subsequent years. The potential economics of a decreasing number of accounting firms as compared to an as yet unspecified PCAOB budget requirement may make it infeasible for many accounting firms to continue to service the public company market. Since the cost to the investing public of the audit failures of the past few years has been overwhelmingly skewed toward large accounting firms servicing large registrants, and these audit failures are the reason for this legislation, we believe that the allocation of the fee charged by the PCAOB to accounting firms and registrants should be based on factors of size, such as number of personnel in the accounting firm, market capitalization of registrants served by the accounting firms, or registrants under audit by the accounting firm, or some formula considering all such factors.

The purpose of the PCAOB appears to be to assure all firms are operating on the same quality standard based on merit of work performed and knowledge of it people. To simply implement an economic disincentive to smaller firms is counter to the intent of the Act and the PCAOB's responsibilities. We believe that in accounting firms, bigger does not necessary mean better made evident by the large number of audit failures by large national firms.

Independence

An issue that has not been discussed directly in the PCAOB's proposed rules or in the Act, but appears to be a commonly held misperception, is that fees from the audit of registrants impact smaller accounting firms independence more than larger firms as they represent a larger proportion of the firms overall revenue.

The compensation system of most national firms is based on the profitability of the office in which the individual partner practices. In addition, many of the offices are able to service clients without seeking technical expertise or review outside of the local office. The argument on independence by national firms is that the fees received by the firm from a single client as a proportion to the firm's fees is not enough to sway the firm. However, this is an inappropriate measure of the true pressures an individual partners or office may be under. If a partner in a national firm has two clients whose annual billings are \$1,200,000 each, and the firm's compensation is based on the profitability of offices, then the amount of leverage that any one individual client has over that partner is immense compared to a smaller accounting firm partner who may have 10 clients each of whom is charged \$30,000 to \$150,000 for audit services.

However, the impression many smaller practitioners has is that the focus of the efforts of the PCAOB is to restrict their ability to practice, not based on merit or quality at first, but merely based on the size of the firm. Noting Mr. Ezell's

Mr. Gordon Seymour,
Office of the Secretary
PCAOB

5

March 31, 2003

comments above regarding the expectation of a decreased number of accounting firms serving the public-company market, smaller accounting firms, as a result, may then have an economic incentive to join larger firms, which will in and of itself do nothing to improve the quality of financial reporting.

Summary of the potential effect to smaller accounting firms and registrants

We are concerned that the proposed rule, as written, may have effects of running counter to the public interest upon implementation by:

- Placing undue reporting burdens on accounting firms, especially "smaller" firms,
- Increasing the cost of audits through increased fees assessed on the accounting firms and registrants alike,
- Treating all registrants and accounting firms in essence, unfairly, without giving due consideration to relative size of registrants and firms.

We appreciate this opportunity to express our views. We would be pleased to answer any questions the PCAOB or its staff might have about our comments. Please contact Wayne Pinnell at 949-450-6200.

Very truly yours,

Gary S. Shamis, CPA
MANAGING DIRECTOR SS&G FINANCIAL SERVICES, INC
Chair Leading Edge Alliance

Wayne R. Pinnell, CPA
HASKELL & WHITE LLP
Chair, Leading Edge Alliance Accounting, Auditing & Assurance Special Interest Group