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*The Public Oversight Board
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Members of the POB:

We are pleased to submit this letter outlining how we propose to address a project to examine whether the audit processes of large-firm members of the SECPS adequately serve and protect the interests of investors. Such a project was requested by Mr. Lynn E. Turner, Chief Accountant of the Securities and Exchange Commission, by letter of September 28, 1998 to Mr. A. A. Sommer, Jr., Chairman of the POB.

The purpose of the project is to make a comprehensive review and evaluation of the way independent audits are performed and assess the effects of recent trends in auditing on the public interest. The project will include, among other things, evaluating the adequacy of the professional development of auditors, how audits are planned and supervised, whether firms' quality control systems encompass the necessary elements and guidance, and whether audit documentation is appropriate. It also will consider the overall "tone at the top" and performance measures used by firms in evaluating audit personnel. Furthermore, the project will include assessing the need for possible changes in professional standards and the profession's self-regulatory process. In carrying out the project, we will consider users' expectations about auditors' responsibilities and the relationship between audit and non-audit services.

We anticipate that, as part of this undertaking, we will gather information and consider guidance materials recently issued or currently under development by the large-firm members of the SECPS and the AICPA. For example, the *Horizons* project of the Auditing Standards Board, we understand, contemplates evaluating the efficacy of the auditing standard relating to the detection of fraud and assessing the impact of audit reengineering on standards.

We envision that the project will be carried out in phases as described in the work program prepared by the Panel's staff members, culminating in a report that will be issued by the Panel. The report will identify the process undertaken, the resultant findings, and the basis for recommendations made to accounting firms, the AICPA, the Securities and Exchange Commission, audit committees, and managements.

Very truly yours,

Shaun F. O'Malley
Chair