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April 23, 2004

Office of the Secretary
United States Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: Securities and Exchange Commission (Release No. 34-49528; File No. PCAOB 2003-10); Public Company Accounting Oversight Board; Notice of Filing of Proposed Auditing Standard No. 1, References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board---the Expectation Gap/Fraud

There is ample evidence that it is the public's perception, and it is the plaintiff bar's regular contention, that auditors are always responsible for finding virtually all errors in audited financial statements, even if the errors are caused by management's fraud on the company, its shareholders and its auditors. I am certain you are familiar with the so-called "expectation gap" that has troubled American (and international) business for decades. Existing professional standards, essentially the old AICPA standards adopted by reference as interim standards in SEC Release No. 33-8222 (April 25, 2003), proclaim over and over again that the auditor is not responsible for finding all frauds. The auditor's responsibility is to provide reasonable assurance that the financial statements are materially correct. Reasonable and material are key qualifiers. While an auditor must take steps to look for fraud, the current standards, as generally understood by the auditing profession and its regulators, do not require the auditor to provide absolute insurance that the financial statements are free from errors caused by fraud.

The PCAOB's "new" standards, in the proposed standard or by prior rulemaking, do not change the auditors' responsibility. Auditors still only give limited assurance, as opposed to absolute insurance. Regrettably, the new proposed standard report does not inform the public of this limitation. While the PCAOB has decided to change the old standard audit report and has taken sole responsibility for standard setting for issuers, nothing has changed. This is a lost opportunity. The SEC should insist that the PCAOB either adjust their standards to meet the public's expectations, or require a clear statement of fact concerning limited assurance. If the standard of work remains the same, it is the SEC's responsibility to advise the public and dispel their unrealistic, impractical and uneconomic faith in audits. There is abundant, clear and convincing evidence that the public is confused. You should help.

This is relatively easy to fix. Unless or until the standards change, the audit report should be required to clearly explain this point through honest disclosure. How? One solution would be to expand the "opinion paragraph" with two sentences, as follows:

"Our audits were not designed to provide the user absolute insurance and protection from fraudulent occurrences which would make these financial statements inaccurate. This protection can only be obtained through special investigations designed for that purpose."

A MEMBER OF MOORE STEPHENS INTERNATIONAL LIMITED AS: MOORE STEPHENS HAYS LLP

MOORE STEPHENS INTERNATIONAL LIMITED IS A GROUP OF INDEPENDENT FIRMS WITH
OFFICES IN PRINCIPAL CITIES WITHIN NORTH AMERICA AND THROUGHOUT THE WORLD

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The PCAOB's new, standard audit report, marked with the suggested additional language in bold italics, is enclosed for your consideration.

The public has a right to get what they perceive they have obtained through the management reporting/audit/inspection/supervision of capital markets system, or you have an obligation to correct the misperception. In the last part of the 20th century, government finally reformed the banking industry by championing truth in lending. How about truth in auditing? The choice, and the responsibility, is yours.

Very truly yours,

/s/David A. Lifson

David A. Lifson, CPA

/s/Edward A. Kuczarski

Edward A. Kuczarski, CPA

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Enclosure(s)

copy/Hon. William H. Donaldson, Chairman of the SEC

Hon. William J McDonough, Chairman of the PCAOB

S. Scott Voynich, Chairman,
American Institute of Certified Public Accountants

Jeffrey R. Hoops, President
New York State Society of Certified Public Accountants

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Exhibit

APPENDIX to PCAOB Release No. 2003-25

Illustrative Reports, with suggested additional language about fraud in ***bold italics***.

The following is an illustrative report on an audit of financial statements:

Report of Independent Registered Public Accounting Firm

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. ***Our audits were not designed to provide the user absolute insurance and protection from fraudulent occurrences which would make these financial statements inaccurate. This protection can only be obtained through special investigations designed for that purpose.***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of [at] December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with U.S. generally accepted accounting principles.

[Signature]

[City and State or Country]

[Date]