

26 March 2009

## Our firm's first 'national firm' PCAOB Inspection report

Our firm first exceeded 100 reports issued on SEC reporting companies during calendar 2006 and our next regular tri-annual PCAOB inspection was scheduled for 2007 and PCAOB again used the small-firm format for that report filed on their website February 2009. We again exceeded 100 reports on SEC reporting companies again during each of calendar 2007 and 2008, and PCAOB decided to use their 'national firm' report format on us for the first time in their October 2008 inspection of our audits.

The 'national firm' report format differs from the format used on the smaller firms principally by:

- sample size isn't disclosed
- more emphasis on firm internal quality controls review

Not knowing sample size makes a comparison with the other national firms difficult. However, the following chart might be helpful to a reader:

**Chart Summarizing All Public Company Auditors with Annual PCAOB Inspections**

	Inspection		Total # of Issuers	Annual SEC audit fees	Deficiencies Noted	
	Year	Report date			# issuers	# issues
BDO Seidman	2007	5/6/08	272	209,000,000	5	7
Crowe	2007	6/27/08	99	31,700,000	2	5
Deloitte	2007	5/19/08	912	2,950,000,000	9	16
Ernst & Young	2007	4/20/08	1,289	3,100,000,000	4	8
Grant Thornton	2007	4/4/08	333	265,000,000	5	19
KPMG	2007	8/12/08	808	2,080,000,000	10	13
KPMG Canada	2007	9/30/08	82	165,000,000	4	9
<b>Malone &amp; Bailey</b>	<b>2008</b>	<b>3/2/09</b>	<b>130</b>	<b>10,800,000</b>	<b>3</b>	<b>5</b>
McGladrey Pullen	2007	4/29/08	150	58,000,000	5	9
PricewaterhouseCoopers	2007	6/27/08	928	3,660,000,000	6	7

Notes to the above chart:

- The above '# of issuers' and 'annual SEC audit fees' numbers are per [www.auditanalytics.com](http://www.auditanalytics.com) and exclude funds and trusts and companies without a periodic report filed in the past 6 months, and are used with their permission.
- The number of issuers and Annual SEC audit fees for KPMG Canada are limited to those in Canada, as these two firms use the same name although they are two separate entities.
- The other 3 Big 4 firms plus Grant Thornton also use similar names for their various foreign affiliates so the numbers for these firms also exclude foreign-based filers.

Since PCAOB was first created, our firm has supported their mission beyond what most of our competitors have. We embraced their 'heavy-handed' inspection approach and strove to become the 'smallest national firm' with annual inspections to assure our highest quality result. Achieving our level of quality annually required a culture shift, as most of our smaller public company clients don't expect it. They usually don't mind if the cost isn't greater and their reports aren't late, and we've accomplished these efficiencies with the following auditing innovations:

- greater use of virtual auditing.
- a commitment to a risk-based approach. While the rules supporting this are not formally enacted yet by PCAOB, this is the profession's trend and our firm has embraced this approach to increase our efficiencies.
- an 'assembly line' approach to common debt, equity and impairment accounting problems – these are sometimes thorny and complex and cannot be completed efficiently with a limited time budget without thoroughly understanding the issues beforehand. Our unmatched depth in these issues allows us to be both competent and price competitive.
- doing the absolute minimum on internal controls testing where such are not effective. We heartily believe that where management override is real, because of CEO dominance, small size or a weak board, that no amount of controls could ever be effective. Where we see these traits, we do substantive auditing only. This cuts the overall cost.

PCAOB has approved or declined to review each of the above as practiced by our firm for each of the past two years. When they were in our offices this past October, they commented that our approach was 'way ahead' of many competing smaller firms.

See also our official response to PCAOB's March 2 draft report covering their October 2008 inspection of our firm.