

May 24, 2013

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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Request for Public Comment: *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*, PCAOB Rulemaking Docket Matter No. 40

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants.

The CAQ welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules* (Proposal or Proposed Framework). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

We support the proposed reorganization and the overall effort to improve the usability of PCAOB auditing standards. We have identified several suggestions for the Board's consideration that we believe will further improve and support the Board's effort.

Organization

The CAQ agrees that organizing the PCAOB's auditing standards into a topical structure with a single integrated numbering system is an improvement to the current numbering system and we believe the Proposed Framework generally follows the flow of the audit process. However, we have identified suggestions, as noted in Appendix A, related to the naming, numbering, or placement of certain categories and subcategories that we believe would improve the alignment between the proposed reorganization of the PCAOB's auditing standards and the flow of the audit. We are cognizant of the fact that each of the activities covered by the PCAOB's auditing standards may underlie more than one stage of the audit process (e.g. audit committee communications, consideration of fraud risks, auditing internal control over financial reporting), but we believe the suggestions noted in Appendix A are a "best fit" given the scope of the reorganization.

As noted in the Proposed Framework, the Board considered adopting the organizational structure of another standard-setter to facilitate comparison of auditing standards across different frameworks. While the Board chose not to pursue this alternative, we believe that some of its benefits could be realized through a cross-referencing (or mapping) tool that could accompany the Proposed Framework. Such a tool could cross-reference categories and subcategories of PCAOB auditing standards with those of the AICPA Auditing Standards Board (ASB) and the International Auditing and Assurance Standards Board (IAASB). This would support the auditor's application of the applicable auditing standards by allowing the auditor to quickly identify and consider similarities and differences associated with standards or topics across auditing standard frameworks.¹ This tool could be particularly helpful for auditors conducting audits under a new framework for the first time, such as when an auditor of a privately-held company becomes subject to the PCAOB's standards by way of an initial public offering, or when an auditor of a U.S. issuer conducts an audit under IAASB standards in conjunction with the audit performed under PCAOB auditing standards. Additionally, the tool could assist auditors of U.S. issuers who are also performing audits of other entities using the auditing standards of the ASB.

Both the PCAOB and the public auditing profession continuously consider and adapt to the issues and challenges associated with an increasingly complex, global, and integrated financial reporting environment. We believe that auditors and others would benefit from a deeper understanding of how the different auditing frameworks compare, and how differences in their respective requirements and application guidance affect the execution of audits performed in accordance with the different sets of standards. We encourage the PCAOB to consider conducting such an analysis, perhaps in coordination with other standard-setters.² The results of this analysis could be incorporated into the cross-referencing tool noted above, over time, and it could be updated as new or revised auditing standards are released. We believe such an initiative would be consistent with the PCAOB's strategic plan which in-part calls for cooperation and consideration of the work of other standard-setters and regulators.³

Rescissions

The CAQ supports eliminating references to generally accepted auditing standards or outdated references to accounting standards in the Proposed Framework. The CAQ believes, however, that AU Section No. 532, *Restricting the Use of an Auditor's Report* (AU 532) should not be rescinded. AU 532 addresses restricting the auditor's report and we believe it is important that PCAOB auditing standards provide for an opportunity for an auditor to restrict the use of the auditor's report (and, more broadly, other written communications) when appropriate.⁴ As noted in the Proposed Framework, it is not the Board's intent to substantively change practice as a result of the proposed reorganization, however, we believe the proposed AU 532 rescission could cause a substantial change in practice.

Scope and Other Matters

The CAQ supports the Board's proposal to exclude the PCAOB's attestation, quality control, and ethics and independence standards from the scope of the Proposed Framework and we support the Board's efforts to consider a separate, but similar reorganization project (or projects) in the future related to these other standards.

¹ The CAQ commends the PCAOB for providing a high-level comparison of the Proposed Framework to the current IAASB and ASB frameworks (noted in the Proposal, Appendix 3 – Comparison). However, the CAQ believes a categorical/sub-categorical cross-referencing tool would advance the Board's stated objectives to help users navigate the standards more easily, avoid potential confusion with the recently clarified standards of the ASB, and facilitate better comparison of PCAOB and IAASB standards.

² We encourage the PCAOB to consider one *possible* example such an analysis could follow:

https://www.aicpa.org/InterestAreas/FRC/AuditAttest/DownloadableDocuments/Clarity/Substantive_Differences_ISA_GASS.pdf

³ Public Company Accounting Oversight Board Strategic Plan: Improving the Relevance and Quality of the Audit for the Protection and Benefit of Investors 2012 – 2016 (November 30, 2012).

⁴ We also observe that guidance associated with restricting the use of the auditor's report in AU 532 is referenced in other PCAOB standards, such as Auditing Standard No. 16, *Communications with Audit Committees* (AS 16).

The scope of the Proposed Framework also excludes the incorporation of other non-authoritative audit-related guidance issued by the PCAOB, such as Staff Audit Practice Alerts, Staff Questions and Answers, Other Staff Guidance, and Other Board Releases (Other Guidance).⁵ The Proposal also indicates that, while auditors are not required by a Board rule to consider Other Guidance, an auditor who fails to do so may lack important information and, as a result, run the risk of violating the standard that the Board or staff has interpreted.⁶ While we agree that the full text of the PCAOB's Other Guidance should be excluded from the Proposed Framework, we believe it would be appropriate for the Proposed Framework to include a reference to the Other Guidance to assist auditors with maintaining their awareness and consideration of this guidance, and to assist in their navigation between the authoritative auditing standards and the non-authoritative Other Guidance. The final framework could either contain a referencing guide that clearly and comprehensively lists all Other Guidance, or ensure that references to Other Guidance accompany the applicable categories or subcategories in the framework. We believe that referencing Other Guidance in the framework will further facilitate the Board's continuous consideration of the applicability of Other Guidance, should certain topics become outdated or superseded as a result of ongoing standard-setting activities.

The CAQ appreciates the opportunity to comment on the Board's Proposed Framework. We welcome the opportunity to respond to any questions regarding the views expressed in this letter.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

PCAOB

James R. Doty, Chairman
Lewis H. Ferguson, Board Member
Jeanette M. Franzel, Board Member
Jay D. Hanson, Board Member
Steven B. Harris, Board Member
Martin F. Baumann, Chief Auditor

SEC

Paul A. Beswick, Chief Accountant
Brian T. Croteau, Deputy Chief Accountant

⁵ <http://pcaobus.org/Standards/Pages/Guidance.aspx>

⁶ See the Proposal, Footnote # 21.

APPENDIX A

The CAQ suggests the following potential changes to the naming, numbering or placement of certain categories and subcategories of the Proposed Framework that we believe would improve the alignment between the proposed reorganization of the PCAOB's auditing standards (AS) and the flow of the audit.

1. We believe proposed subcategories AS 1202, *Part of Audit Performed by Other Independent Auditors* and AS 1203, *Using the Work of the Specialist* should be placed under category AS 2600, *Special Topics*. The CAQ believes these subtopics represent specific auditing procedures, rather than standards on broad auditing principles or concepts.
2. The CAQ believes AS 2200, *Audit Procedures in Response to Risks – Nature, Timing, and Extent* should be renamed AS 2200, "Audit Evidence." We believe the subtopics of AS 2200, as proposed, illustrate the accumulation of audit evidence rather than audit procedures in response to the nature, timing and extent of risk.
3. The CAQ recommends that AS 2302, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist* be relocated under the *Other Matters Associated with Audits* category. We believe the guidance in this subcategory is indicative of auditing guidance associated with other work performed in conjunction with an audit of an issuer, rather than specific auditing procedures associated with internal control over financial reporting.
4. While we agree that proposed subcategories AS 2400, *Audit Procedures for Specific Aspects of the Audit* and AS 2500, *Audit Procedures for Certain Accounts or Disclosures* are appropriately included under the *Audit Procedures* category, we also believe these are audit evidence collection activities associated with multiple accounts or disclosures (e.g. fair value of financial or non-financial assets) rather than "certain" accounts as their current subcategory title states. Therefore, we believe these subcategories should be relocated and reordered in their entirety under our proposed renaming of subcategory AS 2200, "Audit Evidence."
5. The CAQ believes that AS 2801, *Subsequent Events* and AS 2802, *Management Representations* should be relocated under our proposed renaming of subcategory AS 2200, "Audit Evidence" instead of being characterized as "concluding audit procedures."
6. The CAQ also believes that proposed subcategories AS 2701, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* and AS 2805, *Evaluating Consistency of Financial Statements* should be placed under subcategory AS 3100, *Reporting on Audits of Financial Statements*. The CAQ notes these subcategories are standards for auditor reporting, rather than standards for planning and performing audit procedures or gathering audit evidence.