

November 6, 2003

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

**Subject: PCAOB Rulemaking Docket Matter No. 009, Comment Letter from PricewaterhouseCoopers LLP on Proposed Rule Regarding Certain Terms Used in Auditing and Professional Practice Standards**

Dear Mr. Secretary:

We appreciate this opportunity to provide our views on the PCAOB's (the "Board's") proposed rule regarding certain terms to be used in auditing and professional practice standards.

**Use of Terminology in Future Board Standards**

We support the Board's goal of clarifying language used to describe the professional obligations of registered firms and associated persons under the Board's standards.

We concur with the Board's intent to significantly limit the use of unconditional obligations (those using the words "must," "shall," and "is required") in the Board's future standards. We believe this appropriately recognizes the paramount importance of the auditor's professional judgment, applied to the particular facts and circumstances of the particular audit, in determining and obtaining the necessary audit evidence to support his or her opinion.

We have strong concerns with respect to Proposed Rule 3101(a)(2). This Rule requires the auditor to comply with obligations that are presumptively mandatory (those using the word "should") in the Board's auditing and related professional practice standards "unless the auditor can demonstrate, by verifiable, objective, and documented evidence, that alternative actions he or she followed in the circumstances were sufficient to achieve the objectives of the standard and serve adequately to protect the interests of investors and further the preparation of informative, fair, and independent audit reports. Failure to discharge a presumptively mandatory obligation is a violation of Rule 3100 unless the firm or associated person carries the burden of establishing that, in the circumstances, compliance was not necessary to achieve the objectives of the standard."

Considering the extensive use of the word "should" throughout the Board's interim standards as well its likely use in future standards (e.g., the PCAOB's proposed standard, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements), the proposed rule would drive the auditor towards a highly prescriptive, "checklist" audit approach that might detract from the auditor's ability to appropriately apply professional judgment to the unique facts

and circumstances of each audit engagement. This requirement would be extremely onerous and result in a large effort to document matters that have no overall relevance to the auditor's conclusions. We believe the requirement that the auditor appropriately document the decision not to apply a specific procedure should be limited to matters that are significant on an overall basis to the auditor's performance of a GAAS audit. In our view, the quality of the audit should be evaluated on an overall basis as opposed to on whether every deviation, however insignificant, from a presumptively mandatory obligation is formally documented on a contemporaneous basis. While we agree that contemporaneous documentation of significant matters is preferable and facilitates review, we believe that the auditor should be allowed to present other evidence, including oral evidence, in support of why a presumptively mandatory obligation was not performed.

We believe the approach taken by the Board with regard to documentation in its draft standard on an audit of internal control over financial reporting is the appropriate one. While the word "should" is used many times in the text with regard to the auditor's considerations and performance, specific documentation requirements are set forth in one section, which acknowledging the overall documentation requirements set forth in AU 339. To require documentation of each instance where the auditor did not perform a "should" procedure -- when specific documentation of the procedure's performance may not itself be required -- would be inconsistent.

At a minimum, we believe any consideration of broad, far-reaching requirements for additional audit documentation such as this should be considered as part of the Board's current project on audit documentation. This rule should be confined to clarifying the auditor's performance obligations rather than prematurely mandating new documentation requirements.

We believe the Board should consider a fourth category where use of the present indicative form would be an appropriate alternative. For example, phrases such as "the auditor considers" and "the auditor plans" might better describe those cases where the auditor goes through a thought process, using professional judgment, as opposed to performing a specific auditing procedure, (e.g., "should examine", "should confirm", "should inspect") or developing necessary documentation, (e.g. "should document"). We believe the proposal's discussion of "consider" in A.3 on page 3 of the release and the related footnote is limited to instances where the auditor "considers" whether or not to perform a specific auditing procedure. "Should consider" is also used many times in the interim standards in a different context for items the auditor must/should think about rather than make a yes/no decision on. To avoid confusion, we believe the proposed standard should address this distinction.

### **Use of Terminology in Interim Board Standards**

We recommend that the Board apply this guidance, in whatever its final form, only to new standards adopted by the Board and not extend it at this time to the interim standards. Rather, the application of any guidance to interim standards should come after the Board has reconsidered the broad topic of audit documentation and as part of its review of each particular interim standard. Use of the word "should" in the Board's interim standards evolved over a long period of time and encompassed both imperatives the auditor must meet to perform an audit as well as other items the auditor may legitimately decide are not required, using professional judgment and based on the facts and circumstances of the particular audit.

In many cases, the interim standards use "should" where the related obligations may be unconditional, so that regarding them as presumptively mandatory because they use the word "should" would be inappropriate. For example, AU 312.13 states: "The auditor should plan the audit so that audit risk will

be limited to a low level that is, in his or her professional judgment, appropriate for expressing an opinion on the financial statements.” In addition, AU 319.02 states: “In all audits, the auditor should obtain an understanding of internal control sufficient to plan the audit by performing procedures to understand the design of controls relevant to an audit of financial statements and determining whether they have been placed in operation.”

As a result, we believe application of the Board’s proposed use of “should” as meaning “presumptively mandatory” to the numerous instances of its use in the interim standards is not appropriate and will create significant confusion among auditors.

\* \* \* \* \*

In conclusion, we support the Board’s goal of clarifying language used to describe the professional obligations of registered firms and associated persons under the Board’s standards. However, we believe the approach adopted by the Board should allow the auditor to exercise the necessary professional judgment in carrying out his or her responsibilities.

Thank you for this opportunity to provide our views. Should you have any questions about anything in this letter, please call Jim Lee at 973-236-4478.

Very truly yours,

PricewaterhouseCoopers LLP