

Grant Thornton International

Barry Barber

Worldwide Director of Audit and Risk Management
399 Thornall Street
Edison, New Jersey 08837
732-516-5500
732-516-5550 Direct
732-516-5502 Fax
email barry.barber@gt.com



January 20, 2004

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

Via e-mail: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 012, *Proposed Auditing Standard on Audit Documentation and Proposed Amendment to Interim Auditing Standards*

Dear Board Members and Staff,

Grant Thornton International appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("Board" or "PCAOB") *Proposed Auditing Standard on Audit Documentation and Proposed Amendment to Interim Auditing Standards* ("proposed auditing standard" and "proposed amendment," respectively) and commends the Board on their work in this area.

We support the Board's efforts to improve the quality of audit documentation. To the extent such requirements can influence the auditors' response to identified risks, audit quality in general will also be improved. However, we have significant concerns about certain documentation obligations that would be imposed on registered public accounting firms and their associated persons ("auditors"), in particular, those relating to the legal ramifications relating to exporting audit documentation to other jurisdictions, as discussed below.

Our concerns and our recommendations to improve the clarity and to eliminate potential misinterpretation of the proposals are as follows. Additional paragraph-level comments are presented in Appendix A.

Scope of the Proposed Auditing Standard

It is our understanding that the proposed auditing standard establishes documentation requirements for audits of issuers' financial statements, as well as reviews of interim financial information.

However, paragraphs 1 and 4 and footnote 4 refer to the term "auditing and related professional

practice standards.” This term has been defined to include auditing and related attestation standards, quality control standards, ethics standards, independence standards, and any other professional standards that are established or adopted by the Board under Section 103 of the Act. Accordingly, the proposed auditing standard indirectly creates documentation requirements for attestation engagements (performed under Rule 3300T, *Interim Attestation Standards*). Moreover, the SEC records retention requirements (as discussed in footnote 4) pertain only to audits of financial statements and reviews of interim financial information. Thus, paragraphs 1 and 4 and footnote 4 should be revised, as discussed below.

We believe it is critical that the Board use terms such as auditing standards, attestation standards, quality control standards, and so forth to specifically identify the standards within the “auditing and related professional practice standards” that are being superseded (or amended) by newly adopted standards and rules. The term “auditing and related professional practice standards” should be used only when the PCAOB intends to address all standards defined by such term. Accordingly, the use of this term should be clarified within the proposed auditing standard. We believe that the proposed auditing standard should clearly state that it establishes documentation requirements for audits of issuers’ financial statements (and reviews of interim financial information). We further suggest that the Board identify the specific section of each of the interim auditing standards that have been superseded (or amended) by the proposed auditing standard (see Appendix A).

Objectives of Audit Documentation

We concur that audit documentation constitutes the principal record of the auditor’s work and provides a basis and support for the auditor’s conclusions and representations. We also agree that audit documentation facilitates the planning, performance, and supervision of the audit and that the engagement team or others may use audit documentation to obtain an understanding of the work performed and the conclusions reached. Accordingly, we believe that the objectives of audit documentation relate primarily to supporting the audit opinion and aiding in the conduct and supervision of the work. However, we further believe that preparing audit documentation specifically for the review of the quality of such work by others (principally, as identified in paragraph 3 d., e., and f.) is not an objective of such documentation.

Paragraph 2 of the proposed auditing standard describes how documentation “... provides the basis for the review of the quality of the work by providing the reviewer with written documentation of the evidence supporting the auditor’s significant conclusions.” The term “reviewer” has not been defined and can be misconstrued to imply that all individuals listed in paragraph 3 are reviewers. Consequently, the auditor would be required to prepare documentation specifically for such individuals (e.g., the successor auditor, internal and external inspection teams, and others, such as “advisors engaged by the audit committee or representatives of a party to an acquisition”). Certain of these individuals do not have the authority to review the audit documentation to evaluate the quality of the work performed.

In addition, quality cannot simply be evaluated by reviewing audit documentation alone. Just as an auditor performs inquiries during his or her engagement to audit (or review) issuers’ financial statements (or interim financial information), supervisory personnel, engagement partners, engagement quality control reviewers and inspectors perform inquiries of auditors or others (such as the audit committee) to further evaluate the quality of the auditors’ work. For instance, regardless of how well the auditor documents his or her communications with the audit committee, an inspector may choose to discuss such matters with the auditor, or even the audit committee, to further determine whether the desired quality was achieved. In this instance, the documentation may have been adequate, concise and met the objective of audit documentation, but the inspector may have wanted to evaluate the auditors’ approach and skepticism, which cannot be evaluated through the

documentation alone. Auditors, as well as quality control reviewers or inspectors, use their experience and training and the evidence they obtain from their work to draw their conclusions. Such conclusions cannot, in all situations, simply be made by only evaluating documented evidence.

Accordingly, we recommend that the Board appropriately define the term reviewer and clarify the objectives of audit documentation, specifically as they relate to quality. In addition, we do not believe it is necessary to include the list of potential users of audit documentation in paragraph 3. However, if this list is retained, we suggest that (1) items a. through c. be broken out separately from items d. through f., and (2) for items d. through f., the proposed auditing standard clearly state that audit documentation is not prepared specifically for these individuals.

We further recommend that the proposed auditing standard recognize that the documentation belongs to the auditor, that the auditor must maintain the confidentiality of such documentation, and that such documentation is not a substitute for an entity's accounting records. These are important concepts that should be maintained within the auditing literature.

Content of Audit Documentation

Our specific comments relating to the content of audit documentation are set forth below. Overall, however, we believe that the proposed auditing standard is lacking certain fundamental concepts, such as professional judgment, materiality, risk assessment, and the concept of reasonable assurance (or in documentation terms, evidential matter that provides a “reasonable basis” for the conclusions reached).

For example, an auditor must always use his or her professional judgment in determining the extent of audit documentation that is necessary to comply with professional standards and applicable rules and regulations. Accordingly, we suggest that the Board acknowledge and support this concept and the concepts of materiality and audit risk assessment within the proposed auditing standard. Such concepts, including others (for example, the nature of the procedures or the degree of judgment involved in performing the procedure or in evaluating the results) are critical factors used by the auditor when making professional judgments as to the sufficiency of the evidence obtained and the related audit documentation.

Essentially, this proposed auditing standard is requiring a conclusion for every single audit procedure, including every material financial statement assertion. As discussed above and below, we believe that an auditor, in addition to specific audit evidence obtained in the current engagement, draws upon his or her years of training and experience to accumulate all of the sufficient competent evidential matter to afford a “reasonable basis” for the conclusions reached. To document all such matters is unattainable. Accordingly, it is critical that the proposed auditing standard address the concept of “reasonable assurance.”

Reviewability Standard

According to the introductory discussion, the proposed auditing standard will essentially “require that audit documentation contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the work that was performed, who performed it, when it was completed, and the conclusions reached. This experienced auditor also must be able to determine who reviewed the work and the date of such review.” We can support portions of this “reviewability standard;” however, we have significant concerns with respect to other aspects of the Board's proposal.

We believe the extent of such standard should be limited to significant judgments and conclusions, similar to that required by the General Accounting Offices' ("GAO") documentation standard for government and other audits conducted according to *generally accepted government auditing standards*. It is impossible for an auditor to document every single inquiry and every single piece of evidence seen or to document his or her years of training and experience as an auditor, as that relates to and is used by the auditor, with respect to a particular engagement. As such, we recommend that the Board revise the proposed auditing standard to reflect the principle of significant judgments and conclusions, particularly within paragraphs 5 and 6. The concept of "significant conclusions" was introduced by the Board in paragraph 2.

We further suggest that the Board define the term "experienced auditor." We believe that an experienced auditor should have appropriate knowledge of (a) the industry in which the entity operates, (b) the related accounting and auditing requirements, and (c) the SEC's rules and regulations. For audits (and reviews) of a foreign issuer's financial statements (and interim financial information), an experienced auditor may also need to be familiar with the particular laws, rules, and regulations to which the entity is subject. That said, a reviewability standard that focuses on significant judgments and conclusions would be appropriate for such an experience level.

Documentation and the Use of a Specialist

Paragraph 6 states: "Auditors, including specialists, should document the procedures performed, evidence obtained, and conclusions reached." As defined by the interim auditing standards (AU Section 336), "...a specialist is a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing." A specialist may be engaged or employed by management or the auditor. We do not believe that the auditor has any authority to control the documentation of a specialist engaged or employed by management. However, specialists engaged or employed by the auditor will ordinarily meet the definition of an associated person of a registered public accounting firm and must, thus, abide by the proposed auditing standard. Accordingly, we suggest that the Board clarify that the auditors' documentation requirements pertain to specialists employed or engaged by the auditor, not by management.

Rebuttable Presumption

The proposed auditing standard stipulates that the failure to document the procedures performed, the evidence obtained, and the conclusions reached "... creates a presumption that the procedures were not applied, the evidence was not obtained, and the conclusions reached were not suitably supported. This presumption is rebuttable by persuasive other evidence that the procedures were applied and the evidence was obtained to provide sufficient support for the conclusions reached." In the introductory discussion, the Board further states that "... oral explanation alone would not constitute persuasive other evidence."

We believe that the statements above effectively prohibit the auditor from providing further clarification by means other than documentation in regards to *all* audit procedures, evidence obtained, and conclusions reached. This establishes an impossible threshold, especially relating to matters that are low risk or immaterial in nature. As stated previously, an auditor cannot fully document all of the observations, inquiries, judgments, previous experience, training, and education on each and every engagement, all of which are evidence used to support the conclusions reached.

That said, however, we do believe that a rebuttable presumption is appropriate with respect to significant judgments and conclusions reached. Accordingly, we recommend that the Board (a) primarily apply the rebuttable presumption requirement to significant judgments and conclusions, (b) clarify the types of persuasive other evidence that could potentially exist, and (c) clarify the extent to

which the auditor could utilize oral evidence in support of the procedures performed, the evidence obtained, and the conclusions reached, including those related to significant judgments and conclusions and those relating to other auditing procedures.

Engagement Completion Memorandum

We fully support the concept of an engagement completion memorandum that identifies the auditors' significant findings or issues. Such memorandum provides a roadmap to significant matters and facilitates the engagement partner or quality control reviewer. That said, however, the engagement completion memorandum should not contain repetitive documentation, which we believe would inhibit the conduct, supervision, and review of the engagement. Such memorandum should only be a high-level summary that would provide cross-references to the more detailed audit documentation. In other words, the summary should provide enough information for a reviewer to understand the nature of the matter and the rationale for the conclusions reached, but should not be a substitute for the audit documentation. Further, the auditor should be allowed to use his or her judgment with respect to the items listed on the memorandum, versus requiring all significant findings or issues, as identified in paragraph 9. To require all such matters would diminish the usefulness of the engagement completion memorandum. Lastly, the form of the document should be left to the discretion of the auditor, as it is not necessary to stipulate the form at a standards level.

Retention of and Subsequent Changes to Audit Documentation

The proposed auditing standard will require the auditor to assemble the audit documentation within 45 days of the issuance of the auditors' report ("issuance date"). Because the issuance date is subjective and there may be more than one issuance date, we recommend that the Board adopt the filing date of the issuers' financial statements (or interim financial information). We believe that the filing date is more objective and will simplify the Board's inspection procedures.

Multi-location Audits and Using the Work of Other Auditors

We do not believe that the requirement imposed by paragraph 16 that requires the office issuing the auditors' report to retain all audit documentation adds to or enhances audit quality. In addition, we believe that it is impractical and may be impossible to accomplish such requirements and that the potential benefits associated with such requirements do not justify the costs. This would be true even for a relatively small company that operates in more than one location. Accordingly, we strongly urge the Board to reconsider this requirement. The benefits to the Board can still be achieved by providing an accounting firm with a reasonable amount of time to assemble the information in one location when the need arises or in connection with an investigation (as required by Section 106 of the Act). Of course, there are other issues relating to this in foreign jurisdictions, as discussed below.

Professional and Legal Ramifications in Foreign Countries

Under Section 106 of the Act, each registered US public accounting firm is required to obtain a consent granting access to the PCAOB or to the SEC to the audit documentation of a foreign accounting firm that the registered US firm relied upon in rendering its auditors' report. Section 106(b) of the Act provides that the foreign accounting firm that issues an opinion or provides "material services" is "deemed" to have consented to produce audit documentation to the SEC or PCAOB in connection with any investigation of the registered US firm's report. In the same vein, a registered US firm that relies on the work of a foreign accounting firm is "deemed" to have consented to produce the audit documentation and to have secured the consent of the foreign accounting firm to provide the foreign accounting firm's audit documentation. We believe that the

Board has expanded the documentation requirements beyond those required by Rule 106 and that the proposal causes conflicts between professional and legal obligations.

As the PCAOB is aware, and as described in a letter to the Board that was prepared by Linklaters, there are legal impediments in many jurisdictions that preclude an accounting firm from providing access to its work product or audit documentation absent a specific client waiver and consent. The rules of the Board require each registered US firm that relies upon the work of a foreign accounting firm to attempt to obtain the necessary client waiver and consent that will remove the foreign legal impediment that would prohibit a foreign accounting firm from consenting to provide access to its work product and/or audit documentation. However, such client waivers and consents cannot alter a legal responsibility under the data privacy laws, which require additional waivers and consents from individual parties. The data privacy laws (particularly within the European Union) prohibit the use of personal data for means other than lawful purposes and impose certain restrictions on the export of such information to another country (including the United States, which the European Union does not accept has adequate laws for protecting data).

The practical issues arising from the above could potentially be very onerous and even unworkable. Before copies of the audit documentation could be sent to a US public accounting firm (or, in certain circumstances, another jurisdiction), the content of each piece of documentation would need to be considered and consent sought (and obtained) from every party whose rights might be infringed by disclosure. Clearly, this would be a very costly and time-consuming exercise with no guarantee of success. Despite the best efforts of foreign accounting firms and their clients, the necessary waivers and consents may not be forthcoming. Thus, an auditor would not be able to comply with the Board's proposals. Foreign accounting firms also run the risk of violating applicable laws and regulations, because the data privacy laws are extremely complicated, and an auditor does not possess the adequate skills and training to analyze the audit documentation to ensure all the data that is protected by law is eliminated. It is our understanding that these issues are not eliminated should a US registered accounting firm perform the work and maintain the audit documentation.

We applaud the Board on its efforts to "... become partners with its non-U.S. counterparts in the oversight of the audit firms that operate in the global capital markets," as indicated in PCAOB Release No. 2003-024, *Proposed Rules Relating to the Oversight of Non-U.S. Public Accounting Firms*. Accordingly, we agree with the Board that it is "... in the public interest, and the interest of investors and the Board's non-U.S. counterparts, to develop an efficient and effective cooperative arrangement where reliance may be placed on the home country system to the maximum extent possible." Thus, until these matters can be evaluated thoroughly and a process developed that everyone is comfortable does not place auditors in conflict with the law, we strongly urge the Board to delay the requirement for foreign accounting firms to furnish audit documentation to US registered accounting firms (and vice versa).

Implementation Date

The proposed auditing standard "... will apply to engagements completed on or after June 15, 2004." Due to the significance of the proposed changes to existing documentation standards and the time necessary to finalize the proposals and obtain the SEC's approval, we believe that this effective date may not be viable for engagements where auditing (or review) procedures have already commenced. In addition, we believe that it would be clearer if the effective date related to a company's fiscal year-end versus the date the engagement was completed. Accordingly, we recommend the Board consider applying the proposed auditing standard to annual audit engagements on clients whose fiscal year ends on or after June 30, 2004 and to reviews of interim financial information beginning with the first quarter subsequent to the fiscal year in which the standard was first implemented.

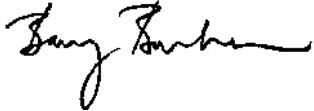
January 20, 2004

Further, although we believe the current effective date applies to both the proposed auditing standard and the proposed amendment, we suggest that the proposed amendment be revised to clearly indicate such.

* * * *

We would be pleased to discuss our comments with you. If you have any questions, please contact Mr. John L. Archambault, Managing Partner of Professional Standards, Grant Thornton LLP, at (312) 602-8701 or myself.

Very truly yours,

A handwritten signature in black ink, appearing to read "Barry Barber". The signature is written in a cursive, flowing style.

Grant Thornton International
Barry Barber
Worldwide Director of Audit and Risk Management

APPENDIX A – SPECIFIC PARAGRAPH-LEVEL COMMENTS

The following describes additional concerns and offers other substantive comments and/or suggestions relating to specific paragraphs.

- **Paragraph 1** – To provide auditors with additional guidance, we suggest that the Board clarify whether the proposed auditing standard will supersede (a) Appendix B of AU Section 339, which contains an amendment to other interim auditing standards and creates additional documentation requirements specifically related to aggregated misstatements, analytical procedures, and going concern, or (b) the interpretation of AU Section 339, which deals with providing access to, or copies of, audit documentation to a regulator. We also suggest that the Board (a) perform a thorough review of all of the specific documentation requirements that exist in the other auditing standards to ensure that they parallel the new standard, and (b) maintain (and revise, as appropriate) Appendix A of AU Section 339, which references documentation requirements of other auditing standards.
- **Paragraph 2** – Consider revising the term “include records” in the third sentence, as audit documentation constitutes the principal record of the auditors’ work.
- **Paragraph 3** – The items listed are written in the present tense. Accordingly, the proposed auditing standard indirectly implies that such reviews occur on each engagement.
- **Paragraph 8** – The proposed auditing standard stipulates that if certain matters (for example, independence and training) are documented in a central repository, the documentation should include a reference to such repository. We believe that this is unnecessary and question whether this requirement will improve the quality of audit documentation. We do, however, concur that unique matters should be documented and maintained with the audit documentation for a particular engagement.
- **Paragraph 9 (c)** – The second sentence states: “For purposes of this standard, an *audit adjustment* is a proposed correction of a misstatement of the financial statements that could, in the auditor’s judgment, either individually or in the aggregate, have a material effect on the company’s **financial reporting process** [Emphasis Added].” We believe the phrase “financial reporting process” should be replaced by the term “financial statements,” as an audit adjustment impacts the financial statements and not the process by which such statements are created. In addition, the last sentence states: “Audit adjustments include corrections of misstatements, of which the auditor is aware, that were or should have been proposed based on the known audit evidence.” We suggest clarifying this sentence to clearly indicate by whom such adjustments were or should have been proposed, including what is meant by the phrase “should have been proposed.”
- **Footnote 1** – We believe this footnote should also refer to the Board’s interim auditing standards (AU Section 312).
 - **Paragraph 12** – Additional clarification may be needed with respect to the records to be retained, specifically, the “procedures performed in response to the information.”
 - **Paragraph 13** – Consider explicitly stating that the retention period applies to former clients.
 - **Footnote 3** – We recommend explicitly stating that audit documentation is required to be maintained if a report, whether oral or written, is not issued or the engagement is not completed. This footnote may be interpreted to only apply to reviews of interim financial information, which do not require the issuance of a written report.

- **Paragraph 15** – The term “post-issuance procedures” may be interpreted two ways; procedures performed subsequent to the issuance of the auditors’ report or procedures performed subsequent to the issuance of the company’s financial statements (as discussed in paragraph 14). In spite of this, we believe that the last two sentences of this paragraph are unnecessary, as the auditor is already required to document all additions and changes subsequent to the completion of the engagement.
- **Paragraph 16** – If the Board chooses to retain the requirements of paragraph 16, we urge the Board to clarify the following matters:
 - The phrase “work performed by others.” We do not fully understand the scope of this requirement, nor how it compares to the work performed by other independent auditors. As such, we do not fully understand the alternative presented.
 - How such requirements apply to joint audits.
 - The requirements pertaining to documentation that exists in the central repository of other offices or firms.
 - The retention and accessibility of documentation that exists in electronic form, especially software used by other independent auditors.
 - The translation of audit documentation prepared by foreign accounting firms.
 - When not making reference, within the report, to the audit of the other auditor, how the principal auditor could:
 - review the audit documentation “... to the same extent and in the same manner that the audit work of all those who participated in the engagement is reviewed.” In order to meet this requirement, we believe that the principal auditor must be responsible for the conduct and supervision of the engagement; essentially, the principal auditor would need to perform the audit himself or herself.
 - incorporate the work performed by the other auditor in sufficient detail “... to meet all the requirements ... as if the principal auditor had performed the work himself or herself.” We believe that this essentially is requiring the principal auditor to obtain copies of the other auditors’ documentation; otherwise, the principal auditor would not be in compliance with the proposed amendment.
 - consider the notion of materiality (in relation to the consolidated financial statements) with respect to the requirements above.
 - The use of electronic storage located in a central location that is segregated by office, including the use of scanning pertinent documents, such as contracts and agreements, engagement letters, representation letters, confirmations, etc. Such storage would be used in lieu of retaining audit documentation at the issuing office, but would still meet the Board’s needs with respect to their inspection program and would clearly cut costs associated with storing and shipping paper documents.
 - Whether audit documentation that is inadvertently not retained by the office issuing the auditors’ report (e.g., a memo located in another office) would constitute “other evidence” to overcome the presumption that the procedures were not applied or the evidence was not

obtained to provide support for the auditors' conclusions. In other words, if a "filing error" occurred, does the Board presume that the procedures were not performed or the evidence was not obtained, and would that presumption be overcome by bringing forth the audit documentation that exists in another location?

- **Paragraph 17 and Footnote 4** – We suggest combining this paragraph with paragraph number 1, as it currently seems misplaced. In addition, we suggest a simple reference to the SEC rules and regulations, as paraphrasing may innocently alter the meaning and requirements (as indicated in the body of our letter).
- **Proposed amendment** – In the first sentence, we suggest adding the word "herself."