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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. 012

We are pleased to comment on the proposed auditing standard on audit documentation. Our comments are presented in the same order as the proposed auditing standard, and each comment begins with a reference to the paragraph number in the proposed standard followed by a recitation of the particular wording we comment on.

#1. "in connection with any engagement conducted in accordance with auditing.... Standards"
We suggest that in the final PCAOB standard, and in all future PCAOB standards, that the PCAOB clearly and specifically indicate that this standard applies to the audits for which the PCAOB has been given the authority by the Sarbanes-Oxley Act to regulate, and not to other audits. While this is well understood to be the case, we nevertheless believe there is likely to be use, out of context, of the wording of this PCAOB standard. We believe that someone, for their purposes, may quote the "any engagement" language in seeking to impose an obligation contained in a PCAOB standard upon an auditor in a situation where the Sarbanes-Oxley Act and the PCAOB standards do not apply. For example, this PCAOB standard does not apply to audits of governmental enterprises, to audits of non-public enterprises, or to audits conducted by non-US auditors following the rules of their respective countries and not involving entities subject to the Sarbanes-Oxley Act.

#2. "provides the basis for the review of the quality"
We believe audit documentation should not be stated as "the basis" for the review of the quality of the work by the reviewer, as that wording implies it is the sole basis for that review. However, oral discussion with other auditors on the audit team, including inquiry and observation, is also relevant in certain areas and may be useful in the review of the quality of the work performed. Existing PCAOB auditing standards acknowledge the usefulness of inquiry and observation in various auditing procedures, such as the usefulness of making inquiries of management (AU 319.58 "inquiries of appropriate management, supervisory, and staff personnel") and of observation (AU 319.58 "observation of entity activities and operations"). Oral discussions are also useful and, in the case of the brainstorming meeting to discuss fraud, required (AU 316.14 "members of the audit team should discuss the potential for

material misstatement”). There are numerous other examples. While the results of many of these oral procedures and discussions are often documented in some fashion, the oral discussion itself that occurs may be valuable information for the reviewer about the quality of the work performed and the abilities of the auditor performing it, and this cannot always be captured in written form.

#5. “the date such work was completed..... the date of such review”

We suggest that documentation of the date something was completed and of the date it was reviewed are not significant matters that need be documented for each procedure, especially for non-significant procedures. This form of documentation should be required only for significant matters or for especially time-sensitive matters, such as subsequent event procedures. It may often not particularly relevant to document when a recalculation of depreciation was completed, or when a planning analytical review was completed, or when the assessment of the adequacy of a disclosure was completed. The absence of a date of completion for matters such as these is not significant.

Further, in the process of reviewing work, a workpaper may be requested to be changed to better reflect what happened. The person preparing the workpaper thought they were done, and documented what they thought was the completion date. If they later change the workpaper, is that now the new date of completion or does the original date still apply? Further, if the work is considered completed when the workpaper was revised, the date of completion may now be a date that is after the date the work was reviewed, especially when the matter revised was not of such significance to require a re-review by the reviewer.

Something else is not clear in paragraph 5 as to what is meant by “the date such work was completed”. In the case of a typical workpaper that documents performance of a test, there may be four or five procedures performed on each item in a sample of transactions, and such work may take place over a span of several days. Is the completion of each individual procedure on each individual transaction something that must be initialed and dated, as to who performed such work and when? Or is it only on the completion of a given workpaper, recognizing that much of the work shown on that workpaper was in fact completed earlier? For example, consider a workpaper with some procedures done at interim and others done at year-end: what is the proper date to use?

Further, in today’s electronic age, a workpaper is not necessarily the size of a piece of paper, but may be significantly larger or smaller, depending on the design of an electronic system, and some workpapers may be assembled “as needed” by sorting and grouping information in different ways. Guidance should be flexible enough to handle the many varying ways in which information is prepared, stored, and analyzed in a set of workpapers as to when that information, or the varied ways of presenting it and looking at it, are to be considered “completed”.

#8. “a reference to the central repository”

While such a reference may be useful, we suggest that this is likely quickly to become a boilerplate comment in the working papers and thus may be of limited real value. There is likely to be a sentence added to preprinted forms that states: “Documentation of auditor independence, staff training, and proficiency is maintained in central files of the firm.” That’s fine, but what does it add to the set of auditing workpapers? A firm’s quality control documentation will normally refer to where and how such central repositories are maintained, and adding this reference to each set of working papers adds little benefit.

Further, it is not feasible to place such documentation in individual audit working papers due to its volume and possible privacy concerns. In most cases, the auditors involved on a typical audit would not be the best qualified ones to assess whether, say, a given auditor's staff training is adequate, whether each covered member in a firm has recently indicated their independence, whether suitable hiring practices are followed and so on. The auditors on an engagement would rely on the experts within a firm to ensure that independence problems have not arisen, that personnel evaluations are being performed, etc., and may lack the training or ability or knowledge to conclude on all these matters. Even if they have the training and ability, a firm's quality control process will normally have already dealt with these issues and it need not be separately concluded on each audit.

#9. "significant findings or issues include..... any other matters that could result in modification of the auditor's report"

We suggest that the definition of "significant findings or issues" be revised to focus only on matters that were believed, on the particular audit involved, to present issues that could result in modification of the auditor's report.

Also, it is possible that some matters covered in 9b, for example, might involve a reduction in the auditing procedures needed versus what was originally planned, due to internal control improvements made subsequent to planning or similar reasons. It is possible that some matters covered in 9g, for example, might be reductions in the assessed level of audit risk due to changes in business practices or controls, disposition of an area of operations, or other factors. Matters such as these would not need to be considered as significant findings.

#10 "identify all significant findings or issues in an engagement completion memorandum"

We do not think that the specific format or location of these matters should be prescribed. There are a variety of ways to present information so that it comes to the attention of reviewers, and prescribing one way limits the ability to control audit processes in other ways. For example, a firm may wish a certain matter, such as proposed audit adjustments, to be presented in one place in each of the firm's audits and to be presented using a particular software tool, which tool may not work well for documentation of other matters. In smaller audits, there is likely less need for a separate engagement completion memorandum, as the workpapers are more easily accessible and needed documentation therein is more easily found. The degree of senior audit executive involvement may also affect the need to gather information together into one spot, as the audit executive may already be so familiar or involved in the issues as to reduce the need for a separate summarization of the issues in a different place.

Further, we presume that the significant findings or issues required to be placed in this one memorandum are only those that merited actual consideration as to whether to modify the auditor's report. As an example, consider management representation letters. Lack of such a letter would cause a modification of the auditor's report, but if there are no issues involved in obtaining such a letter and one is obtained, we presume that this does not need to be documented in an engagement completion memorandum. However, the proposed standard is unclear because many matters that aren't issues "could" have resulted in a report modification if they had been an issue.

It also appears that issues documented in an engagement completion memorandum might be able to be briefly summarized with reference to other working papers, rather than having to be repeated in length in this memorandum. Clarification of this would be useful.

#14 “complete and final set of audit documentation must be assembled within.... 45 days”

This time period is too short. There are often many people working on a given audit, and these auditors may be working on a number of audits one after the other, so as to find themselves not able to return to better document something until several weeks later. It may take a period of time for a person’s work to be reviewed, for questions raised by a reviewer to be addressed by the one that performed the work (especially when they are busy on another audit and need to get physical access to the first audit’s working papers or time to make the changes), and for the revisions to be reviewed by the reviewer. Sometimes the revisions made need a further series of revisions. Often there are multiple reviewers and the process may take some time. Much of this revision includes an on-the-job training aspect, whereby newer personnel are taught improved documentation and other auditing skills via the review process. In short, during this busy time of year of January through mid-April, the significant matters are taken care of and cleared up, but additional cleanup work may possibly be involved later to further refine the working papers, so they accurately reflect everything that was done in the appropriate manner. We suggest more time be allowed, such as 120 days after release of the audit report, to wrap up all the documentation needed.

#16 “(...documentation of work performed by others, such as affiliated firms) must be retained by the office issuing

“ The scope of this requirement appears to be excessive, and we see no exclusion for relative insignificance. Consider first the use by the principal auditor of information about a relatively minor subsidiary. In many cases, the principal auditor obtains an audit report from another auditor for a subsidiary that is relatively minor, and the principal auditor does not make reference to the audit of the other auditor. However, the proposal states that, in this case, the principal auditor should review the audit documentation of the other auditor to the same extent as if the principal auditor had prepared it, which in effect is a double review of the other auditor’s workpapers – the other auditor will perform and review the work, while the principal auditor now appears to need to obtain and also review all the work done by the other auditor. This appears excessive and may not have been intended.

In addition to reviewing all the work of the other auditor, this proposal refers to complying with the requirements of paragraphs 4-12, so that the audit firm (and the office of that firm issuing the audit report) must apparently retain copies of all the workpapers prepared by another auditor, as part of the audit. We note this conclusion because paragraph 5 requires audit documentation sufficient to allow an experienced auditor with no previous connection to understand the nature, timing, extent, and results of the procedures performed and evidence obtained as well as who did the work, when it was completed, who reviewed it, and when the review was performed. We are not certain if there is an acceptable way to do this short of providing a complete set of the one auditor’s workpapers to the audit firm office issuing the report. We note that the alternative discussed (“Alternatively.... the auditor issuing the report should prepare and retain.... as long as the audit documentation complies with paragraphs 4-12...”) appears to require the auditor issuing the report to prepare documentation sufficient to allow an experienced auditor with no previous connection to understand the nature, timing, extent, and results of the procedures performed and evidence obtained as well as who did the work, when it was completed, who reviewed it, and when the review was performed (paragraph 5’s requirement). We believe this is an excessive amount of documentation that must be prepared and maintained.

Additionally, firms performing portions of the audits in other countries are likely to prepare their workpapers in the language used in that country, say German, or Arabic, or Chinese. Often a summary is prepared in English, but the detailed workpapers frequently remain in another language. It thus becomes very difficult to meet several of the matters discussed in paragraph 16, including the principal auditor review of documentation of the other auditor in the same way as if the principal auditor had prepared it, providing enough information for an experienced auditor to understand who performed the work, etc.

Further, the proposal should clarify whether one firm that has several of its domestic offices participate in an audit needs to assemble copies of workpapers from all of its domestic offices at the location of the office issuing the audit report.

#18. "engagements completed on or after June 15, 2004"

This effective date is too soon. Many of the engagements that will be completed after June 15, 2004 are now in process. For example, audit work on entities with a March 31, 2004 year-end may be completed on or after June 15, 2004, and there were likely quarterly Form 10-Q review procedures performed that pertain to that audit in July and August 2003 on the June 30, 2003 Form 10-Q. In addition, quarterly review procedures (which are included in the areas covered in the matters to be documented, per paragraph 9e,) are likely underway today for audits of periods ending September 30, 2004 on the first quarter Form 10-Q for the period ending December 31, 2003. These audits may be completed in mid-December 31, 2004, and the effective date of this standard should thus be after that date. Assuming this standard is issued February 28, 2004, the effective date should apply for audit work performed after that date for audits ending on or after January 31, 2005, allowing time for the completion of earlier audits before this new standard applies. This will allow time for firms to implement needed procedural changes and related staff training on significant implementation issues that may arise, as well as to avoid affecting audit work already performed.

Significant implementation issues may arise in developing policies and practices for the matters that must be included in the engagement completion memorandum, the dating of when audit work was 'completed' as well as when it was reviewed, the identification of items tested, information as to issues inconsistent with final conclusions, abstracts or copies of documents, and obtaining workpapers from affiliates or others, as well as to what specialists must now document. In addition to developing suitable policies and practices, there are many people that will require training on what needs to be done. Thus, a later effective date, as discussed in the prior paragraph, should be provided.

Page 4 of Release "invites comment on the addition of such a requirement"

The Board requested comment as to whether it should add a provision that oral explanation alone would not constitute persuasive other evidence. We do not think such a provision would be appropriate.

First, if a person does something, they should be permitted by every means possible to present the truth about what was done. It may often be that oral evidence, in the absence of written evidence, may be less persuasive in the minds of some, but it is not necessarily the case and all information a person can present as to what was done should be allowed.

Second, it is not possible to do so well as to write down in a document everything that one knows, or all the information that is gathered in the course of an audit. Consider an audit that requires 2,000 hours of time, which many audits do require. Documenting everything that

happens in that volume of time is the equivalent of writing down everything one does during on each 8-hour working day over the course of a full year, which is certainly a considerable amount of information. If one cannot supplement what is written down by providing oral information at a later date to help answer questions that might arise, the volume that may need to be documented, in anticipation of future unknowable questions, quickly becomes excessive.

Third, matters that are documented may often represent the “primary” means by which someone believes something, and may omit other corroborative evidence obtained that also might be useful. An example of this might be a document in which the auditor mentions that the auditor knows who someone else is, or met with or talked with that person. Perhaps the primary key for the auditor’s knowledge of who that person is, is that the auditor heard the other person state their name, but perhaps in addition the auditor also recognizes the other person from a photograph they have seen, or from a name-badge the person is wearing, or from prior experience with the person, or from an introduction by a third party, etc. Perhaps all of these are relevant as some degree of evidence, but ordinarily someone wishing to document the fact that they know someone will use just one basis. A standard that would require written documentation and prevent an oral supplement would not allow the auditor to present these additional reasons as to why the auditor knows who someone is, even if the auditor did document the primary basis for such knowledge. If there later is suspicion that the person stating their name to the auditor might have lied about their name, it might then become relevant if the other evidence used by the auditor—recognition from a photograph, or name-badge, or prior experience, or a third party introduction, etc.—could be presented if needed. It would clearly be overkill if each and every possible and potential, and redundant, basis for a belief were to be documented in every single circumstance because the auditor was limited to support that had been written down.

Fourth, using the above example of how someone knows who another is, in many cases such a fact will be commonly assumed to be true without special efforts to document it. If an auditor makes a note that they met with Mr. X and Mrs. Y, the auditor normally will not need to document how they know that those people are who the auditor believed them to be. Yet, it might conceivably be relevant some day to know how the auditor believed those two people to be who the auditor believed them to be. In short, how far should an auditor have to go in writing things down, if the PCAOB says that something that is not written down cannot, in spite of its truth, be ever be presented in an oral fashion.

In closing, we submit these comments to the PCAOB and its staff for consideration and with the desire to clarify and improve the guidance for the use of both auditors and the PCAOB’s inspection force. If we may help with anything, please contact Jim Brown.

Very truly yours,

Crowe Chizek and Company LLC