

April 23, 2004

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

Re: PCAOB Rulemaking Docket Matter No. 014, Proposed Auditing Standard – Conforming Amendments to PCAOB Interim Standards Resulting from the Adoption of PCAOB Auditing Standard No. 2, An Audit Of Internal Control Over Financial Reporting Performed In Conjunction With An Audit Of Financial Statements (PCAOB Release No. 2004-002, March 9, 2004)

Dear Mr. Secretary:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed auditing standard, *Conforming Amendments to PCAOB Interim Standards Resulting from the Adoption of PCAOB Auditing Standard No. 2, An Audit Of Internal Control Over Financial Reporting Performed In Conjunction With An Audit Of Financial Statements* (“the proposed standard”), that has been proposed by the Public Company Accounting Oversight Board (the “Board”).

We believe the addition of references to PCAOB Auditing Standard No. 2 (“the standard”) in the interim standards will be very useful to auditors when performing an integrated audit of financial statements and internal control over financial reporting.

We support the proposed amendments to the Board’s interim auditing standards subject to our specific comments in Appendix A. We believe that a few of the proposed amendments, as noted in Appendix A, create additional inconsistencies in the interim standards that should be resolved.

We also support the Board’s proposal to remove AT 501, *Reporting on an Entity’s Internal Control Over Financial Reporting*, from the Board’s interim attestation standards. We are not aware of any circumstances in which issuers would need to file an AT 501 report with the Securities and Exchange Commission.

We support the Board’s plan to include a specific identification of related proposed amendments to other standards in future standards-setting proposals. We encourage the Board to publish such proposed amendments for comment in a format that highlights changes to the existing text (for example, by using boldface italics for new language and strikethrough for deleted language) so that interested parties can obtain a better understanding of the effect of the proposed amendments.



We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions the staff may have. Please do not hesitate to contact Ray Bromark (973-236-7781) or Jim Lee (973-236-4478) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

SPECIFIC COMMENTS

Paragraph 2: Proposed Amendments to AU 310, *Appointment of the Independent Auditor*

Paragraph 167 of PCAOB Auditing Standard No. 2 (“the standard”) explicitly requires the auditor to express two opinions in the audit of internal control over financial reporting: an opinion on management’s assessment of internal control over financial reporting and an opinion on the effectiveness of internal control over financial reporting. Accordingly, we recommend that paragraph 2.b. of the proposed standard be revised as follows to reflect this requirement:

2. Statement on Auditing Standards (SAS) No. 1, "Codification of Auditing Standards and Procedures," AU sec. 310, "Appointment of the Independent Auditor," as amended by SAS No. 45, "Omnibus Statement on Auditing Standards-1983," SAS No. 83, "Establishing an Understanding With the Client," and SAS No. 89, "Audit Adjustments" (AU sec. 310, "Appointment of the Independent Auditor"), is amended as follows:

b. The first bullet point of paragraph .06 is amended to read as follows:
The objective of the audit is:

- Integrated audit of financial statements and internal control over financial reporting:
The expression of an opinion on ~~both management’s assessment of internal control over financial reporting and on~~ the financial statements **and opinions on management’s assessment of internal control over financial reporting and on the effectiveness of internal control over financial reporting.**

We also recommend that paragraph 2.d. of the proposed standard be revised as follows to bring the language into conformity with the last sentence of paragraph 18 of the standard, with the scope paragraphs in the illustrative reports in Appendix A of the standard, and with the changes that are proposed to be made to the eighth bullet point of AU 310.06 in paragraph 2.e. of the proposed standard.

d. The seventh bullet point of paragraph .06 is amended to read as follows:

The auditor is responsible for conducting the audit in accordance with the standards of the Public Company Accounting Oversight Board. Those standards require that the auditor:

- Integrated audit of financial statements and internal control over financial reporting:
Obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud, and whether **effective internal control over financial reporting was maintained** ~~management’s assessment of the effectiveness of the company’s internal control over financial reporting is fairly stated~~ in all material respects.

In addition, we believe that the proposed amendment to the seventh bullet point of paragraph .06 requires conforming amendments to the discussion of reasonable assurance in other interim standards,

for example, in AU 230.10.

Paragraph 10: Proposed Supersession of AU 325, *Communication of Internal Control Related Matters Noted in an Audit*

We agree that this interim standard is superseded by PCAOB Auditing Standard No. 2 when an integrated audit is being performed. We also agree that this interim standard should be superseded by the proposed guidance, *Communications about Control Deficiencies in An Audit of Financial Statements*, when only an audit of financial statements is being performed, subject to the following comments.

We believe that the proposed guidance should explicitly acknowledge that the auditor's objective in an audit of financial statements is to form an opinion on the financial statements and that the auditor is not obligated to search for significant deficiencies or material weaknesses. Reinforcing this view, we believe that paragraph 5 should be revised as follows:

5. *The auditor is not required* ~~Although there is not an explicit requirement to evaluate the effectiveness of the audit committee's oversight of the external financial reporting process and the internal control over financial reporting, *nor is the auditor obligated to identify whether a significant deficiency or material weakness in audit committee effectiveness exists. However, if the auditor does identify that* a significant deficiency or material weakness exists because the oversight of the company's external financial reporting and internal control over financial reporting by the company's audit committee is ineffective, the auditor must communicate that specific significant deficiency or material weakness in writing to the board of directors.~~

We believe the illustrative sections of reports to audit committees in existing AU 325 should be revised and retained. Also, in response to Question 4, we do not believe that the auditor should be required to report control deficiencies other than significant deficiencies and material weaknesses.

Paragraph 18: Proposed Amendments to AU 508, *Reports on Audited Financial Statements*

We agree with the proposed amendments to AU 508. In addition, we believe that AU 508.08(d) should be amended to indicate that "the audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board." This proposal is consistent with the Board's proposed amendment, in paragraph 2.d. of the proposed standard, to the seventh bullet point of AU 310.06.

Paragraph 7: Proposed Amendments to AU 319, *Consideration of Internal Control in a Financial Statement Audit*

We believe that the Board should amend other sections of the interim standards, in addition to AU 319.02, to incorporate "relevant assertions." For example, AU 326, *Evidential Matter*, should include a discussion of "relevant assertions."

In paragraph 7.e., we do not understand the relevance of the note proposed to follow AU 319.65 and recommend that it be deleted.

We suggest that the Board amend paragraph 32 of SAS No. 47, *Audit Risk and Materiality in Conducting an Audit* (AU 312.32) so that it is consistent with the guidance proposed at AU 319.02 and at AU 319.107 that requires the auditor “to perform substantive procedures for all relevant assertions related to all significant accounts and disclosures in the financial statements.”

Paragraph 13: Proposed Amendments to AU 329, *Analytical Procedures*

We agree with the proposed amendment to paragraph 9 of AU 329, *Analytical Procedures*. However, we believe that guidance should be included on what is meant by “significant risks” in the statement “For significant risks of material misstatement, it is unlikely that audit evidence obtained from substantive analytical procedures alone will be sufficient.” The guidance in paragraphs 108-114 of ISA 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, may be helpful in developing such guidance.

The guidance proposed to be added to AU 329.10 appears to be applicable to all substantive procedures and therefore its inclusion only in this interim standard is ambiguous.

Finally, the proposed amendment to AU 329.16 is unnecessary because it is redundant with guidance already included in that paragraph.

Paragraph 14: Proposed Amendment to AU 332, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*

We believe that the note proposed in paragraph 14 to be added to AU 332, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*, is misplaced because it contains interpretive guidance on implementing an aspect of that interim standard in an integrated audit. Accordingly, the guidance belongs in PCAOB Auditing Standard No. 2 or in an interpretation of that standard.