

April 23, 2004

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

**RE: PCAOB Rulemaking Docket Matter No. 014: Proposed Auditing Standard  
Conforming Amendments to PCAOB Interim Standards**

Members and Staff of the Public Company Accounting Oversight Board:

The Center for Public Company Audit Firms (“Center”) of the American Institute of Certified Public Accountants (“AICPA”) respectfully submits the following written comments on the Public Company Accounting Oversight Board’s (“PCAOB” or “Board”) proposed conforming amendments to the Board’s interim standards. The Center was established by the AICPA to, among other things, provide a focal point of commitment to the quality of public company audits and provide the PCAOB, when appropriate, with comments on its proposals on behalf of Center member firms. The AICPA is the largest professional association of Certified Public Accountants in the United States, with more than 330,000 members in public practice, business, industry, government, and education.

Paragraph 9 of the proposed standard amends SAS No. 70, *Service Organizations* (AU sec. 324), by inserting a note after paragraph 1 of SAS No. 70 referring the reader to paragraphs B18 – B29 of appendix B of Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. The note in paragraph B21(c) indicates that a service auditor’s report used in an integrated audit of financial statements and internal control over financial reporting should be one that provides evidence about the operating effectiveness of controls (a type 2 service auditor’s report), or an agreed-upon procedures report that provides evidence about the operating effectiveness of controls. Further, the note in paragraph B21(c) indicates that a service auditor’s report covering only controls placed in operation (a type 1 service auditor’s report) would not be adequate for this engagement. It would be helpful to the reader if that information were communicated in the note inserted after paragraph 1 of SAS No. 70 since SAS No. 70 covers both types of reports.

We also have noted several editorial recommendations in Appendix A to this letter.

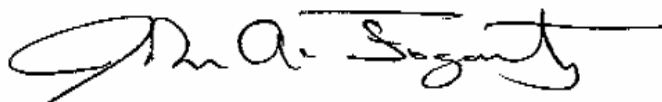
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We appreciate the opportunity to comment on the proposed amendments to the Board's interim standards. We are firmly committed to working with the PCAOB in accomplishing the timely and effective implementation of the Act, and would welcome the opportunity to meet with you to clarify any of our recommendations.

Sincerely,



Robert J. Kueppers  
Chair  
Center for Public Company Audit Firms



John A. Fogarty  
Chair  
Auditing Standards Board

cc: Mr. William J. McDonough, Chairman, PCAOB  
Ms. Kayla J. Gillan, Member, PCAOB  
Mr. Daniel L. Goelzer, Member, PCAOB  
Mr. Willis D. Gradison, Member, PCAOB  
Mr. Charles D. Niemeier, Member, PCAOB

## Appendix A

### PCAOB Rulemaking Docket Matter No. 014: Proposed Auditing Standard Conforming Amendments to PCAOB Interim Standards PCAOB Release 2004-002

#### Editorial Recommendations

*New language is shown in bold; deleted language is shown by strikethrough.*

1. Paragraph 2b of the proposed standard amends AU Section 310, "Appointment of the Independent Auditor." The bulleted items in the amended paragraph do not follow from the lead in. Also, since an integrated audit of financial statements and internal control over financial reporting covers management's assessment of internal control over financial reporting as well as the effectiveness of internal control over financial reporting, we recommend the following revision:

The objective of ~~the audit~~ is **an**:

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

2. Paragraph 2c of the proposed standard amends the third bullet of AU Section 310.06. As amended, the bulleted items do not follow from the lead in; accordingly, we recommend the following revision:

.....In an integrated audit of financial statements and internal control over financial reporting, an auditor is required to communicate, in writing, to management and the audit committee that the audit of internal control over financial reporting cannot be satisfactorily completed and that he or she is required to disclaim an opinion if management has not ~~fulfilled the following responsibilities~~:

- **Accepted** responsibility for the effectiveness of the company's internal control over financial reporting.
- **Evaluated** the effectiveness of the company's internal control over financial reporting using suitable control criteria,
- **Supported** its evaluation with sufficient evidence, including documentation, and
- **Presented** a written assessment of the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year.

## Appendix A

3. Paragraph 2e of the proposed standard amends the eighth bullet point of AU Section 310.06. To clarify the guidance to the board of directors we recommend the following revision:

Integrated audit of financial statements and internal control over financial reporting: . . . . .The auditor is also responsible for communicating in writing:

- To the audit committee — all significant deficiencies and material weaknesses identified during the audit.
- To management – all internal control deficiencies not previously communicated in writing by the auditor or by others, including internal auditors or others inside or outside the company.
- To the board of directors – any ~~specific~~ significant deficiency or material weakness identified because the auditor concludes that the audit committee's **would be ineffective in providing** oversight of the company's external financial reporting and internal control over financial reporting ~~is ineffective~~.

Audit of financial statements . . . . . However the auditor is responsible for communicating in writing:

- To management – all internal control deficiencies not previously communicated in writing by the auditor or by others, including internal auditors or others inside or outside the company.
- To the board of directors – any ~~specific~~ significant deficiency or material weakness identified because the auditor concludes that the audit committee's **would be ineffective in providing** oversight of the company's external financial reporting and internal control over financial reporting ~~is ineffective~~.