



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

May 28, 2013

RE: PCAOB Rulemaking Docket Matter No. 40, *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*

Dear Madam Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules* (the "proposed framework," "proposed amendments," or "proposal"). Overall, we support the Board's proposal to reorganize its existing interim and PCAOB-issued auditing standards into a topical structure with a single integrated numbering system, and to present the standards in a logical order that generally follows the flow of the audit process. In particular, we believe the proposed reorganization will help users navigate the Board's standards more easily.

In the remainder of our letter, we have organized our suggestions about the proposals into the following topical areas:

- Proposal to rescind AU 532, *Restricting the Use of an Auditor's Report*
- Scope and issuance of future auditing standards
- Organization

Proposal to rescind AU 532, *Restricting the Use of an Auditor's Report*

The proposal is recommending that AU 532, *Restricting the Use of an Auditor's Report* (AU 532) be rescinded for the reason that it "appears to be unnecessary because the requirements for restricting the use of specific reports are already covered in the individual standards for the respective reports, such as the internal control communications covered in AU sec. 325, *Communications About Control Deficiencies in an Audit of Financial Statements*." We acknowledge that certain individual standards include requirements to restrict the use of specific reports covered in those individual standards; however, we do not support rescinding AU 532 because AU 532 discusses overall considerations that are relevant to the auditor's determination of when a report should be restricted that go beyond the specific circumstances of an individual standard. Specifically, AU 532.03 states that the need for restriction on the use of a report may result from a number of circumstances, including the purpose of the report, the nature of the procedures applied in its preparation, the basis of or assumptions used in its preparation, the extent to which the procedures performed generally are known or understood, and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used. We do not believe the requirements to restrict reports that are in the individual standards adequately address these broader considerations related to when an auditor might restrict the use of a report.



In addition, rescinding AU 532 and proposing to delete footnote 41 to paragraph 25 in Auditing Standard No. 16, *Communications with Audit Committees* (AS 16) indicates that the communications with audit committees should no longer be restricted. We believe, if interpreted correctly, this could be a substantial change to the PCAOB standards which, as discussed in the proposal, is not an objective of the project. When the PCAOB originally proposed what would become AS 16, several commenters, including us, asked that the Board retain the requirement in AU 380.03, the Board's interim standard, that written communications to the audit committee are intended solely for the information and use of the audit committee, board of directors, and management, if appropriate, and are not intended to be and should not be used by anyone other than those specified parties. Although the Board did not revise AS 16 to include this additional language, the Board did include a reference to AU 532, which discusses the restriction of audit committee communications, in footnote 41 to paragraph 25 of AS 16.¹

Based upon the above, we believe AU 532 and footnote 41 to paragraph 25 of AS 16 should not be rescinded. In addition the first sentence within footnote 7 to paragraph 10(f) of AU 625, *Reports on the Application of Accounting Principles* should also not be deleted.

Scope and issuance of future auditing standards

We support that the proposed reorganization would involve reordering and renumbering existing standards in their entirety, thus preserving each standard as a discrete topic rather than disassembling the standard and reassembling its component parts into topics. We believe this approach preserves the context that is necessary to understand the entirety of an individual auditing standard yet still achieves the objective of enhancing the usability of the Board's auditing standards. We believe the Board should clarify that this approach will be retained going forward as new standards are developed.

We also believe it would be helpful if the Board clarifies how amendments to existing standards in the framework will be reflected. We support the PCAOB's current practices for displaying amendments to existing standards including, for example, designating a new paragraph by the suffix "A" and marking changes to the text of a paragraph with a comment indicating the effective date of the change. It is also not clear if the Board will continue to retain superseded standards on the website, a practice which we find to be a helpful resource.

As part of the reorganization process, we also encourage the Board to eliminate outdated references to accounting standards and references to generally accepted auditing standards in conjunction with its stated plans to update the reference numbers and cross references to reflect the new section numbers for the PCAOB auditing standards and to remove references to rescinded standards.

We also support the Board's decision to focus on the reorganization of the auditing standards first, and to undertake additional projects to address the organizational structure of the Board's other professional practice standards in the future.

¹ See PCAOB Release No. 2011-008, *Proposed Auditing Standard Related to Communications with Audit Committees*, page A4-42-43.



Organization

Overall, we support the proposed framework for reorganization of the PCAOB auditing standards. We agree that using a four-digit numbering system would facilitate the grouping of auditing standards into logical categories and subcategories by topic and would avoid potential confusion with the standards of other auditing standards setters. As stated above, we also believe that the proposed reorganization would help users navigate the standards more easily.

The Appendix to this letter includes our suggestions regarding the naming, numbering or placement of certain topics and subcategories that we believe may improve the alignment of the proposed reorganization of the PCAOB's auditing standards with the flow of the audit process.

* * * * *

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact George Kennedy (973-236-5361) or Marc Panucci (973-236-4885) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP



Appendix

We believe the suggested changes regarding the naming, numbering or placement of certain topics and subcategories as indicated below may improve the alignment of the proposed reorganization of the PCAOB's auditing standards with the flow of the audit process.

- AS 1202, *Part of Audit Performed by Other Independent Auditors*, and AS 1203, *Using the Work of a Specialist*, would be better placed under the AS 2600 *Special Topics* subcategory because these topics are specific auditing procedures more aligned with AS 2602, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.
- The subcategory AS 2200, *Audit Procedures in Response to Risks —Nature, Timing, and Extent* would be better renamed *Audit Evidence* since the topics in this subcategory illustrate the accumulation of audit evidence.
- AS 2302, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist*, would be better placed under the Other Matters Associated with Audits category (6000's) since it is a separate engagement from a financial statement or integrated audit.
- Subcategories AS 2400, *Audit Procedures for Specific Aspects of the Audit* and AS 2500, *Audit Procedures for Certain Accounts or Disclosures* would better be relocated and reordered in their entirety under subcategory AS 2200, proposed above to be renamed *Audit Evidence*, since the topics under these subcategories are audit evidence collection activities associated with multiple accounts or disclosures (e.g., fair value of financial or non-financial assets) rather than "certain" accounts as their current subcategory title states.
- AS 2805, *Evaluating Consistency of Financial Statements*, would be better placed under the AS 3100 *Reporting on Audits of Financial Statements* subcategory because it is more related to auditor reporting than to audit procedures.