



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

July 8, 2014

RE: PCAOB Rulemaking Docket Matter No. 40, *Supplemental Request for Comment: 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 respond to the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Supplemental Request for Comment: Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules* (the "supplemental request for comment"). Overall, we continue to support the Board's proposal to reorganize its existing interim and PCAOB-issued auditing standards into a framework that presents the standards in a logical order that generally follows the flow of the audit process. We believe the proposed reorganization will help users navigate the Board's standards more easily.

We understand and appreciate that the Board continues to evaluate the comments received to date on the initial release of the proposal from March 2013 (the "initial release"), and that the issuance of this supplemental request for comment should not be construed as reflecting the Board's complete and final consideration of any particular comment. In that regard, we reaffirm the comments in our letter dated May 28, 2013, including those in the appendix suggesting the alternative placement of certain topics. Some of the topics in our previous letter are further discussed below principally in response to the discussion included in the supplemental request for comment.

In the remainder of our letter, we have organized our suggestions on the supplemental request for comment into the following topical areas:

- Proposal to rescind AU 532, *Restricting the Use of an Auditor's Report*
- Clarifying what is meant by "auditing interpretations"
- Proposed revision of Interpretation 4 of AT 101
- Online demonstration version of the proposed reorganized auditing standards
- Next steps

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

The initial release included amendments to rescind certain interim auditing standards that the Board believes are no longer necessary, including AU 532, *Restricting the Use of an Auditor's Report* (AU 532), 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.*" In the supplemental request for comment, the Board acknowledges



that some commenters suggested that auditors sometimes need to restrict the use of their reports and that AU 532 be retained for that purpose.

We continue to believe that retaining AU 532 is important because it discusses overall considerations that are relevant to the auditor's determination of when a report under PCAOB standards should be voluntarily restricted that go beyond the specific circumstances of an individual standard. The requirements to restrict reports that are in individual PCAOB standards do not adequately address these broader considerations related to when an auditor might voluntarily restrict the use of a report. These broader considerations include situations in which the report has a limited purpose (e.g., by-product reports of an audit of financial statements) and there is a potential for the report to be misinterpreted or misunderstood when taken out of the context in which it was intended to be used.

We also believe it is important to retain footnote 41 to paragraph 25 in Auditing Standard No. 16, *Communications with Audit Committees* (AS 16). The Board notes in footnote 6 on page 4 of the supplemental request for comment that AS 16, "by its terms, does not require the auditor to restrict the use of audit committee communications." While that is true, footnote 41 of AS 16 refers to paragraphs .07-.11 of AU 532, which discuss by-product reports, including reports issued pursuant to AS 16, and further require that the use of such by-product reports should be restricted. We believe that the kind of robust, substantive communications with the audit committee that the Board intends are facilitated by restricting the use of the auditor's written communication because doing so reduces the risk that such communications will be inappropriately used and relied upon by parties who may not have the appropriate context to understand them – concepts that are touched on in AU 532.07-.11.

Clarifying what is meant by "auditing interpretations"

Proposed new paragraph 11 in AS 1001, *Responsibilities and Functions of the Independent Auditor*, (formerly, AU sec. 110), discusses auditing interpretations applicable to the audit. We believe the description of the auditing interpretations needs to be revised to more clearly distinguish them from other AICPA auditing guidance, including auditing guidance in AICPA Audit and Accounting Guides and auditing Statements of Position, which the Board does not intend to include in the PCAOB reorganization. We suggest the following edit to proposed new paragraph 11 in AS 1001:

The auditor should be aware of and consider auditing interpretations applicable to his or her audit. If the auditor does not apply the auditing guidance included in an applicable auditing interpretation, the auditor should be prepared to explain how he or she complied with the provisions of the auditing standard addressed by such auditing guidance.

Note: The term "auditing interpretations," as used in this paragraph, refers to the publications entitled "Auditing Interpretation" issued by the American Institute of Certified Public Accountants' Auditing Standards Board ***in relation to specific Statements on Auditing Standards*** as in existence on April 16, 2003, and in effect.

Proposed revision of Interpretation 4 of AT 101

Paragraphs 43 and 44 of Interpretation 4, "Providing Access to or Copies of Attest Documentation to a Regulator" of AT 101, *Attest Engagements*, are proposed to be deleted on page A4-148. However, these two paragraphs are integral to the meaning of the interpretation and without them the two illustrative letters that constitute the remainder of the interpretation have no context. We recommend that the



PCAOB draft alternative language to replace that which is proposed to be deleted so that the remainder of the interpretation can be put into proper perspective.

Online demonstration version of the proposed reorganized auditing standards

Overall we found the online demonstration version of the proposed reorganized auditing standards easy to navigate. We believe it would be helpful if a link could be established to provide direct access from an auditing interpretation page to the auditing standard to which the interpretations relate. As currently configured, if, for example, you are on the page that displays AI 16: *Auditing Accounting Estimates: Auditing Interpretations of AS 2501* (AI 16), in order to access AS 2501, *Auditing Accounting Estimates*, you need to activate the drop down menu for “Audit Procedures” which is on the left side of the screen, and then the drop-down menu for “2500 Audit Procedures for Certain Accounts or Disclosures,” to obtain the link to AS 2501. It would be helpful to just click on “AS 2501” on the AI 16 page and be taken directly to the standard. Direct links have been created in the other direction, that is, if you are on the AS 2501 page, you can directly access not only the related interpretation in AI 16, but also the Staff Audit Practice Alerts and Staff Questions and Answers which are relevant to the standard, which is very helpful.

The list of auditing interpretations that are still in effect on the guidance page is preceded by language describing what auditing interpretations are. Consistent with the comment above, we recommend that this description be edited as shown below:

Auditing Interpretations are publications issued by the American Institute of Certified Public Accountant’s Auditing Standards Board ***in relation to specific Statements on Auditing Standards*** as in existence on April 16, 2003, to the extent not superseded or amended by the Board. The auditor should be aware of and consider auditing interpretations applicable to his or her audit. If the auditor does not apply the auditing guidance included in an applicable auditing interpretation, the auditor should be prepared to explain how he or she complied with the provisions of the auditing standard addressed by such auditing guidance.

In exploring the auditing interpretations, we observed that the links to AI 24, *Special Reports: Auditing Interpretations of AS 3305*, and AI 25, *Association with Financial Statements: Auditing Interpretations of AS 3320* are incorrect and should be switched. We also observed that AI 28, *Evidential Matter Relating to Income Tax Accruals: Auditing Interpretations* is not currently linked to an auditing subsection. We believe the interpretation should be linked to AS 1105, *Audit Evidence* and also should be renamed *Audit Evidence Relating to Income Tax Accruals*.

Next steps

The supplemental request for comment states in the “Next Step” section that future phases of the reorganization project may be undertaken, for example, to address outdated references to generally accepted accounting principles or to reorganize other PCAOB standards, and we would support those initiatives. However, we would be concerned about the potential reorganization of content in existing standards by disaggregating standards that cover multiple aspects of the audit and rearranging the topics to further align with the flow of the audit process as discussed on page 8 of the supplemental request for comment. We believe the reorganization as it is currently proposed, which involves reordering and renumbering existing standards in their entirety, thus preserving each standard as a discrete topic, 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 this



approach should be retained going forward as new standards are developed and existing standards are modified.

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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 Marc Panucci (973-236-4885) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP