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May 24, 2013

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Subject: PCAOB Rulemaking Docket Matter No. 40

Dear Members of the Board,

Thank you for the opportunity to provide comments on the PCAOB's Proposed Framework for Reorganization of PCAOB Auditing Standards. This comment letter contains various concepts but does not elaborate all details for each of the concepts. As a result, we would enjoy the opportunity to meet with the PCAOB and staff to further discuss our comments.

OUR BACKGROUND

Thomas Hoey & Associates, LLC served as external director of the FASB Accounting Standards Codification (ASC) and XBRL projects that included directing the overall design and development. The design process included multiple solicitations of users regarding their perspectives, needs, and expectations.

With the exception of volume, we believe that the PCAOB's proposed reorganization shares many of the same issues addressed during the FASB ASC project. As Bob Herz (former chair of the Financial Accounting Standards Board) points out in his recently published book, *Accounting Changes: Chronicles of Convergence, Crisis, and Complexity in Financial Reporting*, "Clearly, the development and launch of FASB ASC as the single source of U.S. GAAP represented a major and important milestone in the history of accounting standard setting in the United States." Given the shared issues, this comment letter contains various references and analogies to the FASB ASC.

OVERALL PERSPECTIVE

Research

Content format, structure, and organization

The vast amount of access to standards occurs over time, not just upon initial release. However, standard setters incur a significant level of effort on the initial release document rather than the ongoing research needs. Users perform research using databases when attempting to solve a

particular issue. In the case of audits, the issues typically relate to particular points of the audit workflow and/or for a particular type of engagement, transaction, event, etc. Given the breadth of issues that auditors must address, most will not be intimately familiar with each particular standard document. However, the structure of the standards heavily influences a user's ability to quickly locate content. Because the PCAOB / AICPA created the standards and interpretations as individual documents, the structure, format, and organization vary for each. This variability reduces a user's research effectiveness. For example, guidance related to audit reporting may appear anywhere in a standard. In such cases, users are compelled to read an entire document in an attempt to locate relevant audit reporting standards, thus incurring unnecessary effort. For an individual research session this added effort may be as little as several minutes. However, when looked at in the aggregate of all research sessions in a given day, it results in a significant level of unnecessary effort.

Instead of approaching standards from the context of individual documents, we believe that users would benefit from a consolidated body of standards that follow a consistent format throughout the entire consolidated body. By adopting a consistently formatted body of standards, users would be more familiar with the structure, which in turn would aid research. Grouping relevant content into commonly understood categories would allow users to more quickly locate relevant content and also mitigate the risk of noncompliance.

Developing a consistent format requires the design of a content model based on the content set and understanding how users interact with the content. The following pages provide additional high-level details regarding the content model.

Issue of multiple standard setters

The current standard setting structure for US auditing standards includes two standard setters, each independently developing its own standards. As noted in the proposal, it is hoped that the reorganization will help avoid potential confusion between the Board's standards and the recently reorganized standards of the ASB. However, the fact that most users must remain aware of PCAOB standards and AICPA (or IAASB) standards complicates user research of auditing content. The need for users to straddle multiple standards reduces a user's familiarity with nuances of the standards. Clearly, one set of standards would reduce the overall efforts on the part of practitioners and reduce the likelihood of noncompliance.

The current PCAOB model differs from the current SEC / FASB model whereby the SEC relies on the standards set by the FASB and, as necessary, provides incremental guidance for SEC registrants.

Because the PCAOB is contemplating a reorganization of the standards, we suggest that the PCAOB revisit whether to adopt an incremental approach with the AICPA similar to the incremental approach used by the SEC and FASB.

Regardless of whether or not the PCAOB decides to retain the current structure, we believe that a more consistent content model – as described on the following pages – would enhance more effective user research.

Audit analysis using Extensible Business Reporting Language (XBRL)

According to the PCAOB website, the vision of the PCAOB is as follows: "The PCAOB seeks to be a model regulatory organization. Using innovative and cost-effective tools, the PCAOB aims to improve audit quality, reduce the risks of auditing failures in the U.S. public securities market and promote public trust in both the financial reporting process and auditing profession."

However, because audit reviews require significant manual effort, reviews are done on a limited scope basis. As such, it limits the ability to identify trends, issues, best practices, etc. In an ideal setting, it might be more beneficial and cost-effective for the PCAOB to perform analysis of all audit data in the same manner as is now available for analysis of all public company financial statement data – using XBRL.

In the case of GAAP financial statements, the expectation is that the financial statement must stand on its own. Likewise, a set of audit work papers must stand on its own. Starting in 2009, the SEC began requiring the use of XBRL for financial statements. The intent of XBRL was to require companies to provide financial statement information in a format that improves its usefulness to investors. Use of XBRL also provides the SEC and others the ability to quickly analyze thousands of financial statements in a way never before possible. Adopting an XBRL approach has the potential to improve the analysis of audit data by the PCAOB and audit firms for the ultimate goal of benefiting the investing public.

The US GAAP XBRL Taxonomy is tightly linked to the FASB Accounting Standards Codification (ASC) web site. [Note: Please be aware that non-FASB web sites containing FASB ASC content do not include all of the designed research system functionality, including functionality related to XBRL. To view the full set of designed functionality, review the FASB ASC web site at <http://asc.fasb.org>.] The linkage between the US GAAP Taxonomy and the FASB ASC is enhanced by the fact that the FASB ASC provides the standards in one spot as a result of eliminating redundant content and grouping related content. The single content source for financial reporting standards allows for more clearly defined individual XBRL concepts.

In the event that the PCAOB were to consider an XBRL approach for audit data, a single content source of audit standards – similar to the FASB ASC – would help in developing XBRL audit concepts. It would be beneficial for the PCAOB to consider in its reorganization plans.

OBSERVATIONS REGARDING THE PCAOB PROPOSAL

General observations

We agree that the current standards and interpretations should not change as a result of the reorganization. Changes to standards and interpretations require appropriate due process.

However, we believe that the proposed reorganization to renumber the sections does not go far enough to satisfy in the PCAOB's stated goal to help users navigate the standards more easily. As noted in our overall perspective, in addition to a reordering, we believe that the PCAOB standards and interpretations require more consistent formatting and structure to better help users navigate the content. We believe that the PCAOB should repackage the existing content in a manner that groups all related content within a common structure. As an example, the FASB

Accounting Standards Codification includes all disclosure content for a subtopic within a single "Disclosure" section. Likewise, the PCAOB could have a "Planning" section.

Content reorganization beyond renumbering

The reorganization proposal focuses on renumbering and reordering of standards and interpretations. While such renumbering may provide a slight improvement for users when accessing the table of contents, it does not provide the benefits achieved using a consistent content model.

The bulk of audit standards have been created on a stand-alone basis using a paper-centric model. Each standard is viewed as an end product and is written from the perspective that a user will read the entire standard from cover to cover. In reality, the majority of user access occurs over many years using electronic research tools at those times that a user needs information. At those times, users typically are interested in a subset of the standard. For example, a user may be interested only in items addressing audit planning. Without a consistent content model, users in this case must incur unnecessary time to locate all relevant audit planning content.

The lack of a consistent structure increases both the user's and PCAOB's time when performing research. In both cases, entire standards must be reviewed to identify relevant content rather than consistent sections that contain only the relevant content.

Because standards are created using a paper-centric, stand-alone document model, it increases the likelihood of redundancy. Redundancy has at least two negative effects. First, when users perform a search, multiple search results display. Many users will feel compelled to review most results to ensure that they have not overlooked any relevant guidance. Second, when the standard setter issues new guidance (or updates existing guidance), it must locate and modify all related content. Some of those modifications may relate to redundant content and the changes may differ slightly between versions thus resulting in conflict, user confusion, and increased risk of noncompliance.

Content model

1. Segregate diverse content – We believe that diverse content should be segregated and organized in a manner to reduce user effort. Below are some examples of diverse content.
 - a. Types of content

The FASB Accounting Standards Codification (ASC) segregates general guidance and incremental guidance. The general guidance sections apply to all entities within the related scope, while the incremental guidance (i.e., industry guidance) relates to designated situations. The organization for the industries within the FASB ASC follows the same structure as the general guidance and does not repeat general guidance in an effort to reduce conflicts and research noise. We suggest that PCAOB content be segregated by general guidance and incremental guidance. This allows users to quickly obtain general guidance without the need to read irrelevant incremental (e.g., industry) guidance and, when necessary, to quickly locate incremental guidance.

In addition to segregating general and incremental guidance, we suggest categorizing content within topics to further aid users in locating content. Refer to Attachment B for an example.

Below are some examples illustrating the need to segregate content in some manner to aid user research. Within the PCAOB proposal,

- There is an Audit Procedures section (2000), yet General Auditing Standards section 1301 (AS 16, paragraph 8) contains audit procedures.
- There is an Auditor Reporting section (3000), yet Audit Procedures section 2302 (AS 4) contains reporting guidance.
- There is an Auditor Reporting section (3000), yet Audit Procedures section 2900 (AU 390 and 561) contains guidance on report dating.

b. Types of engagements

The FASB Accounting Standards Codification does not attempt to address all methods of accounting. Instead, it solely addresses US GAAP financial statements including incremental guidance for SEC registrants. Other methods of accounting include other comprehensive basis of accounting ("OCBOA") or tax basis.

The proposed PCAOB reorganization merges standards for multiple types of engagements such as engagements for audits of financial statements and a number of other types of engagements (e.g., An Audit of Internal Control over Financial Reporting; Reporting on Whether a Previously Reported Material Weakness Continues to Exist; etc.) We believe that the reorganization should segregate content by type of engagement. Segregating content unrelated to the audit of a financial statement would reduce user research "noise".

Applying the same model to the PCOAB content could suggest a section for "Other engagements" that provides the incremental guidance for those types of engagements. Refer to Attachment A for an example.

c. Workflow model

Segregating content by workflow is a very clean and understandable approach. It works well for the overall organization and we believe that it would work well for content addressing specific accounts, transactions, events, etc. For example, AU Section 331 – Inventories could include sections for Planning (paragraph .01), Perform – Procedures, Evidence, and Documentation (paragraphs .02-.14), and Reporting (paragraph .15). This structure provides the user a clean way to identify guidance that addresses the relevant workflow step. Refer to Attachment B for an example.

d. Examples

Refer to Attachments A and B for examples illustrating the above concepts. Please note, that the attachments are only examples to illustrate one way of implementing the concepts.

2. Reduce redundancy

Creating an authoritative body of standards content versus a repository of standards can significantly reduce or eliminate redundancy. Using a body of standard approach (similar to the FASB Accounting Standards Codification), the document issued by the PCAOB would not be deemed authoritative, but instead would simply update the authoritative body of content. Because the authoritative body of content contains the original source content, there is no need to create redundancy.

Miscellaneous content matters

1. Glossary

The content would benefit from the creation of a shared glossary. Such a glossary would ensure that standards use the common terms.

2. Clarity of section titles

One additional aid to users is a descriptive title regarding the contents of a section. If unclear, users will expend unnecessary time accessing the document by reading the introductory material only to understand that the document does not apply. Below are two examples that may benefit from refining the title:

- Auditing Assertions about Derivative Instruments, Hedging Activities, and Investments in Securities
- ~~Inventories~~ Inventory Observation

3. Other content areas within each section (Refer to Attachment B for an example)

Including a background and scope section for each topic ensures that a user can quickly discern the relevance of the content.

Because content can be updated at any level (e.g., sentence, paragraph, etc.) in the topic, it is essential that there is a mechanism to alert the reader to the relevant transition. Therefore, a transition section would be beneficial.

4. Endnotes

The PCAOB style makes annotations using endnotes. In developing the FASB Accounting Standards Codification, footnotes were eliminated and the footnote text was incorporated into the relevant paragraph(s), as appropriate. Doing so reduces a user's effort to locate the footnote. In addition, it ensures that each printed page or any copy / paste of text (or elsewhere) includes the relevant annotation.

CONCLUDING REMARKS

The previous comments provide thoughts regarding various content modeling concepts that we believe the PCAOB should consider as it pursues a reorganization of auditing standards content. It is by no means a comprehensive list and this comment letter does not address all details for each of the concepts. We believe that the PCAOB would benefit from implementing a consistent content model for a single source of standards.

Attachment C provides comments to the specific questions posed in the proposal.

We would enjoy the opportunity to meet with the PCAOB and staff to further discuss our comments.

Thank you for the opportunity to provide our comments regarding the PCAOB proposal.

We hope that you find this communication helpful.

Regards,

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Attachment A – Overall organization of topics

[Please note that this attachment is only an example to illustrate one way of implementing the concepts.]

- 1) General principles and responsibilities of independent auditors (i.e., applicable to all types of auditor engagements)
 - a) Independence
 - b) Responsibilities and Functions of the Independent Auditor
 - c) Training and Proficiency of the Independent Auditor
 - d) Due Professional Care in the Performance of Work
 - e) Workflow matters applicable to all types of auditor engagements (TBD)
- 2) Engagement to audit financial statements
 - a) Overall workflow (i.e., general guidance applicable to financial statement audits)
 - i) Accept / retain
 - ii) Plan
 - iii) Perform - Evidence, procedures, and documentation
 - iv) Conclude
 - v) Quality review
 - vi) Communicate / report
 - vii) Terminate
 - b) Specific matters (i.e., represents incremental guidance applicable to specific accounts, transactions, events, or other considerations. This is somewhat similar to the segregation of industry content in the FASB ASC.)
 - i) Accounting Estimates
 - ii) Assertions about Derivative Instruments, Hedging Activities, and Investments in Securities
 - iii) Fair Value Measurements and Disclosures
 - iv) Fraud
 - v) Going Concern
 - vi) Illegal Acts
 - vii) Inventory Observation
 - viii) Litigation, Claims, and Assessments
 - ix) Related Parties
 - x) Service Organizations
 - xi) Subsequent Events
 - xii) Work of others
- 3) Other engagements (Similar to FASB ASC industries with content segregated into same structure as the financial statement audit topics. Refer to Attachment B for an example.)
 - a) Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements
 - b) Audits of Recipients of Governmental Financial Assistance
 - c) Filings under Federal Securities Statutes
 - d) Interim Financial Information Reviews
 - e) Letters for Underwriters and Certain Other Requesting Parties
 - f) Reporting on the Application of Accounting Principles
 - g) Reporting on Condensed Financial Statements and Selected Financial Data
 - h) Reporting on Whether a Previously Reported Material Weakness Continues to Exist
 - i) Special Reports
 - j) Special Reports on Regulated Companies
- 4) Glossary

Attachment B – Structure of individual topics

[Please note that this attachment is only an example to illustrate one way of implementing the concepts.]

Each topic could be structured using the following sections. Sections without content would not display.

- 1) Status
- 2) Introduction
- 3) Objective
- 4) Scope
- 5) Glossary
- 6) Accept and retain
- 7) Plan
- 8) Perform - Evidence, procedures, and documentation
- 9) Conclude
- 10) Quality review
- 11) Communicate and report
- 12) Terminate
- 13) Implementation guidance
- 14) Transition and Effective date
- 15) XBRL

Attachment C –Comments to Specific PCAOB Questions from Section VII of the Proposal

1. Is the proposed framework for reorganizing PCAOB auditing standards appropriate and an improvement over the existing structure of the PCAOB auditing standards? Are there ways to improve the proposed reorganization framework?
 - a. Comments - As noted in our letter:
 - i. The reorganization proposal focuses on renumbering and reordering of standards and interpretations. While such renumbering may provide a slight improvement for users when accessing the table of contents, it does not provide the benefits achieved using a consistent content model.
 - ii. We believe that the proposed reorganization to renumber the sections does not go far enough to satisfy in the PCAOB's stated goal to help users navigate the standards more easily. In addition to a reordering, we believe that the PCAOB standards and interpretations require more consistent formatting and structure to better help users navigate the content.
 - iii. Refer to our comment letter for additional details.

2. Would the proposed reorganization described in this release help users navigate the standards more easily, help avoid potential confusion between the Board's standards and the standards of the ASB, and provide a structure for updating PCAOB standards in the future? Are there other potential benefits the Board should be aware of in considering its proposed reorganization?
 - a. Comments
 - i. Easier navigation - Refer to our comment to the previous question and to our comment letter.
 - ii. Confusion between PCAOB and ASB - Refer to our comment letter regarding the structure of the PCAOB and ASB as a means to reduce confusion between the PCAOB and ASB standards.
 - iii. Refer to our comment letter for additional details.

3. Are the categories and subcategories of auditing standards in the proposed reorganization framework appropriate and an improvement over the existing organizational structure of PCAOB auditing standards?
 - a. Comments
 - i. The categories and subcategories are an improvement over the existing organizational structure. However, as noted in our response to question 1 and in our comment letter, we believe that the PCAOB standards and interpretations require more consistent formatting and structure to better help users navigate the content.
 - ii. Refer to our comment letter for additional details.

Attachment C – Continued

4. Is it appropriate to rescind the auditing standards and related auditing interpretations discussed in Section III.A of this release as part of the proposed reorganization? Are any of those standards or auditing interpretations still necessary to fully describe the auditor's responsibilities for audits under PCAOB standards? Are there other standards or auditing interpretations that should be rescinded?
 - a. Comments
 - i. We believe that the PCAOB should rescind any content that is no longer deemed necessary. Eliminating outdated and unnecessary content is essential to reduce user confusion.
5. Would the framework for reorganizing PCAOB auditing standards have any consequences that are not addressed in this release? If so, what are those consequences?
 - a. Comments
 - i. Refer to our comment letter for additional details.
6. Are there other costs besides those discussed in this release that the Board should consider? Would initial costs be offset over time, as discussed in this release?
 - a. Comments
 - i. As noted in our comment letter, the Board needs to consider the time and effort incurred by users of the standards over time. Inefficiencies in the organization of the standards translate to thousands of hours of inefficiency by users. A structured content model could benefit the process.
 - ii. Refer to our comment letter for additional details.
7. Are there any considerations relating to efficiency, competition, and capital formation with respect to audits of EGCs that the Board should take into account in considering the proposed reorganization?
 - a. Comments
 - i. We are not aware of any additional considerations.
8. Are there costs or other considerations relating to audits of EGCs that the Board should be aware of in considering its proposed reorganization?
 - a. Comments
 - i. We are not aware of any additional considerations.
9. Does the proposed reorganization raise issues specific to audits of brokers and dealers that the Board should consider?
 - a. Comments
 - i. We are not aware of any additional considerations.

Attachment C – Continued

10. Should the Board limit the scope of the auditing standards reorganization to reordering and renumbering standards in their entirety and related changes as discussed in this release? If not, why not? Are there other related technical changes to the wording or organization of individual standards that should be considered, either as part of the proposed reorganization or a subsequent project, such as eliminating references to generally accepted auditing standards or outdated references to accounting standards?
 - a. Comments
 - i. As noted in our comments to other questions and as noted in our comment letter, we believe that the proposed reorganization to renumber the sections does not go far enough to satisfy in the PCAOB's stated goal to help users navigate the standards more easily.
 - ii. As also noted in our comment letter, we suggest that the Board consider whether it would adopt XBRL as a reporting standard for audit data. If so, the decision should be addressed during the reorganization process to avoid further reorganizations in the future.
 - iii. Refer to our comment letter for additional details.

11. What factors should the Board consider in determining the effective date of the auditing standards reorganization?
 - a. Comments
 - i. We have no additional factors for consideration.