

ROBERT N. WAXMAN, CPA
866 UNITED NATIONS PLAZA, FL 4
NEW YORK, NY 10017

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

comments@pcaobus.org

Re: Rulemaking Docket Matter No. 40: PCAOB Release No. 2013-002: Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules

Dear Office of the Secretary:

I am pleased to respond to the request for comments on the above-mentioned proposal. My answers to the questions asked in the release follow:

1. Is the proposed framework for reorganizing PCAOB auditing standards appropriate and an improvement over the existing structure of the PCAOB auditing standards?

Yes, the proposed reorganization is an improvement over the existing organizational structure. The reordering of the standards to approximate the audit process (a) will likely help some auditors modify their audit procedures to fit the circumstances of their audits, and (b) may help the PCAOB in their project to amend the existing interim and PCAOB issued auditing standards, and facilitate the PCAOB's future efforts in strengthening (and filling in the gaps) in the existing standards.

Auditors believe that the current organization of the standards do not present any difficulties or impediments in fulfilling the requirements of an audit. This is so because all the standards are accessible electronically; they can be readily found and applied; and historically accounting firms have reordered the standards as necessary to fit their individual audit approach and practices. Consequently, many auditors do not believe it is urgent to reshuffle the standards, and have the view that the standards will be only marginally more useful when reordered and regrouped pursuant to the proposal.

Are there ways to improve the proposed reorganization framework?

The detailed comments I expect the PCAOB will receive under Question 3 should provide the needed immediate improvements.

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?

If the standards by and large follow the workflow of the audit process, then the proposal's restructuring should help auditors (who have not already reordered these standards to conform to their own audit approach) navigate them.

This restructuring should "help avoid potential confusion" since this proposal will draw attention to those differences. The consequence of this reordering serves to underscore that the numbering system followed by the AICPA's clarity standards are not always in the general time-line and workflow of the audit process, and emphasizes the increasing divergence between the PCAOB and AICPA standards.

As mentioned in Question 1, I expect the new structure may help the PCAOB in filling in the gaps in current standards, and the writing of new standards that will integrate into the general workflow of the audit process.

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?

I have limited my comments to just Audit Planning:

1. The catch all category "1100 General Concepts" includes "1202 Part of Audit Performed by Other Independent Auditors" and "1203 Using the Work of a Specialist." These two subcategories best fit under "2101 Audit Planning" (AS No. 9, "Audit Planning"). This standard, among other important audit procedures, encompasses both the consideration of "Multi-location Engagements" and "Persons with Specialized Skill or Knowledge."
2. To better reflect the audit approach, there are other (sub)categories that may be shifted elsewhere, for example, a portion of "1301 Communications with Audit Committees" is essential in planning the audit (e.g., establishing an understanding of the terms of the audit engagement with the audit committee). Accordingly, "1301" should be included as part of "2100 Audit Planning and Risk Assessment."
3. The above recommendations argue for the consideration of moving category "2100 Audit Planning and Risk Assessment" higher up in the proposed new numbering system.
4. In that the proposal attempts to reorder the standards to follow the flow of a typical audit, the reminder (paragraph 5 of AS No. 9) should be highlighted in the new reorganization:

Planning is not a discrete phase of an audit but, rather, a continual and iterative process that might begin shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit" (emphasis added).

I believe that many if not most respondents will have a view of exactly when in the audit process an audit step should be undertaken and therefore they will not agree with the categories and subcategories in this proposal. I will leave this detailed analysis for those other commentators.

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?

Yes, to eliminate unnecessary clutter, and for the reasons stated on pages 9 and 10 of the proposal, these auditing standards (AU's 150, 201, 410, 532 and 901) and their associated interpretations should be rescinded.

Are any of those standards or auditing interpretations still necessary to fully describe the auditor's responsibilities for audits under PCAOB standards?

No, they are not necessary and should be rescinded.

Are there other standards or auditing interpretations that should be rescinded?

None that I am aware of.

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?

I do not believe so.

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?

While the proposal mentions that the costs would be one-time and borne by registered firms, there will likely be costs incurred by those registrants with an internal audit function, by publishers of auditing texts, review courses, and others that may rely on and use PCAOB standards.

As briefly mentioned above, it cannot be said (nor is there any evidence) that CPAs will do a "better" audit using the reordered standards. Further, the benefits of the reordering (per the proposal: usability, navigation, a structure for updating the standards, etc.) cannot be measured in dollars and for that reason it is not possible to say that the dollar costs will, in fact, be offset by any immediate or future benefits.

Notwithstanding the benefits are unquantifiable, this project should be completed for the immediate and perceived anticipated qualitative benefits.

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?

In view of Section 104 ("Auditing Standards") of the "Jumpstart Our Business Startups Act," I must assume that the SEC had already "signed on" to this proposed reorganization and has determined that this reordering of the standards "is necessary or appropriate in the public interest" otherwise the Board would not have undertaken this proposed reshuffle of the standards. Further, it is not clear to me that this proposal will "promote efficiency" that is measurable, and I do not believe that "competition and capital formation" apply.

8. Are there costs or other considerations relating to audits of EGCs that the Board should be aware of in considering its proposed reorganization?

None that I am aware of.

9. Does the proposed reorganization raise issues specific to audits of brokers and dealers that the Board should consider?

This question will be best addressed by other commentators. However, I suggest that there should be an accommodation for broker – dealers in the numbering and ordering of the standards – perhaps a “BD” number for those audit procedures that will uniquely apply to this industry in the future.

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?

The near-term scope should not be limited to “reorganization and reordering,” and to corrections of inaccurate cross-references. I recommend that the references to FASB standards be reviewed at this time – deleting those that have been superseded, adding those that are now applicable, and then conforming all references to the current Accounting Standards Codification numbers (tabling those changes that may require substantive amendment and substantial time).

Thereafter, the entire refreshed and reshuffled framework be repropose.

To amplify the discussion in “Next Steps” (page 16 of the proposal), and to simplify the transition, these reordered standards should be on the PCAOB’s website (as mentioned in Mr. Hanson’s comments) with relevant cross-references or hyperlinks to the

- (a) “old” PCAOB AS and AU numbers;
- (b) retained portions of the appendices to the SAS’s;
- (c) analogous standards of the IAASB or ASB; and
- (d) PCAOB’s Staff Audit Practice Alerts, Staff Q&A’s etc.

Moreover, certain of these cross-references or hyperlinks should direct auditors to the caveat the proposal adds to paragraph 11 of SAS No. 1:

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.

Mr. Hanson had commented that –

Many of the interim standards ... merit close review and potential amendment by the Board, both to improve audit quality and to reflect current practice. A number of these standards are on our standard-setting agenda The process of substantive review and amendment, however, taking one standard at a time, will take a number of years.

Also, page 13 of the proposal mentions the Board's future review of all the standards. I note that the Standard Setting Agenda (dated March 31, 2013) does not specifically discuss this overall review as a discrete project. I recommend that this important review project be separately identified in the Board's Standard Setting Agenda.

11. What factors should the Board consider in determining the effective date of the auditing standards reorganization?

As said in response to Question 10, since the reorganized standards will continue to be on the PCAOB's website, with cross-references or hyperlinks to all the prior "old" standards (which should assist auditors in efficiently implementing the reorganization), and since the standards themselves have not changed, the effective date appears reasonable.

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I appreciate your consideration of my comments and would be pleased to answer any questions the Board or the Staff may have regarding this letter.

Robert N. Waxman, CPA
(212) 755-3400
rwaxman@mindspring.com