



**KPMG LLP**  
345 Park Avenue  
New York, N.Y. 10154-0102

Telephone +1 212 758 9700  
Fax +1 212 758 9819  
Internet www.us.kpmg.com

May 28, 2013

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

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

Dear Ms. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") Release No. 2013-002, *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules* (Proposal or Proposed Framework).

We support the Board's objectives reflected in the Proposed Framework to improve the overall usability of the Board's auditing standards by reorganizing the existing auditing standards into a topical structure that generally follows the flow of the audit process. This letter contains comments for the Board's consideration that we believe will further improve and support the Board's efforts recognizing its intent that the proposed reorganization is not expected to impose new requirements on auditors or substantively change the requirements of PCAOB standards. Our comments focus on the scope, the proposed reorganization, and on the proposal to rescind and amend certain generally accepted auditing standards.

**Scope**

We support the Board's proposal to exclude the PCAOB's attestation, quality control, and ethics and independence standards from the scope of the Proposed Framework, and we support the Board's efforts to consider a reorganization project in the future related to these other standards.

The Board proposes to retain substantially all of the AICPA auditing interpretations included in the interim standards and to present the auditing interpretations separately from the auditing standards on the Board's website similar to PCAOB guidance.<sup>1</sup> We agree that the full content of AICPA auditing interpretations and PCAOB guidance (collectively, "Other Guidance") should not be included in the Proposed Framework. However, because the proposal also indicates that while auditors are not required by a Board rule to consider PCAOB guidance, an auditor who fails to do so may lack important information and, as a result, runs the risk of violating the standard that the Board or staff has interpreted.<sup>2</sup> For this reason, we believe it would be

---

<sup>1</sup> See p. 10 of the Proposal.

<sup>2</sup> See Footnote 21 of the Proposal.

appropriate for the Proposed Framework to include a reference to the Other Guidance to assist auditors in maintaining their awareness and consideration of this guidance, and to assist in their navigation between the authoritative auditing standards and the non-authoritative Other Guidance.

Upon consideration of the Board's intent for the Proposal, we support the amendment to remove references to AICPA Audit and Accounting Guides and AICPA Auditing Statements of Position and to reduce the scope of the "be aware of and consider" requirement to apply only to "auditing interpretations," that is, the publications entitled "Auditing Interpretation" issued by the AICPA's Auditing Standards Board as in existence on April 16, 2003. However, as the accounting profession continues to update and clarify its guidance for auditors, especially around specialized industries, we encourage the Board to consider the relevance and applicability of this non-authoritative guidance to the auditors of public companies. If the Board were to consider such guidance inconsistent with its views, we encourage the Board to address these matters affirmatively within its standards or through Other Guidance.

### **Proposed Reorganization**

We believe that the Proposed Framework for reorganizing PCAOB auditing standards is an improvement over the existing structure of PCAOB auditing standards and that the proposal generally follows the flow of the audit process. We provide some observations in the Appendix that we believe may improve the proposed reorganization framework. These observations include recommended modifications to the naming, numbering, or placement of certain categories and subcategories within the Proposed Framework to improve the alignment with the flow of the audit. We recognize the fact that each of the activities covered by the PCAOB's auditing standards may underlie more than one stage of the audit process (e.g., audit committee communications, consideration of fraud risks, auditing internal control over financial reporting) and that the audit process is not linear, but we believe the suggestions noted in the Appendix are reasonable given the scope of the reorganization.

Although the alternative to the Proposed Framework of adopting the organizational structure of another standard-setter, such as the International Auditing and Assurance Standards Board (IAASB), was not pursued, we believe that there could be some benefits from introducing within the Proposed Framework a method or tool for cross-referencing to these other standard setters' auditing standards. This tool would indicate how the categories and subcategories of the PCAOB auditing standards compare with those of the AICPA Auditing Standards Board (ASB) and the IAASB. This would allow the auditor to quickly identify and consider similarities and differences associated with standards or topics across the different auditing standard frameworks. This tool could be particularly helpful for auditors conducting audits under a new framework for the first time, such as when an auditor of a privately-held company becomes subject to the PCAOB's standards by way of an initial public offering, or when an auditor of a U.S. issuer conducts an audit under IAASB standards in conjunction with the audit performed under PCAOB auditing standards. Additionally, the tool could assist auditors of U.S. issuers who are also performing audits of other entities using the auditing standards of the ASB. We believe this cross-

referencing initiative would be consistent with the PCAOB's strategic plan which calls in part for cooperation and consideration of the work of other standard setters and regulators.<sup>3</sup>

### **Rescission or Amendment of Certain Interim Auditing Standards**

With the issuance of the Proposal, we understand the Board does not intend to impose additional requirements on auditors or substantively change the requirements of the PCAOB standards. However, we believe that rescinding AU Section 532, *Restricting the Use of an Auditor's Report* (AU 532), could introduce a consequential change in practice, because it would remove the auditor's ability to restrict the use of the auditor's report when it may be appropriate to do so.<sup>4</sup>

\*\*\*\*\*

We appreciate the Board's careful consideration of our comments. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, [sranzilla@kpmg.com](mailto:sranzilla@kpmg.com), or George Herrmann, (212) 909-5779, [gherrmann@kpmg.com](mailto:gherrmann@kpmg.com).

Very truly yours,

**KPMG LLP**

#### PCAOB

James R. Doty, Chairman  
 Lewis H. Ferguson, Member  
 Jeanette M. Franzel, Member  
 Jay D. Hanson, Member  
 Steven B. Harris, Member  
 Martin F. Baumann, Chief Auditor and Director of Professional Standards

#### SEC

Paul A. Beswick, Chief Accountant  
 Brian T. Croteau, Deputy Chief Accountant

---

<sup>3</sup> Public Company Accounting Oversight Board Strategic Plan: Improving the Relevance and Quality of the Audit for the Protection and Benefit of Investors 2012 – 2016 (November 30, 2012).

<sup>4</sup> Guidance associated with restricting the use of the auditor's report in AU 532 is referenced in other PCAOB standards, such as Auditing Standard No. 16, *Communications with Audit Committees*.

## Appendix

We suggest the following changes to the naming, numbering, or placement of certain categories and subcategories of the Proposed Framework that we believe would improve the alignment between the proposed reorganization of the PCAOB auditing standards (AS) and the flow of the audit.

1. We believe proposed subcategories AS 1202, *Part of Audit Performed by Other Independent Auditors*, and AS 1203, *Using the Work of the Specialist*, should be placed under category AS 2600, *Special Topics*. We believe these subcategories represent specific auditing procedures, rather than standards on broad auditing principles or concepts.
2. We believe AS 2200, *Audit Procedures in Response to Risks – Nature, Timing, and Extent*, should be renamed AS 2200, “Audit Evidence.” We believe certain of the subcategories of AS 2200, as proposed, illustrate the accumulation of audit evidence and not all subcategories represent audit procedures in response to the nature, timing and extent of risk.
3. We recommend that AS 2302, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist*, be relocated under the *Other Matters Associated with Audits* category. We believe the guidance in this subcategory is indicative of auditing guidance associated with other work performed in conjunction with an audit of an issuer, rather than specific auditing procedures associated with internal control over financial reporting.
4. While we agree that proposed subcategories AS 2400, *Audit Procedures for Specific Aspects of the Audit*, and AS 2500, *Audit Procedures for Certain Accounts or Disclosures*, are appropriately included under the *Audit Procedures* category, we also believe these 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. Therefore, we believe these subcategories should be relocated and reordered in their entirety under our proposed renaming of subcategory AS 2200, “Audit Evidence.”
5. We believe that AS 2801, *Subsequent Events*, and AS 2802, *Management Representations*, should be relocated under our proposed renaming of subcategory AS 2200, “Audit Evidence” instead of being characterized as “concluding audit procedures.”
6. We believe that proposed subcategories AS 2701, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* and AS 2805, *Evaluating Consistency of Financial Statements* should be placed under subcategory AS 3100, *Reporting on Audits of Financial Statements*. These subcategories are standards for auditor reporting, rather than standards for planning and performing audit procedures or gathering audit evidence.