Texas Society of
CPA Certified Public Accountants

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

RE: PCAOB Rulemaking Docket Matter No. 026
"Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards"

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The PSC has been authorized by the TSCPA's Board of Directors to submit comments on matters of interest to the PSC's membership. The views expressed in this letter have not been approved by the TSCPA's Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

In our discussion of the above referenced exposure draft (ED), we considered each of the 18 questions posed by the PCAOB in Appendix 9. We are basically in agreement with the guidance found in the proposed ED and have no comments related to 15 of the 18 questions found in Appendix 9. We do have comments related to three of the questions that we would like the Board to consider as it moves forward with this ED. The three questions we have commented upon are questions 10, 15, and 16. Those comments are noted below with reference to the question being addressed.

Question 10: Are the auditor's responsibilities regarding the additional procedures for understanding the company and its environment in paragraph 11 clear?

Paragraph 11 requires the auditor to basically evaluate the likelihood of material financial statement misstatements and the effectiveness of the company's internal control over financial reporting in the following areas: (1) company-issued press releases, company-prepared presentation materials for analysts or investor groups, and analyst reports; (2) transcripts of earnings calls and, to the extent publicly available, other meetings with investors or rating agencies; (3) compensation arrangements with senior management; and (4) information about trading activities in the company's securities and holdings in the company's securities by significant holders to identify potentially significant unusual developments.

We find the guidance regarding these responsibilities to be inadequate. In the area of company-issued press releases and presentation materials for analysts, to what extent is the auditor required to delve into these documents? If the materials presented to the analysts and investors are inconsistent with the financial statement results, does this constitute a material financial statement misstatement? Don't the analysts and investors have a responsibility to gauge the consistency of the presentation material with the entity's financial results?

Point two above requires the auditor to observe or read transcripts of earnings calls and, to the extent publicly available, other meetings with investors or rating agencies. What happens in situations where this information is not publicly available but the auditor has access to it through the performance of audit field work? Is the auditor required to scrutinize this data to the same extent as data that is publicly available? Does the public availability of such data serve as a key element in its relevance?

Regarding information about trading activities in the company's securities, as well as holdings in the company's securities by significant holders, we have some concern about the meaning of the phrase "potentially significant unusual developments." The Board obviously had some reason for this concern and the potentially significant unusual developments that might arise. We believe some guidance in the kind of "unusual developments" anticipated in this area would be helpful to practitioners. We realize that auditors can utilize specialists to examine and assess any problems that are identified in dealing with company securities. However, the first step is to know when a potential problem might exist. The sophisticated nature of equity schemes cause them to be difficult to identify in the normal course of an audit engagement.

What we would like the Board to consider in this area is some additional guidance as to the key factors that may alert an auditor to (1) delve into press releases and data presented to analysts, (2) read transcripts of earnings calls and meetings with investors or rating agencies, and (3) obtain information about trading activity in the company's securities and holdings in the company's securities by significant holders. We are not advocating a step-by-step approach to such considerations, merely some examples of factors that indicate "potentially significant unusual developments" related to the issues addressed in Paragraph 11.

Question 15: Does the new proposed standard clearly describe the auditor's responsibilities for accumulating and evaluating misstatements?

The proposed standard clearly describes the auditor's responsibilities for accumulating and evaluating misstatements. However, we suggest presenting these responsibilities as an addendum to the SEC report in an effort to promote greater transparency. The issues being addressed here involve estimates and disclosure of the basis for the estimates. The methodology underlying the development of the estimates would enhance a reader's understanding.

Additionally, we suggest sending the adjustments *not made* in a separate file that the PCAOB could access at a later date, should there be a subsequent desire to review this information.

Question 16: Does the new proposed standard appropriately describe the auditor's responsibilities for evaluating the presentation of the financial statements, including evaluating bias, in light of the auditor's responsibility to opine with reasonable assurance on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework?

Basically, our answer to this question is yes. However, the concept of bias is present not only in the development of estimates but also in the design of control systems and the selection of accounting policies and procedures. Thus, all elements of an entity's financial statements are exposed to bias and should be subjected to auditing procedures.

Also, item 27 in Appendix 6 uses the term "income" rather than "income or loss". We suggest the use of "income or loss" would be more appropriate.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,

Melissa A. Frazier

Melissa A. Frazier, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants