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

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***

Dear Mr. Secretary:

KPMG appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2009-007, "*Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk, and Related Amendments to PCAOB Standards,*" that includes the following proposed auditing standards as appendices (collectively, the Proposals):

- *Audit Risk*
- *Audit Planning and Supervision*
- *Consideration of Materiality in Planning and Performing an Audit*
- *Identifying and Assessing Risks of Material Misstatement*
- *The Auditor's Responses to the Risks of Material Misstatement*
- *Evaluating Audit Results*
- *Audit Evidence*

Effective identification and assessment of, and response to, risks are fundamental to the conduct of high quality audits. Further, global consistency in auditing standards and auditor execution relative to risk assessments and responses are important to furthering the objective of enhancing audit quality around the world. As noted in our previous comment letter on the PCAOB's October 2008 "*Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk, and Conforming Amendments to PCAOB Standards,*" we support the Board's efforts to update its risk standards and believe that the final standards will improve auditor performance and enhance consistent execution in areas that are fundamental to the conduct of an audit.



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This letter is organized by first providing general observations and comments on the Proposals as a whole, followed by comments on specific issues in an Attachment. Our general observations discussed below are organized based on the following:

- Improvements to the Proposals and the Standards Setting Process
- Convergence of Auditing Standards
- Codification of the Board's Standards
- Release Text
- Public Involvement in the Standards Setting Process

Improvements to the Proposals and the Standards Setting Process

We recognize the significant effort of the PCAOB and its staff in development of the Proposals and commend the PCAOB for re-exposing the Proposals for public comment. Additionally, we appreciate the Board's consideration and responsiveness to the feedback from comments received on its original proposal and believe that the proposed standards are significantly improved in a number of areas. For example, we believe the Proposals are better integrated and aligned with the principles from PCAOB's Auditing Standard No. 5, *An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements* (AS No. 5). In addition, we believe the Proposals are significantly improved not only with respect to their organization but also in the clarity of the underlying requirements.

Further, we recognize and appreciate the Board's efforts to provide its perspectives on the differences between its proposed standards and those of the International Auditing and Assurance Standards Board (IAASB) and the AICPA's Auditing Standards Board (ASB). Comparisons with these standards, combined with the Board's rationale for any differences, provide useful insights into the Board's views and its intent for changes to audit practice. This perspective enhances the ability for interested parties to provide thoughtful comments in response to the Board's proposals, which in turn should enhance the Board's efforts to improve audit quality.

While we commend the PCAOB for these measures, we recommend that the Board consider further enhancements to its standards setting process that would provide additional transparency to the Board's rationale and expectations for changes to practice. We support the following remarks made by Acting Chairman Daniel L. Goelzer at the December 17, 2009 open meeting whereby he urged "the Board to continue to explore ways of making its standard setting – and the thinking that underlies its proposals – more open." Further enhancements could include emphasizing the expected significant changes to practice, which is consistent with Board member Charles D. Niemeier's suggestions at the December 17, 2009 open meeting that the



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PCAOB, as part of the release of a proposed or final standard or rule, should more clearly express what they expect to change as a result of such standard or rule. We believe that providing specific descriptions of the Board's desired changes to current audit practice, along with explanations of expectations with regard to expected performance as a result of a proposal, final standard or rule, would provide for a clearer understanding of the changes desired from the relevant proposals or standards. The Financial Accounting Standards Board uses a similar approach to provide this type of information.

We believe that practices such as these would provide additional, helpful transparency to the Board's standards setting process, facilitate a better understanding of the Board's intended changes to practice, enhance the feedback received by the Board, and encourage more consistent implementation through enhanced clarity – all of which we believe contributes to advancing the Board's mission to improve audit quality.

Convergence of Auditing Standards

As stated in our previous comment letter, we fully support the Board's consideration of the work of other standard setters, such as the IAASB and ASB. While we recognize that the Board may decide that different procedures are appropriate in the U.S. public company audit context, we encourage the Board to continue to minimize the differences in its standards to only those matters that are unique to audits of issuers in the U.S.

As mentioned above, we recognize the Board's efforts to provide increased information regarding the Board's rationale for the differences that remain through the Board's responses to the comments received. We also recognize the improvements made to reduce differences between the PCAOB's standards and the International Standards on Auditing (ISAs). For example, we noted a number of areas in which the requirements in the Proposals were more closely aligned with the ISAs, including greater consistency with the terminology used by the IAASB. Additionally, we noted that in areas where differences in terminology remained, the Board provided rationale for maintaining the differences. We believe that minimizing differences in language, clearly articulating the rationale for any differences and explaining the expected auditor actions as a result of the differences is critical to enhance understanding of the standard by auditors. Such enhanced understanding will facilitate more consistent application of auditing standards, improve the effectiveness and efficiency of implementing new standards, and improve audit quality. For example, minimizing differences allows firms to cultivate synergies related to training, implementation, and the development and maintenance of quality control systems that accommodate the standards of the various standards setting bodies – all factors that we believe contribute to enhanced audit quality.



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Codification of the Board's Standards

As noted in our previous comment letter, we acknowledge and support the Board's objective of using the Proposals as a foundation for its standards setting activities. However, the introduction of these standards into the Board's framework adds a significant layer of professional standards to existing interim standards and previously issued PCAOB auditing standards. In addition, given the PCAOB's recent commitment to an extensive standard setting agenda without a clear mechanism for updating existing standards in the future, we are concerned that new standards may become increasingly cumbersome for an auditor to understand and effectively apply in practice. We recommend that the PCAOB undertake a project to codify all PCAOB auditing standards (interim standards, AS No. 7 and earlier standards, these risk standards when finalized and any future standards when issued) to allow for greater understandability and more consistent application by auditors and thereby promote audit quality.

Release Text

We support the Board's efforts to increase the transparency of the standards setting process, including efforts to provide its perspective on the differences between its proposed standards and those of the IAASB and ASB, as well as its consideration of comments received. However, we are concerned that in some situations, it appears that in addition to providing insight into the Board's decision-making process, the Board is also interpreting aspects of the standard in the release. Interpreting standards through release text can result in potential confusion over the requirements within the related standard, inconsistent application by auditors, and may not be given the same consideration by auditors given that the release is not ultimately part of the final standard. As a result, we encourage the Board to provide such interpretive guidance within proposed standards as opposed to the accompanying release.

Public Involvement in the Standards Setting Process

In addition to our comments supporting the PCAOB's efforts to increase transparency in its standards setting process above, we encourage the Board to seek ways to increase the depth and accelerate the timing of public involvement, including the auditing profession, in its standards setting process. We encourage the PCAOB to consider whether field-testing certain proposed standards as part of the Board's overall standards setting process would provide it with an opportunity to gain insights as to whether the standards are fulfilling the Board's intended changes to auditor performance. We believe that such an addition to the process would enhance the efficiency and effectiveness of the standards setting process.



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Set forth in the Attachment to this letter are comments on specific matters included in the Appendices and conforming amendments to PCAOB Standards.

We appreciate the Board's careful consideration of the previous comments, and fully support the Board's efforts with regards to the re-exposed Proposals as well as the overall improvements to its standards setting process. 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 or Glen L. Davison, (212) 909-5839, gdavison@kpmg.com.

Very truly yours,

KPMG LLP

cc: PCAOB Members and SEC Commissioners

PCAOB

Daniel L. Goelzer, Acting Chairman
Willis D. Gradison, Member
Steven B. Harris, Member
Charles D. Niemeier, Member
Martin Baumann, Chief Auditor and Director of Professional Standards

SEC

Mary L. Schapiro, Chairman
Luis A. Aguilar, Commissioner
Kathleen L. Casey, Commissioner
Troy A. Paredes, Commissioner
Elisse B. Walter, Commissioner
James Kroeker, Chief Accountant

Comments on Proposed Standards

Appendix 1: Audit Risk	
1a	<p>Paragraphs 9-10 – We note that the proposed standard could be improved by including certain language currently included in the PCAOB’s interim standards related to the concept of detection risk (i.e. paragraph 81 of the PCAOB interim standard AU 319, <i>Consideration of Internal Control in a Financial Statement Audit</i>, which states “The auditor uses the assessed level of control risk (together with the assessed level of inherent risk) to determine the acceptable level of detection risk for financial statement assertions.”) We believe this language could serve to enhance the understanding of the audit risk model and would recommend that the PCAOB consider including it.</p>

Appendix 2: Audit Planning and Supervision	
2a	<p>Paragraph 7 – This paragraph states that the auditor should evaluate whether certain matters listed are important to a company’s financial statements and ICFR and, if so, how they will affect the auditor’s procedures. We are not clear how the auditor’s actions to “evaluate whether” such matters, as currently drafted, would differ from the requirement in the Board’s extant auditing standard (paragraph 3 of AU 311, <i>Planning and Supervision</i>) that the auditor “should consider” such matters. Therefore, we recommend the PCAOB consider modifying the language in paragraph 7 to replace “should evaluate” with “should consider” or alternatively, describe any intended difference in auditor performance and documentation requirements.</p>
2b	<p>Paragraphs 11-14 – These paragraphs outline the auditor’s responsibilities with respect to multi-location engagements. However, the Board states in Appendix 10 that these provisions “are applicable to all multi-location audits, not just group audits.” The Board’s existing interim standard (AU 543, <i>Part of the Audit Performed by Other Independent Auditors</i>), is the PCAOB’s prevailing guidance with respect to referring to the work of another auditor. The multi-location requirements in paragraphs 11-14, as well as in other proposed standards, are not clear as to how they are to be applied when another auditor audits the financial statements of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements. In addition we note that the Board’s standards do not currently contain a definition of a “group audit,” nor do the standards or the Board’s release to the proposed standards contain any discussion of what the similarities and/or differences between multi-location audits and group audits might be. Therefore, we request the Board to clarify its intent</p>

	with respect to the application of these paragraphs (see further discussion in “Release Text” section on page 4 of this letter).
2c	<p>Paragraph 14 – This paragraph appears to create a narrower or more prescriptive requirement than the requirement set forth in paragraph 5c of the proposed standard, <i>Auditor’s Responses to the Risks of Material Misstatement</i>, relating to introducing an element of unpredictability in the auditing procedures auditors perform at locations or business units from year to year. Paragraph 14 appears to require auditors to change the nature, timing and extent of audit procedures performed at various locations each year, whereas paragraph 5 requires that auditors incorporate unpredictability and provides varying the locations where procedures are performed as an example of how that might be achieved.</p> <p>We agree with the requirement for auditors to introduce an element of unpredictability in the audit plan. However, we do not believe it is necessary to dictate the specific manner in which the element of unpredictability is to be introduced. Given that the requirement in paragraph 5 is intended to impact the auditor’s overall response to the assessed risks of misstatement, including the risk of fraud, we recommend deleting paragraph 14 from this standard or including this paragraph as an example to paragraph 5 of the proposed standard <i>Auditor’s Responses to the Risks of Material Misstatement</i>.</p>

	Appendix 3: Consideration of Materiality in Planning and Performing an Audit
3a	<p>As in the original proposal, the proposed standard uses the term “tolerable misstatement” (e.g., paragraphs 8 and 9), which is different from the term “performance materiality” used in ISA 320 (Revised and Redrafted), <i>Materiality in Planning and Performing an Audit</i> for essentially the same concept. As described by the Board in Appendix 9 of the proposed standards, we recognize that the term is well understood by auditors and that the Board is not seeking to change the concept as described in existing PCAOB standards. However we note that currently, the term is defined and largely understood by auditors in the context of audit sampling (as defined in AU 350, <i>Audit Sampling</i>, in the PCAOB’s interim standards). Using the same term in two separate fashions – to both assist auditors in assessing risks of material misstatement for the purpose of determining an appropriate audit response and to plan a sample – could result in confusion for auditors and result in misapplication of the concepts, which in turn, could have adverse impacts on audit quality. Therefore, to avoid potential confusion, we recommend that the PCAOB replace the term “tolerable</p>

	misstatement” in the proposed standard with “performance materiality,” which is the equivalent term used in the ISAs and in the ASB’s analogous redrafted proposed standard.
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Appendix 4: Identifying and Assessing Risks of Material Misstatement	
4a	<p>Paragraph 3 – This standard contains requirements and guidance related to the procedures auditors should perform to identify and assess the risks of material misstatement. Additionally, a significant portion of this standard relates to risk assessment procedures auditors should perform to obtain an understanding of the entity and its environment in order for the auditor to provide himself/herself with a reasonable basis to assess those risks. However, we note that the objective excludes the concept that the identification and assessment of risks are obtained through the auditor’s understanding of the company and its environment. As such, we recommend the objective be modified to recognize that the auditor’s identification and assessment of risks is “through understanding of the entity and its environment.” The addition of this language to the objective will help emphasize how the requirements articulated in the standard are intended to provide the auditor with the requisite understanding of the entity and its environment. Such a clarification would appear to be consistent with the PCAOB’s proposed standard and would also be consistent with the objective of ISA 315, <i>Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement</i>.</p>
4b	<p>Paragraph 11 – This paragraph contains procedures an auditor should consider performing as part of obtaining an understanding of the company. We agree that information from such procedures, in many instances, would provide the auditor with meaningful insights into the company and therefore, enhance the assessment of risks. However, we note that the broad nature of the procedures, combined with the presumptively mandatory requirement to consider performing the procedures, may result in auditors expending significant efforts to identify such information and/or documenting the considerations regarding the importance of such information to the auditor’s understanding of the company (e.g. observing or reading transcripts of ... other meetings with investors...). Such excess efforts may not result in a commensurate increase in audit quality. As such, we recommend the PCAOB consider amending the requirement to indicate that the auditor “might consider” the procedures outlined within the paragraph.</p>
4c	<p>Appendix A5 - The definition of significant risk should make clear that it is the <i>auditor</i> who makes a determination of the areas that are deemed significant risk and thus require special audit consideration based on the</p>

	<p>auditor’s assessment of the entity’s risks. This concept is excluded from the definition as set forth in Appendix A. We believe the definition of significant risk would be enhanced by including the following language:</p> <p><i>Significant risk – A risk of material misstatement that <u>the auditor determines</u> requires special audit consideration.</i></p>
4d	<p>Paragraph 20 – With respect to control design effectiveness, the first note to paragraph 20 states that “Walkthroughs that include these procedures ordinarily are sufficient to evaluate design effectiveness.” However, the second note to this paragraph, which discusses evaluating whether a control has been implemented as designed, does not make the same statement as it relates to evaluating whether a control has been implemented through the performance of a walkthrough. Paragraphs 64-65 (as well as paragraphs 34 and 37 of AS No. 5) appear to indicate that walkthroughs <i>would</i> be sufficient for the purpose of evaluating whether a control has been implemented as designed. We agree and, accordingly, we recommend the Board clarify within the second note to paragraph 20 that a walkthrough would “ordinarily” be sufficient for this purpose.</p>
4e	<p>Paragraph 33 of the proposed standard requires the auditor to obtain an understanding of control activities that is “sufficient to assess the factors that affect the risks of material misstatement.” As currently drafted, we are concerned that this could be interpreted to require an auditor to identify and obtain an understanding of <i>all</i> control activities addressing all the risks of misstatement for all relevant assertions. We believe such a requirement would go significantly beyond the existing requirement for financial statement-only (non-integrated) audits where an auditor would ordinarily only be required to obtain an understanding of controls sufficient to plan the audit (see paragraph 25 of the PCAOB’s interim standard AU 319, <i>Consideration of Internal Control in a Financial Statement Audit</i>). Because the auditor may employ an audit strategy that does not encompass relying on controls in all areas, the requisite understanding of internal control would be much more limited under current standards than what might be inferred from the requirement in the proposed standard. To avoid confusion and unnecessary work, we believe it would be helpful to add the following statement to paragraph 33 “An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them.” This additional sentence is consistent with existing PCAOB standards, paragraph 20 of the proposed standard, and ISA 315.</p>
4f	<p>Paragraph 42 – This paragraph states that “If the auditor has obtained other information relevant to identifying risks of material misstatement through other engagements performed for the company, the auditor should take that</p>

	<p>into account in identifying risks of material misstatement.” In the release to the proposed standard, it appears that the Board’s intent was for the auditor to consider and document the effect of <i>all</i> engagements performed by the firm when assessing risks. We are concerned that this is a requirement that extends beyond the existing guidance in AU 9311, <i>Planning and Supervision: Auditing Interpretations of Section 311</i>, and that may result in significant effort without a corresponding benefit to audit quality.</p> <p>Therefore, we recommend that the Board reconsider this requirement. We believe the language included in the PCAOB’s interim standard, AU Section: 9311 provides the appropriate responsibility for considering other engagements performed by the firm; it states the following: “The auditor should consider the nature of non-audit services that have been performed. He should assess whether the services involve matters that might be expected to affect the entity’s financial statements or the performance of the audit....” We recommend similar language be included in the proposed standard.</p>
4g	<p>Paragraph 54 –This paragraph requires auditors to identify other individuals within the company to whom inquiries about their views regarding fraud risks should be directed. While we acknowledge that improvements have been made from extant AU 316.24 in the proposal, we recommend that certain deleted words be reinstated. We recommend that certain deleted words from paragraph 24 of the PCAOB’s extant AU 316, the source for paragraph 54, be reinstated. Specifically, we recommend changes in the following sentence. “The auditor should identify other individuals within the company to whom inquiries should be directed <u>and determine the extent of such inquiries</u> by considering whether others in the company might have additional knowledge <u>that will be helpful to the auditor in identifying risks of material misstatement due to</u> about fraud, alleged or suspected fraud” Retaining the extant language will make clear that the auditor is to make a determination about the extent of such inquiries and explicitly relates the need for these inquiries to the risks of material misstatement.</p>
4h	<p>Paragraph 56 – This paragraph sets forth a process for identifying and assessing the risks of material misstatement using the information obtained from the risk assessment procedures and other relevant knowledge possessed by the auditor. Paragraph 56d requires auditors to consider the likelihood and magnitude of potential misstatements to assess the possibility that the risk could result in a material misstatement of the financial statements. However, we note that paragraph 56f, which requires auditors to determine whether any of the identified and assessed risks of material misstatement are significant risks, does not contain similar language related to an auditor’s consideration of likelihood and magnitude</p>

	<p>when evaluating whether an identified risk is a significant risk. While the Note to 56f correctly states that the determination of significant risk is based on inherent risk, without regard to the effect of controls, we believe an auditor’s evaluation of whether or not a risk is significant when evaluating inherent risk includes consideration of the likelihood and magnitude of the risk of misstatement. As such, we recommend the Board clarify the note to 56f that likelihood and magnitude are factors for consideration in significant risk determinations.</p>
4i	<p>Paragraph 62 – This paragraph contains requirements related to objectives for the auditor to achieve to understand the likely sources of misstatement, including a requirement to identify controls that a company has implemented to address potential misstatements. While these are largely consistent with AS No. 5, we note that in a financial statement audit an auditor ordinarily would only be required to obtain an understanding of controls sufficient to plan the audit. Therefore, we request the Board to consider whether such a requirement significantly enhances the auditor’s ability to plan and perform the audit given the potential increase in costs this identification may require, particularly in financial statement audits where auditors may elect not to rely on a company’s controls. See related discussion in comment 4e above.</p>

	<p>Appendix 5: The Auditor’s Responses to the Risks of Material Misstatement</p>
5a	<p>Paragraph 2 – The objective as defined appears to be inconsistent with the discussion in paragraph 3. Paragraph 3 clarifies that to meet the objective of the standard, the auditor must address the risks that are identified and <i>assessed</i> in accordance with the proposed standard, <i>Identifying and Assessing Risks of Material Misstatement</i>. The objective does not include the notion of addressing the risks “assessed” by the auditor. We recommend that the Board add the word “assessed” to the objective to clarify the auditor’s responsibilities. While we support the Board’s changes to include the concept of “assessed risk” to create a better linkage to audit responses, we believe that the objective of the standard should include “assessed risk” to make this same linkage.</p>
5b	<p>Paragraph 5 – This paragraph requires the auditor to design and implement overall responses to address the assessed risks of material misstatements. More specifically, item 5c of this requirement entitled “<i>Incorporating elements of unpredictability in the selection of audit procedures to be performed</i>” indicates that the auditor should incorporate an element of unpredictability in the selection of auditing procedures to be performed from year to year as part of the auditor’s response to the assessed risks of material misstatement due to error and fraud. While we believe that the</p>

	<p>focus of incorporating an element of unpredictability into the auditor’s procedures should be based on the auditor’s response to the assessed risks of material misstatement due to fraud, we recommend that the PCAOB consider providing additional clarity regarding its application in response to risks other than fraud risks.</p>
5c	<p>Paragraph 6 – This paragraph requires the auditor to “... evaluate whether it is necessary to make <u>pervasive</u> changes to the nature, timing, or extent of audit procedures to adequately address the assessed risks of material misstatement. Examples of such <u>pervasive</u> changes include performing substantive procedures at the period end instead of at an interim date; or modifying the nature of audit procedures to obtain more persuasive audit evidence.”</p> <p>Given the overall requirements of the proposed standard is to address the risks of misstatement by obtaining sufficient appropriate evidence, we do not believe the term “pervasive” is needed and could result in confusion to the underlying requirement.</p>
5d	<p>Paragraph 31 – This paragraph provides guidance to assist auditors in determining to what extent evidence obtained in past audits related to the design and operating effectiveness of controls can impact the evidence needed to support the auditor’s control risk assessments during the current year audit. While we recognize that this paragraph is largely consistent with the requirements of AS No. 5, we believe it could be interpreted as requiring auditors to evaluate and document their considerations of <i>all</i> controls tested in connection with the prior year audit and consequently could result in a significant increase in effort without providing a commensurate benefit to audit quality. We note that the requirement in AS No. 5 is intended to allow the auditor’s experience in prior years to inform its assessment of risk, which in turn impacts the nature, timing and extent of testing necessary. As such, we recommend the PCAOB modify paragraph 31 to be consistent with paragraphs 47, 57 and 58 of AS No. 5 to better articulate the requirement.</p>

Appendix 6: Evaluating Audit Results	
6a	<p>Paragraph A2 of Appendix A in the proposed standard defines the word “misstatement;” however, due to the sequencing of the sentences, the definition could instead be interpreted as defining “material misstatement.” As a result, we recommend that the PCAOB move the second sentence, which deals simply with “misstatement,” to the first sentence of the paragraph.</p>
6b	<p>Paragraph 15 – This paragraph includes guidance for the auditor to communicate accumulated misstatements to management on a timely basis to provide them with an opportunity to correct them. Both the IAASB and</p>

	<p>ASB standards include a requirement that the auditor request management to correct those misstatements and to understand management’s reasons, if any, for not making the corrections. We believe that understanding management’s rationale for not correcting misstatements could provide the auditor with perspective that could enhance the risk assessment, including the fraud risk assessment. In addition, requiring the auditor to make such a direct and specific request of management may improve the likelihood that such corrections will be made in the current period. As such, we believe this requirement should also exist in the PCAOB standards.</p>
6c	<p>Paragraphs 28 and C1 – Paragraph 28 provides that when evaluating the results of the audit, the auditor should evaluate whether the accumulated results of audit procedures and other observations affect the assessment of fraud risks made throughout the audit and whether audit procedures need to be modified to respond to those risks. This paragraph also references Appendix C, which is titled “matters that might affect the assessment of fraud risks.” However, paragraph C1 lists matters, if identified during the audit, that “...the auditor should determine whether the assessment of fraud risks remains appropriate or needs to be revised.” This seems to indicate that the auditor is required to determine if each item identified during the audit individually affects the assessment of fraud risks, which appears inconsistent with paragraph 28. We recommend the following sentence replace the first sentence of paragraph C1 in order to be consistent with paragraph 28 and the title of Appendix C – “The following matters might affect the auditor’s assessment of fraud risks, including whether that assessment remains appropriate or needs to be revised.”</p>

Appendix 7: Audit Evidence	
7a	<p>Paragraph 18 – The original proposed standard included a description that “[w]ritten confirmations might be received in paper form, or by electronic or other medium.” We note that this description is excluded from the proposed standard. While we understand the PCAOB is in the process of considering amendments to its interim standard, AU 330, <i>The Confirmation Process</i>, we are concerned that the removal of the expectation that confirmations be “written,” could have an effect on the auditor’s evaluation of information provided from third parties as part of the audit. As such, we recommend that the Board consider re-inserting the word “written” in the first sentence so it refers to a “direct written response.” We believe such language would better maintain the existing guidance until the completion of the Board’s current project on confirmations.</p>
7b	<p>We note that a number of terms are used in this standard to describe the nature of audit evidence obtained through the audit. For example, the</p>

	<p>words, “sufficiency,” and “appropriateness” are used throughout to describe the characteristics of evidence that auditors are required to evaluate in order to conclude the evidence they have obtained is both sufficient and appropriate to support the related assertion. These terms, however, are not formally defined. We recommend that the Board consider providing formal definitions for these terms, using the guidance in paragraphs 5 and 6 of the proposed standard, which would allow them to be easily located within the standards as well as promote consistency in performance of audits.</p>
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<p>Appendix 8: Proposed Amendments to PCAOB Standards</p>	
<p>8a</p>	<p>Proposed amendments to AU 350 – We are concerned that the suggested amendments to paragraph 23A and 38 of AU 350, <i>Audit Sampling</i>, would require auditors who use non-statistical sampling methods, to calculate sample sizes using both statistical and non-statistical approaches in all circumstances in order to be in a position to be able to demonstrate that the sample size under the non-statistical method equaled or exceeded a sample size under a statistical method.</p> <p>In Appendix 9 of the proposal, the Board stated “[t]he proposed amendments are not intended to require auditors to compute sample sizes using statistical methods in all instances to demonstrate compliance with the requirements.” Although we appreciate that the Board addressed the meaning of the proposed amendments, we recommend the Board include this guidance within the standard itself to avoid potential confusion or misinterpretation. The potential guidance could leverage the language used in the release or, alternatively, language similar to paragraph A11 of redrafted ISA 530 or footnote 5 from paragraph 23 of the ASB’s revised AU 350.</p>