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Office of the Secretary
Public Company Accounting Oversight Board
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, PCAOB Release No. 2008-06

Dear Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") proposed auditing standards related to the auditor's assessment of and response to risk and conforming amendments (together the "Proposed Standards").

We support the Proposed Standards, and generally believe adoption is an improvement to existing standards. We also believe that implementation can be completed without undue difficulty as many firms already have in place auditing processes and procedures contemplated in the Proposed Standards. The Proposed Standards will provide value to the users of financial statements by improvement in consistency in delivery of audit services.

However, we believe there are several matters that should be addressed before the Proposed Standards might be adopted. We have provided general observations in the body of this letter, and specific comments on the Proposed Standards in an attachment to this letter. The matters in the attachment are organized by appendix number and paragraph number to expedite consideration. We provide our observations and comments to assist the Board in achieving its goals for these Proposed Standards.

Auditor Judgment

The Proposed Standards effectiveness in operation will largely be determined by auditors' ability to effectively apply reasoned professional judgment. Audits of financial statements have always required the exercise of judgment. We have seen a recent trend in accounting to move from prescriptive requirements toward greater use of judgment, and that trend should also be reflected in auditing standards. To that end, the overall tone of the Proposed Standards is an improvement, but we stress the need for emphasis on use of auditor's professional judgment in

assessment of and response to risk. Additionally, risk concepts appropriately allow the auditor to use judgment to determine the resultant testing approach. We note the auditing standard issued by the PCAOB for audits of internal control over financial reporting emphasizes the need for professional judgment in taking a risk-based approach to performing such audits. While the Proposed Standards appear to encourage use of judgment, thus allowing scalability in application to an audit, they are still quite prescriptive and detailed. We recommend the Board review provisions which are now stipulated as requirements that could be optional based on the overall needs of the audit, after applying appropriate auditor judgment.

Convergence of Auditing Standards

Convergence of standards should be a goal in setting auditing standards. We applaud the Board's consideration of the audit risk standards promulgated by the International Auditing and Assurance Standards Board, which are standards commonly used in many other areas of the world. The Proposed Standard includes Appendix 10, "Comparison of Requirements to the Standards of the International Auditing and Assurance Standards Board." Larger firms such as ours are familiar with the international standards. We note that the PCAOB has made extensive efforts in the last several years to reach out to smaller audit firms. Those smaller firms have adopted the Auditing Standards Board's (ASB) audit risk standards and so are familiar with those standards. The ASB may update its risk assessment standards during its clarity project, but we believe that additional guidance and a comparison to the ASB's standards in place now, similar to the content of Appendix 10 for international standards, would be beneficial to smaller firms and we encourage the Board to provide such in any final standard.

Another element of convergence is development of a more cohesive body of standards, recognizing that there may be differences required to reflect law, regulation, or regional economic issues. An example of such a difference required by the PCAOB standards is the requirement for an integrated audit to include internal control over financial reporting. Such differences would be more easily understood and applied if the PCAOB standards were codified into a single set of integrated standards.

* * * * *

Crowe Horwath LLP supports the Board's efforts to improve its auditing standards with the objective of furthering the public interest. We hope that our comments and observations will assist the Board in its consideration of the Proposed Standard. We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff. If you have any questions on our comments, please contact Wes Williams or Michael Yates.

Cordially,



Crowe Horwath LLP

ATTACHMENT
COMMENTS ON SPECIFIC PROVISIONS OF THE PROPOSED STANDARDS

The following comments are organized by Appendix and Paragraph Numbers in the Proposed Standards.

Appendix 2: Audit Planning and Supervision

Paragraph 15

States *“If an individual with specialized IT skill or knowledge employed or engaged by the auditor’s firm participates in the audit, the auditor should have sufficient IT-related knowledge to enable the auditor to:*

b) Evaluate whether that individual’s procedures meet the auditor’s objectives”

c) Evaluate the results of that individual’s procedures as they relate to the nature, timing, and extent of other planned audit procedures

The proposed requirement appears to treat the engagement team member with specialized IT skill as an outside specialist and not part of the engagement team. IT specialists employed by the audit firm are utilized on engagements as part of the engagement team. This paragraph depicts them as separate from the engagement team. We believe they should be involved in fraud brainstorming, planning, and as deemed necessary evaluation of deficiencies as a result of their testing to determine the impact on the nature, timing and extent of audit procedures. This knowledge is and should be shared as part of the audit team process. Thus, for employees of the audit firm, we recommend that items b and c above be reworded to delete reference to “Evaluate” and insert “Understand”. We would then encourage the Board to consider adding guidance as presented in paragraph 15 with the use of “Evaluate” for items b and c when the auditors engage outside specialists. Evaluation is in line with the risk associated with the use of an outside specialist and potential disconnect from the audit team.

Appendix 3: Identifying and Assessing Risks of Material Misstatement

Paragraph 56, items d and f

The guidance in identifying and assessing risks of material misstatements in item d and f within this paragraph appear to contradict each other. Additional guidance or clarification on these would be appreciated. Item d provides *“Assess the likelihood of misstatement, including the possibility of multiple misstatements, and the magnitude of potential misstatement to assess the possibility that the risk could result in material misstatement of the financial statement. Note: In assessing the likelihood and magnitude of potential misstatement, the auditor may take into account the planned degree of reliance on controls selected to test.”* The point is made that the planned degree of reliance on controls selected to test can be considered in assessing the likelihood of a misstatement. However, item f provides *“Determine whether any of the identified risks are significant risks. Note: The determination of whether a risk of misstatement is a significant risk is based on inherent risk, without regard to the effect of controls.”* The point is made that controls and planned reliance of controls should not be considered when determining significant risks. This appears to contradict the guidance in item d. Appendix 3, paragraph 4 defines Significant Risk as *“A risk of material misstatement that is important enough to require special audit consideration”*. Based on this definition and items d and f, it is unclear whether or not the auditor should take into account planned reliance on controls in the identification and assessment of the risks of material misstatement. For clarity, we recommend the deletion of the Note reference after item d. within this paragraph.

Appendix 4: The Auditor's Responses to the Risks of Material Misstatement

Paragraph 9

The amendment is titled "*The Auditor's Responses to the Risks of Material Misstatement*" and through the first eight paragraphs, when describing misstatements they are always referred to as "material misstatements". However, the word "material" does not appear in the section "*Responses to Fraud Risks*" that starts with paragraph 9. We suggest that for clarity "material" be added to the section title, to read "*Responses to Material Fraud Risks*", as well as added to paragraph nine when referring to "fraud risks". Without this clarity, there is a concern that auditors may conclude they are required to respond to all fraud risks, including those that are not significant.

Paragraph 29

This paragraph provides a listing of matters that could affect the necessary extent of testing of a control in relation to the risk associated with the control. Audit Standard 5 (AS 5), paragraph 47 also addressed factors that affect the risk associated with a control. We believe it would be beneficial to more closely associate these two listings. Whether or not the audit is integrated, understanding the risks that may impact a control is key. Combining the listing from AS5, par. 47 with this would provide more complete guidance of matters to consider.

Paragraph 43

The auditor should be required to consider types of potential material misstatements. However for clarity we believe the word "material" should be inserted prior to "misstatements" in both uses here.

Paragraph 44

This paragraph provides that the auditor must include the following procedure related to period-end financial reporting process: "Examining material adjustments made during the course of preparing the financial statements." This paragraph is not clear if it is intended that all material adjustments are to be examined or if a sampling or judgmental selection of material adjustments can be selected for examination based on a risk based approach. We recommend clarification of this point.

Paragraph 49

This paragraph provides guidance on procedures that should be done if substantive procedures are performed at an interim date. It provides that "Such procedures should include a) comparing relevant information about the account balance at the interim date with comparable information at the end of the period to identify amounts that appear unusual and investigating such amounts, and b) performing audit procedures to test the remaining period." Based on the this paragraph, it appears that the use of substantive analytical procedures as described in item "a" is not sufficient to test the interim period "and" other audit procedures are required. We suggest the beginning of this sentence be revised to indicate that the auditor should consider "a." and / or "b." in the design of tests of information from interim to period end. The effectiveness of substantive analytics as described in "a" is based on the expectations and precision levels established. We suggest that after this paragraph, the Board add a Note reference that refers to AU sec. 329 Analytical Procedures and PCAOB Release No. 2004-008 for further guidance in the use of analytics as a substantive audit test. These modifications allow the auditor to determine if analytics is an appropriate test of the data or if other testing strategies need to be implemented.

Paragraph 50

The first sentence does not appear to be structured correctly. We suggest that “detects” be moved in front of “misstatement”.

Appendix 5: Evaluating Audit Results

Paragraph 3

The first sentence of “*Misstatements*” includes language for a definition of a material misstatement. We suggest deleting this first sentence as such a definition should be provided in generally accepted accounting principles rather than auditing standards.

Paragraph 15, item b.

The Note states that as “the aggregate of misstatements approaches the materiality level used in planning and performing the audit, there likely will be a greater than an appropriate low level of risk that possible undetected misstatements, when taken with the aggregate of misstatements accumulated during the audit, could be material to the financial statements.” We concur with this overall notion, but we believe it would be appropriate to change “likely will” to “may”. This allows the auditor to use the professional judgment encouraged elsewhere in the Proposed Standards. This assessment takes great effort as is exemplified through the guidance in paragraphs 17-33 of Appendix 5. This concept should not be over simplified by using “likely will” in this sentence.

Paragraph 29

This paragraph discusses the auditing of estimates and the concern that even though estimates individually may be reasonable, there is still a concern that there could be bias on the part of management. The note at the end of the paragraph has a reference to AU secs. 316.63-65. We believe the guidance in paragraph 29 is helpful, however a word was changed in the following sentence in this paragraph compared to the present AU sec 316.63. That changed word significantly alters the responsibility of the auditor.

The sentence in paragraph 29 says (underline added for emphasis): *“However, the auditor should evaluate whether the difference between estimates best supported by the audit evidence and the estimates included in the financial statements, which are individually reasonable, indicate a possible bias on the part of the company’s management.”*

AU sec 316.63 now provides that (underline added for emphasis): *“...the auditor should consider whether differences between estimates best supported by the audit evidence and the estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity’s management...”*

The use of the term “evaluate” implies a mathematical analysis of all the estimates utilized in an audit and conclusions as to potential bias. As there may be hundreds of estimates in an audit, we are not sure if an evaluation will achieve the Board’s objective. The term “consider” allows the auditor to utilize professional judgment based on the estimates within the accounting records and the identified risks.

Appendix 6: Consideration of Materiality in Planning and Performing an Audit

Paragraph 8

In determining tolerable misstatement, auditors use professional judgment in assessing risks associated with accounts and assertions, and consider the overall risk and materiality of the engagement. This paragraph generally supports that thought process except the last sentence, which provides: *“Accordingly, the amount or amounts of tolerable misstatement should be less than the materiality level for the financial statements as a whole and, if applicable, the materiality level or levels for particular accounts or disclosures.”* Based on the “and” in the sentence above, materiality levels for particular accounts and or disclosures could not be established higher than the materiality level established for the financial statements as a whole. Materiality is a qualitative as well as quantitative analysis. The above guidance appears to indicate that materiality is a quantitative calculation only and qualitative aspects are not considered at the account or disclosure level. An appropriate change in the sentence noted above, would be as follows: *“Accordingly, the amount or amounts of tolerable misstatement should be less than the materiality level established.”* That provides sufficient guidance and allows the auditor to use professional judgment when assessing and auditing accounts and disclosures. Transactions that only impact a single statement (such as a balance sheet only transaction), may have a materiality level in excess of the materiality established for the financial statements as a whole. Based on the sentence noted above, tolerable error would have to be established utilizing the lowest level of materiality. That approach may cause an auditor to be inefficient in their audit approach and audit the transaction to a precision limit lower than the associated risk. That would defeat the purpose of the risk-based auditing approach in the Proposed Standards.

Paragraphs 10 and 11

We concur with the general nature of audit process suggested in paragraphs 10 and 11. However, paragraph 11 should have a third item added as follows: *“3) evaluate the impact, if any, of the lower amount or amounts on the integrated audit (see also paragraph 6)”*, or that could be added in a note reference. This reminder is important to reinforce that a change in materiality as part of the reassessment procedure may have an impact on the integrated audit under Auditing Standard 5 and could impact controls that were previously evaluated.