



1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

)
)
)
ESTABLISHMENT OF INTERIM)
PROFESSIONAL AUDITING)
STANDARDS)
)
)
)
)
)
)

PCAOB Release No. 2003-006
April 18, 2003

Summary: The Public Company Accounting Oversight Board (“Board” or “PCAOB”) has established interim standards of auditing, attestation, quality control, ethics, and independence (“Interim Professional Auditing Standards”). Section 103(a) of the Sarbanes-Oxley Act of 2002 (“Act”) provides that the Board shall, by rule, establish auditing and related attestation, quality control, and ethics standards to be used by registered public accounting firms in the preparation and issuance of audit reports. Section 103(b) authorizes the Board to adopt rules relating to auditor independence. The Board’s Interim Professional Auditing Standards were promulgated by various other bodies and pre-date the determination of the Securities and Exchange Commission (“Commission”), under Section 101(d), that the Board is capable of carrying out its responsibilities under the Act. Unlike other Rules of the Board, under Section 103(a)(3)(B) of the Act, the Board’s Interim Professional Auditing Standards “shall be separately approved by the Commission at the time of the determination, without regard to the procedures required by Section 107” of the Act regarding rulemaking.

This release describes the standards that the Board has adopted as Interim Professional Auditing Standards on an initial, transitional basis in order to assure continuity and certainty in the standards that govern audits of public companies. They will remain in effect while the Board conducts a review of standards applicable to registered public accounting firms, as

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 2

discussed in PCAOB Release No. 2003-005. Based on this review, the Board may modify, repeal, replace or adopt permanently the Interim Professional Auditing Standards, or any part thereof, by rulemaking according to the Board's procedures for the establishment of professional auditing standards and subject to Commission approval.

Board

Contacts: Gordon Seymour, Acting General Counsel (202/207-9034; seymourg@pcaobus.org), or Samantha Ross, Special Counsel to the Acting Chairman (202/207-9093; rosss@pcaobus.org).

* * * * *

The Board has adopted Interim Professional Auditing Standards to govern the conduct of audits of public companies (i.e., "issuers" as defined in the Act). The Act provides that "[p]re-existing standards of designated professional groups of accountants may be adopted during the Board's transitional period,"^{1/} i.e., before the Commission's determination, under Section 101(d), that the Board is "organized and has the capacity to carry out the requirements of Title I" of the Act. Specifically, Section 103(a)(3)(B) and 103(a)(3)(A)(i) of the Act provide for the Board to adopt, as initial or transitional standards, "any portion of any statement of auditing standards or other professional standards" that satisfy the requirements of Section 103(a)(1) of the Act. These interim standards are to be "separately approved by the Commission at the time of the determination, without regard to the procedures required by Section 107" of the Act regarding rulemaking, which will govern the Board's permanent standards.^{2/}

^{1/} See S. Rep. No. 107-205, at 8 (2002).

^{2/} Section 103(a)(3)(B) of the Act. Section 107(b)(2) of the Act provides that "[n]o rule of the Board shall become effective without prior approval of the Commission .

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 3

Despite the need to adopt these existing standards on an initial, transitional basis in order to assure continuity and certainty in the standards that govern audits of public companies, the Board has not determined whether it would be appropriate to include any of the Interim Professional Auditing Standards as permanent Board standards. In order to make that determination, the Board will establish a schedule and procedure for the review of all Interim Professional Auditing Standards.^{3/} The objective of that review will be to determine, on a standard-by-standard basis, whether the Interim Professional Auditing Standards should become permanent standards of the Board, should be repealed, or should be modified. As the review of each interim standard is completed, the Board will adopt that standard as a permanent Professional Auditing Standard, with or without modifications, will repeal the standard, or will take any other appropriate action regarding the standard.

The Interim Professional Auditing Standards consist of five rules (Rules 3200T, 3300T, 3400T, 3500T, and 3600T). Appendices 1 and 2 to this release contain, respectively, the text of these rules and a section-by-section analysis of the rules. Section A of this release provides an overview of the Interim Professional Auditing Standards and of the Board's reasons for adopting these standards. Section B of this release describes the effective date of the Interim Professional Auditing Standards and the procedure for Commission approval of these standards.

. . . , other than as provided in section 103(a)(3)(B) with respect to initial or transitional standards.”

^{3/} See [PCAOB Release No. 2003-005](#) (April 18, 2003).

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 4

A. Overview of the Interim Professional Auditing Standards

1. Interim Auditing Standards

Auditors of public companies that issue securities are required to provide audit reports that “state whether the audit was made in accordance with generally accepted auditing standards” (“GAAS”).^{4/} The Commission’s Division of Corporation Finance will not accept an audit report on the financial statements of an issuer unless the report states that the audit to which it relates was conducted in accordance with GAAS in the United States.^{5/}

Before the enactment of the Act, U.S. GAAS were established by the American Institute of Certified Public Accountants (“AICPA”). General standards on auditing, as well as standards relating to audit field work and audit reports, were approved and adopted by the membership of the AICPA, and amended by the AICPA’s Auditing Standards Board (“ASB”). In addition, the ASB has developed and issued 101 Statements of Auditing Standards (“SAS”) through a process that has included deliberations in public meetings, public exposure of draft statements, and adoption of statements approved by the ASB.^{6/} GAAS also require an auditor to “be aware of and consider” certain AICPA interpretive publications, such as auditing Interpretations of the

^{4/} See Regulation S-X, § 2-02, 17 C.F.R. § 210.2-02.

^{5/} “All financial statements filed with the SEC are required to be audited in accordance with US GAAS, with an explicit statement of that fact in the auditor's report.” See Division of Corporation Finance Current Accounting and Disclosure Issues (August 31, 2001), <http://www.sec.gov/divisions/corpfin/acctdisc.htm>.

^{6/} See SAS No. 95, Codification of Statements on Auditing Standards (“Codification”), AU § 150.03 (AICPA 2002).

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 5

SASs, auditing guidance included in AICPA Audit and Accounting Guides, and AICPA auditing Statements of Position.^{7/}

Subject to the Commission's oversight authority, the Act gives the Board the exclusive, statutory power to establish and amend Professional Auditing Standards to be used by registered public accounting firms in the preparation and issuance of audit reports.^{8/} The Board's Professional Auditing Standards supercede standards established by professional organizations, with respect to the preparation or issuance of audit reports on the financial statements of issuers. In Release No. 2003-005, the Board announced its intention to establish Professional Auditing Standards through an open process in which the accounting profession, the preparers of financial statements, the investor community, and others will have the opportunity to participate. The Board also announced in that release a plan to review existing GAAS and, when appropriate, change or establish new GAAS.

In order to assure continuity and certainty in the standards that govern audits of public companies during the Board's review, the Board has determined that GAAS

^{7/} In addition, SAS No. 95 also refers to other auditing publications, such as articles in the Journal of Accountancy and other professional journals, including publications by state CPA societies, textbooks, and guidebooks, that have contributed to the development of GAAS. Before applying the guidance in an "other auditing publication," an auditor "should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the audit and appropriate." SAS No. 95, Codification at AU § 150.08.

^{8/} Section 3(c)(2) of the Act provides that "[n]othing in this Act or the rules of the Board shall be construed to impair or limit . . . the authority of the Commission to set standards for accounting or auditing practices or auditor independence, derived from other provisions of the securities laws or the rules or regulations thereunder, for purposes of the preparation and issuance of any audit report, or otherwise under applicable law."

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 6

proposed and promulgated by the AICPA and the ASB, as they existed on April 16, 2003, should be adopted as Interim Auditing Standards, pursuant to Section 103(a)(3)(B). Accordingly, the Board has adopted Rule 3200T to require that registered public accounting firms comply with its Interim Auditing Standards in the performance of audits, or interim reviews,⁹ of the financial statements of issuers. The Board intends that these GAAS continue to have the same authority they have currently unless and until the Board supercedes them.

⁹ Interim reviews of financial information are integrally related to audits. See generally SAS No. 100. For example, SAS No. 100 makes clear that the general standards on auditing discussed in SAS No. 95 “are applicable to a review of interim financial information.” See id. at ¶ 1; see also id. at ¶¶ 12-13 (requiring new auditor conducting initial review of interim financial information to perform procedures, including making inquiries and reviewing the work papers of predecessor auditor and obtaining knowledge of entity’s internal controls).

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 7

2. Interim Attestation Standards

Section 103(a)(1) authorizes the Board to establish “auditing and related attestation standards.”^{10/} Consistent with the Interim Auditing Standards, the Board’s Rule 3300T designates the Statements on Standards for Attestation Engagements (“SSAE”) and related Interpretations and Statements of Position adopted by the ASB, as they existed on April 16, 2003, as the Board’s Interim Attestation Standards. Accordingly, registered public accounting firms must comply with those SSAEs that are related to the preparation or issuance of an audit report on the financial statements of an issuer.^{11/}

3. Interim Quality Control Standards

Section 103(a)(1) authorizes the Board to establish quality control standards for registered public accounting firms. Until enactment of the Act, the ASB’s Statements on Quality Control Standards (“SQCS”) were the primary source of such standards.^{12/} In

^{10/} Section 2(a)(10) of the Act also defines Professional Standards to include “standards for attestation engagements . . . that the Board or the Commission determines . . . relate to the preparation or issuance of audit reports for issuers.”

^{11/} Rule 3300T.

^{12/} See SAS 25, Codification at AU § 161 (requiring accounting firms to have quality controls for their audit practices). The ASB’s standards define quality control as “a process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm’s standards of quality.” See System of Quality Control for a CPA Firm’s Accounting and Auditing Practice, AICPA Professional Standards (“Professional Standards”), QC § 20.03 (AICPA 2002). The ASB’s standards further set forth five broad elements of appropriate quality control in a public accounting firm, which relate to maintaining independence, integrity, and objectivity; managing personnel; establishing guidelines for accepting and continuing clients; performing

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 8

addition, public accounting firms that are members of the AICPA's SEC Practice Section have committed to satisfying a number of other quality control-related requirements. Consistent with the Interim Auditing Standards and the Interim Attestation Standards, the Board's Rule 3400T designates the Statements on Quality Control Standards adopted by the ASB, as they existed on April 16, 2003, as the Board's Interim Quality Control Standards.

Rule 3400T also designates certain AICPA SEC Practice Section membership requirements as additional Interim Quality Control Standards.^{13/} It should be noted that the Board is not adopting as interim standards the entirety of the AICPA SEC Practice Section's membership requirements.^{14/} Further, because the Board intends the Interim Quality Control Standards to preserve existing standards as they apply currently, consistent with Section 103(a)(3) of the Act, those Interim Quality Control Standards adapted from the AICPA SEC Practice Section requirements apply only to those firms that are members of the AICPA SEC Practice Section.^{15/} The requirements

engagements; and monitoring the existing quality control policies and procedures. Professional Standards at QC § 20.07.

^{13/} AICPA SEC Practice Section Reference Manual, § 1000.08(d), (f), (l), (m), (n)(1) and (o).

^{14/} For example, the Board is not adopting those SECPS membership requirements that require each member of the firm to be a member of the AICPA or that require member firms to submit to peer reviews, to report information to the SECPS or to the AICPA's quality control inquiry committee, or to pay dues to the SECPS. See AICPA SEC Practice Section Reference Manual, § 1000.08(a), (c), (g), (j), (k) and (p). Nor is the Board adopting those SECPS membership requirements that have been superseded by statute or by Commission or Board rule.

^{15/} In the future the Board may, by rulemaking and pursuant to its standards-setting procedures, extend the AICPA SEC Practice Section requirements to other registered public accounting firms.

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 9

incorporated in Rule 3400T, which are described in more detail in Appendix 2, related to the following matters –

- Continuing professional education of audit firm personnel;
- Concurring partner review of the audit report and the financial statements of Commission registrants;^{16/}
- Communication by written statement to all professional personnel of firm policies and procedures on the recommendation and approval of accounting principles, present and potential client relationships, and the types of services provided;
- Notification of the Commission of resignations and dismissals from audit engagements for Commission registrants;
- Audit firm obligations with respect to the policies and procedures of correspondent firms and of other members of international firms or international associations of firms; and

^{16/} SECPS membership requirement (f) sets forth the Practice Section’s concurring review requirements, which the Board has adopted as part of its Interim Quality Control Standards. See AICPA SEC Practice Section Reference Manual, § 1000.08(f). Requirement (f) also permitted the AICPA “peer review committee [to] authorize alternative procedures where this requirement cannot be met because of the size of the member firm.” The Board has not adopted this part – the second sentence – of SECPS membership requirement (f). Under Section 103(a)(3)(A)(i), the Board “may adopt as its rules . . . any portion of any statement of auditing standards or other professional standards that the Board determines” satisfy the Act’s requirements. The Board does, however, intend to permit requests for similar relief to be sought from the Board.

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 10

- Policies and procedures to comply with applicable independence requirements.

4. Interim Ethics Standards

Section 103(a)(1) authorizes the Board to establish ethics standards.^{17/} The Board's Rule 3500T designates the provisions of the AICPA's Code of Professional Conduct on integrity and objectivity, as Interim Ethics Standards.^{18/} Accordingly, registered public accounting firms must comply with the AICPA's Code of Professional Conduct Rule 102, and interpretations and rulings thereunder, as in existence as of the date of this release.^{19/} Consistent with the other interim standards adopted by the Board, these ethical standards continue to have the same authority they have currently unless and until the Board supercedes them.

5. Interim Independence Standards

Section 103(b) of the Act authorizes the Board to "establish such rules as may be necessary or appropriate in the public interest or for the protection of investors, to implement, or as authorized under, title II of this Act."^{20/} The Board has adopted Interim

^{17/} Section 2(a)(10)(B) of the Act also defines Professional Standards to include "ethical and competency standards . . . that the Board or the Commission determines . . . relate to the preparation or issuance of audit reports for issuers."

^{18/} Professional Standards at ET §§ 102 and 191.

^{19/} Rule 3500T.

^{20/} Title II of the Act addresses auditor independence. In addition, Section 2(a)(10) of the Act defines "Professional Standards" to include "independence standards (including rules implementing title II) that the Board or the Commission determines . . . relate to the preparation or issuance of audit reports for issuers."



ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 11

Independence Standards, based on the provisions of the AICPA's Code of Professional Conduct regarding independence and existing standards and interpretations of the Independence Standards Board. Rule 3600T requires registered public accounting firms to comply with these independence standards in connection with the audit of any Commission registrant.

On January 28, 2003, the Commission adopted final rules to strengthen requirements regarding auditor independence and enhance disclosure regarding fees paid to auditors and otherwise to strengthen the Commission's existing auditor independence rules.^{21/} These rules were designed to implement provisions of the Act. All registered public accounting firms are required to comply with Commission rules, and the Board's Interim Independence Standards do not supplant the Commission's independence rules. To the extent that the Commission's rules are more restrictive – or less restrictive – than the Board's Interim Independence Standards, registered public accounting firms must comply with the more restrictive requirements. The note to Rule 3600T clarifies this point.

^{21/} See SEC, Strengthening the Commission's Requirements Regarding Auditor Independence, Securities Act Release No. 33-8183, 68 Fed. Reg. 6,006 (Jan. 28, 2003), as amended by Securities Act Release No. 33-8183A, 68 Fed. Reg. 15,354 (March 26, 2003).

ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 12

B. Effective Date for the Interim Professional Auditing Standards and Procedure for Commission Approval

Under Section 103(a)(3)(B) of the Act, the Board's Interim Professional Auditing Standards "shall be separately approved by the Commission at the time of [the] determination" of the Commission under Section 101(d) of the Act that the Board has the capacity to carry out the requirements of Title I of the Act. This determination is expected to be made no later than April 26, 2003.^{22/} The Interim Professional Auditing Standards shall be effective as of the date of the Commission's approval of them, which, accordingly, is expected to be no later than April 26, 2003.

* * *

^{22/} Section 101(d) of the Act requires the Board to take such actions as are necessary or appropriate to enable the Commission to make this determination no later than 270 days after the enactment of the Act, i.e., no later than April 26, 2003.



ESTABLISHMENT OF INTERIM
PROFESSIONAL AUDITING STANDARDS
PCAOB Release No. 2003-006
April 18, 2003
Page 13

On the 16th day of April, in the year 2003, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ISSUED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour
Acting Secretary

April 16, 2003

APPENDICES:

1. Rules Relating to Interim Professional Auditing Standards
2. Section-by-Section Analysis of Rules Relating to Interim Professional Auditing Standards

Appendix 1 – Rules Relating to Interim Professional Auditing Standards

RULES OF THE BOARD

SECTION 7. PROFESSIONAL STANDARDS

RULE 3200T. Interim Auditing Standards.

In connection with the preparation or issuance of any audit report, a registered public accounting firm, and its associated persons, shall comply with generally accepted auditing standards, as described in the AICPA Auditing Standards Board's Statement of Auditing Standards No. 95, as in existence on April 16, 2003 (Codification of Statements on Auditing Standards, AU § 150 (AICPA 2002)).

Note: Under Section 102(a) of the Act, public accounting firms are not required to be registered with the Board until 180 days after the date of the determination of the Commission under section 101(d) that the Board has the capacity to carry out the requirements of Title I of the Act (the "mandatory registration date"). The Board intends that, during the period preceding the mandatory registration date, the Interim Auditing Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.

RULE 3300T. Interim Attestation Standards.

In connection with an engagement (i) described in the AICPA's Auditing Standards Board's Statement on Standards for Attestation Engagements No. 10 (Codification of Statements on Auditing Standards, AT § 101.01 (AICPA 2002)) and (ii) related to the preparation or issuance of audit reports for issuers, a registered public accounting firm, and its associated persons, shall comply with the AICPA Auditing



PCAOB Release No. 2003-006
Appendix 1 – Rules Relating to Interim Professional Auditing Standards
April 18, 2003
Page A1-ii

Standards Board's Statements on Standards for Attestation Engagements, and related interpretations and Statements of Position, as in existence on April 16, 2003.

Note: The Board intends that, during the period preceding the mandatory registration date, the Interim Attestation Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.

RULE 3400T. Interim Quality Control Standards.

A registered public accounting firm, and its associated persons, shall comply with quality control standards, as described in –

(a) the AICPA's Auditing Standards Board's Statements on Quality Control Standards, as in existence on April 16, 2003 (AICPA Professional Standards, QC §§ 20-40 (AICPA 2002)); and

(b) the AICPA SEC Practice Section's Requirements of Membership (d), (f)(first sentence), (l), (m), (n)(1) and (o), as in existence on April 16, 2003 (AICPA SEC Practice Section Manual § 1000.08(d), (f), (j), (m), (n)(1) and (o)).

Note: The second sentence of requirement (f) of the AICPA SEC Practice Section's Requirements of Membership provided for the AICPA's peer review committee to "authorize alternative procedures" when the requirement for a concurring review could not be met because of the size of the firm. This provision is not adopted as part of the Board's Interim Quality Control Standards. After the effective date of the Interim Quality Control Standards, requests for authorization of alternative procedures to a concurring review may, however, be directed to the Board.



PCAOB Release No. 2003-006

Appendix 1 – Rules Relating to Interim Professional Auditing Standards

April 18, 2003

Page A1-iii

Note: The Board intends that, during the period preceding the mandatory registration date, the Interim Quality Control Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.

RULE 3500T. Interim Ethics Standards.

In connection with the preparation or issuance of any audit report, a registered public accounting firm, and its associated persons, shall comply with ethics standards, as described in the AICPA's Code of Professional Conduct Rule 102, and interpretations and rulings thereunder, as in existence on April 16, 2003 (AICPA Professional Standards, ET §§ 102 and 191 (AICPA 2002)).

Note: The Board intends that, during the period preceding the mandatory registration date, the Interim Ethics Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.

PCAOB Release No. 2003-006

Appendix 1 – Rules Relating to Interim Professional Auditing Standards

April 18, 2003

Page A1-iv

RULE 3600T. Interim Independence Standards.

In connection with the preparation or issuance of any audit report, a registered public accounting firm, and its associated persons, shall comply with independence standards –

(1) as described in the AICPA’s Code of Professional Conduct Rule 101, and interpretations and rulings thereunder, as in existence on April 16, 2003 (AICPA Professional Standards, ET §§ 101 and 191 (AICPA 2002)); and

(2) Standards Nos. 1, 2, and 3, and Interpretations 99-1, 00-1, and 00-2, of the Independence Standards Board.

Note: The Board’s Interim Independence Standards do not supercede the Commission’s auditor independence rules. See Rule 2-01 of Reg. S-X, 17 C.F.R. 240.2-01. Therefore, to the extent that a provision of the Commission’s rule is more restrictive – or less restrictive – than the Board’s Interim Independence Standards, a registered public accounting firm must comply with the more restrictive rule.

Note: The Board intends that, during the period preceding the mandatory registration date, the Interim Independence Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.

Appendix 2 – Section-by-Section Analysis of Rules Relating to Interim Professional Auditing Standards

The rules relating to interim professional auditing standards consist of PCAOB Rules 3200T, 3300T, 3400T, 3500T and 3600T. Each of the rules is discussed below.

Rule 3200T – Interim Auditing Standards

Rule 3200T provides that, in connection with the preparation or issuance of any audit report on the financial statements of an issuer, a registered public accounting firm shall comply with generally accepted auditing standards as described in the American Institute of Certified Public Accountants' ("AICPA") Auditing Standards Board's ("ASB") Statement on Auditing Standards ("SAS") No. 95, as in existence on April 16, 2003. SAS No. 95 describes the relative authority of various sources of generally accepted auditing standards. Specifically, SAS No. 95 describes the ten general, field work and reporting standards approved by the membership of the AICPA, and amended by the ASB, and the Statements on Auditing Standards approved by the ASB, as standards with which an auditor is required to comply.^{1/} As of April 16, 2003, 101 SASs had been issued by the ASB.

^{1/} SAS No. 95, Codification of Statements on Auditing Standards, AU §§ 150.02-150.03. Statement of Auditing Standards No. 95 also provides that "[t]he auditor should be prepared to justify departures from the SASs."

PCAOB Release No. 2003-006
Appendix 2 – Section-By-Section Analysis of Rules
Relating to Interim Professional Auditing Standards
April 18, 2003
Page A2-ii

Statement of Auditing Standards No. 95 also provides that an “auditor should be aware of and consider” certain interpretive publications, such as the ASB’s Interpretations of the SASs, auditing guidance included in AICPA Audit and Accounting Guides, and AICPA auditing Statements of Position. While these interpretive publications have not been accorded the same authority as the ten GAAS or the SASs, SAS No. 95 requires that, if an auditor does not comply with the guidance in these publications, “the auditor should be prepared to explain how he or she complied with the SAS provisions addressed by such auditing guidance.” Finally, SAS No. 95 also recognizes that other auditing publications “may help the auditor understand and apply the SASs.” The Board’s Rule 3200T provisionally adopts this framework.

As the Note to Rule 3200T clarifies, under Section 102(a) of the Act, public accounting firms that want to continue to audit issuers are not required to be registered with the Board until 180 days after the date of the determination of the Commission under section 101(d) that the Board has the capacity to carry out the requirements of Title I of the Act (the “mandatory registration date”). The Board intends that, during the period preceding the mandatory registration date, the Interim Auditing Standards apply to public accounting firms that would be required to be registered after the mandatory

PCAOB Release No. 2003-006
Appendix 2 – Section-By-Section Analysis of Rules
Relating to Interim Professional Auditing Standards
April 18, 2003
Page A2-iii

registration date and to associated persons of those firms, as if those firms were registered public accounting firms.

Rule 3300T – Interim Attestation Standards

Rule 3300T governs the conduct of engagements that (i) are described in the ASB's Statement on Standards for Attestation Engagements No. 10 (Codification of Statements on Auditing Standards, AT § 101.01), and (ii) relate to the preparation or issuance of audit reports for issuers. Registered public accounting firms involved in such engagements are required to comply with the ASB's Statements on Standards for Attestation Engagements, and related interpretations and AICPA Statements of Position, as in existence on April 16, 2003.

As the Note to Rule 3300T clarifies, the Board intends that, during the period preceding the mandatory registration date, the Interim Attestation Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.

PCAOB Release No. 2003-006
Appendix 2 – Section-By-Section Analysis of Rules
Relating to Interim Professional Auditing Standards
April 18, 2003
Page A2-iv

Rule 3400T – Interim Quality Control Standards

Rule 3400T sets forth minimum quality control standards with which registered public accounting firms must comply, in order to ensure that registered public accounting firms, and their personnel, comply with applicable accounting and auditing (and other professional) standards. Through Rule 3400T, the Board has provisionally designated the Statements on Quality Control Standards proposed and issued by the ASB and certain AICPA SEC Practice Section (“SECPS”) membership requirements, as they existed, and as they applied to SEC Practice Section members, on April 16, 2003, as the Board’s Interim Quality Control Standards. Because the Board intends the Interim Quality Control Standards to preserve existing standards as they applied on April 16, consistent with Section 103(a)(3) of the Act, those Interim Quality Control Standards adapted from the AICPA SEC Practice Section requirements apply only to those firms that are members of the AICPA SEC Practice Section.^{2/}

The ASB’s Statements on Quality Control Standards are published in the AICPA’s Professional Standards, at QC Sections 20-40. The provisions of the AICPA’s

^{2/} In the future the Board may, by rulemaking and pursuant to its standards-setting procedures, extend the AICPA SEC Practice Section requirements to other registered public accounting firms.

PCAOB Release No. 2003-006
Appendix 2 – Section-By-Section Analysis of Rules
Relating to Interim Professional Auditing Standards
April 18, 2003
Page A2-v

SECPS membership requirements that have been incorporated into the Board's Interim Quality Control Standards are Membership Requirements (d), (f) (first sentence), (l), (m), (n)(1) and (o), and referenced appendices, which are published in the AICPA's SEC Practice Section Reference Manual § 1000.08. The SECPS membership requirements that are incorporated into the Board's Interim Quality Control Standards provide as follows:

- Requirement (d) requires registered public accounting firms to “ensure that all professionals in the firm residing in the United States, including CPAs and non-CPAs, participate in at least 20 hours of qualifying continuing professional education (CPE) every year and at least 120 hours every three years. . . . [P]rofessionals who devote at least 25% of their time to performing audit, review or other attest engagements (excluding compilations), or who have the partner/manager-level responsibility for the overall supervision or review of any such engagements, must obtain at least 40% (eight hours in any one year and 48 hours every three years) of their required CPE in subjects relating to accounting and auditing.”
- Requirement (f) requires registered public accounting firms to “establish policies and procedures that meet the requirements set forth in the SECPS Reference Manual, for a concurring review of the audit report and the financial statements by a partner other than the audit partner-in-charge of an SEC engagement before issuance of an audit report on the financial statements of an SEC engagement and before the re-issuance of such an audit report where the performance of subsequent events procedures is required by professional standards.” After the effective date of the Interim Quality Control Standards, requests for authorization of alternative procedures to a concurring review may be sought from the Board. Any such request should be directed to the attention of the Director of Registration and Inspection, 1666 K Street, N.W., Washington, D.C. 20006-2803.

PCAOB Release No. 2003-006
Appendix 2 – Section-By-Section Analysis of Rules
Relating to Interim Professional Auditing Standards
April 18, 2003
Page A2-vi

- Requirement (l) requires registered public accounting firms to “communicate through a written statement to all professional firm personnel the broad principles that influence the firm’s quality control and operating policies and procedures on, as a minimum, matters related to the recommendation and approval of accounting principles, present and potential client relationships, and the types of services provided, and inform professional firm personnel periodically that compliance with those principles is mandatory.”
- Requirement (m) requires a registered public accounting firm that has been the auditor of an SEC registrant and has resigned, declined to stand for reelection, or been dismissed, to report the fact that the “relationship has ceased directly in writing to the former SEC client, with a simultaneous copy to the Office of the Chief Accountant of the Securities and Exchange Commission” by the end of the fifth business day following the firm’s determination that the relationship has ended, irrespective of whether or not the SEC registrant has reported the change in a timely-filed Form 8-K.
- Requirement (n)(1) requires registered public accounting firms that are “members of, correspondents with, or similarly associated with international firms or international associations of firms,” to “seek adoption of policies and procedures by the international organization or individual foreign associated firms that are consistent with the objectives set forth in Appendix K, SECPS § 1000.45.”
- Requirement (o) requires registered public accounting firms to ensure that they have “policies and procedures in place to comply” with applicable independence requirements. This requirement further specifically requires firms to establish independence policies covering relationships between the firm, its benefit plans, and its professionals, and restricted entities.

PCAOB Release No. 2003-006
Appendix 2 – Section-By-Section Analysis of Rules
Relating to Interim Professional Auditing Standards
April 18, 2003
Page A2-vii

As the Note to Rule 3400T clarifies, the Board intends that, during the period preceding the mandatory registration date, the Interim Quality Control Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.

Rule 3500T – Interim Ethics Standards

Rule 3500T sets forth ethics standards for registered public accounting firms and their personnel. Through Rule 3500T, the Board has provisionally designated Rule 101 of the AICPA's Code of Professional Conduct, and interpretations and rulings thereunder, as they existed on April 16, 2003, as the Board's Interim Ethics Standards. Rule 101, and the AICPA's interpretations and rulings thereunder, are published in AICPA Professional Standards, ET §§ 102 and 191 (AICPA 2002).

As the Note to Rule 3500T clarifies, the Board intends that, during the period preceding the mandatory registration date, the Interim Ethics Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.



PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

PCAOB Release No. 2003-006
Appendix 2 – Section-By-Section Analysis of Rules
Relating to Interim Professional Auditing Standards
April 18, 2003
Page A2-viii

Rule 3600T – Interim Independence Standards

Rule 3600T sets forth independence standards for registered public accounting firms and their personnel. Through Rule 3600T, the Board has provisionally designated Rule 101 of the AICPA's Code of Professional Conduct, and interpretations and rulings thereunder, as they existed on April 16, 2003, and Standards Nos. 1, 2 and 3, and interpretations 99-1, 00-1, and 00-2 of the Independence Standards Board ("ISB"), as the Board's Interim Independence Standards. Rule 101, and the AICPA's interpretations and rulings thereunder, are published in the AICPA's Professional Standards, at ET Sections 102 and 191. The ISB Standards and interpretations, which are made effective by the SEC's Policy Statement on the Establishment and Improvement of Standards Related to Auditor Independence (FR No. 50A, July 17, 2001), are currently available at www.cpaindependence.org.

The Board's Interim Independence Standards shall not be interpreted to supercede the Commission's independence requirements. Therefore, to the extent that a provision of the Commission's rule or policy is more restrictive – or less restrictive – than the Board's Interim Independence Standards, a registered public accounting firm shall comply with the more restrictive requirement.



PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

PCAOB Release No. 2003-006
Appendix 2 – Section-By-Section Analysis of Rules
Relating to Interim Professional Auditing Standards
April 18, 2003
Page A2-ix

As the Note to Rule 3600T clarifies, the Board intends that, during the period preceding the mandatory registration date, the Interim Independence Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.