

*American Accounting Association ♦ Auditing Section
Auditing Standards Committee*

January 6, 2004

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

RE: Invitation to Comment on PCAOB Rulemaking Docket Matter No. 012

Dear PCAOB:

The Auditing Standards Committee (ASC) of the Auditing Section of the American Accounting Association welcomes the opportunity to comment on *Proposed Auditing Standard on Audit Documentation and Proposed Amendment to Interim Auditing Standards*. We offer the comments below primarily to enhance the clarity of the proposed standard and to address a few more substantive questions. We support the major provisions put forth in the proposed standard.

1. Paragraph 2 – Line 6 provides a list of what audit documentation includes. Should that list also indicate that audit documentation includes records on who performed and reviewed the work and when the performance and review occurred? This point is made more explicit in paragraph 5b, and thus should probably be highlighted in the overview paragraph (i.e., paragraph 2).
2. Paragraph 2 – The last sentence allows audit documentation to be referred to as “work papers or working papers.” Given the movement to electronic formats of audit documentation, we recommend that the standard only utilize the term “audit documentation” to illustrate to professionals that the nature of documenting audits has evolved beyond more traditional forms. Paragraph 4 makes this point, but we recommend more emphasis throughout the document (also see comment #4 below).
3. Paragraph 3a – Although we concur that auditors who are new to an engagement might want to review the prior year’s documentation, we encourage the Board to consider adding language to the standard that encourages auditors new to an engagement to first consider the audit objectives of the current year before using the prior year’s documentation to “aid in planning and performing the current engagement.” We believe that it is important to consider the current audit objectives and business environment before relying on last year’s documentation.

4. Paragraph 5 – The proposed standard notes that audit documentation may be in the form of paper or electronic files. The proposed standard goes on to say (paragraphs 5a and 5b) that the documentation has to be understandable by an experienced auditor having no previous connection with the engagement. We foresee a potential operational difficulty that is not addressed in the standard. Many firms now have firm-specific electronic audit software, with embedded links, electronic signatures, and electronic notations indicating reviewers, review levels, dates of review, etc. We question whether Board staff would be able to do the things in paragraphs 5a and 5b without the assistance of firm personnel guiding them through the software. As a result, we believe that the standard ought to address in what form electronic documentation must ultimately be provided to the Board for review. The standard as currently written only addresses how the firms will store the information internally (i.e., they can store it however they want to), not how they will have to provide the information to a regulatory body or some other audit firm or other interested party.
5. Paragraphs 5 and 11 – The proposed standard suggests that a reviewability standard be achieved (see paragraph 5 indicating that experienced outsiders should be able to review the auditor’s work). We question whether it would be more appropriate to achieve a reperformance standard (i.e., an experienced outsider could theoretically reperform the auditor’s work). Paragraph 11 seems to suggest that reperformance is the desired standard. However, a reperformance standard might suggest the need for additional documentation (e.g., client inquiry procedures should indicate the client personnel involved in the inquiry and the date of such inquiry, observation procedures might include the specifics on who / what was observed and when the observation took place, etc.). We encourage further consideration of reviewability versus reperformance as the appropriate standard. Also, with respect to reviewability in paragraph 5a, in addition to the information specified, the Board might consider whether the documentation should also indicate the objective of the work that was performed.
6. Paragraph 6 – We concur with the Board’s notion of rebuttable presumption and with the contemplation that oral explanation alone would not constitute persuasive other evidence. We believe that some guidance as to what “persuasive other evidence” might include would be helpful in this section. In addition, we recommend that the Board consider more explanation linking the presumption of nonperformance and the ability to rebut with persuasive other evidence. We are concerned that auditors could interpret this paragraph to mean that audit documentation can be willfully omitted from an engagement as long as the auditors retain the necessary evidence to use as rebuttal evidence *if necessary*. We believe that the Board’s intention is that withholding information from audit documentation is a serious problem.
7. Paragraph 9 – In documenting significant findings and issues, should the work papers also detail the client personnel with whom these matters were discussed (e.g., specific management, audit committee members, etc.)?

8. Paragraph 9b – Should material weaknesses in internal control over financial reporting be explicitly indicated as well (“significant deficiencies and material weaknesses”)?
9. Paragraph 9c – The paragraph starts with the words, “Audit adjustments and the ultimate resolution of these items.” It then goes on to say that an audit adjustment includes “a proposed correction”, implying that auditors need to document proposed adjustments, as well as recorded adjustments. We believe that the standard should be very explicit, noting that auditors are required to document both booked and waived adjustments. To be more explicit, the first sentence could be restated as follows, “Proposed audit adjustments: Documentation required concerning the resolution of these items, including a discussion of the reasons for booked versus waived adjustments.” Also, we wondered about the purpose of defining “audit adjustments” to include those “that should have been proposed based on the known audit evidence.” If an auditor is deficient by not proposing an adjustment that should have been proposed, does this section serve to open the auditor up to an audit documentation violation in addition to the underlying audit quality problem?
10. Paragraph 10 – We believe that the engagement completion memorandum will serve as an effective technique for helping decision-makers consider how other people will evaluate their decisions. Should this memorandum also specifically indicate the resolution of all significant findings and issues? This would seem to be suggested in paragraph 9, but it might be helpful to be explicit in paragraph 10.
11. Paragraph 12 – We appreciate the apparent goal of paragraph 12, which would require the auditor to document information that is “inconsistent with or contradicts the auditor’s final conclusions.” However, we wonder about the practicality of this requirement given the reality of auditor litigation. Specifically, would audit firms view this requirement as handing the plaintiffs’ bar ammunition for their lawsuits, such that the documentation is very sketchy and not informative? In addition, we wonder how an audit firm would handle documentation of information that (a) contradicts the auditor’s conclusion, but (b) was refuted or was of very low quality. In cases of refuted or low quality information, would the auditor be required to document such evidence? Overall, we are concerned about how paragraph 12 will be implemented in practice.
12. Paragraph 14 – The proposed standard would require that the auditor have completed the audit before granting permission to use the auditor’s report. We wonder whether the Board has considered an auditor workload or documentation “hurdle” at the time the auditor approves the client’s release of earnings to the media (which typically occurs long before the financial statements and 10-K are released). Earnings releases provide significant information to investors, and we believe that there may be merit to considering a formal requirement that the auditor have completed and documented the portions of the audit that could

reasonably affect the figures in the client's earnings release before the auditor "signs off" on the release.

13. Paragraph 15 – In addition to the information requirements identified by the Board, we believe that the audit documentation should also indicate any implications on significant audit conclusions of any changes made to the audit documentation.

14. Other Comment - Should there be explicit discussion about what to document when relying on work performed by internal auditors? Or should there just be a reference to SAS No. 65?

We hope that our suggestions are helpful and will assist in finalizing the auditing standard. Please feel free to contact our committee Chair for elaboration on or clarification of any comment.

Respectfully Submitted,

Auditing Standards Committee
Auditing Section, American Accounting Association

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