

January 20, 2004

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. 012, Proposed Auditing Standard – Audit Documentation, and Proposed Amendment to Interim Auditing Standards – Part of Audit Performed by Other Independent Auditors (PCAOB Release No. 2003-023, November 21, 2003)

Dear Mr. Secretary:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed auditing standard, *Audit Documentation*, and the proposed amendment to the interim standards, *Part of Audit Performed by Other Independent Auditors* (collectively referred to as “the proposed standard”), that have been circulated for comment by the Public Company Accounting Oversight Board (the “Board”).

An assessment of the quality of an audit necessarily involves an evaluation not only of audit documentation but also, and equally or perhaps even more important, matters such as the audit process and execution, audit judgments and the qualifications of the auditor. Considered in that context, some provisions in the proposed standard would advance that goal of audit quality and those we fully support. A few proposed provisions, however, would do little to advance that goal and might actually undermine it. Those few provisions should not, we believe, be adopted. At the very least, we urge the Board to consider other alternatives before doing so.

To summarize, we believe:

One, A rebuttable presumption standard is workable only if it applies exclusively to PCAOB proceedings to avoid impinging on the jurisdiction of the courts and other governmental bodies as well as to ensure that judges and juries who are not experienced auditors have all relevant evidence available to them and have the freedom to assess its importance. (Section A1 below.)

Two, A rebuttable presumption standard should be fully rebuttable. Auditors consider oral evidence; PCAOB inspectors should likewise be free to consider whether and to what extent oral evidence is relevant to their determination of audit quality. (Section A2 below.)

Three, Requiring principal auditors in multi-jurisdiction engagements to perform another review of the workpapers created and maintained by another firm (affiliated or not) to the same extent as they review their own would result in a delay in getting information to the investing public and an inefficient and ineffective—yet costly—duplication of effort because of, for example, language barriers. (Sections B and B1 below.)

Four, We understand that there are significant legal issues and potential difficulties in making certain information from outside the US available in the US to US regulators. Those issues vary country to country but, on an overarching basis, appear to relate to client, customer, supplier and employee confidentiality as well as professional legal duties. These issues should, we believe, be addressed in a direct, orderly and cooperative fashion with non-US firms and regulators, rather than indirectly through a documentation standard directed at the improvement of audit quality and the quality of financial reporting. (Section B2 below.)

Five, Even assuming the legal obstacles noted above can be overcome, requiring the principal auditor to maintain the thousands upon thousands of electronic and hard copy pages of workpapers of other firms involved in an audit would result in administrative distractions and confusion about respective responsibilities, again with no significant improvement in audit effectiveness. (Sections B and B2 below.)

We address below in more detail these few provisions that we believe are seriously flawed and the bases for our views. Appendix A reflects our proposed alternatives which we ask the Board to consider. Appendix B presents our other comments on the proposed standard and concerns provisions for which we are requesting clarification of some item or modification of the language as currently drafted.

A. Rebuttable Presumption (Paragraph 6)

As noted above, we believe that a rebuttable presumption standard is workable only if (a) it applies exclusively to PCAOB proceedings and (b) the presumption is fully rebuttable. As currently drafted, the proposed standard could be read as intended to apply to any proceeding, including court proceedings, in which an auditor's work is subject to review. The release also states that the Board is considering adding a provision that would prohibit oral rebuttal. For reasons discussed below, that proposal will not work, is fundamentally unfair and will cause more harm than good. (Our proposed alternative is described in Appendix A.)

1. Applicability to PCAOB proceedings. At the outset, we assume that the PCAOB intends to apply the proposed presumption only to PCAOB proceedings. That assumption is based on our trust that the Board recognizes that any broader application would not only impinge on the jurisdiction of the courts or government agencies to establish rules of evidence but also would impair the ability of those who are unlikely to have audit training and experience (e.g., judges and juries) to understand the evidence, including workpapers, and to decide the many different kinds of factual and legal issues that may be in dispute. Assuming our assumption is correct—and that the PCAOB agrees that it would be unfair and illogical to hold audit workpapers to the same strict standard of evidence when reviewed by courts and jurors as when reviewed by PCAOB audit inspectors—we urge the Board to clarify this point in the proposed standard and avoid any possible future misinterpretations that could arise from its silence.

2. Fully Rebuttable. We also believe strongly that a rebuttable presumption standard for PCAOB inspections can work only if there are no limits on the type of rebuttal evidence that PCAOB inspectors may consider. The objective of inspectors and auditors should be the same—to improve audit quality. Documentation alone is not sufficient to ensure the quality of the work. Because an auditor's judgment must always be based on the facts as he or she knows them, an inspector can fairly review that judgment only when the inspector is aware of, and able to consider, these same facts. Just as auditors must be free to reach their own independent judgments based on the available audit evidence, so too PCAOB inspectors, drawing on their training and experience as auditors, must be free to do the same. Both auditors and inspectors must have the ability to determine what they consider to be important. To be clear: This does not mean that PCAOB inspectors would be required to credit or give any weight to oral

evidence, including explanations, that an auditor might offer. PCAOB inspectors instead would be free to weigh the evidence as they thought best. In some cases, PCAOB inspectors might choose not to give much weight to undocumented oral explanations. But that decision should be for the PCAOB inspector to make after reviewing all of the evidence.

To exclude oral evidence not only deprives an inspector of important information, but also creates an unfair presumption of distrust of what the auditor has to say and the ability of the auditor, consistent with due process notions, to explain what otherwise may not be a full or accurate portrayal of the facts. Oral evidence does not just fill in perceived holes. It also provides context, adds and supplements information, and may even rebut what others might think and say. We all recognize that many judgments are made by the auditor in the course of an audit—judgments about, for example, scope, accounting, people, integrity and controls. The record of examination is not a diary; not every thought process or context for those judgments is likely to be written down. To effectively assess audit quality—indeed, to promote the perceived objectivity and fairness of PCAOB procedures and judgments—the inspector must have the ability to consider what was not written down, in addition to what was.

In short, would an inspector be comfortable with a process which prevented him or her from considering other available material, albeit oral information? Based on our experience as peer reviewers, internally and externally, we doubt it.

For these reasons and in the interests of fundamental fairness, we oppose any proposed limitation on the discretion of PCAOB inspectors to consider any type of rebuttal evidence, including oral explanations.

Indeed, we believe it is appropriate to go one step further. We believe that documentation must be judged in the context of the entire audit. An isolated instance where audit work was performed, but documentation was not considered to be in accordance with standards or persuasive with regard to the matter at hand, should not necessarily result in a conclusion that the entire audit was not conducted in accordance with PCAOB standards. Rather, the significance and pervasiveness of documentation deficiencies should be considered in relation to the overall documentation of the audit. Accordingly, we believe that auditors should be allowed to cure documentation deficiencies noted on inspection that are not significant or pervasive by documenting any work actually performed, without resulting in a conclusion that an audit was not performed in accordance with PCAOB standards.

B. Multinational Audits and Using the Work of Other Auditors (Paragraph 16)

Paragraph 16 of the proposed auditing standard, *Audit Documentation*, and paragraph AU 543.12 of the proposed amendment to the interim standards, *Part of Audit Performed by Other Independent Auditors*, contain provisions concerning the review and maintenance of audit workpapers prepared by a different auditor than the one who signs the audit opinion. We believe these proposals, as currently drafted, would result in significant delays in getting audited information to investors, create more problems than they solve and are not the most effective means of enhancing audit quality on multinational engagements. Indeed, we believe that the task, in many cases, might be overwhelming. We believe that requiring increased standardized reporting for multinational audits is a better approach. (Our proposed alternatives are reflected in Appendix A.)

In considering the proposed standard, we believe it is important to acknowledge at the outset, the way in which multinational audits are, generally and as a practical matter, conducted. In the first instance, the auditor obtains an understanding of the overall business, operations and risks of the company, including how the company consolidates its financial statements—for example, one consolidation at the parent

company level or multiple consolidations on, for example, a line of business or geography basis. The auditor then, as part of the planning process, makes risk-based assessments and determines where audit effort should principally be devoted and the scope of the work needed to be performed at other locations. Those risk-based assessments are a matter of judgment for which the principal auditor takes full responsibility.

Based on those judgments by the principal auditor, instructions generally are then sent to the auditors of those other locations where work is to be performed. Those instructions usually are not limited to the scope of the work to be performed on the company's consolidating schedules and specific procedures or programs but also may include such matters as interpretations of the company's accounting policies and how they are to be applied, materiality assessments, specific requests for information the principal auditor wants to know, (e.g., internal control deficiencies), all of which the principal auditor considers to be relevant to the other auditor's work. The other auditor then follows those instructions and applies audit procedures to the location's reporting schedules.

There may be communications during the year between the principal and other auditors relating to issues or new information that may come to their respective attention during the course of the year. At the conclusion of the work, however, and after year-end, the results are reported to the principal auditor who determines whether and to what extent to rely on them or whether further information, communication or work is necessary. The principal auditor then uses his or her knowledge, judgment and experience to evaluate the work performed and judgments made in order to come to the appropriate conclusion about the form and content of the report to be issued on the company's consolidated financial statements.

1. Review of and Responsibility for Audit Documentation. The proposed standard requires that, where the work of other firms/auditors is being relied on and the principal auditor decides not to make reference to the audit of the other auditor, the principal auditor signing the report should "review the audit documentation of the other auditor to the same extent and in the same manner that the audit work of all those who participated in the engagement is reviewed . . . as if the principal auditor had performed the work himself or herself. . . ." The proposed standard therefore appears to require that the principal auditor do the same amount of work with respect to other firms (both affiliated and non-affiliated firms) on which reliance is placed as the auditor does with respect to the work performed by offices of the same firm issuing the report. We address this provision of the proposed standard in the context of whether such a review requirement is appropriate—even if the review had to take place elsewhere.

This proposed standard would significantly alter the way in which current and historical standards require the principal auditor "to get comfortable" that the work of another auditor can be relied on for purposes of reporting on consolidated financial statements of a multinational company. Given the already-existing complexity of auditing a multinational company within the regulatory timeframe, to now impose additional review responsibilities on the principal auditor and yet another layer of review—even where no issue is identified and regardless of the significance of the other work—would create an unnecessary but significant delay in providing audited information to investors and is not consistent with—and may even frustrate—the goal of improving audit quality.

First, the time it undoubtedly would take for a principal auditor not only to perform and consider all of the work described above, but also to perform a substantive and meaningful re-review of thousands upon thousands of additional workpapers after year-end would undoubtedly result in a significant delay in a registrant's ability to file its consolidated financial statements.

Second, the other auditor—and not the principal auditor—is clearly the professional most knowledgeable about the subsidiary's operating environment, books and records, management and issues. Current standards recognize that the principal auditor, to rely, must establish that reliance on that other "expert" is

reasonable. Although the other auditor is responsible for the performance of the work as instructed, in all events the principal auditor is ultimately responsible for making the risk-based assessment and for its report and compliance with PCAOB standards.

Third, even if the principal auditor set out to review the other firm's workpapers, it is unlikely that such a review in many instances would even be meaningful since other firm's workpapers may very well be, in whole or in part, in a foreign language.

Fourth, this proposed standard raises a number of additional questions: Does the principal auditor have to review information not considered material or from a location not considered material in the auditor's risk-based judgment? What if there are consolidating layers? Does the principal auditor have to review all those layers and the underlying workpapers? How many layers of review should there really be? Is there any distinction between firms which are members of the same international organization and those which are not?

In sum, we believe that this standard would result in significant filing delays, impose an unwarranted additional but illusory responsibility on the principal auditor, and an undue cost to registrants and auditors for the significant amount of additional time and personnel that would be required to re-review other firms' work, with no corresponding increase in audit quality.

We would welcome the opportunity to meet with the Board and its staff to further explain our proposed alternatives and approach to multinational audits.

2. Retention of Audit Documentation. Paragraph 16 of the proposed auditing standard, *Audit Documentation*, and paragraph AU 543.12 of the proposed amendment to the interim standards, *Part of Audit Performed by Other Independent Auditors*, appear to require (although the requirement is not stated expressly) that all workpapers—wherever prepared and regardless of significance—be maintained together at the offices of the signing auditor, again whether in the US or not. In the case of audits of multinational companies, this would require that workpapers prepared by auditors from different firms and in different countries be shipped to the offices of the lead audit firm for review and storage.

For the purpose of this discussion, we address this aspect of the proposed standard on a stand-alone basis and assume, as discussed above, that a *pre-issuance* review by the principal auditor of the voluminous and hard-copy workpapers of other auditors would not be required because it would result in significant delays in public reporting and would not improve the audit process. The question we address is whether there are any other good and sufficient reasons why the benefits of transporting workpapers to the location of the principal auditor justify the difficulties and costs.

We appreciate the Board's interest in obtaining easier and quicker access to the workpapers of audit firms outside the US that participate in the audit of a US-based registrant. (We are not clear as to how this proposal would facilitate the SEC's reviews if a foreign private issuer is involved and the principal auditor is outside of the US.) That intent, however, requires consideration of the laws of other nations and of international comity. These issues continue to be the subject of significant conversation by the Board in connection with the non-US firm registration process and in various roundtables with and written submissions by numerous interested parties.

Due to the significance and pervasiveness of these issues, we recommend that the Board defer issuance of the portions of the proposed standard requiring all documentation to be retained by the signing office so that the consideration and conversations taking place in the registration context and otherwise can be resolved in an orderly and focused manner. Although we strongly believe that it would be inappropriate

to address this legal issue indirectly through this standard rather than directly through the rules relating to registration, our comments below address this proposal on its own merits in the context of whether it promotes or improves audit quality.

At the outset, we do not understand how this retention requirement relates to audit quality. The quality of international audits is not a function of where audit workpapers are stored. Simply shipping foreign workpapers to the US, or US workpapers to another country, would not ensure any improvement in audit effectiveness.

In addition, it is important to recognize that the audit process is an iterative one. At what point are the workpapers in other locations ready to be transported for review? Do they go back and forth? What if changes are made? Who keeps track of what was sent and what was not? The likely result would be less, not more, audit control as auditors ship documentation back and forth. The time and effort, not to mention expense and resources, of transporting workpapers in an orderly (and subsequently explainable) fashion would be clearly not insignificant. Beyond that, how would this requirement operate in view of the requirement to assemble a complete and final file within 45 days? Moreover, we assume the intention is for the firm preparing the workpapers to retain a copy so that it would have the necessary continuing access to the workpapers as it performs ongoing work. Consider the administrative burden of ensuring that every new document received from a client and every new workpaper created also is sent to the principal auditor in order to ensure consistent documentation.

We do not believe this significant additional effort and the attendant costs are, put simply, worth it.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions the staff may have. Please do not hesitate to contact Ray Bromark (973-236-7781) or Jim Lee (973-236-4478) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

TEXT OF SUGGESTED REVISIONS TO PROPOSED STANDARD

Following are our suggested revisions to those paragraphs in the proposed standard relating to those matters discussed in our letter and dealing with the concept of rebuttable presumptions and the concept of multinational audits and using the work of other auditors.

Rebuttable Presumptions

We recommend that paragraph 6 of the proposed standard be replaced with the paragraph shown below.

6. Auditors, including any specialists employed or retained by the auditor, should document the procedures performed, evidence obtained, and conclusions reached. Solely for the purpose of PCAOB proceedings and inspections, there will be a rebuttable presumption that failure by an auditor or a specialist to document a procedure performed, evidence obtained, or a conclusion reached will result in a finding that the procedure was not applied, the evidence was not obtained, or the conclusion reached was not suitably supported. This presumption is rebuttable by persuasive other evidence, written or oral, that the PCAOB inspector decides to consider.

In the event that the rebuttable presumption is determined to be rebutted by other persuasive evidence, the auditor will be given the opportunity to cure the deficiency by documenting currently, consistent with the PCAOB standards, the work actually performed. In the event that the rebuttable presumption is not determined to be rebutted, in determining whether the audit overall complies with PCAOB standards, the PCAOB will consider the significance and pervasiveness of the deficiency in the context of the audit work and documentation taken as a whole.

Multinational Audits and Using the Work of Other Auditors

We believe that a more effective, and less problematic, approach versus what is in the proposed standard would be to impose increased, standardized reporting requirements for multinational and other multi-auditor engagements that would serve as a control over the quality of the auditors' work. Along these lines, we recommend that paragraph 16 in the proposed standard be replaced with the paragraph shown below.

16. Audit documentation sufficient to meet the requirements of paragraphs 4-12 must be retained by the firm(s) performing the audit work. Firms subject to this requirement would include the firm issuing the auditor's report as well as other firms that audit one or more affiliates or divisions of the company. Such other firms could include both affiliated and non-affiliated firms. In addition, where the firm issuing the auditor's report judges the audit work of the other firm(s) to be significant in terms of its report on the consolidated financial statements and decides to use but not make reference to the work of the other auditor, the other firm must submit to the issuing firm for its review and retention an audit summary memorandum, including a discussion of the following:

- All significant findings or issues, actions taken to address them, and the basis for the conclusions reached, as specified in paragraph 9. This information should be as specific as necessary in the circumstances for the issuing firm to gain a thorough understanding of the matter.
- Proficiency of the engagement team or firm specialists utilized with regard to applicable PCAOB auditing standards, US generally accepted accounting principles, and SEC rules.
- Procedures employed by the other firm to ensure compliance with regulations governing auditor independence.
- Significant fraud risks identified, the related audit response, and the results of the auditor's procedures.
- Findings affecting the consolidating or combining of accounts, e.g., intercompany accounts, in the consolidated financial statements.
- Sufficient information relating to any significant findings or issues that is inconsistent with or contradicts the other auditor's final conclusions, as specified in paragraph 12. This information should be sufficient to enable the issuing firm to gain an appropriate understanding of the matter(s) and should include procedures performed in response to the information and consultations on, or resolutions of, differences in professional judgment among members of the audit team or between the audit team and others consulted.
- Instances of actual or suspected fraud by senior management or non-compliance with laws and regulations.
- Sufficient information to enable the firm issuing the auditor's report to agree or reconcile the financial statement amounts audited by the other firm to the information underlying the consolidated financial statements.

We recommend that the proposed revision to AU 543.12 be replaced with the following:

.12 When the principal auditor judges the audit work of the other firm(s) to be significant in terms of its report on the consolidated financial statements and decides not to make reference to the audit of the other auditor, in addition to satisfying himself or herself as to the matters described in paragraph .10, he or she should obtain from the other auditor, review, and include in his or her audit documentation, the audit summary memorandum required under paragraph 16 of PCAOB Auditing and Related Professional Practice Standards No. X. In addition, he or she also should consider whether to perform one or more of the following procedures:

- a. Visit the other auditor and discuss the audit procedures followed and results thereof.
- b. Review the audit programs of the other auditor. In some cases, it may be appropriate to issue instructions to the other auditor as to the scope of his or her audit work.
- c. Review additional workpapers of the other auditor relating to significant findings or issues.

If the Board elects to retain the provision in the proposed standard that requires the principal auditor to retain the workpapers of all firms involved in the audit, we strongly recommend that a pilot program be initiated prior to roll-out of the standard. As we have indicated previously, we believe such a requirement will result in administrative distraction and confusion about respective responsibilities, particularly in the initial year of application. We believe a pilot program to field test this requirement on a small number of engagements would be highly beneficial in minimizing, to the extent possible, the administrative burden of the proposed standard.

ADDITIONAL COMMENTS

The following are additional comments we wish to submit for the Board's consideration:

The Concept of Reviewer

Scope of "Reviewer"

Key to the auditor's ability to develop high-quality audit documentation is the need to specify those "reviewers" whose efforts audit documentation is intended to facilitate and help make effective. We believe the scope of such specified reviewers should be restricted to members of the engagement team with responsibility for review and supervision, reviewers in connection with the firm's internal quality control and inspection processes, and PCAOB inspection teams. Accordingly, we recommend that the Board delete the references in paragraph 3 to others, such as successor auditors, parties engaged by the audit committee, and parties to an acquisition, as outside the scope of the proposed standard. These potential reviewers are subject to the auditor's decision as to whether to permit access to all or part of the audit documentation. This possible access need not, however, be explicitly considered by the auditor in preparing audit documentation.

Reviewability Standard

Important to the auditor's decisions regarding audit documentation is a reasonable understanding of the assumed knowledge and experience of the reviewer as a basis for the auditor's judgments regarding the sufficiency of the audit documentation for the reviewer's purposes:

- The Board's existing interim standard (AU 339.06) indicates that: "Audit documentation should be sufficient to ... enable members of the engagement team with supervision and review responsibilities to understand..." Importantly, these "reviewers" on the engagement team are known to the preparers of the audit documentation and, based on review of the audit documentation as well as discussion with the preparer, have had the ability to request additional audit documentation where needed and conclude on the sufficiency of documentation before the auditor's report is released.
- Conversely, paragraph 5 of the proposed standard, in extending the definition of "reviewer" beyond those on the engagement team, states that: Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement to understand..."

We agree with extending the concept of reviewer beyond the engagement team to those reviewing audit documentation as part of internal and external inspections. However, we believe the Board must provide more specific guidance as to the definition of "experienced auditor" and specifically require that the inspection team have or have available to it a level of audit experience, including appropriate industry and other knowledge, sufficient to have performed the audit themselves. Otherwise, auditors will be left to divine the needs of this hypothetical, undefined "experienced auditor." This would likely result in the preparation of excessive audit documentation of limited benefit to audit quality. Also, we believe greater specificity in this area would benefit the inspection process by enabling a more consistent understanding between auditors and PCAOB inspectors and providing a framework that meets the needs of the

inspection process while ensuring the auditor a reasonably appropriate assumed level of knowledge and experience on the part of the inspector.

Documentation of Conclusions

Paragraph 6 of the proposed standard could be read as requiring the auditor to specifically document all conclusions reached. We believe such a requirement would not improve audit quality but instead would lead audit teams to spend countless hours attempting to craft appropriate wording for the multitude of judgments auditors make in the course of their work. In such cases, the auditor's hesitation would be understandable and reflect the same logic that precludes auditors from issuing piecemeal opinions—the risk that the auditor's conclusions will be taken out of the context of the financial statements as a whole, thus implying a greater degree of evidence supporting the conclusion than may be appropriate or warranted.

Accordingly, we recommend that the auditor be required to document his or her conclusions only with regard to significant findings or issues as defined in the proposed standard, and where the auditor's conclusion or basis for a significant conclusion is not readily apparent from the documentation of the work performed.

Retention and Subsequent Changes to Audit Documentation

We support the requirement in paragraph 13 that audit documentation be retained for seven years after completion of the engagement as meeting the requirements of the Sarbanes-Oxley Act. However, we recommend that “completion of the engagement” be defined as “the date the company's financial statements and the auditor's report are first filed with the Securities and Exchange Commission” rather than the earlier date of the auditor's report, which represents the date the auditor completes fieldwork.

We support the requirement in paragraph 14 that a complete and final set of audit documentation be assembled for retention within a reasonable period of time, ordinarily not more than 45 days. We recommend that the standard delete the phrase “and final” as the auditor may obtain additional evidence in connection with procedures performed subsequently, for example, as part of keeping current procedures under SEC rules or as part of a subsequent year's audit. Consistent with our comment in the preceding paragraph, we believe the 45-day period should be described as the period of time following “the date the company's financial statements and the auditor's report are first filed with the Securities and Exchange Commission” rather than “the first time the auditor grants permission to use the auditor's report.”

We agree with the required procedures set forth in paragraph 15 for subsequent additions to the audit documentation after “the date the company's financial statements and the auditor's report are first filed with the Securities and Exchange Commission.” We believe the understandability of the paragraph would be improved if the discussion was clearly identified as the required protocol for additions and changes during the 45-day period. We also would recommend a separate discussion of the protocol for documenting and retaining any additional audit evidence obtained after the end of the 45-day period, for example, in connection with subsequent keeping current procedures or a subsequent year's updating/reissuance of the auditor's opinion.

Implementation Date

The proposed standard would apply to engagements completed on or after June 15, 2004. For example, as drafted, the proposed standard would require an auditor of a company with a June 30 year end to retroactively apply its guidance with regard to all audit documentation prepared prior to the issuance of the final standard. Instead, we believe any final standard should be effective for audits of periods beginning on or after an appropriate date subsequent to the standard's issuance. This would recognize the goal of having auditors appropriately document their work on a contemporaneous basis throughout the audit. Also, the effective date should allow registered firms sufficient time to make the necessary changes to their audit methodologies and policies as well as provide the appropriate communication and training to their personnel.

Changes to the Board's Interim Standards

We believe the proposed standard would entail modifications to the Board's existing interim standards beyond those identified. We recommend that the Board specifically identify and communicate in all cases how requirements in the proposed standard diverge from existing requirements and how issuance of the standard would affect the existing interim standards. For example, what would be the status of Appendix A to the Board's interim standard on audit documentation? Also, what would be the impact of the new standard on interpretations of the Board's interim standards on audit documentation and using the work of another auditor or with regard to the Board's interim standards on attest documentation?

Other Comments

General

We believe the proposed standard should acknowledge that audit documentation is the property of the auditor and that the auditor has an obligation to maintain confidentiality of client information.

Paragraph 1

We recommend that the concept of auditor judgment contained in paragraphs 1 and 9 of AU 339 be retained to recognize that no documentation standard can be so prescriptive as to encompass all the decisions auditors make based on the unique facts and circumstances of a particular audit. Related to this, we also recommend that the proposed standard incorporate the type of guidance contained in AU 339.07 on factors the auditor should consider in making decisions about the nature and extent of audit documentation for a particular audit area or audit procedure.

Paragraph 2

We recommend that, in the second sentence of the paragraph, the word "primary" be inserted before "basis for review of the quality" to reflect that reviewers employ other methods, including interview and discussion with those who performed the work, in making their judgments on the quality of the work.

Paragraph 4

The first sentence states that the auditor must prepare audit documentation in connection with "each engagement conducted in accordance with auditing and related professional practice standards." We

believe the proposed standard, as its title indicates, should be limited to reflect the appropriate documentation requirements for audits only. Other engagements, such as reviews of interim financial information and attestation engagements, while conducted in accordance with PCAOB standards, are substantially different from audits. We believe documentation standards, while the same in principle, should recognize these significant differences.

The current list of audit documentation, in the second sentence, does not include “audit programs.” This should be added so that it is clear that signed off program steps are one form of documentation of planned and completed procedures.

We believe the Board should clarify that it does not intend, in the second sentence, that the auditor be required to include as part of the audit documentation copies of all client documents that he or she may have obtained for purposes of performing the audit, for example, invoices, detailed IT reports, general ledgers, etc. We believe this requirement should be restricted to significant company contracts and agreements, consistent with the guidance contained in paragraph 11 of the proposed standard.

Paragraph 5

The third word “must” should be changed to “should.” Since PCAOB proposed rule 3101 defines “must” to mean an “unconditional obligation,” the proposed “rebuttable” presumption would become “irrebuttable” with the word “must.”

In subparagraph (a), we recommend that the word “understand” be changed to “determine,” since to fully understand some aspect of audit work it will often be necessary to speak with the auditor, in addition to reviewing the related audit documentation.

Paragraph 6

We believe the reference to specialists should be restricted to those specialists employed or retained by the auditor to distinguish them from specialists employed or retained by the company.

Paragraph 7

Subparagraph (a) should be re-written as “Support the auditor’s conclusions concerning compliance with auditing and related professional practice standards.” As currently written, the standard is overly broad and might be interpreted as requiring the auditor to write narratives discussing each of the governing standards even when otherwise unnecessary to document the audit work performed.

Regarding subparagraph (b), for the reasons indicated earlier in our comments on documentation of conclusions, we believe the auditor generally should not be required to document conclusions regarding “every material financial statement assertion.” Nevertheless, if this requirement is retained, we recommend that the wording be changed to “relevant financial statement assertions for all significant accounts” to be consistent with the Board’s proposed standard on an audit of internal control over financial reporting.

Paragraph 8

As part of the inspection process for a registered firm, the Board’s inspection teams would normally have gained an understanding of how the firm addresses certain matters, such as auditor independence and staff

training and proficiency, centrally. Accordingly, we believe requiring the documentation on each audit to contain a reference to a central firm repository is unnecessary and inefficient.

Paragraph 9

Inclusion of the phrase, “but not limited to,” in the sentence introducing items a–h is redundant and potentially troublesome in view of item h, which picks up “any other matters that could result in modification of the auditor’s report.” It implies that there are matters, not listed, that could be significant even though they could not result in modification of the auditor’s report. If there is any such item, it should be identified in the standard, rather than left to later speculation.

Regarding subparagraph (b), we believe the mention of material misstatements should be in terms of items that “could represent” material misstatements as opposed to restricting it only to items ultimately determined by the auditor to represent material misstatements.

Regarding subparagraph (c):

- We recommend that the phrase, “whether or not recorded by the company,” be added to the second sentence. As a result, the applicable section would read: “... an audit adjustment, whether or not recorded by the company, is a proposed correction....”
- We also recommend that the phrase, “financial reporting process,” at the end of the second sentence, be replaced with “financial statements.”
- We find the phrase in the last sentence, “audit adjustments ... that were or should have been proposed,” confusing. Auditors presently are required to inform management and the audit committee of (i.e., “propose”) all audit adjustments determined in the course of the audit other than de minimus items. Accordingly, we believe the proper emphasis should be on whether or not such adjustments were recorded by the company, rather than on whether or not the auditor proposed them.

Regarding subparagraph (e), we believe any requirements relating to documentation related to reviews of interim financial information should be reflected as revisions to the Board’s interim standard, AU 722, on reviews of interim financial information where standards for documentation of such reviews are presently located.

Paragraph 10

We agree with the Board’s requirement that significant findings or issues be summarized in one place for the use of reviewers. However, we believe the standard should allow for alternative forms of documentation, other than an “engagement completion memorandum” that achieve the same purpose. We believe mandating the specific form of this or other audit documentation would be overly prescriptive and require firms to make significant changes to their working practices that would not significantly improve audit quality.

We believe the Board should clarify whether the engagement completion memorandum or its equivalent is intended as a stand-alone document or whether, alternatively, the mention of cross-referencing to supporting audit documentation in the last sentence permits the auditor to use such supporting documentation to provide part of the required thorough understanding? In our view, the latter is the appropriate stance. Documentation of significant findings or issues should permit the auditor to make

appropriate use of other audit cross-referenced documentation without having to repeat it. Accordingly, we recommend that the last sentence in the paragraph be deleted and that the existing clause in the second sentence, “This memorandum should be as specific as necessary...” be replaced with, “This memorandum, together with any other supporting audit documentation that has been cross-referenced to the memorandum, should be as specific as necessary... .”

Also in the second sentence, we recommend that the phrase, “... to gain a thorough understanding of the significant findings or issues,” be replaced with “... to gain an understanding sufficient for the reviewer to perform his or her review.”

Paragraph 12

In the first sentence, we recommend that the proposed standard specifically state that the term “significant findings or issues” is intended to be used in the same context as in paragraph 9.

Paragraph 14

We recommend the Board clarify the implications of the paragraph, particularly as it relates to audit documentation in paper form (vs. electronic which is easier to deal with in terms of archiving/freezing) of continuing interest to the auditor such as client information, systems descriptions and important contracts. How is the auditor expected to file such documentation to meet the standard while preserving and filing it in an easily accessible manner? Can such documentation be accessed later? Any requirement that such “complete and final” files may not be accessed by the auditor after the 45-day period would require auditors to make copies of all such files. We believe this would be costly and fail to provide corresponding benefits in terms of improving audit quality.

Paragraph 16

We recommend that the parenthetical phrase, “(including documentation of work performed by others, such as affiliated firms),” be changed to, “(including documentation of work performed by other auditors, including affiliated firms).” We believe this revision is necessary to clarify that the auditor should not be required to retain documentation of work performed by others such as management and internal auditors, for example, in connection with the auditor’s audit of internal control.