

Fitch Ratings

January 20, 2004

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket #012

Ladies and Gentlemen:

Fitch, Inc. is pleased to have the opportunity to comment on the exposure draft of the *Proposed Auditing Standard on Audit Documentation and Proposed Amendment to Interim Auditing Standards* (Proposed Standard). Audit documentation is an area of great concern to investors and other users of financial statements in light of recent developments. It is of particular concern to Fitch since we rely so heavily on audited financial statements and other financial reports in our work. Fitch does not audit or verify the truth or accuracy of such information, nor are we in a position to do so.

Fitch believes that accounting information cannot effectively serve investors and other users in the absence of a rigorously engaged auditing profession that applies the highest standards of audit testing and documentation. This is particularly important in an increasingly complex financial reporting environment. We are in support of the Proposed Standard, and believe it will provide an important enhancement to current practice. Having said this, we have several specific comments that we would like to ask the PCAOB to consider:

Review Standard for Audit Documentation (Paragraph 5a)

Fitch believes that the Proposed Standard will provide much needed direction to auditors regarding not only the need for third parties (such as the PCAOB) to be able to review audit documentation, but the conduct of the audit work itself. A robust documentation standard improves audit quality by discouraging careless or incomplete testing. Requiring auditors to record, in detail, the documents that were inspected and the oral representations made to them by management will not only help to facilitate the PCAOB's inspection process, but should also contribute to higher quality audits, thereby improving the transparency and reliability of audited financial statements. Hence, the Proposed Standard should clarify not only that, 1) an experienced auditor should be able to understand the nature, timing, extent, and results of the procedures performed but also,

2) to the extent possible, documentation should be sufficient to allow repetition of such procedures. This would be consistent with other requirements of the Proposed Standard, and we believe this should be explicit from the outset.

Documentation sufficient to allow detailed procedures to be repeated would help ensure that audit testing is conducted in a rigorous and thoughtful manner and, of course, would contribute to the efficiency and effectiveness of the PCAOB's inspection process. In fact, we believe that requiring repeatable testing will be the most reliable way to allow PCAOB inspectors to verify that Generally Accepted Auditing Standards have been adhered to in audits of public companies.

Rebuttable Presumption (Paragraph 6)

We support the notion that lack of documentation of audit work creates a presumption that the work was not performed, and that such a presumption should be rebuttable. However, the wording of the Proposed Standard suggests that upon rebuttal of the presumption, there would be no violation of the rule. We ask the PCAOB to consider the potential unintended consequence that auditors may omit documentation, with the knowledge that they could successfully rebut the presumption. If this were to occur, it could greatly hinder the PCAOB's inspection process by requiring inspectors to engage in time-consuming procedures to ascertain whether audit work was actually done. We believe the PCAOB should consider taking steps to prevent intentional omission, which would also serve the objective of increasing the overall quality of audit documentation.

Contents of Documentation (Paragraph 7)

We agree that audit documentation provides the principal support for the audit report and that, as such, audit documentation should demonstrate compliance with professional standards, support conclusions regarding financial statement assertions, and show that the financial statements agree or reconcile with the underlying accounting records. However, although it is implied in the Proposed Standard that audit documentation should demonstrate how the audit satisfied all general and transaction-related *audit assertions*, as well as financial statement assertions, we believe the Proposed Standard should state so explicitly. Obviously, the PCAOB will address requirements related to the support of audit assertions in future proposals, but we believe that it is important to include the topic in the documentation standard.

Further, the PCAOB should consider going beyond the requirements of AU 339, by requiring that audit documentation demonstrate that the underlying *audited* accounting records agreed or reconciled with the financial statements, ***and that amounts presented in the financial statements are clearly linked to testing performed.*** We are concerned about situations in which audit documentation does not clearly establish a linkage between testing and amounts presented in the financial statements. For example, consider a situation in which an auditor agrees the financial statements to a consolidating trial balance, but does not reconcile the trial balance to the detailed testing performed on lower level accounting records – in other words there is a break in the linkage between

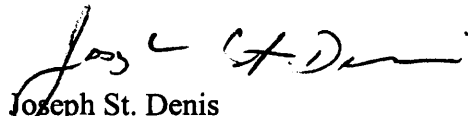
detailed testing and amounts presented in the financial statements. This would not appear to be a violation of the Proposed Standard, as the requirement to agree the underlying accounting records (in this case the consolidating trial balance) to the financial statements has apparently been met. We believe that a requirement to link audit testing with the financial statements is necessary in order to demonstrate that audit and financial statement assertions have been adequately supported, and would be an important clarification to the Proposed Standard.

Audit Checklists

Checklists can provide auditors with an effective means of ensuring that certain accounting and disclosure standards have been adhered to, but if not applied in a thoughtful and diligent manner, they may be of little use, particularly in the hands of inexperienced auditors. Therefore, we would ask the PCAOB to consider revising the Proposed Standard to require auditors to clearly reference related audit documentation and financial statement disclosures when utilizing checklists. We believe this is consistent with the review standards established in the Proposed Standard and will help facilitate the PCAOB's inspection process.

We appreciate the PCAOB's timely effort to address the critical issue of audit documentation and hope our comments will be of value in finalizing the standard. If you would like to speak with Fitch about this letter or any other matter of concern, please contact Joseph St. Denis at (212) 908-0293.

Sincerely,



Joseph St. Denis
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Cc: Robert Grossman
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