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April 26, 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. 014
PROPOSED AUDITING STANDARD – CONFORMING AMENDMENTS TO PCAOB
INTERIM STANDARDS RESULTING FROM THE ADOPTION OF PCAOB AUDITING
STANDARD NO. 2, AN AUDIT OF INTERNAL CONTROL OVER FINANCIAL
REPORTING PERFORMED IN CONJUNCTION WITH AN AUDIT OF FINANCIAL
STATEMENTS**

Dear Mr. Secretary:

BDO Seidman, LLP respectfully submits the following comments on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") proposed auditing standard ("the proposed standard") governing the conforming amendments to PCAOB interim standards in response to the Adoption of PCAOB Auditing Standard number 2.

We recognize the importance of establishing and enforcing standards that will restore confidence in our financial reporting environment and are anxious to participate further in the initiatives of the PCAOB and other regulatory bodies to advance the quality of our professional standards. We appreciate the dedicated effort necessary to develop quality standards.

We apologize to the Board for submitting this comment letter after the published deadline.

Questions Posed in the Exposure Draft

Question 1 – Are the references useful in assisting auditors when performing an integrated audit of financial statements and internal control over financial reporting? If not, explain.

We believe the references are essential and useful. An integrated professional literature is necessary to guide auditors in the fulfillment of their responsibilities.

Question 2 – Have any references been omitted from the proposed auditing standard that commenters believe would be beneficial? If so, explain.

We believe the essential references are made, except as noted below.

Regarding AU sec. 319, "Consideration of Internal Control in a Financial Statement Audit." The Board states:

This standard would be amended to add a requirement stating, "Regardless of the



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assessed level of control risk, the auditor should perform substantive procedures for all relevant assertions related to all significant accounts and disclosures in the financial statements." As it relates to this requirement, the Board's proposed internal control standard stated, "Regardless of the assessed level of control risk or the assessed risk of material misstatement in connection with the audit of the financial statements, the auditor should perform substantive procedures for all relevant assertions for all significant accounts and disclosures. Performing procedures to express an opinion on internal control over financial reporting does not diminish this requirement." A similar conforming amendment would be made to AU sec. 322, "The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements."

The Board proposes that this requirement to perform substantive procedures by assertion be placed in AU sec 319 and AU sec. 322. Since the PCAOB proposes this as a general requirement for all substantive procedures, and not just for those performed in conjunction with tests of controls, we believe that this requirement should be additionally cited in AU sec. 326 Evidential Matter. It is in this section of the professional literature where assertions and broad auditing principles are discussed. The impact of this provision in the Standard on practice extends beyond the subject matter of internal control. We do not believe that practitioners would anticipate guidance governing substantive testing to be limited to the literature addressing internal control. We support repeating this important requirement in several areas of the literature due to its pervasive implications.

Question 3 – Do the proposed amendments clearly describe the new requirements that apply when the auditor is engaged to audit only the financial statements? If not, how can the Board more clearly describe the new requirements?

We believe they are clear, except as noted in the answer to Question two above. If the focus of the audit is not on AU sec 319 (Internal Controls), the general requirement to perform substantive procedures for "*all relevant assertions for all significant accounts and disclosures*" might be overlooked if such a requirement is noted only in AU sec. 319.

Question 4 – Are there any additional requirements that are applicable in an integrated audit of financial statements and internal control over financial reporting that also should be applicable when the auditor is engaged to audit only the financial statements?

We do not support any expansion at this time to the already significant requirements of



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PCAOB Standard No. 2 on issuers. However, we believe the Board should continue to monitor the environment and consider additional requirements if they are clearly in the public interest and are cost-justified.

Question 5 – Are there any circumstances in which the proposed amendments in an audit of financial statements are not appropriate or should not be made? If so, what are those circumstances, and why do they indicate that the proposed amendment is not appropriate? Recognizing that the requirements in the proposed amendments are required in an integrated audit, describe the circumstances that are different in an audit of financial statements from those in an integrated audit of financial statements and internal control over financial reporting.

We have not identified any specific issues on this point.

Question 6 – Are there any circumstances in which issuers would want or need to file an AT sec. 501 report with the Commission? If so, explain.

Yes, but not for the same reasons an issuer would perform procedures required by PCAOB Standard No. 2. We believe that initial filers or even pre-IPO companies as well as companies about to be merged with other entities might wish to receive a report on internal controls, and might be required to include that information in certain findings. Thus, such reports might appear, not as a requirement envisioned in PCAOB Standard No. 2, but as a voluntary disclosure. Further, we believe that if the PCAOB removed Section AT sec. 501 from its literature, such reports would have to reference AICPA Standards. If the Board wishes to prohibit such references, it should create an equivalent purpose Standard to Section AT sec. 501 as part of its literature. However, we do not understand the basis for the Board's conclusions that the AICPA Standards could not be referenced if they relate to a service performed on a voluntary basis.

Question 7 – Should AT sec. 501 be amended rather than superseded? If amended, what types of changes should be made to AT sec. 501?

We believe that if the PCAOB believes that an AICPA AT sec. 501 report cannot be referenced, even for voluntary disclosures, AT sec. 501 should be amended in the PCAOB literature. The AICPA, before the effective date of the standards setting function of the PCAOB, proposed a significant number of performance changes to the current AT 501 in anticipation of its amendment to meet the requirements of the Sarbanes-Oxley Act



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of 2002. Many of the provisions in PCAOB Standard No. 2 are rooted in those proposed changes. When proposing revisions to AT sec. 501, the Board should consider further the current requirements of PCAOB Standard No. 2 as well as the need to provide for more flexibility to meet a variety of company needs.

Question 8 – Is there a need for an auditor's report on internal control in addition to the auditor's report on the integrated audit of financial statements and internal control over financial reporting? If so, what information should the report include? In which circumstances would the report be issued? Who would use the report?

There is a need for companies to be able to report on internal control for special purposes. For example, the gaming commission in one state requires the filing of a report of the effectiveness of internal controls in gaming establishments (the specific report requirements are defined by State Law). However, this work has been, and can continue to be done under the AICPA's AT sec. 501. Even though the consolidated entity is an issuer, the segment the report covers is not a separate issuer, but must report on the controls comprising the segment as defined by State Law. Since such a report would presumably not appear in a filing with the Commission, we believe there is no need for the PCAOB to make provision for such a report in its standards.

We also believe the Standards of the Board should provide for an interim auditor report indicating that weaknesses identified in a prior audit report of internal controls have been corrected. If only an integrated audit report is permitted under PCAOB Standards, then an audit report on the financial statements would be required to accompany any updated report. We urge the Board to consider a provision for such an engagement and report, apart from an audit of internal controls.

We appreciate your consideration of our comments and suggestions, and would be pleased to communicate or meet with the PCAOB and its staff to clarify any of our comments.

Please direct comments to Wayne Kolins National Director of Assurance at 212-885-8595 Wkolins@bdo.com or Lynford Graham, National Director of Audit Policy at 212-885-8551 Lgraham@bdo.com.

Sincerely,

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