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May 18, 2007

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

Via e-mail: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 023, *Proposed Auditing Standard – Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards*

Dear Board Members and Staff,

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("Board" or "PCAOB") proposed new auditing standard and proposed amendments, *Proposed Auditing Standard – Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards*. We respectfully submit our comments and responses to your questions in the accompanying appendix.

We would be pleased to discuss our comments with you. If you have any questions, please contact Mr. John L. Archambault, Managing Partner of Professional Standards, at (312) 602-8701.

Very truly yours,



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Appendix – Responses to Questions

1. Does the proposed auditing standard appropriately describe how the auditor should evaluate the consistency of the application of GAAP? Do the proposed auditing standard and amendments provide sufficient direction regarding the evaluation of changes to previously issued financial statements resulting from retrospective application of changes in accounting principle and corrections of misstatements?

We support the proposal and believe it appropriately describes the auditor's responsibilities relating to the application of GAAP and the correction of misstatements. To enhance the proposal, we suggest the Board consider the following:

- Deleting the last sentence of paragraph 3, as we believe it is not necessary and may potentially be confusing with regard to the auditor's responsibilities to evaluate consistency with previously issued financial statements. We believe this sentence applies when the company uses the retrospective application to account for a change in accounting principle. In this circumstance, the auditor is aware of the inconsistency and reports accordingly. If this sentence is not deleted, we suggest providing additional clarification.
- Clarifying the requirement in the last sentence of paragraph 6 by referring to the definition of a change in reporting entity in FASB Statement 154.
- Clarifying, in footnote 5, when the auditor could discontinue the inclusion of the explanatory paragraph when a change in accounting principle is applied to all periods presented (as discussed in paragraph .17D of the amended AU sec. 508).
- Including footnote 7 (on page 3 of the Release), or a similar footnote, within the auditing standard itself.

2. Does the proposed auditing standard appropriately reflect the changes to the accounting requirements made by FASB Statement 154?

We believe the proposal appropriately reflects the changes to the accounting requirements made by FASB Statement 154. See our specific response to question numbers 3 and 4 below.

3. Would the proposed reporting language for auditor's reports on restated financial statements, i.e., requiring a statement that the financial statements have been restated to correct a misstatement, improve the clarity of auditor reporting?

The proposal to include an explanatory paragraph that (a) refers to the company's disclosure of the correction, and (b) states that the financial statements have been restated for the correction is appropriate to clearly recognize the restatement for financial statement users. It will also provide consistency in auditor reporting with regard to restatements.

4. Would the proposal to apply the auditor reporting requirements to all restatements, including those not involving an accounting principle, improve auditor reporting?

FASB Statement 154 essentially defines a restatement as the revision of previously issued financial statements to correct an error in recognition, measurement, presentation, or disclosure in financial statements resulting from mathematical mistakes, or an error resulting from mistakes in the application of GAAP, or oversight or misuse of facts. We believe the proposal properly aligns the auditor reporting requirements with FASB Statement 154 and therefore, in the public's best interest, requires the auditor to recognize the correction of a material misstatement in previously issued financial statements.

5. Is it appropriate to remove the GAAP hierarchy from the auditing standards if it is included in the accounting standards?

The GAAP hierarchy appropriately belongs in the accounting literature. Accordingly, we support the removal of the GAAP hierarchy from the auditing standards upon its inclusion in the accounting standards.

6. Do the proposed amendments to AU secs. 410 and 411 appropriately reflect the proposed FASB statement on the GAAP hierarchy?

We believe the proposed amendments to AU secs. 410 and 411 appropriately reflect the removal of the GAAP hierarchy from the auditing standards.

With regard to the amendment to AU sec. 411.02, we believe the Board could expand on the definition of GAAP by referring to the framework adopted by management that is used in the preparation of financial statements. In addition, the Board could further clarify the definition as it relates to the accounting principles of other standard-setting bodies recognized by the SEC. We believe the SEC may not specifically recognize all standard-setting bodies that govern the accounting principles of foreign private issuers. In this regard, for foreign private issuers, it may be more appropriate to refer to accounting principles adopted by the International Accounting Standards Board and other accounting principles generally accepted in the country of incorporation as permitted by the SEC.