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

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

Dear Members and Staff of the Public Company Accounting Oversight Board:

BDO Seidman, LLP appreciates this opportunity to comment on the Public Company Accounting Oversight Board's proposed standard on *Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards*. We recognize the importance of aligning the Board's auditing standards with the pronouncements of other standard setters, specifically the Financial Accounting Standards Board's ("FASB") issuance of Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* ("FASB Statement 154") and issuance of an exposure draft of a proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles*. As such, we have included responses to the specific questions posed in the PCAOB Release No. 2007-003 dated April 3, 2007 and have also included additional commentary on other related matters, at the end of this letter, for your consideration.

1. Does the proposed auditing standard appropriately describe how the auditor should evaluate the consistency of the application of GAAP?

Generally, we believe that the proposed auditing standard appropriately describes how the auditor should evaluate the consistency of the application of GAAP. However, we have provided comments for your consideration related to the periods covered by the auditor's evaluation.

The periods covered by the auditor's evaluation of consistency are appropriately described as dependent on the periods covered by the auditor's report on the financial statements and are similar to the current descriptions in AU sec. 420, and as such we believe that with respect to the periods to which the consistency standard relates, the proposed standard has appropriately described the auditor's evaluation. However, we believe that additional guidance, such as that provided in the PCAOB Release, would be beneficial regarding the auditor's responsibility to evaluate whether the financial statements for periods covered in the auditor's report are consistent with previously issued financial statements, as described in the last sentence of paragraph 3 of the proposed auditing standard. Accordingly we suggest the following description, from the PCAOB Release, be added to the proposed standard to clarify the auditor's responsibility in this regard:

> *When a company uses retrospective application, as defined in FASB Statement 154, to account for a change in accounting principle, the financial statements presented will generally be consistent. However, the previous years' financial statements presented with the current year's financial statements will reflect the change in accounting principle and, therefore, will appear different from those previous year's financial statements on which the auditor previously reported. The auditor's evaluation of consistency should encompass these previously issued financial statements for the relevant periods.*

Further, paragraph 3 of the proposed auditing standard requires the auditor to evaluate whether the financial statements reported on are consistent (1) with each other and (2) with the prior year's financial statements if presented with the financial statements reported on, when the auditor is reporting on two or more years. The distinction being made between item (1) and (2) is unclear, as it would seem that item (1) encompasses financial statements for all years presented. However, if the example described in the PCAOB Release, that assumes an issuer has a change in auditors when the issuer presents comparative financial statements covering three years, is the circumstance in which this proposed guidance would apply, then we suggest that this example be included in the proposed auditing standard.

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 believe that 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, however we do have one suggestion regarding the use of consistent terminology which we have explained in our response to question 2 below.

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

Generally we agree that the proposed auditing standard appropriately reflects the changes to the accounting requirement made by FASB Statement 154. We do have two comments however; the first on the use of consistent terms and the second on changes affecting consistency. While FASB Statement 154 uses the term *retrospective application* to mean the application of different accounting principles to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in reporting entity, this term, *retrospective application*, is not used in the proposed auditing standard. To clarify and reconcile the two related standards, we suggest that the proposed auditing standard use the same terminology where appropriate. For instance see footnote 5 where the concept of retrospective application is described but not specifically referenced.

Further, the proposed auditing standard characterizes a change in the *method* of applying a principle to be a change in accounting principle, consistent with the guidance in AU sec. 420. However, the example presented in AU sec. 420 of a change in the method of applying a principle is no longer appropriate, and in fact FASB Statement 154 considers the example presented in AU sec. 420 to be a change in accounting estimate effected by a change in accounting principle.[1] Given this change, we believe that it would be appropriate to provide an example of a change in the method of applying an accounting principle under the proposed auditing standard to clarify and illustrate this point.

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?**

We believe that the important part of the auditor's report in this circumstance is the reference to the issuer's disclosure in the footnotes to the financial statements that describes the underlying reason for such misstatement. So while the explanatory paragraph will include the above statement to identify the nature of the change, the real clarity for investors will come from the disclosure in the financial statements.

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

We believe that the proposal to apply the auditor reporting requirements to all restatements, including those not involving an accounting principle; such as mathematical errors, oversight, or misuse of facts, will improve auditor reporting by

[1] AU sec. 420.06 provides an example of a change in the method of applying an accounting principle to be a change from the straight-line method to the declining balance method of depreciation for all assets in a class or for all newly acquired assets in a class.

aligning the auditor's reporting responsibilities with the disclosure requirements of the accounting standards by requiring an explanatory paragraph.

Description of GAAP and Removal of the GAAP Hierarchy from the Auditing Standards

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

We believe that it is appropriate for the GAAP hierarchy to reside in the accounting standards and that therefore it should be removed from the auditing standards for public entities, just as it was previously removed from the auditing standards for private entities by the Auditing Standards Board.

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

We agree with the proposed amendments to AU sections 410 and 411.

Additional Commentary

We have provided additional commentary on the following two paragraphs of the proposed auditing standard, *Evaluating Consistency of Financial Statements*, for your consideration. We believe these revisions will help clarify the proposed auditing standard.

Rephrasing of paragraph 4 to reflect auditor's judgment

We suggest the following change, reflected in bold text, to paragraph 4:

> *The auditor should recognize the following matters relating to the consistency of the company's financial statements in the auditor's report, **when in the auditor's judgment** those matters have a material effect on the financial statements.*

Rephrasing of paragraph 6 to reflect the two distinct matters that are also considered to be a change in accounting principle

We suggest the following change, reflected in bold text, to paragraph 6:

> ***Other matters that are also considered to be a change in accounting principle include*** *a change in the method of applying an accounting principle and a change in the reporting entity.*

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We appreciate your consideration of our comments and suggestions and we would be pleased to discuss these with you at your convenience. Please direct any questions to Wayne Kolins, National Director of Assurance at (212) 885-8595 (wkolins@bdo.com)

Very truly yours,

BDO Seidman, LLP

/s/ BDO Seidman, LLP