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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. 023, Proposed Auditing Standard – *Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards*, PCAOB Release No. 2007-03**

Dear Office of the Secretary:

Crowe Chizek and Company LLC appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") proposed auditing standard and amendments, *Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards* (the "Proposed Standard"). The Proposed Standard clearly separates the hierarchy of generally accepted accounting principles ("GAAP") from the interim auditing standards and clarifies the auditor's responsibility to report on the consistency of application of GAAP.

We support the Proposed Standard and Amendments. We believe the separation of the GAAP hierarchy from the auditing literature is a natural and appropriate change. This change emphasizes that the overall selection of accounting policies and the application of accounting rules is a function of the company's management, whereas the auditing of the application of GAAP is the function of the auditor. In addition, the auditor presently has a responsibility to report on the consistency of the application of GAAP and the changes being proposed by PCAOB provide clarification in determining consistency and appropriate reporting for situations that are not now consistent. This change will help users of the financial statements understand consistency changes between reporting periods.

The following provides responses to the six specific questions for which the Board requested public comment. Following that, we have provided other observations and comments to help the Board better achieve its goals for this Proposed Standard and Amendments.

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?*

   The Proposed Standard appropriately describes how the auditor should evaluate the consistency of the application of GAAP from period to period based on the number of years being presented, as described in paragraph three. In addition, a change in accounting principle is appropriately defined as well as correction of a material misstatement in previously issued financial statements. The indication that both a change in accounting principle or a correction of a material misstatement requires an explanatory paragraph in the auditor's report, eliminates the judgment used in the past of determining if an item represented a change in principle or a correction of an error.

   While the Proposed Standard should provide additional uniformity in auditor reporting of restatements, it provides no guidance as to materiality considerations, including individual financial statements and line items therein. We believe that additional guidance on materiality as applied to individual matters within financial statements would be helpful in applying the Proposed Standard. Such guidance should increase uniformity in reporting.

   There is an alternative view that no auditor reporting is needed for changes in accounting principles that are retrospectively applied such that the financial statements presented are consistent with each other, and the change is properly measured, reported, and disclosed in the financial statements. Generally accepted accounting principles establish the accounting for and disclosure of accounting changes in financial statements. Consequently when such principles have been followed, there would be no need to also report such matters in the auditor's report.

2. *Does the proposed auditing standard appropriately reflect the changes to the accounting requirements made by FASB Statement No. 154?*

   Yes, the Proposed Standard appropriately reflects the changes in the accounting requirements made by FASB Statement No. 154. However, terminology differences between the Proposed Standard and FASB Statement No. 154 should be explained, such as use of "misstatement" vs. "error", or conformed to FASB Statement No. 154.

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 the proposed reporting language for auditor's reports on restated financial statements requiring a statement that the financial statements have been restated to correct a material misstatement improves the auditor's report. The Proposed Standard should be clarified to state that an immaterial restatement does not require mention in the auditor's report. In addition, the auditor's report will serve as another communication of the restatement for the user of the financial statements. However, management must take primary responsibility for communication to financial statement users, and the auditor's report should not be viewed as supplementing adequate issuer disclosure.

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 a requirement to have the auditor report all material restatements, including those not involving an accounting principle, will improve overall auditor reporting and consistency, especially where there was concern over the classification of a correction as being a correction caused by the adoption of a new accounting principle versus a correction of a misstatement.

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

   Yes.

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

   Yes.

Other Comments

Appendix 2, deletion of paragraph AU 431.04
The text of paragraph AU 431.04 speaks to the obligation of the auditor to maintain the confidentiality of information received from the client during the audit. We understand that this ethical obligation would be better positioned outside of the auditing standards. However, the Board elected to not adopt such a provision when adopting its interim standards, so this paragraph should not be deleted until such time that the Board otherwise adopts a comparable provision.

Appendix 2, AU sec. 508 e. paragraphs .17B and .17C
In the example report paragraphs provided, in paragraph 17B, the "company" has changed its method of accounting, which seems appropriate. However, in paragraph 17C, the sample report states that "management has elected to change its method of accounting", instead of the company. Although management is responsible for the financial statements, the financial

statements are those of the company, and, we recommend that the example in paragraph 17C be modified to indicate that it is the "company" making the election.

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We hope that our comments and observations will assist the Board in finalizing the Proposed Standard. Crowe Chizek and Company LLC fully supports the Board's efforts to improve auditing standards with the objective of furthering the public interest.

We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff. If you have any questions or would like to discuss these issues, please contact Wes Williams or Michael Yates at (574) 232-3992.

Cordially,

Crowe Chizek and Company LLC

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