

May 18, 2007

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

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

Dear Sir:

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") proposed auditing standard, *Evaluating Consistency of Financial Statements*, and proposed amendments to the Board's interim auditing standards (collectively the "proposal").

We generally support the Board's proposal and believe that the proposed auditing standard on evaluating consistency and the conforming amendments to the interim auditing standards are responsive to and consistent with the provisions of FASB Statement No. 154, *Accounting Changes and Error Corrections* (FAS 154).

While we agree that the auditor should be required to evaluate and report on the consistency of the application of generally accepted accounting principles in the financial statements, we believe that the requirement to reference changes in accounting principles in the auditor's report should be limited to voluntary changes in accounting principles that materially impact the comparability of the financial statements. We believe that recognizing mandatory changes in accounting principles (i.e., those accounting changes required by the adoption of new accounting principles) in the auditor's report (1) duplicates the disclosures already required by FAS 154 and (2) detracts from the significance of other explanatory information that may be included in the auditor's report or of disclosures in the financial statements that may be of equal or greater importance to users of the financial statements. Accordingly, we propose that the Board reconsider the requirement that the auditor include a consistency reference in his or her report in this circumstance.

We have included our responses to the specific questions raised in the Board's release in the appendix to this letter. The appendix also includes certain other comments intended to further enhance and clarify the Board's proposal.



We would be pleased to discuss our comments and to answer any questions that the PCAOB staff or the Board may have. Please contact Jim Lee (973-236-4478) or Jorge Milo (973-236-4300) regarding our submission.

Sincerely,

PriceWaterhouseCoopers LLP



Proposed Auditing Standard – Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards

Evaluating Consistency

- 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 principles and corrections of misstatements?**

We believe that the proposed auditing standard provides appropriate guidance for the auditor to evaluate the consistency of the application of GAAP. We believe that the proposed standard appropriately omits unnecessary accounting guidance from the existing auditing standards and instead focuses on the auditor's responsibility for events that merit recognition in the auditor's report. While generally supportive of the proposed standard, as noted in our letter, we do not believe that the auditor should be required to reference mandatory changes in accounting principle in the auditor's report.

We also 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 principles and corrections of misstatements. While the financial statements presented will generally be consistent when a company uses retrospective application, the prior year's financial statements will appear different from the financial statements on which the auditor previously reported. We believe that the proposed standard appropriately clarifies that the auditor's evaluation of consistency should encompass previously issued financial statements for the relevant periods.

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

We believe that the Board's proposed auditing standard appropriately reflects the changes to the accounting requirements made by FAS 154. We also believe that the proposed standard will appropriately clarify the auditor's responsibility for differentiating between accounting changes and corrections of misstatements.

- 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 proposed reporting language for auditor's reports on restated financial statements will improve the clarity of auditor reporting. We support transparency in financial reporting and agree that the proposed requirement will clarify

the existing requirement of PCAOB AU Section 508, *Reports on Audited Financial Statements* (AU 508) paragraph 16, to "identify the nature of the change."

We believe that the requirement to recognize the correction of a misstatement in previously issued financial statements in the auditor's report through the addition of an explanatory paragraph is consistent with current practice. Accordingly, we agree with the Board that the explanatory paragraph in the auditor's report should include (1) a statement that the previously issued financial statements have been restated and (2) a reference to the company's disclosure of the correction of the misstatement. However, because FAS 154 already defines a restatement as the process of revising previously issued financial statements to reflect the correction of an error, we believe that the suggested language in paragraph 18A of the proposed amendment to AU 508 should be amended as follows:

As discussed in Note X to the financial statements, the 20X2 financial statements have been restated ~~to correct a misstatement~~.

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

The proposal to apply the auditor reporting requirements to all material restatements, including those not involving an accounting principle, will improve the consistency of auditor reporting by appropriately identifying the nature of the change as required by AU 508.16.

We agree that the proposed standard should not require the auditor's report to recognize a change in classification unless the change in classification was also a change in accounting principle or the correction of a material misstatement. We believe that it is appropriate to remind the auditor that professional judgment is required to determine (1) whether a change in classification is material and (2) whether a change in classification represents a change in accounting principle or the correction of a material misstatement.

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 the GAAP hierarchy should be included in the accounting standards. Consequently, we support the Board's proposal to remove the GAAP hierarchy from the auditing standards, which is appropriately responsive to the FASB's proposed accounting standard, *The Hierarchy of Generally Accepted Accounting Principles*.

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

We believe the Board's proposed conforming amendments to PCAOB AU Section 410, *Adherence to Generally Accepted Accounting Principles*, and PCAOB AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*, appropriately reflect the changes contemplated by the FASB's proposed statement on the GAAP hierarchy.

Other Comments

We believe that the following recommendations would further enhance and clarify the Board's proposal:

- Paragraph 6 of the proposed auditing standard addresses reporting on a change in the reporting entity. In order to improve the clarity of this guidance, we suggest amending the language as follows:

In addition, the auditor should report on a change in the reporting entity as defined by FASB Statement 154, *Accounting Changes and Error Corrections*, as if it were a change in accounting principle.

- For a change in accounting principle resulting from the adoption of a new accounting pronouncement, we believe that identifying the name of the accounting pronouncement is unnecessary since this is inherent in describing the accounting that has changed. This would also provide consistency with the language prescribed by AU 508.17. Further, it is possible that several FASB Staff Positions and/or Interpretations may have been issued related to the new accounting principle. In such a case, inclusion of the name of each applicable pronouncement would appear confusing and would provide little value to readers of the auditor's report. Accordingly, we recommend that proposed paragraph 17B of AU 508 be revised as follows:

As discussed in Note X to the financial statements, the company has changed its method of accounting for [*describe accounting method change*] in [*year(s) of financial statements that reflect the accounting change method*] ~~due to issuance of~~ [*name of accounting pronouncement*].

- If the Board determines not to delete the phrase "due to the issuance of..." from the proposed illustrative example of an explanatory paragraph for a change in accounting principle, we believe that it is important to replace the word "issuance" with the words "the adoption" as follows:

As discussed in Note X to the financial statements, the company has changed its method of accounting for [*describe accounting method change*] in [*year(s) of financial statements that reflect the accounting change method*] due to ~~issuance~~ the adoption of [*name of accounting pronouncement*].

- Within the proposed amendments to AU 508, the differentiation between the applicability of paragraph 17B and paragraph 17C is not substantive. We believe that the example of an explanatory paragraph included in paragraph 17B, as amended per our above recommendations, provides adequate disclosure of the change in accounting principle regardless of whether the change resulted from the required adoption of a new accounting principle or a voluntary election. Accordingly, the language in paragraph 17B could be amended to apply to both scenarios as follows:

.17B Following is an example of an explanatory paragraph for a change in accounting principle ~~resulting from the issuance of a new accounting pronouncement~~:

This edit would make paragraph 17C redundant and, as a result, it should be deleted.