

November 2, 2010

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

By e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

**Re: PCAOB Release No. 2010-005–Concept Release: Application of the “Failure to Supervise” Provision of the Sarbanes-Oxley Act of 2002 and Solicitation of Comment on Rulemaking Concepts**

**(PCAOB Rulemaking Docket Matter No. 31)**

The New York State Society of Certified Public Accountants, representing more than 27,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned release.

The NYSSCPA’s Auditing Standards Committee and SEC Practice Committee deliberated the release and prepared the attached comments. If you would like additional discussion with us, please contact Anthony S. Chan, Chair of the SEC Practice Committee at (212) 331-7653, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Margaret A. Wood  
President

Attachment

**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**PCAOB RELEASE NO. 2010-005–CONCEPT RELEASE: APPLICATION OF  
THE “FAILURE TO SUPERVISE” PROVISION OF THE SARBANES-OXLEY  
ACT OF 2002 AND SOLICITATION OF COMMENT ON  
RULEMAKING CONCEPTS**

**(PCAOB RULEMAKING DOCKET MATTER NO. 31)**

**November 2, 2010**

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*From the SEC Practice Committee:*

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Neil W. Ehrenkrantz  
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**New York State Society of Certified Public Accountants**  
**Auditing Standards Committee**  
**SEC Practice Committee**

**Comments on**

**PCAOB Release No. 2010-005–Concept Release: Application of the “Failure to Supervise” Provision of the Sarbanes-Oxley Act of 2002 and Solicitation of Comment on Rulemaking Concepts**

**(PCAOB Rulemaking Docket Matter No. 31)**

The New York State Society of Certified Public Accountants welcomes the opportunity to comment on the PCAOB Release No. 2010-005–Concept Release: *Application of the “Failure to Supervise” Provision of the Sarbanes-Oxley Act of 2002 and Solicitation of Comment on Rulemaking Concepts* (the Release).

We have responded below to the questions posed in the Release.

**Responses to Questions**

**1. The principal objectives of the type of rulemaking described above would be clarity within firms about accountability for supervisory responsibilities and the creation of documentation identifying lines of accountability.**

**a. Is it appropriate to pursue the objectives through rulemaking, or are there reasons to pursue those objectives through other means?**

Because of the various sizes and scopes of practice of the firms registered with the PCAOB, it would be difficult, if not impossible, for the PCAOB to achieve the objective through rulemaking. While we agree that a requirement for “clarity” is an important and appropriate objective, the quality control standards should be revised to emphasize the importance of each firm’s quality control documents delineating the roles and responsibilities of each person involved in the supervision and review of an audit engagement. (See answers to 1.b. and 3.)

**b. How are those objectives typically already being met within firms? On this point, the Board is particularly interested to hear from firms, of varying sizes, their views about how their structures and their existing quality control practices achieve these objectives.**

It is our understanding that this objective is met ordinarily through a firm’s documentation of its quality control system.

**c. The Board is also particularly interested in hearing how investors, audit committees, and others who rely upon audited financial statements view the importance of these objectives.**

No comment.

**2. To the extent these objectives are pursued through Board rulemaking, are there potential unintended consequences to take care to avoid, i.e., ways in which pursuing the objectives might inadvertently diminish accountability or audit quality?**

We believe that supervisory responsibilities found in the current auditing and quality control standards<sup>1</sup> could be strengthened through documentation of the assignment of those responsibilities. However, we recommend that a “principles-based” approach to audit supervision is the appropriate course for the PCAOB to take.

Each independent registered accounting firm is different; further, no two clients are precisely the same, and the audit challenges change from year to year. This state of flux is intensified by continual changes in the requirements of U.S. GAAP and auditing standards of the PCAOB, and each audit (both the financial statement and internal control over financial reporting audit) is made up of many processes and procedures that can be assembled into various categories and sub-categories.

We believe it would not be feasible for the PCAOB to break down the “typical” audit or typical firm, and assign specific individuals to specific supervisory responsibilities tailored to a “representative” firm. We believe that any effort by the PCAOB to implement a prescriptive, “rules-based” approach would be unachievable and unworkable.

As mentioned in our answer to question 1, we agree with and support the objective of this proposal for the Board issuing “rules requiring firms to make and document clear assignments of relevant supervision responsibilities throughout the firm.”

Thus, in addition to the primary responsibilities of the engagement partner for supervision (proposed Audit Standard No. 10, *Supervision of the Audit Engagement*), as part of the firm’s quality control process, other responsibilities for supervision of the audit should be documented. Supervision by other professionals involved (either directly or indirectly) in the audit would include reviewers of risk assessment and significant working papers, and personnel such as (a) the firm’s national or regional office, (b) quality assurance, (c) tax, (d) IT auditors and (e) firm specialists.

However, the specific procedures to follow using a principles-based supervision approach must devolve to each firm. That is, each firm must determine and clearly document its

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<sup>1</sup> Proposed Auditing Standard No. 10, *Supervision of the Audit Engagement*; SECPS 1000.08 Appendix K, *SECPS Member Firms With Foreign Associated Firms* (PCAOB Rule 3400T, *Interim Quality Control Standards*); QC Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*; and QC Section 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

supervisory objectives and procedures consistent with the firm’s “chain of command.” In order to close any gap in supervision or failure in the supervisory chain, someone must assume responsibility to monitor the effectiveness of the system of supervision throughout the firm. Further, the person with ultimate responsibility for such a system must be clearly identified.

**3. Are there related or different rulemaking objectives that would complement application of section 105(c)(6) that should be pursued instead of, or in addition to, the objectives described here?**

**a. In particular, are there ways in which the Board's quality control standards should be revised that would complement or facilitate the application of section 105(c)(6) or otherwise require firms to give increased emphasis to the role of supervision throughout their audit practice?**

We believe that a clear description in a firm’s quality control documents as to the “chain of supervision” would meet the provisions of Section 105(c)(6). (See our response to question 2.)

**4. What are the relative advantages and disadvantages of the two approaches described?**

As discussed, we believe the first (a general principles-based) approach is workable and the second (a more detailed approach) is not.

**5. Are there significantly different approaches that might effectively accomplish the relevant objectives?**

No.

**6. If the Board were to pursue the more detailed approach described above, how should the Board approach identifying the appropriate degree of detail?**

We do not believe this detailed approach would result in a feasible standard. We believe it would not be possible to craft a “one-size fits all” approach to supervision.

**7. Are there identifiable areas of responsibility that should be included in any such detailed approach even though they do not necessarily correspond to aspects of the QC standards?**

No.