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October 28, 2010  
Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 31 – Application of the “Failure to Supervise” Provision of the Sarbanes-Oxley Act of 2002 and Solicitation of Comment on Rulemaking Concepts

To the PCAOB:

The Accounting Principles and Auditing Standards Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) is pleased to provide our comments to the Public Company Accounting Oversight Board (the “Board”) on its conceptual approaches to rulemaking that might complement the application of Section 105(c)(6) of the Sarbanes-Oxley Act of 2002 (the “Act”) as set forth in Part II of PCAOB Rulemaking Docket Matter No. 31 (the “Release”).

The Committee is the senior technical committee of CalCPA. CalCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

The Committee supports the work of the Board in furthering the process of clarity to better define the range of conduct that constitutes a failure to supervise under the Act. Part I of the Release notes that Section 105(c) (6) could be applied even in the absence of specific supervision rules. As a result, the Committee believes this is reason enough to reconsider the issue at this time. The Board definitely ought to provide specific guidance on the scope of supervisory liability under the Act. Of course, the devil is in the details, and it is here we ask the Board to carefully consider our comments, and those of others before developing a final proposal on this subject.

The Committee’s responses are organized to follow the questions set forth in Part II of the Release.

**Question 1: The principal objectives of the type of rulemaking described (in Part I of the Release) 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 these objectives through other means?**

The Committee believes that the objectives are best met by setting broad objectives allowing the firms to establish the means to implement them. Use of the rulemaking process is an appropriate means to set these broad standards.

**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.**

The Committee's membership is composed primarily of members from firms that are not registered with the PCAOB. Other members represent a range from retired partners from "Big 4" or 2<sup>nd</sup> tier national firms to members from large regional firms. While there was no consensus on one single approach, the important consideration for the Board is that any rulemaking process must, by necessity, consider the scalable needs of registered firms of all sizes.

A member of a large regional firm noted that the element of supervision is provided for at the firm policy level throughout the firm's Quality Control Compliance Program ("QC Program"), but more specifically under the Engagement Performance section. QC Program elements that pertain to the element of supervision include policies dealing with:

- a. Assigning responsibilities to engagement partners consistent with their experience, competence, authority and responsibility within the firm and establishing expectations for supervisory performance at the partner and supervising staff levels.
- b. Establishing requirements for appropriate engagement staffing, and related supervision of such personnel, including the extent of overall engagement review.
- c. Establishing engagement budgets that provide time for appropriate supervision and review of engagement personnel.
- d. Establishing required written evidence of the supervision and review process throughout the engagement, including establishing standards for completing certain key engagement review and supervision forms.

- e. Establishing standards for timely review of the work of engagement team members.
- f. Establishing guidelines for the performance of Engagement Quality Review, which focus on evaluating evidence that appropriate supervision was provided, in addition to evaluating the myriad of technical details associated with an engagement (qualitative review as well as quantitative review).
- g. Establishing standards for required consultation with firm specialists, which provides an additional opportunity for supervision.
- h. Soliciting input from firm personnel regarding the quality of supervision received through upstream evaluations, which are considered in the overall evaluation of firm partners and supervisory level personnel.
- i. Establishing overall firm risk management procedures to identify client situations or types of engagements that require some form of oversight by quality control specialists and enhanced supervision of the engagement partners. Often, this process is scalable based on the size of the firm involved. In a smaller firm, one individual might be sufficient to provide oversight; in a national firm many individuals may perform this oversight function on a geographic, industry or other basis.

**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.**

One committee member who has been a chief financial officer (“CFO”) of a registrant stated that he is not concerned whether the objectives of supervision are further clarified as related to his PCAOB registered CPA firm. If there are obvious issues, the CFO would deal directly with the firm, and if the response was not satisfactory, he would engage another firm. Examples of situations that could be indicative of a lack of supervision coming to the CFO’s attention include:

- a. The engagement partner is rarely out at the client’s office during the audit, and staff who are assigned to the engagement appear to lack clear direction.
- b. Technical issues addressed by the local engagement team are frequently overridden upon review by firm technical personnel.

**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?**

Any rigid rules will discourage going “outside the lines” of responsibility for new or unusual items. Any rules should be objectives based, and with no unnecessary details.

**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?**

No there are not.

**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?**

No there are not.

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

There should be no detailed formulation. Supervision practices will vary based on the size of the firm, the size of its public practice and how it is staffed, the size of its public clients and other factors. There is no single target to which to apply rules, so they should be stated only in terms of objectives.

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

No. Please refer to our response to question 4. above.

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

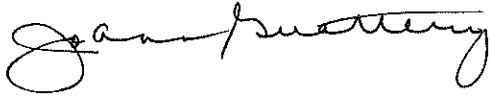
The Committee strongly believes the Board should not pursue a detailed approach, and therefore have no constructive comments on how it might be done.

**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 there are not.

We thank the board for the opportunity to comment on the Release. We would be glad to discuss our opinions with the Board should they have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink, appearing to read "JoAnn Guattery". The signature is fluid and cursive, with the first name "JoAnn" written in a larger, more prominent script than the last name "Guattery".

JoAnn Guattery, Chair  
Accounting Principles and Auditing Standards Committee  
California Society of Certified Public Accountants