

May 1, 2013  
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. 40  
Proposed Framework for Reorganization of PCAOB Auditing Standards and  
Related Amendments to PCAOB Auditing Standards and Rules  
Release No. 2013-002 March 26, 2013

Dear Board Members,

I am submitting my comments to you regarding the above referenced Rulemaking Docket Matter, which was released for comment on March 26, 2013, through May 28, 2013. The comments below are my personal comments and do not necessarily reflect those of my employer. You specifically asked respondents to answer eleven (11) questions. I quote the questions directly from the Release.

**1. Is the proposed framework for reorganizing [the Public Company Accounting Oversight Board's (PCAOB or Board)] auditing standards appropriate and an improvement over the existing structure of the PCAOB auditing standards? Are there ways to improve the proposed reorganization framework?**

Anything that makes finding information quickly has to be considered positive. I agree that grouping standards is an effective method of guiding the information seeker. Further separation into sub-groups is also effective. The proposed framework presented in Appendix 1 appears to meet the goal of finding a standard quickly and easily.

I note that under General Auditing Standards, the Board has opted to number existing standards 1001, 1010, 1011, and 1012 in the subcategory "General Principles and Responsibilities". Meanwhile, under the subcategory "General Concepts", the Board has a strict numerical order, 1101, 1102, and 1103. Is it the Board's intention to create a hierarchy within each category and subcategory based upon numbering? That is, do the standards with lower numbers carry more or less weight than those with higher numbers? My intuition tells me that the Board does *not* have such an intention. For instance, since there are presently no standards proposed to be numbered 1002 through 1009, how can any standard numbered within that range be considered more important than "Independence" proposed for number 1011?

**2. Would the proposed reorganization described in this release help users navigate the standards more easily, help avoid potential confusion between the Board's standards and the standards of the [Auditing Standards Board (ASB)], and provide a structure for updating PCAOB standards in the future? Are there potential benefits the Board should be aware of in considering its proposed reorganization?**

I believe the best way to determine whether this, or any other proposed framework reorganization, is easily navigated is to set up a test website. The Board can then invite current professionals and students to perform research on the standards. Testers can provide feedback on their experience, and the Board can make observations.

For example, a subject is asked to locate an auditing standard or standards related to an audit of a fictitious client's inventory. "The partner" or "manager" on the engagement has asked a team member to go to the PCAOB's website to begin the search for the latest information, which may not be included in the firm's software or other written programs. Can the test subject, who in this case may be a college senior, graduate student, or first year employee of an auditing firm, locate the standard or standards relevant to inventory in a reasonable amount of time? Can the test subject navigate to any cross-referenced material in a reasonable amount of time? Are any hyperlinks active and accurate?

Per Appendix 1 as presented in the release, I believe the test subject in the scenario above ought to find standards 2505 "Inventories" and 1102 "Audit Evidence" within minutes. The key to being fully successful will be the Board's website's search engine. Can a test subject in the scenario above research critical audit concepts regarding inventory, such as valuation, and find critical audit concepts regarding sufficient, competent and persuasive evidence regarding valuation methods in a reasonable amount of time, perhaps no more than fifteen minutes? Moreover, will interpretations and inspection reports where inventory is at issue be available through the same search function?

The Board makes an interesting distinction in the second part of the first question asked under number 2. That is, the Board is concerned that there is no "confusion between the Board's standards and the standards of the ASB". Under the current format, there is no confusion. The Board's standards start with "AS" and the ASB's standards start with "AU". It seems reasonable that if the Board adopts this, or similar reorganization framework, the Board will be incorporating the ASB's standards into the Board's standards. In other words, we have the "same standards, different display."

The clear benefit of reorganizing the standards in such a way means that all standards – regardless of their origin – can be found with a common frame of reference. That is not to say I am not concerned over some proposed changes, but that discussion is below at question 4.

**3. Are the categories and subcategories of auditing standards in the proposed reorganization framework appropriate and an improvement over the existing organizational structure of PCAOB auditing standards?**

Yes, though as mentioned above in my response to question 1, the Board may wish to consider the number scheme relative to a perceived "hierarchy". Beyond that, the Board may wish to consider assigning truly key, critical standards, such as "Independence", a number that is easily remembered. Think of how telephone numbers are requested by businesses because they are easier to remember and even spell a word.

**4. Is it appropriate to rescind the auditing standards and related auditing interpretations discussed in Section III.A of this release as part of the proposed reorganization? Are any of those standards or auditing interpretations still necessary to fully describe the auditor's responsibilities for audits under PCAOB standards? Are there other standards or auditing interpretations that should be rescinded?**

Rescission of some or all the listed standards in section III.A begs the question of the Board's intent. For instance, if AU sec. 150, *Generally Accepted Auditing Standards* (GAAS) is rescinded, then is it the intent of the Board to have **all** financial statement audits – not just those of publicly traded companies (“issuers”) audited by Board-registered accounting firms – adhere to PCAOB standards? If a CPA firm has no clients who have issued debt or equity to the public, ought not the audits performed by this firm follow what is now GAAS?

There is, in all honesty, an advantage of having one set of audit standards that all auditors, regardless of the client, follow. My concern is that the Board has broad authority, and reorganization of standards that includes the deletion of ASB standards could have an unintended consequence for practitioners who are not registered with the PCAOB.

What we presently seem to have is two sets of standards, akin to federal versus state law. We know in the case of law that the federal law generally takes precedence over a state law. If there is a conflict, the federal law usually wins out. In business, a company may have a “policy” that is the overarching document on a particular subject, such as corporate ethics. Beneath the policy there may be a “procedure” or “manual” that provides the detail to implement the policy. That may be what we face here. We have the PCAOB's “Auditing Standards” meant for auditors of those companies filing with the Securities and Exchange Commission (SEC). Then we have the ASB standards that have been promulgated over the years on which the Board's standards are initially based. It is these standards the PCAOB first adopted, and proposes to retain interpretations thereof.

I also point to item 7 within section III.A and “Amendments Related to Auditing Standard No. 1”. By completely deleting paragraph 1 of AS 1, shall all audit reports, regardless of whether the client is considered an issuer, reference the PCAOB? This deletion removes what I believe to be an important statement, namely, “The Sarbanes-Oxley Act of 2002 authorized the [Board] to establish auditing and related professional practice standards to be used by *registered public accounting firms*.” [Emphasis added] Consider that the PCAOB would not have the authority to inspect audit files of non-registered accounting firms as it does with registered accounting firms. Inspections by the PCAOB are required to ensure registered accounting firms adhere to PCAOB standards and other laws and regulations.

The Board was created to oversee firms with clients that are publicly traded, *i.e.*, issuers. By reorganizing **all** auditing standards, including those issued by the American Institute of Certified Public Accountants' ASB, the PCAOB may be going beyond the intent of the United States Congress.

**5. Would the framework for reorganizing PCAOB auditing standards have any consequences that are not addressed in this release? If so, what are those consequences?**

As I mention above, my concern is that the Board would issue standards that all auditors, whether they are registered with the PCAOB or not, would follow. The PCAOB does not have authority to inspect audit files of non-registered firms. Would the PCAOB seek an amendment to the inspection section of the Sarbanes-Oxley Act of 2002? Would the PCAOB seek to require that peer review reports of these non-registered firms are sent to the Board? These are questions I can only pose and the Board, in subsequent meetings and releases, can answer.

**6. Are there other costs besides those discussed in this release that the Board should consider? Would initial costs be offset over time, as discussed in this release?**

If the Board were to reorganize and renumber audit standards and related interpretations, then the costs of updating hard copy reference books, text books, software tools, internal documents for every auditing firm – whether registered with the PCAOB or not – not to mention Internet sites, would be incurred. In one form or another, these costs would be passed down the stream, compounding with each step.

One other cost not listed above, which I believe the Board is reasonably aware of, is the cost of possible litigation. It is *possible* that one or more firms who are not registered with the Board might litigate the validity of reorganizing, renumbering, and by extension, enforcing auditing standards on non-registered firms over which presently the Board does not have oversight. By eliminating references to GAAS, it seems to me to be implied that the Board's standards would become the only standards. (See my discussion in my response to question 4 above.)

Should this proposed rule pass the Board, it would then have to be approved by the SEC. The SEC does not have oversight of a small accounting and auditing firm that prepares a few audits for small companies that are privately owned. How, then, would these reorganized, renumbered, and rescinded standards be *enforced* with firms outside the scope of Sections 102 (Registrations) and 104 (Inspections) of the Sarbanes-Oxley Act of 2002?

**7. Are there considerations relating to efficiency, competition, and capital formation with respect to audits of [emerging growth companies (EGCs)] that the Board should take into account in considering the proposed reorganization?**

All firms will face the same learning and cost curves should this proposed framework ultimately reach approval. More efficiently run and effectively managed firms always have an advantage in such cases.

**8. Are there costs or other considerations relating to audits of EGCs that the Board should be aware of in considering its proposed reorganization?**

All firms will, in some way, pass additional costs, even “one-time” costs, on to their clients, especially if these costs are significant. As mentioned above in my response to question 6, in fact, costs may be “passed-through” as publishers and software companies charge more for their product updates, and all firms – registered with the PCAOB or not – must purchase these items.

**9. Does the proposed reorganization raise issues specific to audits of brokers and dealers that the Board should consider?**

Following on to my answers to questions 7 and 8 above, the introduction of new audit requirements always creates implementation costs. With internal research and documents already worked on at various firms, there would be changes needed should this proposal pass. The changes may be as simple as reference and cross-reference updates, to an all out new approach to the audit plan.

**10. Should the Board limit the scope of the auditing standards reorganization to reordering and renumbering standards in their entirety and related changes as discussed in this release? If not, why not? Are there other related technical changes to the wording or organization of individual standards that should be considered, either as part of the proposed reorganization or a subsequent project, such as eliminating references to generally accepted auditing standards or outdated references to accounting standards?**

Yes, the Board ought to tread lightly on the scope. As I have written earlier, my concern is that rescinding certain standards causes, in effect, the Board to be setting standards for both registered accounting firms that audit clients who file with the SEC, and unregistered accounting firms that audit nonpublic companies. I would recommend working in concert with the ASB to unify the systems so they are interlaced. (Think of the concept of an audit of internal controls over financial reporting that is integrated with an audit of financial statements.)

The Board seems to favor “eliminating references to generally accepted auditing standards[,]” but this, I believe, broadens the Board’s scope to include all accounting firms. I understand that the Sarbanes-Oxley Act of 2002 did not intend to completely replace the ASB with the PCAOB.

**11. What factors should the Board consider in determining the effective date of the auditing standards reorganization?**

The major factor is the software and publishing companies. How long will they need to update their programs, books, workbooks, etc.? They are in the better position to answer that question.

Next in line are the accounting firms. If only the Board-registered firms are impacted, then these firms may not need as much time to update their documents given the larger staff. However, if the result of reorganization means all accounting firms performing audits must adhere to PCAOB standards – with the ASB being supplanted – then at least one year will be needed for these smaller firms to prepare.

I appreciate the Board's desire to make finding and maintaining auditing standards easier. It benefits everyone. Caution ought to be used in assessing the overall impact and intent of this project. The unintended consequences for a sole practitioner or small local firm performing audits may overwhelm an important sector of the profession.

I thank you for your attention.

Respectfully submitted,

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