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United States Government Accountability Office
Washington, DC 20548

March 2, 2010

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

Subject: PCAOB Rulemaking Docket Matter 026: PCAOB Release No. 2009-007:
Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Public Company Accounting Oversight Board's (PCAOB) proposed new auditing standards on assessing and responding to risk during an audit.

We appreciate the PCAOB's efforts to update its auditing standards on assessing and responding to audit risk for registered companies and agree that this process is a critical element of an effective audit. The new proposed standards are an improvement from the audit risk standards originally proposed by PCAOB. In particular, the Appendix 10 comparison of the new proposed standards to the analogous standards of International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board (ASB) and the Appendix 9 discussion of PCAOB's new proposed auditing standards and comments on original standards proposed in October 2008, provide important information regarding the differences between the different standards that firms need to implement.

Consistent with our February 18, 2009 letter commenting on the original proposed standards, we continue to have serious concerns about the PCAOB's approach to updating its interim standards by revising or supplementing certain core interim standards with new standards developed by the PCAOB, resulting in duplication of and inconsistencies between its standards and those of other established independent auditing standard-setting organizations. These new PCAOB standards include, in some cases, modified versions of other established standards without providing clear explanations of the reasons for or meaning of those differences. This approach will increase the likelihood of misinterpretations, inconsistent application

of the standards, and higher costs for all users with a disproportionate burden on smaller and mid-sized firms. We strongly believe auditing standard setters should work together to achieve core auditing standards that are universally accepted. Where there is a clear and compelling reason, the individual standard-setting bodies should develop additional, incremental standards and requirements necessary to meet the needs of their respective constituencies. The nature of any differences from core auditing standards and the basis for the differences also should be clearly communicated.

Although Appendice 10 provides information to help users recognize differences between PCAOB standards and the International Standards on Auditing (ISA), we find its usefulness limited by inadequate explanations of (1) the reasons for differences between the new proposed PCAOB standards and international standards and (2) the changes in practice that are expected to result from these differences.

For example, Appendix 10, *Comparison of the Objectives and Requirements of Proposed Auditing Standards to the Analogous Standards of the IAASB and ASB*, identifies differences between PCAOB's new proposed standards and the ISAs, but it is not consistent in explaining why the differences are necessary. For a few of the differences very good explanations are provided. For instance, on page A10-6, the explanation for divergent materiality definitions and requirements states that establishing materiality for audits of U.S. public companies differs from the ISA standard because, "... the requirement in the proposed standard is based on the concept of materiality that is articulated by the Supreme Court of the United States in interpreting the federal securities laws." Other explanations in Appendix 10, though, are not as well developed. On pages A10-9 and A10-10, a description is provided of additional PCAOB requirements regarding obtaining an understanding of the company and its environment, but no reason is given to explain why these requirements are necessary in audits of U.S. public companies. The lack of an explanation for the differences could cause confusion for readers, who may not understand the PCAOB's intention in proposing the new requirements.

In other instances, Appendix 10 cites requirements adapted from existing PCAOB standards as justification for divergence from the ISAs, implying that existing PCAOB standards, including the interim standards, need no additional explanations for divergences from the ISAs. For example, on pages A10-5 and A10-6, in discussing requirements related to supervision, the document notes that "these requirements are adapted from existing PCAOB standards..." A similar notation is included on page A10-7 in the discussion of the requirements for determining tolerable misstatement. By failing to explain the reason for retaining the existing standard rather than converging with the ISAs, readers may be left to wonder if the ISA requirements are not relevant in a public company audit or if the PCAOB intends to address the divergence in the future.

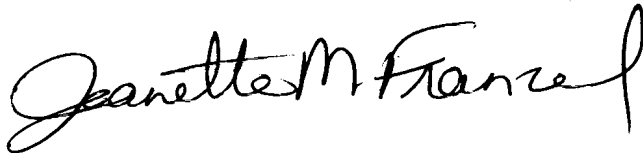
While Appendix 9 provides information to help users identify changes to existing PCAOB standards, it also indicates that the PCAOB is trying to correct practice problems through the standards when this is not always appropriate. For example in

Appendix 9 on pages A9-68 and A9-69, the changes to AU sec. 329, Analytical Procedures, are explained by noting that the section was revised to focus solely on substantive analytical procedures and accordingly would be re-titled Substantive Analytical Procedures. The explanation further notes that “A standard that focuses solely on substantive analytical procedures would highlight more clearly the requirements that apply to analytical procedures performed for that purpose. The Board has observed instances in which auditors performed substantive procedures to test accounts without meeting the requirements in AU sec. 329 for substantive analytical procedures.” It is unclear how these changes to the standard will increase auditors’ compliance with the standards in practice.

In order to make the proposed standards easier for users to understand and apply, and to improve consistency of application, we recommend that, in addition to identifying differences between proposed standards and corresponding international standards, the PCAOB supply reasoned, logical explanations for all significant differences from the ISA requirements along with the objectives of the differences, e.g.: the desired changes in practice. When the PCAOB chooses not to converge with ISA requirements, an explanation should provide details of why the PCAOB’s approach is appropriate in audits of public companies. When the PCAOB proposes differences from international standards to correct practice problems, it should identify (1) the practice problem and (2) how the difference is intended to change practice.

We thank you for considering our comments on these important issues.

Sincerely yours,

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive, flowing style.

Jeanette Franzel
Managing Director
Financial Management and Assurance