



Crowe Horwath LLP
Independent Member Crowe Horwath International

330 East Jefferson Boulevard
Post Office Box 7
South Bend, Indiana 46624-0007
Tel 574.232.3992
Fax 574.236.8692
www.crowehorwath.com

March 2, 2010

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

Submitted via email to: comments@pcaobus.org

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

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards (together the "Proposed Standards").

We support the Proposed Standards, and generally believe adoption is an improvement to existing standards. We also believe that adoption may not be difficult as many firms already have in place many of the auditing processes and procedures that are provided in the Proposed Standards. The Proposed Standards will provide value to the users of financial statements by improving consistency in audit services.

However, we believe there are several matters that should be addressed before the Proposed Standards might be adopted. We have provided general observations in the body of this letter, and specific comments on the Proposed Standards in an attachment to this letter. The matters in the attachment are organized by appendix number and paragraph number to expedite your consideration. We provide our observations and comments to assist the Board to better achieve its goals for these Proposed Standards.

Auditor Judgment

The Proposed Standards' effectiveness in operation will largely be determined by the auditor's ability to effectively apply reasoned professional judgment. Audits of financial statements have always required the exercise of judgment. We have seen a recent trend in accounting to move away from prescriptive requirements toward greater use of principles, which require application of judgment, and that trend is also present in auditing standards. The Proposed Standards are improved, but we want to stress the need for emphasis on use of the auditor's professional judgment in assessment of and response to risk. Additionally, risk concepts appropriately allow an auditor to use judgment to determine the resultant testing approach.

We note the auditing standard issued by the PCAOB for audits of internal control over financial reporting emphasizes the need for professional judgment in taking a risk-based approach to performing internal control audits. While the Proposed Standards appear to encourage use of judgment, thus allowing scalability in application, they are still quite prescriptive and detailed. There are likely certain provisions which are now stipulated as requirements that could be made optional depending on the overall needs of the audit, after properly applying auditor judgment.

Convergence of Auditing Standards

Convergence of standards should be a goal in setting auditing standards. We applaud the Board's consideration of the audit risk standards promulgated by other auditing standard setters, including the Auditing Standards Board ("ASB") which has risk related standards already in effect in the United States for non-issuer entities, and the International Auditing and Assurance Standards Board which creates standards commonly used in many other areas of the world. The Proposed Standard includes Appendix 10, "Comparison of Objectives and Requirements of Proposed Auditing Standards to the Analogous Standards of the International Auditing and Assurance Standards Board and the Auditing Standards Board of the American Institute of Certified Public Accountants." The ASB may update its risk related standards during its clarity project, but we believe the additional guidance and comparison to the ASB's standards is beneficial to all firms. We applaud the Board's efforts in providing this guidance and comparison.

Another element of convergence is development of a more cohesive body of standards, recognizing that there may be differences required to reflect law, regulation, or regional economic issues. An example of such a difference required by the PCAOB standards is the requirement for audits to report on the effectiveness of internal control over financial reporting. Such differences would be more easily understood and consistently applied if the PCAOB standards were codified into a single set of integrated standards.

* * * * *

Crowe Horwath LLP supports the Board's efforts to improve its auditing standards with the objective of furthering the public interest. We hope that our comments and observations will assist the Board in its consideration of the Proposed Standards. We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff. If you have any questions on our comments, please contact Wes Williams or Michael Yates at (574) 232-3992.

Cordially,



Crowe Horwath LLP

ATTACHMENT
COMMENTS ON SPECIFIC PROVISIONS OF THE PROPOSED STANDARDS

The following comments are organized by Appendix and Paragraph Numbers in the Proposed Standards.

Appendix 1: Audit Risk

Paragraph 3

Paragraph 3 states that *“the auditor must plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement due to error or fraud. Reasonable assurance is obtained by reducing audit risk to an appropriately low level through applying due professional care, including obtaining sufficient appropriate audit evidence.”* The focus of our observation is on the phrase “reducing audit risk to an appropriately low level”. The Auditing Standards Board of the American Institute of Certified Public Accountants (“ASB”) added clarity to this issue by stating “audit risk will be limited to a low level that is, in his or her professional judgment, appropriate for expressing an opinion on the financial statements.” In addition, footnote 3 at the end of paragraph 3 refers to AU 230, Due Professional Care. Paragraph 11 of AU 230 (first sentence) states *“reasonable basis for forming an opinion”* versus this paragraph 3 which states *“an appropriate basis for expressing an opinion”*. It is unclear why “reasonable” should be changed to “appropriate”. This change combined with the omission of the wording utilized by the ASB makes it unclear as to how to achieve “an appropriately low level”.

We encourage the Board to consider adding clarifying language indicating that such a level can be based on auditor judgment.

Appendix 3: Consideration of Materiality in Planning and Performing an Audit

Paragraphs 6-8

Paragraph 6 states - *“the auditor should establish a materiality level for the financial statements as a whole”*. Paragraph 7 states - *“The auditor should evaluate whether, in light of the particular circumstances, there are certain accounts or disclosures for which there is a substantial likelihood that misstatements of lesser amounts than the materiality level established for the financial statements as a whole would influence the judgment of a reasonable investor.”* Paragraph 8 states - *“Accordingly, the amount or amounts of tolerable misstatement should be less than the materiality level for the financial statements as a whole and, if applicable, the materiality level or levels for particular accounts or disclosures.”*

The Proposed Standard would prevent the auditor from using their judgment on differences that may quantitatively exceed the materiality level established but are clearly immaterial from a qualitative perspective, such as a balance sheet reclassification. If a reclassification amount exceeds the materiality established for the audit in paragraph 6, then the Proposed Standard would indicate that it should be reflected in the financial statements. The Board further clarified their position in Appendix 9, paragraph 4 stating - *“The new proposed standard does not allow the auditor to establish a materiality level for an account or disclosure at an amount that exceeds materiality for the financial statements as a whole”*. We believe this does not allow the auditor to use appropriate judgment when evaluating individual potential adjustments as well as aggregate potential adjustments. We encourage the Board to review this language and allow the auditor to exercise judgment and due professional care. The ASB addressed this issue in

SAS 107, paragraph 35 as follows: *“To do so, the auditor should determine one or more levels of tolerable misstatements. Such levels of tolerable misstatement are normally lower than the materiality levels.”* This phrase would allow the auditor to establish tolerable misstatement higher than materiality, such as for a balance sheet only reclassification when appropriate.

Appendix 4: Identifying and Assessing Risks of Material Misstatement

Paragraph 56

This paragraph sets forth a process for identifying and assessing the risks of material misstatement using the information obtained from the risk assessment procedures (paragraphs 4-55). Paragraphs 4-55 consistently utilize the terminology “risk of material misstatement”. However, paragraph 56a states - *“Identify risk of misstatement due to error or fraud using information obtained from the risk assessment procedures (as discussed in paragraphs 4-55) and considering the characteristics of the accounts and disclosures in the financial statements.”* The original proposal had the word “material” inserted before “misstatement” in that phrase, which would be consistent with paragraphs 4-55. By eliminating the word material from paragraph 56a, auditors appear to be required to identify many more risks present in an audit that are not material, and to perform the detailed evaluation process outlined in 56a-56e. We believe insertion of the word “material” is needed.

Appendix 5: The Auditor’s Responses to the Risks of Material Misstatement

Paragraph 45

This paragraph provides guidance on procedures that should be performed if information is substantively tested at an interim date. The paragraph clearly indicates the auditor should cover the remaining period by performing substantive procedures, or substantive procedures combined with tests of controls that provide a reasonable basis for extending the audit conclusions from the interim date to the period end. We believe this statement provides sufficient guidance and direction to the auditor while recognizing the auditor needs to exercise judgment on the sufficient appropriate audit evidence to gather to extend their conclusion from interim to period end. The Board included specific requirements to the above guidance by stating in the last sentence: *“Such procedures should include (a) comparing relevant information about the account balance at the interim date with comparable information at the end of the period to identify amounts that appear unusual and investigate such amounts, and (b) performing audit procedures to test the remaining period.”* Requirements (a) and (b) make it clear that substantive analytics (step “a”) from interim to year end alone are not sufficient and that the auditor would be required to perform other audit procedures (step “b”) in order to conclude. We believe this concept is not fully formed, and that the auditor should be able to determine the sufficient appropriate audit procedures necessary to extend their conclusions from interim to period end. We recommend the deletion of the last sentence in paragraph 45 or alternatively, develop the extensive guidance necessary to adequately provide the options available.