

File No. PCAOB-2003-10
Consists of 73 Pages

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 19b-4

Proposed Rules

By

Public Company Accounting Oversight Board

In accordance with Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of the Proposed Rule

(a) Pursuant to the provisions of Section 107(b) of the Sarbanes-Oxley Act of 2002 (the "Act"), the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule, Auditing Standard No. 1, "References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board." The proposed rule consists of an auditing standard applicable to audits of issuers by registered public accounting firms and an appendix containing illustrative auditor's reports. The proposed rule is attached as Exhibit A to this rule filing.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Board

(a) The Board approved the proposed rule, and authorized it for filing with the SEC, at its Open Meeting on December 17, 2003. No other action by the Board is necessary for the filing of this proposed rule.

(b) Questions regarding this rule filing may be directed to Gordon Seymour, Acting General Counsel (202-207-9034; seymourg@pcaobus.org), Thomas Ray, Deputy Chief Auditor (202-207-9112; rayt@pcaobus.org), or Greg Scates, Associate Chief Auditor (202-207-9114; scatesg@pcaobus.org).

3. Board's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rules

(a) Purpose

Section 103(a)(1) of the Act authorized the PCAOB to establish, by rule, auditing standards to be used by registered public accounting firms in the preparation and issuance of audit reports, as required by the Act. PCAOB Rule 3100, "Compliance with Auditing and Related Professional Practice Standards," requires auditors to comply with all applicable auditing and related professional practice standards established by the PCAOB. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the American Institute of Certified Public Accountants' ("AICPA") Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003 (the "interim standards").

The Board's interim standards – as did the profession's generally accepted auditing standards that preceded the Board's standards – require auditors to make reference in their audit and review reports to the standards that they followed in conducting the audits and reviews. To conform the language of auditors' reports to the requirement that auditors comply with PCAOB standards, the Board's Auditing Standard would require auditors' reports to refer to "the standards of the U.S. Public Company Accounting Oversight Board (United States)."

In addition, to make the Board's interim standards consistent with the Act and Rule 3100, the Auditing Standard provides that all references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of

America, and standards established by the AICPA, would mean “the standards of the Public Company Accounting Oversight Board (United States).”

(b) Statutory Basis

The statutory basis for the proposed rules is Title I of the Act.

4. Board's Statement on Burden on Competition

The Board does not believe that the proposed rule will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Pursuant to the Act and PCAOB Rule 3100, registered public accounting firms must comply with all applicable auditing and related professional practice standards established by the PCAOB. The proposed rule would simply require a registered public accounting firm to make reference in the auditor’s report to the standards of the PCAOB whenever the engagement was performed pursuant to the Board’s auditing and related professional practice standards.

5. Board's Statement on Comments on the Proposed Rules Received from Members, Participants or Others

The Board released the proposed Auditing Standard for public comment on November 12, 2003. See Exhibit 2(a)A. The Board received eight written comment letters relating to its proposal. See Exhibits 2(a)B and 2(a)C.

The Board has carefully considered all comments it has received. In response to the written comments received, the Board has clarified and modified certain aspects of the proposed rules. The Board's response to the comments it received and the changes made to the rules in response to these comments are summarized in Exhibit 3 to this filing.

6. Extension of Time Period for Commission Action

The Board does not consent to an extension of the time period specified in Section 19(b)(2) of the Securities Exchange Act of 1934.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Board requests that the Commission accelerate the effectiveness of the proposed rule pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934.

Section 102 of the Act requires that any public accounting firm that wishes to prepare or issue any audit report with respect to any issuer be registered with the Board no later than October 22, 2003. Once registered, a registered public accounting firm is required by PCAOB Rule 3100 to comply with the auditing and related professional practice standards, including the interim standards, established by the PCAOB. Accordingly, audit reports filed with the Commission subsequent to October 22, 2003 are required to have been prepared and issued in accordance with the standards of the PCAOB. Because the effect of the proposed rule simply is to require that auditors' reports filed with the Commission refer to the standards that were observed in the conduct of the engagement, the Board believes that it is in the public interest for the Commission to accelerate the effectiveness of the proposed rule.

8. Proposed Rules Based on Rules of Another Board or of the Commission

The proposed rules are not based on the rules of another board or of the Commission.

9. Exhibits

- Exhibit A – Text of the Proposed Rule
- Exhibit 1 – Form of Notice of Proposed Rule for Publication in the Federal Register.
- Exhibit 2(a)A – PCAOB Release No. 2003-021 (November 12, 2003).
- Exhibit 2(a)B – Alphabetical List of Comments
- Exhibit 2(a)C – Written comments on the rule proposed in PCAOB Release No. 2003-021
- Exhibit 3 – PCAOB Release No. 2003-025 (December 17, 2003)

10. Signatures

Pursuant to the requirements of the Act and the Securities Exchange Act of 1934, as amended, the Board has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Public Company Accounting Oversight Board

By: _____
William J. McDonough
Chairman

EXHIBIT A --Text of the Proposed RuleAuditing Standard No. 1 – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board

1. The Sarbanes-Oxley Act of 2002 authorized the Public Company Accounting Oversight Board ("PCAOB") to establish auditing and related professional practice standards to be used by registered public accounting firms. PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, requires the auditor to comply with all applicable auditing and related professional practice standards of the PCAOB.
2. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the American Institute of Certified Public Accountants' ("AICPA") Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003.^{1/}
3. Accordingly, in connection with any engagement performed in accordance with the auditing and related professional practice standards of the PCAOB, whenever the auditor is required by the interim standards to make reference in a report to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, or standards established by the AICPA, the auditor must instead refer to "the standards of the Public Company Accounting Oversight Board (United States)." An auditor must also include the city and state (or city and country, in the case of non-U.S. auditors) from which the auditor's report has been issued.
4. This auditing standard is effective for auditors' reports issued or reissued on or after the 10th day following approval of this auditing standard by the Securities and Exchange Commission.
5. Audit reports issued prior to the effective date of this standard were required to state that the audits that supported those reports were performed in accordance with generally accepted auditing standards. The PCAOB adopted those generally accepted auditing standards, including their respective effective dates, as they existed on April 16, 2003, as interim standards. Therefore, reference to "the standards of the Public Company Accounting Oversight Board (United States)" with respect to audits of financial statements performed prior to the effective date of this standard is equivalent to the previously-required reference to generally accepted auditing standards. Accordingly, upon adoption

^{1/} The Board's rules on interim standards were adopted by the Board on April 16, 2003, and approved by the Commission on April 25, 2003. See SEC Rel. No. 33-8222 (April 25, 2003).

of this standard, a reference to generally accepted auditing standards in auditors' reports is no longer appropriate or necessary.

Note: The term "auditor" in this standard is intended to include both registered public accounting firms and associated persons thereof.

APPENDIX
Illustrative Reports

The following is an illustrative report on an audit of financial statements:

Report of Independent Registered Public Accounting Firm

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of [at] December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with U.S. generally accepted accounting principles.

[Signature]

[City and State or Country]

[Date]

The following is an illustrative report on a review of interim financial information:

Report of Independent Registered Public Accounting Firm

We have reviewed the accompanying [describe the interim financial information or statements reviewed] of X Company as of September 30, 20X3 and 20X2, and for the three-month and nine-month periods then ended. This (these) interim financial information (statements) is (are) the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial (statements) for it (them) to be in conformity with U.S. generally accepted accounting principles.

[Signature]

[City and State or Country]

[Date]

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. PCAOB-2003-10)

[Date]

Public Company Accounting Oversight Board; Notice of Filing of Proposed Rule on Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*

Pursuant to Section 107(b) of the Sarbanes-Oxley Act of 2002 (the "Act"), notice is hereby given that on December 23, 2003, the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") filed with the Securities and Exchange Commission (the "Commission") the proposed rule described in Items I, II, and III below, which items have been prepared by the Board. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

I. Board's Statement of the Terms of Substance of the Proposed Rule

On December 17, 2003, the Board adopted a rule, Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* ("the proposed rule"). The proposed rule text is set out below.

II. Board's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule

In its filing with the Commission, the Board included statements concerning the purpose of, and basis for, the proposed rule and discussed any comments it received on the proposed rule. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Board's Statement of the Purpose Of, and Statutory Basis for, the Proposed Rule

(a) Purpose

Section 103(a)(1) of the Act authorized the PCAOB to establish, by rule, auditing standards to be used by registered public accounting firms in the preparation and issuance of audit reports, as required by the Act. PCAOB Rule 3100, "Compliance with Auditing and Related Professional Practice Standards," requires auditors to comply with all applicable auditing and related professional practice standards established by the PCAOB. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the American Institute of Certified Public Accountants' ("AICPA") Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003 (the "interim standards").

The Board's interim standards – as did the profession's generally accepted auditing standards that preceded the Board's standards – require auditors to make reference in their audit and review reports to the standards that they followed in conducting the audits and reviews. To conform the language of auditors' reports to the requirement that auditors comply with PCAOB standards, the Board's proposed rule would require auditors' reports to refer to “the standards of the U.S. Public Company Accounting Oversight Board (United States).”

In addition, to make the Board's interim standards consistent with the Act and Rule 3100, this proposed rule provides that all references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, and standards established by the AICPA, would mean “the standards of the Public Company Accounting Oversight Board (United States).” The text of the proposed rule, including an appendix of illustrative auditor's reports, is set out below.

Auditing Standard No. 1 – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board

1. The Sarbanes-Oxley Act of 2002 authorized the Public Company Accounting Oversight Board (“PCAOB”) to establish auditing and related professional practice standards to be used by registered public accounting firms. PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, requires the auditor to comply with all applicable auditing and related professional practice standards of the PCAOB.

2. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the American Institute of Certified Public Accountants' (“AICPA”) Auditing Standards Board's

Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003.^{1/}

3. Accordingly, in connection with any engagement performed in accordance with the auditing and related professional practice standards of the PCAOB, whenever the auditor is required by the interim standards to make reference in a report to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, or standards established by the AICPA, the auditor must instead refer to "the standards of the Public Company Accounting Oversight Board (United States)." An auditor must also include the city and state (or city and country, in the case of non-U.S. auditors) from which the auditor's report has been issued.
4. This auditing standard is effective for auditors' reports issued or reissued on or after the 10th day following approval of this auditing standard by the Securities and Exchange Commission.
5. Audit reports issued prior to the effective date of this standard were required to state that the audits that supported those reports were performed in accordance with generally accepted auditing standards. The PCAOB adopted those generally accepted auditing standards, including their respective effective dates, as they existed on April 16, 2003, as interim standards. Therefore, reference to "the standards of the Public Company Accounting Oversight Board (United States)" with respect to audits of financial statements performed prior to the effective date of this standard is equivalent to the previously-required reference to generally accepted auditing standards. Accordingly, upon adoption of this standard, a reference to generally accepted auditing standards in auditors' reports is no longer appropriate or necessary.

Note: The term "auditor" in this standard is intended to include both registered public accounting firms and associated persons thereof.

APPENDIX

Illustrative Reports

The following is an illustrative report on an audit of financial statements:

Report of Independent Registered Public Accounting Firm

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the

^{1/} The Board's rules on interim standards were adopted by the Board on April 16, 2003, and approved by the Commission on April 25, 2003. See SEC Rel. No. 33-8222 (April 25, 2003).

three years in the period ended December 31, 20X3. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of [at] December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with U.S. generally accepted accounting principles.

[*Signature*]

[City and State or Country]

[*Date*]

The following is an illustrative report on a review of interim financial information:

Report of Independent Registered Public Accounting Firm

We have reviewed the accompanying [*describe the interim financial information or statements reviewed*] of X Company as of September 30, 20X3 and 20X2, and for the three-month and nine-month periods then ended. This (these) interim financial information (statements) is (are) the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially

less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial (statements) for it (them) to be in conformity with U.S. generally accepted accounting principles.

[*Signature*]

[City and State or Country]

[*Date*]

(b) Statutory Basis

The statutory basis for the proposed rule is Title I of the Act.

B. Board's Statement on Burden on Competition

The Board does not believe that the proposed rule will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Pursuant to the Act and PCAOB Rule 3100, registered public accounting firms must comply with all applicable auditing and related professional practice standards established by the PCAOB. The proposed rule would simply require a registered public accounting firm to make reference in the auditor's report to the standards of the PCAOB whenever the engagement was performed pursuant to the Board's auditing and related professional practice standards.

C. Board's Statement on Comments on the Proposed Rule Received from Members, Participants or Others

The Board released the proposed rule for public comment in PCAOB Release No. 2003-021 (November 12, 2003). A copy of PCAOB Release No. 2003-021 and the comment letters received in response to the PCAOB's request for comment are available on the PCAOB's web site at www.pcaobus.org. The Board received eight written comments. The Board has clarified and modified certain aspects of the proposed rule and the instructions to the related form in response to comments it received, as discussed below.

The Board received several comments related to transitional issues, including how the proposed standard would affect the reissuance of a report originally issued before the proposed standard became effective; issuance of a report on comparative financial statements when the audits of the financial statements for periods presented for comparative purposes were conducted before the proposed standard became effective and/or before the Board adopted its interim standards; and issuance of a dual-dated report that include dates that straddle the effective date of this standard.

In the proposed standard, the Board had recommended the standard be effective for auditors' reports dated on or after the later of January 1, 2004 or the 10th day after SEC approval of the standard as adopted by the Board. In evaluating the comments with regard to transition, the Board decided to modify the effective date of this standard. Rather than linking the effective date of this standard to the date of the report, this auditing standard will be effective for reports issued or reissued on or after the 10th day following SEC approval of this auditing standard. After this standard becomes effective, any auditor's report

issued or reissued with respect to the financial statements of a public company must state that the engagement was performed in accordance with "the standards of the Public Company Accounting Oversight Board (United States)."

One commenter also expressed concern that the proposed standard's requirement that a report state that an audit performed prior to the PCAOB's adoption of interim standards was performed in accordance with PCAOB standards would, in essence, require the auditor to re-audit the prior period's financial statements in order to bring that audit or review into conformity with current PCAOB standards. The Board does not intend to require auditors to bring audits that were performed in accordance with then-prevailing standards into conformity with later-prevailing standards in order to reissue a previously-issued report. When the Board adopted as interim standards the generally accepted auditing standards established by the ASB, the Board also adopted the effective dates of those standards. Therefore, reference in auditors' reports to the standards of the PCAOB with respect to financial statements audited or reviewed prior to the effective date of Auditing Standard No. 1 is equivalent to the previously-required reference to generally accepted auditing standards. The reference relates to those standards that were in effect when the audit or review was completed and should not be interpreted to imply a representation that the audit or review complied with standards that became effective after the audit or review was completed.

Several commenters recommended that the Board only require auditors' reports to refer to the *auditing* standards of the PCAOB for audits of financial

statements and not to the standards of the PCAOB generally. The Board intends for report references to "the standards of the Public Company Accounting Oversight Board (United States)" to mean those auditing and related professional practice standards that are applicable to the particular engagement. For example, if an issuer does not use any outside service organization that would affect its internal control over financial reporting, then the interim auditing standard on service organizations – described in the Codification of Statements on Auditing Standards at AU § 324 (*Service Organizations*), would not be applicable. On the other hand, the Board's independence standards apply to registered public accounting firms, and associated persons thereof, in connection with the preparation and issuance of audit reports for issuers.

As another example, quality control standards generally apply to a firm's system of quality control over its accounting and auditing practice and not to individual audit engagements. Thus, a breakdown in the system of quality control does not necessarily mean that a particular audit was not conducted in accordance with the standards of the PCAOB. However, such a breakdown might result in a deficient audit if it caused or contributed to an audit deficiency. The determination as to whether a particular auditing or related professional practice standard is applicable in the context of a particular audit is dependent on the nature of the standard in question and on the nature of the engagement at issue.

Thus a reference to "auditing standards" of the PCAOB would be too narrow and preclusive to other standards applicable to the audit. The Board

believes that reference to "the standards of the Public Company Accounting Oversight Board (United States)" is a more descriptive reference to the standards applied in the audit.

The Board received a number of comments recommending that auditors' reports, with respect to financial statement audits, describe PCAOB standards as generally accepted auditing standards. The notion of general acceptance developed at a time when auditing and accounting standards were not established with the force of law by governmental or other authoritative bodies, but rather were established by consensus among the members of the accounting profession.

As far as auditing and related professional practice standards are concerned, the Board gained authority to establish such standards by the enactment of the Act. Professional consensus is no longer sufficient to establish auditing standards, and therefore the Board believes that it is no longer appropriate to refer to the standards with which an auditor of the financial statements of a public company must comply as "generally accepted." While those standards may be generally accepted in a variety of contexts, what gives them the force of law in the context of public company audits is adoption by the PCAOB and approval by the SEC.

Therefore, for purposes of any engagement performed in accordance with the applicable auditing and related professional practice standards of the PCAOB, references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards

generally accepted in the United States of America, and standards established by the AICPA, mean the standards of the PCAOB.

The Board also received comments recommending that the Board continue to require auditors to state in their reports that the standards according to which they performed their engagements were those standards applicable in the United States. Adopting this recommendation will make it easier for readers of audit reports that are used in cross-border offerings and listings of securities to quickly identify the jurisdiction in which the standards were promulgated. As such, the Board has required in Auditing Standard No. 1 that auditors' reports describe the PCAOB's standards as "the standards of the Public Company Accounting Oversight Board (United States)."

Another commenter recommended that auditors identify in their reports the city and state (or country) of the registered firms issuing the reports. The SEC's rules require disclosure in the auditor's report of the city and state of the accounting firm's office issuing the report. (17 C.F.R. § 210.2-02). The Board also concurs with this recommendation and, accordingly, has modified the auditing standard and the illustrative reports in the appendix to Auditing Standard No. 1.

The Board was asked to clarify the applicability of this standard, and the Board's standards generally, to circumstances where more than one auditing firm contributes to an audit of a consolidated entity. For example, a firm other than the firm engaged to report on the company's consolidated financial statements may be hired to audit the financial statements of a subsidiary company. In such

circumstances, the auditor that conducts the majority of the audit is referred to as the principal auditor and the auditor of the subsidiary company is referred to as the other auditor. (See Codification of Auditing Standards, AU § 543). Depending on the significance of the portion of the financial statements audited by the other auditor, the principal auditor may divide responsibility with the other auditor by making reference to the audit of the other auditor in his or her report, or the principal auditor may take responsibility for the work of the other auditor by not making any reference to the other auditor.

In either event, the entire audit must be performed in accordance with the Board's standards. Section 103 of the Act, and the Board's Rule 3100, require registered public accounting firms, and associated persons thereof, to comply with all applicable auditing and related professional practice standards in connection with the preparation and issuance of audit reports on the financial statements of issuers. Whether the other auditor is a registered public accounting firm or an associated person of a registered public accounting firm, the other auditor must comply with the standards of the PCAOB.

Another commenter asked the Board to clarify whether non-U.S. public accounting firms – who are not required to register with the PCAOB until 2004 – will be permitted, until registered with the PCAOB, to continue to reference "auditing standards generally accepted in the United States of America" when reporting on an issuer's financial statements. Like the Board's interim standards, with which a public accounting firm is required to comply even before the firm's mandatory registration date, during the period preceding the mandatory

registration date, standards of the PCAOB apply to firms engaged in work that requires their registration. Therefore, non-U.S. public accounting firms that have not yet registered, that engage in work that would require them to be registered as of the mandatory registration date, are nevertheless required to reference "the standards of the Public Company Accounting Oversight Board (United States)."

Another commenter recommended that the Board expand the proposed standard to specifically address the various scenarios that auditors will encounter with respect to reporting in conjunction with initial public offerings. The SEC's Rule 3-01 of Regulation S-X requires that, like other SEC filings that must comply with Regulation S-X, a registration statement filed in connection with an initial public offering must include or otherwise incorporate "for the registrant and its subsidiaries consolidated, audited balance sheets as of the end of each of the two most recent fiscal years." (17 C.F.R. § 210.3-01). In addition, Rule 3-02 of Regulation S-X requires that there "be filed, for the registrant and its subsidiaries consolidated and for its predecessors, audited statements of income and cash flows for each of the three fiscal years preceding the date of the most recent audited balance sheet." (17 C.F.R. § 210.3-02). Thus an issuer desiring to register a transaction involving the sale of securities must have financial statements audited in accordance with standards as required by the securities laws.

In Section 103 of the Act, Congress has provided the Board authority to establish auditing and related professional practice standards "to be used by registered public accounting firms in the preparation and issuance of audit

reports." In addition, the PCAOB has adopted, and the SEC has approved, PCAOB Rule 3100, which requires registered public accounting firms to comply with all applicable auditing and related professional practice standards of the PCAOB in connection with the preparation and issuance of audit reports on the financial statements of issuers. Accordingly, audit reports on the financial statements of issuers must now comply with – and under Auditing Standard No. 1 auditors must state that they performed the audit in accordance with – the standards of the PCAOB. So long as audits that were performed prior to April 25, 2003, were performed in accordance with then-prevailing generally accepted auditing standards, an auditor need not re-audit any financial statements that relate to periods preceding April 25, 2003. Further, as discussed above, because the Board adopted the "generally accepted auditing standards" in effect as of April 16, 2003, the Board believes it is appropriate to require auditors who issue or reissue reports on periods prior to the date Auditing Standard No. 1 becomes effective to state that their audits were performed in accordance with PCAOB standards, so long as they were performed in accordance with the "generally accepted auditing standards" prevailing at the time the audits were performed.

III. Date of Effectiveness of the Proposed Rule and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes

its reasons for so finding or (ii) as to which the Board consents the Commission will:

- (a) by order approve such proposed rule; or
- (b) institute proceedings to determine whether the proposed rule should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule is consistent with the requirements of Title I of the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule that are filed with the Commission, and all written communications relating to the proposed rule between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the PCAOB. All submissions should refer to File No. PCAOB-2003-10 and should be submitted within [] days.

By the Commission.

Secretary



1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

PROPOSED AUDITING STANDARD –
REFERENCES IN AUDITORS' REPORTS TO
THE STANDARDS OF THE PUBLIC COMPANY
ACCOUNTING OVERSIGHT BOARD

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) PCAOB Release No. 2003-021
) November 12, 2003
)
) PCAOB Rulemaking
) Docket Matter No. 010
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Summary: The Public Company Accounting Oversight Board (the "Board" or "PCAOB") has proposed an Auditing Standard, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*. If adopted, registered public accounting firms would include in their reports on audits of financial statements and other engagements performed pursuant to the Board's auditing and related professional practice standards a reference to the standards of the Public Company Accounting Oversight Board.

Public

Comment: Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments may also be submitted by e-mail to comments@pcaobus.org or through the Board's Web site at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 010 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EST on December 4, 2003.

Board

Contacts: Thomas Ray, Deputy Chief Auditor (202/207-9112; rayt@pcaobus.org),
Greg Scates, Associate Chief Auditor (202/207-9114;
scatesg@pcaobus.org).



RELEASE

A. Proposed Auditing Standard

The Sarbanes-Oxley Act of 2002 (the "Act") authorized the PCAOB to establish auditing and related professional practice standards to be used by registered public accounting firms. PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, requires auditors to comply with all applicable auditing and related professional practice standards established by the PCAOB. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the American Institute of Certified Public Accountants' ("AICPA") Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003 (the "interim standards").

The Board's interim standards – as did the profession's generally accepted auditing standards that preceded the Board's standards – require auditors to make reference in their audit and review reports to the standards that they followed in conducting the audits and reviews. To conform the language of auditors' reports to the requirement that auditors comply with PCAOB standards, the Board's proposed Auditing Standard would require auditors' reports to refer to "the standards of the Public Company Accounting Oversight Board." An appendix to the proposed Auditing Standard provides illustrative reports on an audit of financial statements and a review^{1/} of interim financial information of a public company.

In addition, to make the Board's interim standards consistent with the Act and Rule 3100, the proposed Auditing Standard provides that all references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, and standards established by the AICPA, would mean "the standards of the Public Company Accounting Oversight Board." The proposed Auditing Standard would be effective for auditors' reports dated on or after the later of January 1, 2004 or on the 10th day after final approval of the standard.

The Act and the Board's rules already require the auditor to comply with the Board's standards; therefore, the Board believes that the changes proposed by this

^{1/} Reviews of the interim financial information are integrally related to audits of financial statements. See generally Statement on Auditing Standards ("SAS") No. 100, *Interim Financial Information*. For example, SAS No. 100 makes clear that the general standards on auditing discussed in SAS No. 95 "are applicable to a review of interim financial information."



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standard merely conform the references in the interim standards and in auditors' reports to the standards that the Act and Rule 3100 require auditors to use in connection with preparing and issuing audit and related reports on the financial statements of issuers.

Under the Act, this proposed Auditing Standard, if adopted by the Board, will not be effective unless it is approved by the Securities and Exchange Commission. Until such approval, auditors should adhere to the reporting requirements in the interim standards.

B. Opportunity for Public Comment

The Board will seek comment on the proposed Auditing Standard for a 21-day period. Interested persons are encouraged to submit their views to the Board. Written comments should be sent to Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments may also be submitted by e-mail to comments@pcaobus.org or through the Board's Web site at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 010 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EST on December 4, 2003.

The Board will carefully consider all comments received. Following the close of the comment period, the Board will determine whether to adopt a final Auditing Standard, with or without amendments. Any final Auditing Standard adopted will be submitted to the Securities and Exchange Commission for approval. Pursuant to Section 107 of the Act, proposed rules of the Board do not take effect unless approved by the Commission.



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* * *

On the 12th day of November, in the year 2003, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour
Acting Secretary

November 12, 2003

APPENDIX –

Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board



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Appendix – Proposed Auditing Standard

November 12, 2003

AUDITING AND RELATED PROFESSIONAL PRACTICE STANDARDS

Proposed Auditing Standard—

***REFERENCES IN AUDITORS' REPORTS TO THE
STANDARDS OF THE PUBLIC COMPANY
ACCOUNTING OVERSIGHT BOARD***



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STATEMENT OF AUTHORITY

The Public Company Accounting Oversight Board (the "Board") is a private-sector, non-profit corporation created by the Sarbanes-Oxley Act of 2002 (the "Act") to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.

The Board has adopted Rule 3100 to require all registered public accounting firms to adhere to the Board's auditing and related professional practice standards (including interim professional standards) in the audits of public companies. Any registered public accounting firm that fails to adhere to the Board's standards is subject to disciplinary proceedings in accordance with Section 105 of the Act and the Board's rules.

Reference in the Board's standards to "the auditor" means a registered public accounting firm or an associated person of such a firm as defined in the Act and the Board's rules, unless specifically stated otherwise.

Reference in the Board's standards to the AICPA Professional Standards refers to those professional standards as they existed on April 16, 2003, the date the Board adopted them as interim standards.

The Board has proposed Rule 3101 regarding the use of certain terms in the Board's standards.* The Board's standards use the words "must," "shall," and "is required" to indicate unconditional obligations. The auditor must accomplish obligations of this type in all cases in which the circumstances exist to which the obligation applies. The auditor's performance of these obligations is necessary to the accomplishment of the audit. The standards use the word "should" to indicate obligations that are presumptively mandatory. The auditor must comply with the requirements of this nature specified in the Board's standards unless the auditor can demonstrate, by verifiable objective and documented evidence, that alternative actions he or she followed in the circumstances were sufficient to achieve the objectives of the standard and serve adequately to protect the interests of investors and further the preparation of informative, fair, and independent audit reports. The Board uses the words "may," "might," "could," or other terms and phrases to describe actions and procedures that auditors have a professional obligation to consider. Matters described in this fashion require the auditor's attention and understanding. How and whether the auditor implements these matters in an audit will depend on the exercise of professional judgment in the circumstances. Additionally, appendices to the Board's standards are

* See PCAOB Release No. 2003-018, *Proposed Rule Regarding Certain Terms Used in Auditing and Related Professional Practice Standards*.



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an integral part of the standard and carry the same authoritative weight as the body of the standard.

This Statement of Authority is an integral part of the Board's auditing and related professional practice standards.



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References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board

1. The Sarbanes-Oxley Act of 2002 authorized the Public Company Accounting Oversight Board (PCAOB) to establish auditing and related professional practice standards to be used by registered public accounting firms. PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, requires the auditor to comply with all applicable auditing and related professional practice standards of the PCAOB.
2. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the AICPA Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003. Therefore, for purposes of any engagement performed in accordance with the applicable auditing and related professional practice standards of the PCAOB, references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, and standards established by the AICPA, mean the standards of the PCAOB.
3. Accordingly, whenever the auditor is required by the interim standards to make reference in a report to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, or standards established by the AICPA, the auditor must instead refer to "the standards of the Public Company Accounting Oversight Board."
4. This auditing standard is effective for auditors' reports dated on or after the later of January 1, 2004 or the tenth day after final approval of this auditing standard.



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APPENDIX

Illustrative Reports

The following is an illustrative report on an audit of financial statements:

Report of Independent Registered Public Accounting Firm

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of [at] December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with accounting principles generally accepted in the United States of America.

[Signature]

[Date]



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The following is an illustrative report on a review of interim financial information:

Report of Independent Registered Public Accounting Firm

We have reviewed the accompanying [*describe the interim financial information or statements reviewed*] of X Company as of September 30, 20X3 and 20X2, and for the three-month and nine-month periods then ended. This (these) interim financial information (statements) is (are) the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial (statements) for it (them) to be in conformity with accounting principles generally accepted in the United States of America.

[*Signature*]

[*Date*]



Exhibit 2(a)(B)

Tab Number	Comment Source
1	Deloitte & Touche LLP, December 4, 2003
2	Ernst & Young LLP December 4, 2003
3	Federation of European Accountants, <i>Author: David Devlin, President</i> , December 4, 2003
4	Grant Thornton LLP, <i>Author: John L. Archambault</i> , December 4, 2003
5	Illinois CPA Society, Audit and Assurance Services Committee, <i>Authors: William P. Graf, Chair, Audit & Assurance Services Committee; and Scott P. Bailey, Chair, Comment Letter Subcommittee</i> , December 4, 2003
6	KPMG, LLP, December 4, 2003
7	New York State Society of Certified Public Accountants, December 8, 2003
8	PricewaterhouseCoopers LLP, December 4, 2003

Deloitte & Touche LLP
10 Westport Road
PO Box 820
Wilton, CT 06897-0820

Tel: 203-761-3000
Fax: 203-834-2200

**Deloitte
& Touche**

December 4, 2003

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. 010
Proposed Auditing Standard – References in Auditors’ Reports to the
Standards of the Public Company Accounting Oversight Board

Deloitte & Touche LLP is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its Proposed Auditing Standard, *References in Auditors’ Reports to the Standards of the Public Company Accounting Oversight Board* (the “Proposed Standard”), PCAOB Rulemaking Docket Matter No. 010 (November 12, 2003). We fully agree that it is necessary to revise the language of the auditors’ report to refer to the standards of the PCAOB.

However, the Proposed Standard does not address several transitional and application issues that will arise in the implementation of the standard. In order to ensure consistent and appropriate application, the Proposed Standard requires clarification by the Board with regard to the following issues:

1) Definition of the phrase “standards of the PCAOB”

Under the Proposed Standard, the auditors’ report would state that the audit was conducted under the “standards of the PCAOB.” Under the Board’s existing interim standards, the auditors’ report refers specifically to generally accepted *auditing* standards in the United States of America. In order for readers of the auditors’ report to readily determine the country of origin, we believe the reference to the standards of the PCAOB also should specify that such standards have been promulgated in the United States of America. Additionally, as the auditors’ report is speaking specifically to the conduct of the particular audit engagement and is signed by the engagement partner responsible for such engagement, we believe the language in the auditors’ report in the Proposed Standard should specifically refer to the *auditing* standards of the PCAOB.

Further, if by using the word “standards,” the Board is referring to “auditing and related professional practice standards,” which has previously been defined by the Board to include auditing standards, related attestation standards, quality control standards, ethical standards,

and independence standards, and any other professional standards established by the Board, rather than specifically “auditing standards,” then the Board should clarify that the audit documentation for a specific audit engagement is not required to substantiate compliance with certain firm-level quality control, ethics, and independence standards. For example, each individual audit engagement should not be required to document compliance with quality control requirements, such as training, that are documented on a firm-wide level, but not on an engagement specific level.

2) *Audits previously conducted under Generally Accepted Auditing Standards as promulgated by the American Institute of Certified Public Accountants (“GAAS”)*

When each of the years in a comparative presentation have been audited under the PCAOB standards, the illustrated report in the Proposed Standard would be appropriate. However, in the first or second year of the application of the PCAOB standards, it would not be appropriate to state that the audits for all years presented were conducted in accordance with PCAOB standards, as prior audits were conducted under GAAS. Although at this point there are no differences between the interim standards adopted by the PCAOB and GAAS, this will not be true for much longer. Additionally, we do not believe it would be possible to update prior audits performed under GAAS to comply with PCAOB standards. For instance, it would not be possible to update an audit performed in accordance with GAAS to meet the audit documentation standard being proposed by the PCAOB. As such, we are concerned that describing prior audits as being conducted in accordance with the standards of the PCAOB would be misleading to readers. Accordingly, we believe prior audits performed under GAAS should be described as such in the auditors’ report. For example, the first sentence of the scope paragraph might read: We conducted our audit of the 20x3 financial statements in accordance with the auditing standards of the U.S. Public Company Accounting Oversight Board and our audit of the financial statements as of December 31, 20x2, and for each of the years in the two year period then ended, in accordance with auditing standards generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants.

Alternatively, the standard should state that the reference to PCAOB standards relates to the standards that were applicable at the time the audits referred to in the report were conducted. However, such alternative would be less clear to the general public.

3) *Reissuance of an auditors’ report when a subsequent audit has not been performed*

The Proposed Standard does not address its applicability to a situation in which an auditors’ report is being reissued prior to the performance of an audit under PCAOB standards. If there is no change in the report date from its earlier issuance, one could conclude that the PCAOB standard does not apply as the report would be dated earlier than the proposed effective date of the standard. However, if the report is dual-dated for a subsequent event on or after the effective date of the standard, it is not clear whether the report would need to reference the PCAOB standards in the dual-dated report. We believe that if an auditors’ report is originally dated prior to the effective date of the standard and is then dual-dated upon reissuance for a subsequent event, the auditors’ report should continue to describe the audit as having been performed under GAAS.

4) Responsibility of predecessor auditors when reissuing their report

The Proposed Standard does not articulate the applicability to predecessor auditors who are required to reissue their report and have not conducted any audits under the PCAOB standards. The issue of such applicability is similar to the continuing auditor situation described in (3) above.

5) Applicability to other auditors who audit an equity investment under GAAS

Presumably, auditors of a consolidated subsidiary that is not itself an issuer would be required to follow the PCAOB standards for auditing standalone financial statements of that subsidiary for purposes of consolidation. However, the issuer may not have the ability to influence the standards to be followed for equity investments. Accordingly, if the other auditors followed GAAS rather than PCAOB standards, and the principal auditors intend to divide responsibility with the other auditors, the principal auditors' report should clearly articulate that the other auditors audited the financial statements of the equity investee in accordance with GAAS. Guidance and an illustrative report example should be provided for this situation. The Board should also consider and provide guidance as to whether it is appropriate for the principal auditors to state that they audited the financial statements in accordance with PCAOB standards when such equity investee constitutes a material part of the consolidated financial statements.

6) Applicability in an Initial Public Offering

Another situation that is not addressed is that of an initial public offering. The audits of the financial statements of a nonpublic entity would be conducted in accordance with GAAS each year. At some point, the entity decides to have an initial public offering. If the entity makes such decision in conjunction with the engagement for the annual audit, the auditors would be able to perform the audit for such year in accordance with the auditing standards of the PCAOB; however, the auditors would not be able to state that the audits of the prior years were conducted in accordance with the PCAOB standards, particularly for those years in which there are significant differences between GAAS and the PCAOB standards. Accordingly, the auditors' report would need to make reference to both the PCAOB standards and GAAS for the respective years as illustrated in (2) above.¹

However, if the entity requests its auditors to merely reissue their report for inclusion in the registration statement, the auditors would be precluded from making any reference to conducting an audit in accordance with the PCAOB standards. Such situation would therefore preclude the entity from accessing the public markets until such time as an audit is

¹ This presumes that the Securities and Exchange Commission would accept prior audits that were conducted in accordance with GAAS subsequent to the existence of the PCAOB.

conducted in accordance with the PCAOB standards.² This may cause entities to engage their auditors to audit financial statements for an interim period (e.g., a three, six or nine-month period) under the PCAOB standards, which would then necessitate the preparation of complete financial statements for such interim period rather than the condensed interim financial information currently required under the rules of the Securities and Exchange Commission.

Accordingly, we recommend that the Board expand the Proposed Standard to specifically address the various scenarios that auditors will encounter with respect to reporting in conjunction with initial public offerings.

The transition and application issues identified above have significant resulting implications on the language in the auditors' report. While the Proposed Standard suggests that the new standard be applied to reports dated on or after January 1, 2004 (or the tenth date after approval of the final standard), based on the implementation dates of the Board's proposed auditing standards, it is likely that the standards of the PCAOB will not differ from GAAS until after issuers with December 31, 2003 fiscal year ends have filed their applicable Form 10-Ks with the Securities and Exchange Commission for the current year. Because of the uncertainty with respect to the timing of the approval of the final standard, we believe an effective date of reports dated on or after March 16, 2004 would provide a reasonable amount of additional time for issuers and auditors to understand the implications to the auditors' report and to appropriately implement the required changes.

We appreciate the opportunity to comment, and would be pleased to discuss these issues with you further. If you have any questions or would like to discuss these issues further, please contact Robert J. Kueppers at (203) 761-3579 or John A. Fogarty at (203) 761-3227.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: William J. McDonough, Chairman of the PCAOB
Kayla J. Gillan, Member
Daniel L. Goelzer, Member
Willis D. Gradison, Jr., Member
Charles D. Niemeier, Member

² This presumes that the Securities and Exchange Commission would require that the most recent period included in a registration statement be audited in accordance with PCAOB standards.



■ Ernst & Young LLP
Suite 1300
925 Euclid Avenue
Cleveland, Ohio 44115

■ Phone: (216) 861-5000
www.ey.com

December 4, 2003

Mr. J. Gordon Seymour
Acting Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

**PCAOB Rulemaking Docket Matter No. 010,
Proposed Auditing Standard – References In Auditors’ Reports To The Standards Of The
Public Company Accounting Oversight Board**

Dear Mr. Seymour:

We are pleased to comment on the PCAOB’s proposed auditing standard (the “Proposed Standard”) relating to references in auditors’ reports to the standards of the PCAOB.

We agree that the auditor’s report should include a reference that the audit was conducted in accordance with PCAOB standards and submit the following comments for the Board’s consideration.

Reference to Country of Origin and Auditing Standards

The substance of the change from the existing standard report is as follows (source AICPA Professional Standards AU Sec. 508.08):

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board ~~auditing standards generally accepted in the United States of America.~~

Existing interim auditing standards require that the auditor’s report identify the United States of America as the country of origin of the auditing standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards). The proposed change to auditors’ reports would eliminate reference to the country of origin. Because other countries are creating oversight boards with the authority to establish auditing standards and public company reports frequently are circulated to users in more than one country, we believe all audit reports should continue to identify the country of origin. Further, we believe that continuing to identify the country of origin in audit reports for public companies will make such reports consistent with present practice and with audit reports for nonpublic companies.

Mr. J. Gordon Seymour

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December 4, 2003

Additionally, because the PCAOB's auditing standards address the conduct of the audit, we believe the auditor's report should indicate that the audit was conducted in accordance with auditing standards of the PCAOB.

Transition Matters

The Proposed Standard does not address a number of transition reporting matters that will inevitably arise in practice. For example, should the auditor's report refer to the standards of the PCAOB if the auditor is reissuing a report after the effective date and the previously issued report did not refer to the standards of the PCAOB? Or for example, how should the auditor's report deal with comparative financial statements where the auditor's report on the financial statements for the previous year did not refer to the standards of the PCAOB? We recommend the final standard address all transition reporting matters.

Identifying Changes Resulting From the Proposed Standard

We urge the Board to clearly identify all the specific wording changes being made to the Board's interim professional standards as a result of the Proposed Standard (e.g., changes to various paragraphs in AU Sec. 508 and Sec. 722). We believe it is important for auditors and other interested parties to know the specific wording to minimize the risk that such changes will be misunderstood or not appropriately considered.

We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff.

Very truly yours,

Ernst & Young LLP

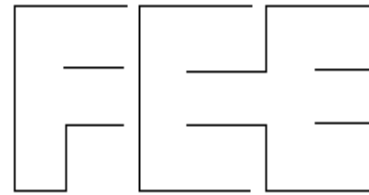
Date
4 December 2003

Secrétariat
Général

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Office of the Secretary
Public Company Accounting Oversight Board (PCAOB)
1666 K Street, NW
USA - Washington D.C. 20006-2803



Dear Sirs,

Re: PCAOB Rulemaking Docket Matter No. 010 – “Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board”

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to comment on the exposure draft released by the PCAOB on 12 November 2003 on “Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board” (referred to as “the proposed standard”).

We are commenting on the use of certain terms in the PCAOB standards as stated in the statement of authority included in the proposed standard. We are not commenting on the references in auditors' reports to the standards of the PCAOB.

Because of the importance of the issues raised by the proposed standard we are sending a copy of our response to the International Auditing and Assurance Standards Board (IAASB) and the European Commission.

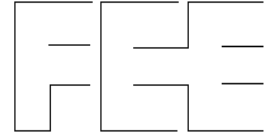
We are delighted that both the PCAOB and the IAASB are working hard towards achieving clarity in terms and definitions used in their standard setting. In the light of the considerations below, we believe that the PCAOB's rulemaking on this subject would be greatly enhanced by coordinating its efforts with the IAASB. The projects currently undertaken by both standard setters should be finalised within a similar timeframe. In particular, we note that a 90 day consultation period would be expected under the IAASB's normal due process in respect of any exposure draft issued following the IAASB meeting later this month.

Worldwide repercussions of proposed standard

The statement of authority in the proposed standard will have a very wide impact not only on US-based auditors, but also on auditors throughout the world serving:

- (1) SEC foreign registrant companies who choose to be listed in the US; and
- (2) the relevant subsidiaries of US domestic SEC registrants which fall under the same requirements as the US domestic portion of the entity.

We request the PCAOB to give due consideration to the impact its proposal will have on the IAASB's global auditing standards. In particular, we strongly encourage the PCAOB to consider how the proposed standard fits in with International Standards on Auditing (ISAs). There are inconsistencies with definitions contained in current ISAs and it is also our understanding that the IAASB is currently considering wording issues crucial to the development of future standards. New definitions to be



applied in future ISAs should be carefully taken into account and integrated in the proposed standard of the PCAOB.

Problems with definitions

The use or definition of certain terms in PCAOB standards should be in line with the ISAs which will be adopted by firms in the European Union in 2005. Inconsistencies will have considerable practical consequences for the adoption of global standards, not least for the translation of English language standards into multiple European languages.

A proposed exposure draft of a proposed IAASB Policy Statement in respect of "Authority of, and Conventions Used in, International Standards and Practice Statements Issued by the IAASB" is included in the agenda of the IAASB board meeting to be held on 8 to 12 December 2003. It includes the terminology used to describe professional requirements.

The definition of "should" indicates under the proposals of both the PCAOB and the IAASB, requirements or obligations that are presumptively mandatory. However the more detailed interpretation of the definitions is substantially different. The proposed IAASB definition states that if a standard provides "... that an action or procedure is one that the professional accountant "should consider," the consideration of the action or procedures is presumptively mandatory, while the action or procedure is not" thus allowing for the exercise of professional judgement in the context of a principle based framework.

The proposed PCAOB definition indicates that the "...auditor must comply with the requirements of this nature specified in the Board's standards unless the auditor can demonstrate, by verifiable objective and documented evidence, that alternative actions that he or she followed in the circumstances were sufficient to achieve the objectives of the standard and serve adequately to protect the interests of investors and further the preparation of informative, fair, and independent audit reports." This definition effectively makes "should" into an imperative and will foster a rules-based approach. The call for "verifiable objective and documented evidence" will discourage the use of professional judgement or the consideration of any alternative options.

FEE is firmly in favour of principle-based auditing standard setting which allows and encourages the auditor to use professional judgement. We believe that it also serves the public interest and would be in the long term interest of the PCAOB in discharging its responsibilities.

The PCAOB uses the words "may", "might" and "could" or other terms and phrases to describe actions and procedures that a professional accountant might consider performing in certain circumstances. Such actions and procedures, also called explanatory material, are characterized as a separate category of professional responsibility by the PCAOB. Under the IAASB proposal, such explanatory material only provides *guidance* or *explanatory material* on other possible procedures and actions. The professional accountant has a responsibility to read and consider such guidance, but there is no general obligation to carry out other procedures and actions that are specifically intended to act as guidance. We do not believe that the description proposed by the PCAOB is consistent with the nature and intended use of explanatory material, and may inadvertently result in confusion over the responsibilities of the professional accountant.

*

*

*

If you have any further questions about our views on these matters, do not hesitate to contact us.

Yours sincerely,

David Devlin
President

Grant Thornton LLP
The US Member Firm of
Grant Thornton International

175 West Jackson
Chicago, IL 60604
312 602-8000



December 4, 2003

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

Via e-mail: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 010, *Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*

Dear Board Members and Staff,

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("Board" or "PCAOB") *Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*. As the Board has been authorized to establish and maintain auditing and related professional practice standards for registered public accounting firms, we believe it is necessary for the Board to issue and adopt rules that modify reports to clarify the standards used by such firms. As such, we support the Board's proposal to reference the PCAOB's standards in registered public accounting firms' reports; however, our concerns with respect to the proposal are expressed below.

Reports on Comparative Financial Statements

The proposed auditing standard is going to require all auditors' reports dated on or after the effective date to refer to "the standards of the Public Company Accounting Oversight Board" as the standards used to conduct the audit. However, during the transition period (for example, until all periods presented are audited in accordance with the standards of the PCAOB), such audits were conducted under two separate sets of standards: the audit and related professional practice standards of the PCAOB and the pre-existing generally accepted auditing standards adopted by the Auditing Standards Board of the American Institute of Certified Public Accountants. Accordingly, for reports on comparative financial statements issued during the transition period, we suggest that the auditors' report include an explanatory paragraph that appropriately acknowledges the standards used to conduct the audits. For example, the report may include the following paragraph:

"The Sarbanes-Oxley Act of 2002 authorized the Public Company Accounting Oversight Board to establish auditing and related professional practice standards to be used by registered public

accounting firms. Such standards were initially established on April 16, 2003. Prior to that date, registered public accounting firms conducted their audits (or reviews) in accordance with auditing standards established by the American Institute of Certified Public Accountants.”

We further recommend that the Board consider other situations where an explanatory paragraph may also be necessary, for example, re-issued reports. If the Board chooses not to require the addition of an explanatory paragraph in the audit or review report, we suggest that the Board specifically acknowledge such implementation issues, as they relate to the two separate sets of standards, in a transition paragraph in the proposed auditing standard. The PCAOB may further consider revising the proposed auditing standard to acknowledge that reissued reports that retain dates prior to the effective date of the PCAOB’s audit and related professional practice standards (April 16, 2003) would continue to refer to the pre-existing standards.

Scope of Proposed Auditing Standard and Effective Date

The proposed auditing standard currently states, “This auditing standard is effective for auditors’ reports dated on or after the later of January 1, 2004 or the tenth day after final approval of this auditing standard [emphasis added].” However, the scope of the proposed auditing standard expands beyond an audit or review report itself, as indicated by the following statement in paragraph two: “Therefore, for purposes of any engagement performed in accordance with applicable auditing and related professional practice standards of the PCAOB, references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, and standards established by the AICPA, mean the standards of the PCAOB.” Thus, this may affect other matters in conjunction with an audit, in addition to the auditors’ report. Accordingly, we believe it is critical that the Board clearly identify the portions of the interim standards that are superseded or amended by newly adopted standards and rules.

In addition to reviews of interim financial information, the effective date should also cover other services performed under Rule 3200I, *Interim Auditing Standards* (previously known as Statements on Auditing Standards), such as reports on the processing of transactions by a service organization and letters for underwriters and certain other requesting parties. Further, we urge the Board to adopt a similar standard for the interim attestation standards.

References to PCAOB Standards and Illustrative Reports

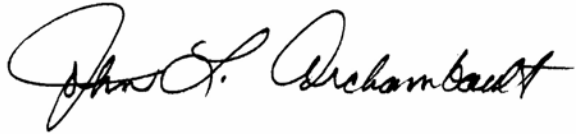
The proposed auditing standard would require reports to refer to “the standards of the Public Company Accounting Oversight Board” as the standards used to conduct an audit (or review). We believe that this phrase does not adequately identify and define the standards used by the registered public accounting firm. Accordingly, we suggest that the Board consider modifying the phrase to indicate the specific audit and related professional practice standards used to conduct the engagement (i.e., auditing standards or attestation standards). We further believe that the report should indicate the country of origin of such standards and that the auditing standards are generally accepted.

In addition, as Rule 2-02, *Accountants Reports and Attestation Reports on Management’s Assessment of Internal Control Over Financial Reporting*, of Regulation S-X requires reports to indicate the City and State where they were issued, we suggest conforming the illustrative reports to this rule.

December 4, 2003

We would be pleased to discuss our comments with you. If you have any questions, please contact Mr. John L. Archambault, Managing Partner of Professional Standards, at (312) 602-8701.

Very truly yours,

A handwritten signature in black ink, reading "John L. Archambault". The signature is written in a cursive style with a large initial "J" and "A".

Grant Thornton LLP



December 1, 2003

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

RE: Rulemaking Docket Matter No. 010 (PCAOB Release No. 2003-021)

Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Accounting Oversight Board

Dear Sirs:

The Audit and Assurance Services Committee of the Illinois CPA Society is a voluntary group of CPAs from public practice, industry, education, and government. We welcome the opportunity to comment on the proposed auditing standards being considered by the PCAOB. Our comments represent the collective views of Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

We reviewed the proposed standard referred to above and had one consideration. Our Committee believes the auditors' report should continue to refer to "generally accepted auditing standards". This phrase is widely recognized by financial statement users as the appropriate compendium of auditing rules to be applied, and should be used and modified by identifying the relevant promulgating body..

Audit reports should state that the audits were performed in accordance with "generally accepted auditing standards for public companies as established by the Public Company Accounting Oversight Board" or "public company auditing standards generally accepted in the United States of America as established by the Public Company Accounting Oversight Board".

The members of the Audit and Assurance Services Committee of the Illinois CPA Society thank you for the opportunity to respond to this proposal.

Sincerely,

William P. Graf, Chair
Audit & Assurance Services Committee

Scott P. Bailey, Chair
Comment Letter Subcommittee

APPENDIX A

ILLINOIS CPA SOCIETY
AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2003 - 2004

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of auditing standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of auditing and attest standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:**Large:**

Dolinar, James A. CPA	Crowe Chizek & Co. LLP
Gabouer, Kurt CPA	KPMG LLP
Graf, William P. CPA	Deloitte & Touche LLP
Graham, G. W., CPA	Grant Thornton LLP
McClanahan, James P. CPA	Altschuler, Melvoin & Glasser LLP
Pierce, Michael J. CPA	American Express Tax & Business Services
Waggoner, Joan, CPA	Blackman Kallick Bartelstein LLP

Medium: (more than 40 employees)

Gregor, Sharon J. CPA	Selden, Fox and Associates, Ltd.
Mills, Gary W., CPA	KGN Financial Group LLC
Panfil, Stephen R. CPA	Bansley & Kiener LLP

Small: (less than 40 employees)

Davila, Antonio Jr. CPA	Hill, Taylor LLC
Goltz, Jeffrey M. CPA	Rosen, Goltz & Associates
Kramer, Loren B. CPA	Kramer Consulting Services, Inc.
Krueger, Andrea L., CPA	Corbett, Duncan & Hubly P.C.
Lewis, Ludella, CPA	Ludella Lewis & Company
Malito, JoAnne M., CPA	McGreal, Johnson and McGrane
Owens, Robert W. CPA	Wermer, Rogers, Doran & Ruzon
Spiegel, Richard D., CPA	Steinberg Advisors, Ltd.

Industry:

Hunt, Brian J. CPA, JD	Williams Montgomery & John, Ltd.
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Government:

Bailey, Scott P. CPA	Metropolitan Pier & Exposition Authority
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Educators:

Petravick, Simon P. CPA	Bradley University
Whittington, Oliver R., CPA	DePaul University

Staff Representative:

C. Patricia Mellican, CPA	Illinois CPA Society
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280 Park Avenue
New York, N.Y. 10017
8th Floor

Telephone 212-909-5600
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December 4, 2003

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

**PCAOB Rulemaking Docket Matter No. 010
Proposed Auditing Standard – References in
Auditors’ Reports to the Standards of the Public
Company Accounting Oversight Board**

Dear Mr. Secretary:

KPMG appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (Board) Proposed Auditing Standard, *References in Auditors’ Reports to the Standards of the Public Company Accounting Oversight Board* (Proposed Standard). KPMG fully supports the Board’s efforts to improve financial reporting, corporate governance and audit quality with the objective of furthering the public interest and restoring confidence in our capital markets system. Our comments outlined below represent matters for consideration by the Board as it deliberates a final standard on this subject.

Effective Date

As indicated in the Proposed Standard, the final standard is expected to be effective for auditors’ reports dated on or after the later of January 1, 2004, or the tenth day after approval of the final standard. We recommend that the Board consider an effective date for the final standard as follows:

This auditing standard is effective for reports issued pursuant to audits of financial statements and reviews of interim financial information for periods ending on or after December 15, 2003, and reports issued when the subject matter or assertion is as of or for a period ending on or after December 15, 2003.

We recognize that establishing an effective date prior to final approval of an auditing standard by the Board and the SEC is unconventional. However, applying the effective date in the Proposed Standard could result in auditors’ reports on calendar year 2003 financial statements referencing different auditing standards depending on when the individual reports are dated, when, in fact, the standards governing performance of the respective audits are identical. We believe that some level of user confusion will result due to varying references to applicable standards in auditors’ reports.

Office of the Secretary
December 4, 2003
Page 2

Aligning the effective date of the final standard with the date or dates of information referenced in the auditors' report will serve to avoid confusion regarding whether substantive differences exist in the framework against which the auditors' performance is measured for information presented as of the same dates or for the same periods. In addition, our proposal for establishing an effective date would avoid potential confusion in the event a report originally issued prior to the proposed effective date is reissued and "dual dated" to refer to an event occurring subsequent to the proposed effective date. In such instances, it is not clear in the Proposed Standard which auditing standards should be referenced in the auditors' report.

Non-U.S. Firm Auditors' Reports

Pursuant to PCAOB Release No. 2003-007, *Registration System for Public Accounting Firms*, non-U.S. public accounting firms are not required to register with the PCAOB until April 19, 2004 (PCAOB Release No. 2003-020, *Briefing Paper: Oversight of Non-U.S. Public Accounting Firms*, suggests that the registration period may be extended by 90 days). Accordingly, it appears that these non-U.S. public accounting firms may, until registered with the PCAOB, continue to reference "auditing standards generally accepted in the United States of America" when reporting on an issuer's financial statements.

We recommend that the Board consider clarifying this matter upon issuance of the final standard. In addition, we recommend that the Board consider whether early application of the provisions of the final standard by non-U.S. public accounting firms not yet registered with the Board that wish to refer to the standards of the PCAOB in their reports is acceptable, and, if so, provide guidance on the form of such reports.

* * * * *

If you have questions regarding the information included in this letter, please contact Sam Ranzilla, (212) 909-5837, sranzilla@kpmg.com, or Craig Crawford, (212) 909-5536, ccrawford@kpmg.com.

Very truly yours,

KPMG LLP



new york state society of

NYSSCPA

certified public accountants

530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

December 2, 2003

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

By e-mail: comments@pcaobus.org

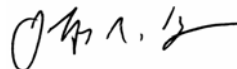
Re: Proposed Auditing Standard – References in the Auditors' Reports to the
Standards of the Public Company Accounting Oversight Board

PCAOB Release No. 2003-021
PCAOB Rulemaking Docket Matter No. 010

The New York State Society of Certified Public Accountants, the oldest state accounting association, representing approximately 30,000 CPAs, welcomes the opportunity to comment on the Proposed Auditing Standard referenced above.

The NYSSCPA Auditing Standards and Procedures Committee deliberated the Exposure Draft and prepared the attached comments. If you would like additional discussion with the committee, please contact Margaret Wood, chair of the Auditing Standards and Procedures Committee, at (212) 542-9528, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,



Jeffrey R. Hoops
President

Attachment

new york state society of

NYSSCPA

certified public accountants

530 fifth avenue, new york, ny 10036-5101

www.nysscpa.org

COMMENTS ON PCAOB PROPOSED AUDITING STANDARD

**References in Auditors' Reports to the Standards of the Public
Company Accounting Oversight Board**

PCAOB Release No. 2003-021

PCAOB Rulemaking Docket Matter No. 010

December 2, 2003

Principal Drafters

**Robert Waxman
Margaret Wood**

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NYSSCPA 2003 - 2004 Accounting & Auditing Oversight Committee

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Neal B. Hitzig	Bernard H. Newman	Barry Wexler

NYSSCPA Staff

Robert H. Colson

**New York State Society of Certified Public Accountants
Comments to the PCAOB
Release No. 2003-21**

General Comments

It is appropriate that the report of an independent registered public accounting firm reference the standards of the PCAOB.

This would also be an appropriate time for the Board to consider other changes to the wording of the auditors' report. Some items to consider are:

- Clarifying in the opening sentence of paragraph two that the Board's auditing standards rules carry more authority than "generally accepted" by adding a reference indicating that these rules have a basis in law. Perhaps by changing that sentence to read "...the standards mandated (promulgated, required) by the Public...
 - By making it clear that the auditors have followed standards required by a board established by an Act of Congress will clarify in the mind of the public the distinction between these standards and other auditing standards that could be used in governmental, private, pension plans, and non-profit audits.
- The Board should reconsider including the phrase "present fairly, in all material respects."
- In the final paragraph, it would be clearer to specify the public company accounting principles standard setting bodies, the FASB and SEC.



PricewaterhouseCoopers LLP
500 Campus Dr.
Florham Park NJ 07932
Telephone (973) 236 7000
Facsimile (973) 236 7200

December 4, 2003

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. 010, Proposed Auditing Standard – References in Auditors’ Reports to the Standards of the Public Company Accounting Oversight Board (PCAOB Release No. 2003-021, November 12, 2003)

Dear Mr. Secretary:

PricewaterhouseCoopers LLP is pleased to respond to the request for comment from the Public Company Accounting Oversight Board (the “Board”) on the proposed auditing standard, *References in Auditors’ Reports to the Standards of the Public Company Accounting Oversight Board* (“the proposed standard”).

We believe the proposed change replacing the reference to “auditing standards generally accepted in the United States of America” in the auditors’ report, as well as in the Board’s interim standards, with “standards of the Public Company Accounting Oversight Board” makes clear the Board’s responsibility for auditing standards followed by auditors of public companies, including both new standards and interim standards not amended or superseded.

We recommend that the necessary conforming changes to AU Section 508, *Reports on Auditing Financial Statements*; AU Section 543, *Part of Audit Performed by Other Independent Auditors*; AU Section 623, *Special Reports*; and other interim auditing standards be reflected in the proposed standard. We believe the practice of describing all changes to existing standards and including conforming changes in all of the PCAOB’s new standards is an important process that should be adopted by the Board. In addition, we recommend that language be added to the proposed standard indicating that while audits performed prior to April 16, 2003 were performed under generally accepted auditing standards, no reference to such previous standards is required in the auditors’ report, as the Board adopted these standards as interim standards.

* * * * *

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions the staff may have. Please do not hesitate to contact Ray Bromark (973-236-7781) or Jim Lee (973-236-4478) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP



1666 K Street, N.W.
 Washington, DC 20006
 Telephone: (202) 207-9100
 Facsimile: (202) 862-8430
 www.pcaobus.org

)	
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AUDITING STANDARD No. 1 –)	PCAOB Release No. 2003-025
REFERENCES IN AUDITORS' REPORTS TO)	December 17, 2003
THE STANDARDS OF THE PUBLIC COMPANY)	
ACCOUNTING OVERSIGHT BOARD)	PCAOB Rulemaking
)	Docket Matter No. 010
)	
)	
)	

Summary: After public comment, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") has adopted Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*. This standard requires registered public accounting firms to include in their reports on engagements performed pursuant to the Board's auditing and related professional practice standards, including audits and reviews of financial statements, a reference to the standards of the Public Company Accounting Oversight Board (United States). The Board will submit this standard to the Securities and Exchange Commission ("Commission" or "SEC") for approval pursuant to Section 107 of the Sarbanes-Oxley Act of 2002 (the "Act"). This standard will not take effect unless approved by the Commission.

Board
 Contacts: Thomas Ray, Deputy Chief Auditor (202/207-9112; rayt@pcaobus.org),
 Greg Scates, Associate Chief Auditor (202/207-9114;
 scatesg@pcaobus.org).

* * *

Section 103 of the Act authorizes the PCAOB to establish auditing and related professional practice standards to be used by registered public accounting firms in connection with the preparation and issuance of audit reports as required by the Act or the rules of the Commission, or as may be necessary or appropriate in the public



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interest or for the protection of investors. Consistent with Section 103 of the Act, PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, requires auditors to comply with all applicable auditing and related professional practice standards established by the PCAOB.

Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* directs auditors^{1/} to state that the engagement was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)" whenever the auditor has performed the engagement in accordance with the Board's standards.

Section A of this release describes Auditing Standard No. 1. Section B of this release discusses and addresses the comments received on the Board's proposed auditing standard, which the Board released for public comment. The text of Auditing Standard No. 1 is attached to this release as Appendix 1.

A. Description of Auditing Standard No. 1

At the time of this release, the Board's auditing and related professional practice standards consist of the standards described in Rules 3200T through 3600T, which the Board has adopted, on an initial, transitional basis, as interim standards. The standards (with which PCAOB Rule 3100 requires registered public accounting firms, and persons associated with such firms, to comply) include these interim standards and any permanent standards that the Board adopts.

Each of the standards described in Rules 3200T through 3600T was originally adopted by the American Institute of Certified Public Accountants ("AICPA"), a committee thereof, including the Auditing Standards Board ("ASB"), or the

^{1/} Reference in the Board's standards to an "auditor" means a registered public accounting firm, or an associated person of such a firm, as defined in the Act and the Board's rules, unless specifically stated otherwise. Nothing in the Board's rules would preclude an accounting firm from conducting an audit of a company that is not an issuer in accordance with the Board's standards and so stating in its audit report. This is true regardless of whether or not the accounting firm performing the audit is registered with the Board.



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Independence Standards Board. Thus the Board's rule on interim auditing standards, Rule 3200T, incorporates "generally accepted auditing standards, as described in the AICPA Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003" (the "interim standards").^{2/} These auditing standards were adopted, and from time to time amended, by the ASB, until the Board incorporated them into the Board's interim standards. The interim standards require auditors to include in their reports a reference to the standards that were followed in performing the engagement. These references include "generally accepted auditing standards," "U.S. generally accepted auditing standards," "auditing standards generally accepted in the United States of America," and "standards established by the AICPA."

PCAOB Auditing Standard No. 1 supersedes these references by requiring that auditors' reports on the financial statements of issuers that are issued or reissued, after Auditing Standard No. 1 becomes effective, include a statement that the engagement was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)."^{3/} This auditing standard is effective for auditors' reports issued or reissued on or after the 10th day following approval of this auditing standard by the Commission. An appendix^{4/} to this standard provides illustrative reports on an audit of financial statements and a review^{5/} of interim financial information of a public company.

^{2/} The Board's rules on interim standards were adopted by the Board on April 16, 2003, and approved by the Commission on April 25, 2003. See SEC Rel. No. 33-8222 (April 25, 2003).

^{3/} See Auditing Standard No. 1 ¶ 3.

^{4/} Appendices to the Board's standards are an integral part of the standard and carry the same authoritative weight as the body of the standard.

^{5/} Reviews of the interim financial information are integrally related to audits of financial statements. See generally Statement on Auditing Standards No. 100, *Interim Financial Information* ("SAS No. 100"). For example, SAS No. 100 makes clear that the general standards on auditing discussed in SAS No. 95 "are applicable to a review of interim financial information."



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Once Auditing Standard No. 1 becomes effective, it will require auditors to state that the engagement was performed in accordance with "the standards of the Public Company Accounting Oversight Board (United States)," irrespective of whether the engagement was conducted before or after Auditing Standard No. 1 becomes effective. Accordingly, auditors who reissue reports that were originally issued before the date that Auditing Standard No. 1 becomes effective, or who issue reports that include comparative financial information that was the subject of an audit or review report that was issued before that date, must nevertheless state that the audit or review was performed in accordance with "the standards of the Public Company Accounting Oversight Board (United States)," if those reports are reissued after Auditing Standard No. 1 becomes effective. The Board believes that a uniform reference to the standards of the PCAOB – even with respect to audits and reviews completed before the PCAOB adopted its interim standards – is appropriate because the interim standards that the Board adopted are the "generally accepted auditing standards" with which auditors were required to comply before the PCAOB adopted its interim standards.

Referring to PCAOB standards in connection with a period that preceded the date of the PCAOB's own adoption of those standards may seem somewhat counter-intuitive. The requirement is intended, however, to reflect the fact that the standards in place before the PCAOB adopted its interim standards, without change, became the PCAOB's standards. Indeed, the Board considered whether to require auditors to refer to "generally accepted auditing standards" when reissuing reports that were originally issued before Auditing Standard No. 1 becomes effective, and to refer to "standards of the PCAOB" with respect to reports issued on or after Auditing Standard No. 1 becomes effective.

The Board believes, however, that it is appropriate to describe the "generally accepted auditing standards" that the Board adopted as "standards of the PCAOB." This terminology will reflect the fact that the standards that auditors were required to use before April 25, 2003 – i.e., generally accepted auditing standards as they existed on April 16, 2003 – became the applicable standards on April 25 and continue to apply to audits of public companies, as the Board amends them. Auditing standards have continuously been amended over time, and auditors have consistently been required to state whether their audits complied with the then-prevailing standards. The substance of the applicable standards for audits and reviews of public company financial statements did not change on April 25, 2003. Rather, April 25, 2003, is significant only because the PCAOB gained authority over such standards on that date. The Board believes it would be inappropriate to create an impression in auditors' reports that



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engagements performed before Auditing Standard No. 1 becomes effective, or even before April 25, were performed in accordance with a wholly different body of standards, rather than the same body of standards at different points in its evolution.

The Board expects to amend its standards from time to time, just as the ASB amended generally accepted auditing standards from time to time. The Board believes that using a consistent description of standards prevailing at the time an audit or review report is issued – and holding auditors to compliance with those then-prevailing standards – better contributes to the creation of informative audit reports.

Upon adoption of this auditing standard, all references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, and standards established by the AICPA, mean the corresponding standards of the Public Company Accounting Oversight Board. The Act and the Board's rules already require the auditor to comply with the Board's standards. The purpose of this standard is to conform the references in the interim standards to the standards that the Act and Rule 3100 require auditors to use in connection with preparing and issuing audit and related reports on the financial statements of issuers.

Under the Act, Auditing Standard No. 1 will not be effective unless it is approved by the SEC. By its terms, Auditing Standard No. 1 will be effective for auditors' reports issued or reissued on or after the 10th day following SEC approval of this standard. Until the effective date of this standard, the reporting requirements as described in the AICPA's Codification of Statements on Auditing Standards, are still in effect as interim standards.

B. Public Comment Process and Board Responses

The Board released a proposed auditing standard, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, for public comment, on November 12, 2003. The Board received eight written comment letters.^{6/}

^{6/} The comment letters are available on the Board's Web site – www.pcaobus.org – and will be attached to the Board's Form 19b-4, to be filed with the Commission.



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In response to these comments, the Board's final rules both clarify and modify certain aspects of the proposal, as explained below.

1. Transitional Issues

The Board received several comments related to transitional issues, including, how the proposed standard would affect –

- reissuance of a report originally issued before the proposed standard became effective;
- issuance of a report on comparative financial statements when the audits of the financial statements for periods presented for comparative purposes were conducted before the proposed standard became effective and/or before the Board adopted its interim standards; and
- issuance of a dual-dated report that include dates that straddle the effective date of this standard.

In the proposed standard, the Board had recommended the standard be effective for auditors' reports dated on or after the later of January 1, 2004 or the 10th day after SEC approval of the standard as adopted by the Board. In evaluating the comments with regard to transition, the Board decided to modify the effective date of this standard. Rather than linking the effective date of this standard to the date of the report, this auditing standard will be effective for reports issued or reissued on or after the 10th day following SEC approval of this auditing standard. After this standard becomes effective, any auditor's report issued or reissued with respect to the financial statements of a public company must state that the engagement was performed in accordance with "the standards of the Public Company Accounting Oversight Board (United States)."

One commenter also expressed concern that the proposed standard's requirement that a report state that an audit performed prior to the PCAOB's adoption of interim standards was performed in accordance with PCAOB standards would, in essence, require the auditor to re-audit the prior period's financial statements in order to bring that audit or review into conformity with current PCAOB standards. The Board does not intend to require auditors to bring audits that were performed in accordance



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with then-prevailing standards into conformity with later-prevailing standards in order to reissue a previously-issued report. When the Board adopted as interim standards the generally accepted auditing standards established by the ASB, the Board also adopted the effective dates of those standards. Therefore, reference in auditors' reports to the standards of the PCAOB with respect to financial statements audited or reviewed prior to the effective date of Auditing Standard No. 1 is equivalent to the previously-required reference to generally accepted auditing standards. The reference relates to those standards that were in effect when the audit or review was completed and should not be interpreted to imply a representation that the audit or review complied with standards that became effective after the audit or review was completed. Thus, once Auditing Standard No. 1 becomes effective, a reference to generally accepted auditing standards in reports issued in connection with financial statements of public companies is no longer appropriate or necessary.

2. Applicable Standards of the PCAOB

Several commenters recommended that the Board only require auditors' reports to refer to the *auditing* standards of the PCAOB for audits of financial statements and not to the standards of the PCAOB generally. The Board intends for report references to "the standards of the Public Company Accounting Oversight Board (United States)" to mean those auditing and related professional practice standards that are applicable to the particular engagement. For example, if an issuer does not use any outside service organization that would affect its internal control over financial reporting, then the interim auditing standard on service organizations – described in the Codification of Statements on Auditing Standards at AU § 324 (*Service Organizations*), would not be applicable. On the other hand, the Board's independence standards apply to registered public accounting firms, and associated persons thereof, in connection with the preparation and issuance of audit reports for issuers.

As another example, quality control standards generally apply to a firm's system of quality control over its accounting and auditing practice and not to individual audit engagements. Thus, a breakdown in the system of quality control does not necessarily mean that a particular audit was not conducted in accordance with the standards of the PCAOB. However, such a breakdown might result in a deficient audit if it caused or contributed to an audit deficiency. The determination as to whether a particular auditing or related professional practice standard is applicable in the context of a particular audit



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is dependent on the nature of the standard in question and on the nature of the engagement at issue.

Thus a reference to "auditing standards" of the PCAOB would be too narrow and preclusive to other standards applicable to the audit. The Board believes that reference to "the standards of the Public Company Accounting Oversight Board (United States)" is a more descriptive reference to the standards applied in the audit.

3. Reference to GAAS

The Board received a number of comments recommending that auditors' reports, with respect to financial statement audits, describe PCAOB standards as generally accepted auditing standards. The notion of general acceptance developed at a time when auditing and accounting standards were not established with the force of law by governmental or other authoritative bodies, but rather were established by consensus among the members of the accounting profession.

As far as auditing and related professional practice standards are concerned, the Board gained authority to establish such standards by the enactment of the Act. Professional consensus is no longer sufficient to establish auditing standards, and therefore the Board believes that it is no longer appropriate to refer to the standards with which an auditor of the financial statements of a public company must comply as "generally accepted." While those standards may be generally accepted in a variety of contexts, what gives them the force of law in the context of public company audits is adoption by the PCAOB and approval by the SEC.

Therefore, for purposes of any engagement performed in accordance with the applicable auditing and related professional practice standards of the PCAOB, references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, and standards established by the AICPA, mean the standards of the PCAOB.

4. References to Country of Origin and Issuing Office

The Board also received comments recommending that the Board continue to require auditors to state in their reports that the standards according to which they



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performed their engagements were those standards applicable in the United States. Adopting this recommendation will make it easier for readers of audit reports that are used in cross-border offerings and listings of securities to quickly identify the jurisdiction in which the standards were promulgated. As such, the Board has required in Auditing Standard No. 1 that auditors' reports describe the PCAOB's standards as "the standards of the Public Company Accounting Oversight Board (United States)."

Another commenter recommended that auditors identify in their reports the city and state (or country) of the registered firms issuing the reports. The SEC's rules require disclosure in the auditor's report of the city and state of the accounting firm's office issuing the report.^{7/} The Board also concurs with this recommendation and, accordingly, has modified the auditing standard and the illustrative reports in the appendix to Auditing Standard No. 1.

5. Other Auditors

The Board was asked to clarify the applicability of this standard, and the Board's standards generally, to circumstances where more than one auditing firm contributes to an audit of a consolidated entity. For example, a firm other than the firm engaged to report on the company's consolidated financial statements may be hired to audit the financial statements of a subsidiary company. In such circumstances, the auditor that conducts the majority of the audit is referred to as the principal auditor and the auditor of the subsidiary company is referred to as the other auditor.^{8/} Depending on the significance of the portion of the financial statements audited by the other auditor, the principal auditor may divide responsibility with the other auditor by making reference to the audit of the other auditor in his or her report, or the principal auditor may take responsibility for the work of the other auditor by not making any reference to the other auditor.

In either event, the entire audit must be performed in accordance with the Board's standards. Section 103 of the Act, and the Board's Rule 3100, require registered public accounting firms, and associated persons thereof, to comply with all

^{7/} 17 C.F.R. § 210.2-02 (2003).

^{8/} See Codification of Auditing Standards, AU § 543 (AICPA 2002).



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applicable auditing and related professional practice standards in connection with the preparation and issuance of audit reports on the financial statements of issuers. Whether the other auditor is a registered public accounting firm or an associated person of a registered public accounting firm, the other auditor must comply with the standards of the PCAOB.

6. Applicability to Non-U.S. Firms Not Yet Registered With the Board

Another commenter asked the Board to clarify whether non-U.S. public accounting firms – who are not required to register with the PCAOB until 2004 – will be permitted, until registered with the PCAOB, to continue to reference "auditing standards generally accepted in the United States of America" when reporting on an issuer's financial statements. Like the Board's interim standards, with which a public accounting firm is required to comply even before the firm's mandatory registration date, during the period preceding the mandatory registration date, standards of the PCAOB apply to firms engaged in work that requires their registration. Therefore, non-U.S. public accounting firms that have not yet registered, that engage in work that would require them to be registered as of the mandatory registration date, are nevertheless required to reference "the standards of the Public Company Accounting Oversight Board (United States)."

7. Application of Auditing Standard No. 1 to Audit Reports in Connection with Initial Public Offerings

Another commenter recommended that the Board expand the proposed standard to specifically address the various scenarios that auditors will encounter with respect to reporting in conjunction with initial public offerings. The SEC's Rule 3-01 of Regulation S-X requires that, like other SEC filings that must comply with Regulation S-X, a registration statement filed in connection with an initial public offering must include or otherwise incorporate "for the registrant and its subsidiaries consolidated, audited balance sheets as of the end of each of the two most recent fiscal years."^{9/} In addition, Rule 3-02 of Regulation S-X requires that there "be filed, for the registrant and its subsidiaries consolidated and for its predecessors, audited statements of income and cash flows for each of the three fiscal years preceding the date of the most recent

^{9/} 17 C.F.R. § 210.3-01 (2003).



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audited balance sheet."^{10/} The Board understands these provisions to mean that an issuer desiring to register a transaction involving the sale of securities must include balance sheets for the two years preceding the transaction, and income statements and statements of cash flows for the three years preceding the transaction, each audited in accordance with standards as required by the securities laws.

In Section 103 of the Act, Congress has provided the Board authority to establish auditing and related professional practice standards "to be used by registered public accounting firms in the preparation and issuance of audit reports." In addition, the PCAOB has adopted, and the SEC has approved, PCAOB Rule 3100, which requires registered public accounting firms to comply with all applicable auditing and related professional practice standards of the PCAOB in connection with the preparation and issuance of audit reports on the financial statements of issuers. Accordingly, audit reports on the financial statements of issuers must now comply with – and under Auditing Standard No. 1 auditors must state that they performed the audit in accordance with – the standards of the PCAOB. So long as audits that were performed prior to April 25, 2003, were performed in accordance with then-prevailing generally accepted auditing standards as required by Rule 2-02 of Regulation S-X, an auditor need not re-audit any financial statements that relate to periods preceding April 25, 2003. Further, as discussed above, because the Board adopted the "generally accepted auditing standards" in effect as of April 16, 2003, the Board believes it is appropriate to require auditors who issue or reissue reports on periods prior to the date Auditing Standard No. 1 becomes effective to state that their audits were performed in accordance with PCAOB standards, so long as they were performed in accordance with the "generally accepted auditing standards" prevailing at the time the audits were performed.

^{10/} 17 C.F.R. § 210.3-02 (2003).



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* * *

On the 17th day of December, in the year 2003, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour
Acting Secretary

December 17, 2003

APPENDIX –

Auditing Standard No. 1 – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board



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Appendix – Auditing Standard No. 1

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AUDITING AND RELATED PROFESSIONAL PRACTICE STANDARDS

Auditing Standard No. 1 –

***REFERENCES IN AUDITORS' REPORTS TO THE
STANDARDS OF THE PUBLIC COMPANY
ACCOUNTING OVERSIGHT BOARD***



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References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board

1. The Sarbanes-Oxley Act of 2002 authorized the Public Company Accounting Oversight Board ("PCAOB") to establish auditing and related professional practice standards to be used by registered public accounting firms. PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, requires the auditor to comply with all applicable auditing and related professional practice standards of the PCAOB.
2. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the American Institute of Certified Public Accountants' ("AICPA") Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003.^{1/}
3. Accordingly, in connection with any engagement performed in accordance with the auditing and related professional practice standards of the PCAOB, whenever the auditor is required by the interim standards to make reference in a report to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, or standards established by the AICPA, the auditor must instead refer to "the standards of the Public Company Accounting Oversight Board (United States)." An auditor must also include the city and state (or city and country, in the case of non-U.S. auditors) from which the auditor's report has been issued.
4. This auditing standard is effective for auditors' reports issued or reissued on or after the 10th day following approval of this auditing standard by the Securities and Exchange Commission.
5. Audit reports issued prior to the effective date of this standard were required to state that the audits that supported those reports were performed in accordance with generally accepted auditing standards. The PCAOB adopted those generally accepted auditing standards, including their respective effective dates, as they existed on April 16, 2003, as interim standards. Therefore, reference to "the standards of the Public

^{1/} The Board's rules on interim standards were adopted by the Board on April 16, 2003, and approved by the Commission on April 25, 2003. See SEC Rel. No. 33-8222 (April 25, 2003).



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Company Accounting Oversight Board (United States)" with respect to audits of financial statements performed prior to the effective date of this standard is equivalent to the previously-required reference to generally accepted auditing standards. Accordingly, upon adoption of this standard, a reference to generally accepted auditing standards in auditors' reports is no longer appropriate or necessary.

Note: The term "auditor" in this standard is intended to include both registered public accounting firms and associated persons thereof.



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APPENDIX **Illustrative Reports**

The following is an illustrative report on an audit of financial statements:

Report of Independent Registered Public Accounting Firm

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of [at] December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with U.S. generally accepted accounting principles.

[*Signature*]

[City and State or Country]

[*Date*]



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The following is an illustrative report on a review of interim financial information:

Report of Independent Registered Public Accounting Firm

We have reviewed the accompanying [*describe the interim financial information or statements reviewed*] of X Company as of September 30, 20X3 and 20X2, and for the three-month and nine-month periods then ended. This (these) interim financial information (statements) is (are) the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial (statements) for it (them) to be in conformity with U.S. generally accepted accounting principles.

[*Signature*]

[City and State or Country]

[*Date*]