



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Tel: (212) 286-9344
Fax: (212) 856-9420
Internet: <http://www.ifac.org>

January 19, 2004

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

Via Email

Re: PCAOB Rulemaking Docket Matter No. 012

Dear Sirs

Staff of IFAC's International Auditing and Assurance Standards Board (IAASB) appreciates this opportunity to comment on the PCAOB's Proposed Auditing Standard, *Audit Documentation* ("Proposed Standard").

Whilst the IAASB has also started a project to revise its standard on audit documentation, it has not yet given full consideration to the issues that need to be addressed. Accordingly, the following represents the IAASB Staff's reaction to the PCAOB's proposals. The comments contained herein do not necessarily represent the views of the IAASB.

We support the PCAOB's efforts to raise the standard of auditor performance with regard to audit documentation. We agree that the integrity of the audit depends in large part on the existence of a complete and understandable record of the work that the auditor performed, of the conclusions that the auditor reached, and of the evidence that supports those conclusions. However, we do have some specific concerns, as set out below, regarding certain matters that the Proposed Standard seeks to address. In addition, whilst our comments are based upon a standard setter's perspective, we recognize that the PCAOB has a regulatory role beyond standard setting. Accordingly, it may be appropriate to deal with certain regulatory aspects outside auditing standards.

Rebuttable Presumption

Paragraph 6 states that "Auditors, including any specialists, should document the procedures performed, evidence obtained, and conclusions reached. Failure to do so creates a presumption that the procedures were not applied, the evidence was not obtained, and the conclusions reached were not suitably supported. This presumption is rebuttable by persuasive other evidence that the

procedures were applied and the evidence was obtained to provide sufficient support for the conclusions reached.”

Our main concern with this paragraph is the very high hurdle that it places on the rebuttal of the presumption. There will be instances in practice where auditors will have significant difficulty producing persuasive evidence that they did perform the work. As a result, we view the imposition of this rebuttable presumption as potentially leading auditors to document an inordinate amount of detail that is of minor or no consequence to the final conclusions, just to avoid the charge that they did not perform the work or that the performance of their work did not meet the required standard. This obligation may have the unintended consequence of diverting auditors’ efforts from performing “thinking” audits to documenting detail to excess. Instead of improving audit quality, this would have the opposite effect.

In our view, it would be more important for the Proposed Standard to emphasize the principle that auditors should document significant matters identified, the procedures performed to address them, the evidence obtained, the conclusions reached and the bases for the conclusions.

We also believe that this principle should be more appropriately reflected in the section on objectives of audit documentation. This section, as drafted, seems to provide more a statement of what documentation is than a proper statement of its objectives.

Retention of Audit Documentation

The Proposed Standard introduces a new requirement that the audit documentation must be assembled for retention within a reasonable period after the auditor’s report is released. Such period ordinarily should not exceed 45 days. We do have a number of concerns regarding this requirement:

- a) It is unclear what the objective of this requirement is, since it is not stated.
- b) The question arises as to why this should be an audit standards requirement, since it is not critical to the auditor’s opinion.
- c) It is unclear whether the office issuing the auditor’s report (“issuing office”) would be subject to the same 45-day requirement with respect to assembling documentation of work performed by other auditors in a multi-location audit.
- d) It is unclear as to what is meant by “assembling”. For example, this proposed requirement might be interpreted as requiring offices of the same firm in different cities in this country to physically or electronically dispatch all their audit documentation relating to a multi-location audit to the issuing office. Given that all such offices would be expected to have the same audit methodology and quality control systems, the benefit to the quality of the audit as a whole of having such a requirement would appear limited.
- e) Having an arbitrary 45-day rule raises the question of how adherence to the rule can be verified in practice.

- f) The Proposed Standard gives no guidance regarding the circumstances under which it would be acceptable for audit documentation to be assembled after 45 days.

We suggest therefore that the Board reconsiders this proposed requirement in the light of the concerns above.

Multi-location Audits

The Proposed Standard introduces a new requirement for audit documentation (whether in original form or copies thereof) of work performed by other auditors to be retained by the issuing office. In our view, this proposal will likely face potential client confidentiality issues if, as it appears intended, it covers other auditors based in overseas jurisdictions. The Proposed Standard gives no guidance as to what the issuing office should do in that situation.

In addition, what appears burdensome, if for some reason the issuing office cannot obtain copies of the other auditors' documentation, is the apparent requirement in paragraph 16 for the issuing office to create the documentation that, in recording the other auditors' work, do so to the same standard as should have been done by the issuing office. Rather, we believe that the principle to be emphasized should be that the issuing office should be required to document its own work according to these standards, not other auditors'.

Also, there may be confidentiality or other reasons where the issuing office simply cannot have access to the other auditors' work. In France, for example, the law prohibits auditors from sharing audit documentation. We are concerned that the Proposed Standard would, in such cases, imply an obligation on the issuing office to create the necessary documentation itself, and in so doing, to perform work that could potentially amount to arriving at a second independent audit opinion.

Thus, apart from the inevitable increase in administrative and audit costs that this proposal will cause, we question whether it places a fair burden on auditors in the issuing offices. Also, in the context of multi-location audits that involve division of responsibility, the Proposed Standard would appear to extend the responsibility of the issuing office beyond that intended in such situations.

Cross-referencing to a Central Repository

The Proposed Standard introduces a requirement that where certain matters, such as independence and staff training and proficiency, are documented in a central repository for the firm or the particular office participating in the engagement, the audit documentation should contain a reference to the central repository. This requirement does not appear related to an audit standards issue, since the matters that it seeks to address relate more to quality control. We would therefore suggest that the Board considers addressing this in its quality control standards. In addition, audit teams are normally entitled to rely on their firms' quality control systems with regard to matters such as staff training and proficiency. This proposed rule would appear to impose a requirement that such matters be documented for each and every audit engagement by cross-referencing to the central repository. The rationale behind this proposal is not apparent to us.

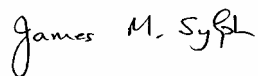
Engagement Completion Memorandum

The Proposed Standard requires that the auditor identify all significant findings or issues in an engagement completion memorandum. Whilst we presume that such a document would include examples of the matters deemed significant as described in paragraph 9, we are concerned that the Proposed Standard does not give due regard to the inherent limitations of human judgment. For example, a specific matter might not have been deemed significant at the time the audit was performed, but with the benefit of new information after the completion of the audit, it would now be considered significant. The benefit of such hindsight would imply that the Proposed Standard, as written, was in fact breached at the time of the audit, when in actuality it was not, based on the facts available and judgments made at the time. We recommend that the Board modifies the wording to require that all identified significant findings and issues be included in the engagement completion memorandum.

In addition, we are concerned at the level of detail that would be required in such a document, as seems to be suggested by the second sentence of paragraph 10, which appears not to envisage that the reviewer might ever talk to others.

Should the above matters require any clarification, I would be pleased to discuss them with PCAOB Staff before the Proposed Standard is finalized.

Very truly yours

A handwritten signature in cursive script that reads "James M. Sylph".

James M. Sylph
Technical Director, IAASB