

May 18, 2007

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

RE: PCAOB Rulemaking Docket Matter No. 023- Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards, PCAOB Release No. 2007-003

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is a group created by the public company auditing profession and the American Institute of Certified Public Accountants (AICPA) to help foster confidence in the audit process and aid investors and the capital markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. The CAQ consists of approximately 800 member firms that audit or are interested in auditing public companies. We welcome the opportunity to share our views on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2007-003, *Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards* (April 3, 2007) (the Release).

The CAQ supports the PCAOB's proposed auditing standard on evaluating consistency of the application of generally accepted accounting principles (GAAP) in financial statements; the proposed amendments to remove the hierarchy of GAAP from the interim auditing standards; and the other conforming amendments to the interim standards. Our comments have been drafted primarily in response to the questions posed by the PCAOB within the Release. In addition to responding to the specific questions, we have also included further comments and suggestions throughout our letter.

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Proposed Auditing Standard on Evaluating Consistency of Financial Statements

- 1. Does the proposed auditing standard appropriately describe how the auditor should evaluate the consistency of the application of GAAP? Do the proposed auditing standard and amendments provide sufficient direction regarding the evaluation of changes to previously issued financial statements resulting from retrospective application of changes in accounting principle and corrections of misstatements?***

Generally, we believe that the proposed auditing standard appropriately describes how the auditor should evaluate the consistency of the application of GAAP and provides sufficient direction regarding the evaluation of changes to previously issued financial statements. The interim auditing standard which this proposal would supersede, AU Section 420, *Consistency of Application of Generally Accepted Accounting Principles* (AU 420), contained specific information in paragraphs 15 through 21 related to changes that do not affect consistency. As stated in the Release, the proposal does not describe the accounting changes that do not require recognition in the auditor's report, as the previous interim auditing standard did. We suggest that the Board consider adding similar language to the proposed auditing standard so as to provide the auditor with clear guidance as to changes that do *not* affect consistency of the application of GAAP.

- 2. Does the proposed auditing standard appropriately reflect the changes to the accounting requirements made by FASB Statement 154?***

We believe that the proposed auditing standard appropriately addresses and reflects the changes made within Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (FAS 154); however, we do note that the Board uses the term "misstatement" as opposed to "error," which is used in FAS 154. While we understand the Board's rationale for the use of the word "misstatement," as described in footnote 7 of the Release, we suggest that the explanation for this terminology be included in the standard itself to avoid possible confusion.

- 3. Would the proposed reporting language for auditor's reports on restated financial statements, i.e., requiring a statement that the financial statements have been restated to correct a misstatement, improve the clarity of auditor reporting?***

We believe that the proposed reporting language for the auditor's reports on restated financial statements would improve the clarity of auditor reporting.

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4. *Would the proposal to apply the auditor reporting requirements to all restatements, including those not involving an accounting principle, improve auditor reporting?*

We believe that the application of auditor reporting requirements to all restatements improves overall auditor reporting. In fact, we believe that many audit firms, as a matter of practice, have referenced restatements not involving an accounting principle in the auditors' report.

Proposed Amendments to Interim Auditing Standards for the Removal of the GAAP Hierarchy from Auditing Standards

5. *Is it appropriate to remove the GAAP hierarchy from the auditing standards if it is included in the accounting standards?*

We agree with the removal of the GAAP hierarchy from the auditing standards as we believe it is more appropriate to have it located in the accounting standards.

6. *Do the proposed amendments to AU secs. 410 and 411 appropriately reflect the proposed FASB statement on the GAAP hierarchy?*

We agree with the removal of the GAAP hierarchy from auditing standards, which is accomplished with the proposed amendments to AU Section 410, *Adherence to Generally Accepted Accounting Principles* (AU 410) and AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

Proposed Conforming Amendments to Interim Auditing Standards

Below are our comments relative to the proposed conforming amendments to the interim auditing standards:

AU sec. 431, Adequacy of Disclosure in Financial Statements

We understand that the proposed amendments to this interim auditing standard would eliminate AU sec 431.04 which is an application of AICPA *Code of Professional Conduct*, Rule 301 regarding the disclosure of confidential client information and specifically states-

“In considering the adequacy of disclosure, and in other aspects of his audit, the auditor uses information received in confidence from the

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client. Without such confidence, the auditor would find it difficult to obtain information necessary for him to form an opinion on financial statements. Thus, the auditor should not ordinarily make available, without the client's consent, information that is not required to be disclosed in financial statements to comply with generally accepted accounting principles (see AICPA *Code of Professional Conduct*, Rule 301 [ET section 301.01]).”

Since, in adopting certain interim standards and rules as of April 16, 2003, the Board did not adopt Rule 301 of the AICPA's *Code of Professional Conduct*, the Board is proposing to eliminate this section. Rather than eliminating this section, we encourage you to consider adopting Rule 301 or a comparable requirement within the PCAOB's professional standards to further address the auditor's performance of their professional responsibilities. Specifically, we believe it is imperative that communications between the client and auditor be candid and forthcoming. Without the protection afforded by Rule 301, such communications may be stifled. In addition, AICPA Rule 301 provides an exception for purposes of complying with applicable laws and government regulations and we interpret this to cover a firm's requirement to cooperate and comply with requests for information as part of the PCAOB inspection and investigation processes.

General Comment on Proposed Amendments to Interim Standards to Facilitate Effective and Efficient Implementation

In the future, we believe it would be helpful for the Board to provide a marked version indicating how proposed conforming amendments would affect the current interim auditing standards, rather than explaining them through written text. This would provide for a more effective and efficient review of the Board's proposed amendments, which would facilitate the public comment process. It would also help auditors implement final standards in a more effective and efficient manner.

Additionally, providing an explanatory section in the release that highlights expected changes in practice would be extremely helpful in making implementation efforts more effective and efficient.

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Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc: Mark W. Olson, Chairman
Kayla J. Gillan, Member
Daniel L. Goelzer, Member
Willis D. Gradison, Member
Charles D. Niemeier, Member
Thomas Ray, Chief Auditor and Director of Professional Standards