



Grant Thornton

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Office of the Secretary
Public Company Accounting Oversight Board
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Via Email to comments@pcaobus.org

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Re: PCAOB Rulemaking Docket Matter No. 40, Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*, and we respectfully submit our comments and recommendations thereon. Overall, we support the Board's initiative to organize and codify the auditing standards of the PCAOB into a topical structure with an integrated numbering system. Nevertheless, we are concerned with the timing of this proposal, given the significant changes to existing auditing standards that appear to be imminent under the Board's standard-setting agenda in areas such as the auditor's reporting model, estimates, related party transactions, and specialists, among others. Changing the organization before the completion of these very significant projects that could result in major changes to the interim standards risks adding complexity to the organization of the standards, as differing effective dates would mean carrying the old content for some time within the reorganized standards. While there will always be items on the standard setting agenda that will necessitate pending content in the reorganization, the extent of the currently proposed changes to the interim standards is very extensive. Changes to the organization, along with a firm's adoption of the new or revised auditing standards will require significant updating to firm reference materials, training, and other guidance. We further believe that auditors should be focusing on applying the Board's new standards and understanding those that are imminent, rather than updating manuals and other materials with the new numbering system that could be subject to significant near-term change.

In addition, the release does not identify the current organization of auditing standards as a source for audit deficiencies; so while improvements can be made to the organization, we believe that assessing current performance standards should be the focus of the Board and staff. Prioritizing the improvement of auditing performance standards over the reorganization of the existing standards is consistent with recent U.S. Securities and Exchange Commission

staff views that such improvements “...might be the most direct and effective way to positively impact audit quality.”

Recommendations for the proposed framework

It is unclear from the proposal whether the cross references to the auditing standards of the International Auditing and Assurance Standards Board and the American Institute of Certified Public Accountants (“AICPA”), as illustrated in Appendices 2 and 3, will be part of the final reorganization and will be updated when new standards are issued or amended. We believe that the cross references would be a helpful tool for practitioners. Further, when finalizing the reorganization, the Board’s statement that the new topical organization “generally” follows the flow of the audit process should clarify that some of the content applies to different points in the audit (for example, audit committee communications occur at many points of the audit but this section is in “General” as opposed to “Audit Procedures”). Finally, we recommend clarifying where the existing AU Interpretations that the Board intends to keep as “auditing interpretations” will be found once the reorganization is final. On the Board’s web site, such interpretations are currently linked within each related standard, and in some written publications, such interpretations immediately follow each interim standard. It is unclear where these will be found once the standards are reorganized, and since these are not standards, presumably they will not be contained in the integrated numbering system proposed. For example, existing AU 9336, *Using the Work of a Specialist: Auditing Interpretations of Section 336*, which contains important guidance for auditors when evaluating evidence regarding transfers of financial assets, is linked on the Board’s web site when one opens AU 336. It is not clear how an auditor using the Proposed AS Reference 1203 will find the related interpretation.

Rescissions

We recommend that AU 532, *Restricting the Use of an Auditor’s Report*, not be rescinded due to the importance of restricting certain reports and other communications, such as those meant only for the audit committee, parties to a loan agreement, or other specified parties. The requirements in other standards that currently refer to AU 532 do not include the complete restriction language in AU 532. Further, AU 532 could be improved by amending the standard to address situations where PCAOB standards currently require a restriction on certain communications, but other rules and regulations discourage such restrictions in the public’s interest. For example, issuers that are supervised lenders may be required to also file certain reports with the U.S. Department of Housing and Urban Development. Such reports may refer to the standards of the PCAOB and *Government Auditing Standards*. Accordingly, current PCAOB requirements are inconsistent with the views of the U.S. Government Accountability Office relative to certain by-product reports issued in connection with a GAGAS audit. Not rescinding AU 532 would allow the PCAOB to clarify and amend their standards for these situations. We refer the PCAOB to the provisions in AICPA AU-C 905, *Alert That Restricts the Use of the Auditor’s Written Communications*, with respect to audit engagements also conducted in accordance with *Government Auditing Standards*.

We understand the Board’s proposed exclusion of the AICPA Audit and Accounting Guides (“Guides”) from the definition of auditing interpretations in amended AU 110, *Responsibilities and Functions of the Independent Auditor*. However, we also note that these Guides were developed,

and are continually updated, to promote consistency of audit execution in certain areas where interpretive guidance is otherwise lacking. By eliminating the requirement to consider the content of the Guides, PCAOB standards and related guidance may be viewed as diminishing, rather than promoting audit consistency and quality. Accordingly, we recommend that the PCAOB consider the need for expanding guidance in certain areas, and industries where relevant, as it develops auditing standards and auditing interpretations.

We further note that footnote 21 of the release seems to indicate that the PCAOB or its staff's guidance may also be auditing interpretations, but such guidance is not scoped in to amended AU 110, thus creating confusion that we believe the Board needs to address in any final reorganization. The statement in footnote 21 is also different from that used in introducing Staff Audit Practice Alerts and appears to be a change in how the Board views such alerts and other similar materials.

Implementation

Subsequent to the reorganization, we recommend that new standards of the Board be exposed as numbered standards initially and then incorporated (codified) into the reorganized format with other amendments to the existing content. We also recommend that future amendments to the Board's standards be in red line format, where new content is underlined and deleted content is struck through, as the current amendment descriptions that use a narrative for what is being deleted or added is not as easy to follow. Based on the nature and extent of the revisions being contemplated, we believe that this red line format will be essential with the issuance of the proposed reorganization.

Further, it is not clear how the PCAOB will handle the transition period when certain audits will apply older standards and others will apply newly adopted standards. The current web site presentation is to announce superseded standards within the standard that superseded it, but it is not clear how this will operate with the new organization. It will be essential for the PCAOB to maintain PDF or other hard copy versions of the Board's standards at a point in time.

Other comments

We believe that existing AU 625, *Reports on the Application of Accounting Principles*, and AU 801, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*, should be rescinded. Neither standard results in a report that meets the definition of an "audit report" under PCAOB Rule 1001, *Definitions of Terms Employed in Rules*. For instance, a compliance audit report is specifically required by a governmental audit requirement for recipients of governmental financial assistance. Such compliance audit reports are not issued for purposes of compliance by an issuer with the requirements of the securities laws, neither are reports issued by an advisory accountant on the appropriate application of accounting principles. We have similar concerns with AU 544, *Lack of Conformity With Generally Accepted Accounting Principles*, which would seem to require some clarification relative to its applicability to audit reports subject to PCAOB standards.

We would be pleased to discuss our comments with you. If you have any questions, please contact Karin French, National Managing Partner of Professional Standards, at (312) 602-9160.

Sincerely,

