



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA
Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

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Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2083

By e-mail to: comments@pcaobus.org

Establishment of Auditing and Other Professional Standards

Throughout its 25-year history, the International Federation of Accountants (IFAC) has focused on developing a common base for worldwide auditing standards in the form of International Standards on Auditing (ISAs). IFAC shares the Public Company Accounting Oversight Board's (PCAOB's) focus on protecting the public interest and believes that requiring the application of a core set of internationally recognized standards, such as the ISAs, can contribute significantly to ensuring the credibility of the information upon which investors and other stakeholders depend. IFAC's comments on PCAOB Release No. 2003-005 "Statement Regarding the Establishment of Auditing and Other Professional Standards" (the Statement) are presented in this context.

IFAC comprises 155 accounting organizations from every part of the globe, representing more than 2.4 million accountants in public practice, education, government service, industry and commerce. As the worldwide organization for the accountancy profession, IFAC develops guidance and standards for accountants in all sectors to encourage them to act with uncompromising integrity in meeting their responsibilities to the public and to assist them in addressing the challenges of globalization. This work has become increasingly critical in today's environment.

This submission provides brief comments on what we see as the key issue with respect to the PCAOB's establishment of Auditing and Other Professional Standards. It also includes some comments on three significant aspects of the due process outlined in the Statement and one drafting issue.

Key Issue

The PCAOB has specifically invited comment and suggestions about priorities for the review of the Interim Professional Auditing Standards. How the PCAOB deals with the review of the Interim Professional Auditing Standards will be strongly influenced by the ultimate model that the PCAOB intends to adopt. In this context, we recommend that the PCAOB seek public comment on the appropriateness of using ISAs as a common base for issuers in the U.S.

ISAs are developed by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body under the auspices of IFAC. The IAASB develops standards and guidance for financial statement audits and other assurance or related services pertaining to both financial and non-financial information, and establishes quality control standards covering the conduct and performance of such services.

There are a number of benefits in adopting an internationally consistent approach to Professional Auditing Standards. An international approach, using ISAs as a base, can expedite the process of international convergence – a process that is well underway and increasingly vital to the development of global capital markets and the protection of the public interest. Many IFAC member bodies are already using the ISAs as the basis for some or all of their national standards. Additionally, the European Union plans to adopt the body of ISAs in 2005 for audits of all entities. Using ISAs as a common base, auditors will be required to both:

- (a) perform a financial statement audit in accordance with ISAs¹; and
- (b) perform additional procedures and report on additional matters in response to specific legal, regulatory or other needs established at a national level.

A benefit of this model is that it ensures a nation's unique legal, regulatory and other needs are met.

Due Process

- The Statement notes that the normal exposure period will be “no less than 21 calendar days.” The experience of IFAC Boards, Committees and member bodies has been that a period of considerably longer than 21 days is normally required to allow interested parties to prepare quality submissions, especially in an international environment with geographically and culturally diverse stakeholders.

A longer comment period would be in the best interests of both potential users of PCAOB standards and those who rely on the auditor's work. Given the implications of the PCAOB's rules for registered non-U.S. firms, the international perspective should be considered in the setting of PCAOB standards, particularly the need to consider the potential consequences in a variety of environments.

An abridged form of due process might be appropriate during the transitional phase of reviewing Interim Professional Auditing Standards, all of which have already been subjected to a due process. However, to ensure a robust due process in the longer term, we believe the PCAOB should expose draft standards for a period of no less than 90 days, notwithstanding that there will normally be a further comment period after submission to the SEC.

- The Statement states: “The board may also ask the advisory group² or a task force to advise it concerning the proposal” (emphasis added). We believe due process

¹ Which requires adherence to IFAC's Code of Ethics (including independence requirements) and Quality Control Standards.

would require the advisory group to be consulted in every case, and recommend that Draft Rule 3700 be amended to acknowledge that the advisory group will be involved with all proposals.

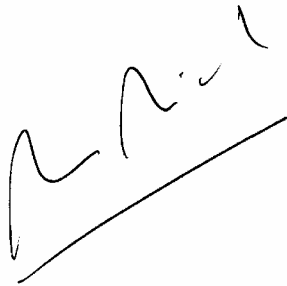
- The Statement is silent on whether meetings of the advisory group, and indeed of the PCAOB when proposed standards are discussed, will be open to the public. To ensure transparency, we believe these meetings should necessarily be open to the public.

Drafting Issue

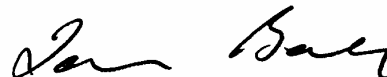
- From an international perspective, there appears to be a problem with Draft Rule 3100, which states: “A registered public accounting firm and its associated persons shall comply with all applicable professional auditing standards”. This rule seems to require a registered firm to comply with PCAOB standards on all audits, for instance a registered non-US firm would be required to comply with PCAOB standards even when auditing an organization in their own country which is not a US issuer. This does not appear to be the PCAOB’s intention, in which case, the rule would benefit from redrafting to make this clear.

We appreciate the opportunity to comment on this release and will be pleased to assist the PCAOB in ensuring auditing standards can contribute to the restoration of confidence in capital markets. If you have any queries about this submission or want to explore these issues in more depth, please do not hesitate to contact either of us at ph: (212) 286-9655.

Yours sincerely,



René Ricol,
President



Ian Ball
Chief Executive

Cc: Dietz Mertin, Chair IAASB,
Marilyn Pendergast, Chair IFAC Ethics Committee,
Members and Technical Advisers on IAASB and IFAC Ethics Committee,

² The Statement refers in different places to “the advisory group” and “advisory groups”. It is assumed the intention of the PCAOB is to have one main advisory group, which may from time to time have sub-groups.