

COMMENTARY

Comments by the Auditing Standards Committee of the Auditing Section of the American Accounting Association on PCAOB Release No. 2013-002: *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*

Participating Committee Members and Other Contributors:

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SUMMARY: On March 26, 2013, the Public Company Accounting Oversight Board (PCAOB) solicited public comments on its exposure draft of the *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*. The comment period ended on May 28, 2013. This commentary summarizes the contributors' views on this exposure draft (the exposure draft and other related information are available at: <http://pcaobus.org/Rules/Rulemaking/Pages/Docket040.aspx>).

RESPONSES TO SPECIFIC QUESTIONS IN THE INVITATION TO COMMENT

Please note that we have provided responses to only some of the PCAOB's specific questions. We number the questions below to be consistent with the PCAOB's numbering and, consequently, our responses are not numbered consecutively.

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1. Is the proposed framework for reorganizing PCAOB auditing standards appropriate and an improvement over the existing structure of the PCAOB auditing standards? Are there ways to improve the proposed reorganization framework?

We believe that the proposed framework for reorganizing PCAOB auditing standards is appropriate and, in general, an improvement over the existing structure of the PCAOB auditing standards. The topical structure makes it easier for auditors and other users to navigate and search for the relevant standards for a particular aspect of an audit. It also is consistent with a similar codification initiative by the American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board ("Clarified" Auditing Standards). Based on Appendix 1—Proposed Framework for Reorganization of PCAOB Auditing Standards, we have the following suggestions for further improvement of the proposed framework:

(1) Auditor reporting is a main part of auditor communications. Therefore, for AS 1300, *Auditor Communication*, under AS 1000, *General Auditing Standards*, we suggest that the proposed framework either include an item, Auditor Reporting, which links back to the standalone section "Auditor Reporting," or change the title from AS 1300, *Auditor Communications*, to AS 1300, *Auditor Communications Beyond Audit Reporting*. If the PCAOB decides to adopt the latter suggestion (i.e., changing the title of AS 1300), there will be no need to add a link to "Auditor Reporting" under this subsection. Furthermore, it is unclear whether AS 1210, *Audit Documentation*, should be listed under 1300, *Auditor Communications*, with a link that references to 1210, *Audit Documentation*, if necessary.

(2) "Specific Aspects of the Audit," in the subtitle 2400, *Audit Procedures for Specific Aspects of the Audit*, seems vague because all subsections address difference aspects of the audit. We consider the items listed under AS 2400, *Audit Procedures for Specific Aspects of the Audit*, to be specific audit circumstances. Therefore, we suggest changing the subtitle to 2400, *Audit Procedures for Specific Circumstances of the Audit*.

(3) The subtitle AS 2600, *Special Topics*, seems vague and broad. We think that AS 2601, *Service Organizations*, and AS 2602, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, can be listed under AS 2400, *Audit Procedures for Specific Circumstances of the Audit*, if the PCAOB agrees with the suggested subtitle for AS 2400. In addition, we consider AS 2603, *Communications between Predecessor and Successor Auditors*, to be a part of auditor communications. Thus, we suggest that AS 2603, *Communications between Predecessor and Successor Auditors*, be listed under AS 1300, *Auditor Communications*.

(4) We think that the items listed under AS 2700, *Auditor's Responsibilities Regarding Other Information*, should belong in either the standalone section "Audit Reporting" or AS 1300, *Auditor Communications*. More specifically, we think that AS 2701, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, and AS 2702, *Unaudited Supplementary Information Included in Audited Financial Statements*, should be listed under the section "Audit Reporting." We suggest that AS 2703, *Other Information in Documents Containing Audited Financial Statements*, should be listed under AS 1300, *Auditor Communications*, because other information is not included in audited financial reports.

(5) The standard AS 3311, *Special Reports on Regulated Companies*, seems to be one case of 3300, *Special Reports*. Therefore, we suggest that AS 3311, *Special Reports on Regulated Companies*, should be included in AS 3300, *Special Reports*.

(6) The subtitle “Other Matters Associated with Audits” seems vague. It is difficult to distinguish “other matters associated with audits” from “special circumstances of the audit.” In particular, we think that AS 6101, *Letters for Underwriters and Certain Other Requesting Parties*, should belong in AS 1300, *Auditor Communications*. We also suggest including AS 6102, *Reports on the Application of Accounting Principles*, in the section “Auditor Reporting.” In addition, it may be better to list AS 6103, *Compliance Auditing Considerations in Audits of Recipients of Governmental Financial Assistance*, under AS 2400, *Audit Procedures for Specific Circumstances of the Audit*, if the PCAOB agrees on the subtitle that we suggested for AS 2400.

- 2. Would the proposed reorganization described in this release help users navigate the standards more easily, help avoid potential confusion between the Board’s standards and the standards of the ASB, and provide a structure for updating PCAOB standards in the future? Are there other potential benefits the Board should be aware of in considering its proposed reorganization?**

As we mentioned in our response to the first question, we think that the proposed reorganization described in this release should make it easier for users to navigate the standards. We suggest that the proposed framework use a standard incremental gap between the numeric labels of the proposed standards in order to leave room for adding subsequent PCAOB standards in the future.

- 3. Are the categories and subcategories of auditing standards in the proposed reorganization framework appropriate and an improvement over the existing organizational structure of PCAOB auditing standards?**

In general, we think that the categories and subcategories of auditing standards in the proposed reorganization framework are appropriate and represent an improvement over the existing organizational structure of PCAOB auditing standards. We have made specific suggestions for potential changes in the categories and subcategories of auditing standards in our response to the first question in this comment letter.

- 5. Would the framework for reorganizing PCAOB auditing standards have any consequences that are not addressed in this release? If so, what are those consequences?**

We think that the Board has discussed potential consequences thoroughly in this release. Because the reorganization of auditing standards as discussed in this release is not expected to impose additional requirements on auditors or substantively change the requirements of PCAOB standards, we do not think that there are other substantial consequences that will arise from the proposed amendments.

- 6. Are there other costs besides those discussed in this release that the Board should consider? Would initial costs be offset over time, as discussed in this release?**

We believe that the potential costs associated with the proposed changes are thoroughly discussed in this release. We also agree with the Board that the initial implementation costs can be offset over time, as discussed in the release.

10. What factors should the Board consider in determining the effective date of the auditing standards reorganization?

We think that the Board should consider auditors' workload during the year, and choose a date that does not fall during auditors' busy season as the effective date of the auditing standards reorganization. By doing so, the Board will provide auditors with sufficient time to make necessary changes related to the reorganization of auditing standards.