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January 20, 2004

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

### **PCAOB Rulemaking Docket Matter No. 012 Proposed Auditing Standard on Audit Documentation and Proposed Amendment to Interim Auditing Standards**

Dear Mr. Secretary:

KPMG appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (Board) Proposed Auditing Standard, *Audit Documentation* (Proposed Standard), and proposed amendment to the interim auditing standards. KPMG fully supports the Board's efforts to improve financial reporting, corporate governance and audit quality with the objective of furthering the public interest and restoring confidence in our capital markets system. In addition, we believe that enhancing guidance regarding audit documentation will serve to improve overall audit quality. Our comments outlined below represent matters for consideration by the Board as it deliberates a final standard on this subject.

This letter is organized by first providing our key points on the Proposed Standard. Less significant and editorial comments and suggestions are included in Appendix A to this letter.

#### **Scope**

Paragraph 1 of the Proposed Standard indicates that, "This standard establishes general requirements for documentation the auditor should prepare and retain in connection with *any engagement* conducted in accordance with auditing and related professional practice standards". This statement of scope, read literally, indicates that the Board's documentation standard would apply to all engagements performed by registered public accounting firms for any issuer. Registered public accounting firms often perform services pursuant to the Board's interim standards for issuer non-audit clients, and for issuer audit clients other than financial statement audits, audits of internal control over financial reporting and reviews of interim financial information. We recommend that the Board's final standard clearly define the intended scope of the provisions of such



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standard. For example, will the provisions of the final standard apply to engagements to provide comfort letters (issuer audit clients), to perform attestation engagements (issuer audit and non-audit clients), and to issue reports on the processing of transactions by a service organization (issuer audit and non-audit clients)?

### **Multi-Location Audits**

We understand paragraph 16 of the Proposed Standard to require that the office of the registered public accounting firm that issues the auditors' report retain audit documentation sufficient to meet the requirements of the Proposed Standard. This requirement extends to documentation prepared by personnel of other offices of the same registered public accounting firm (i.e., offices located in the same country), of affiliated and member firms (i.e., offices in other countries), and, in certain instances, of other public accounting firms (domestic or foreign, assuming that the principal auditor does not refer to the participating auditor in his or her auditors' report). In addition, the Board's proposed amendment to AU Section 543.12 would require the principal auditor, who decides not to make reference to the audit of another auditor, to "review the audit documentation of the other auditor to the same extent and in the same manner that the audit work of all those who participated in the engagement is reviewed as if the principal auditor had performed the work himself or herself." These requirements present a number of professional and practical concerns that are more fully addressed in the following paragraphs.

#### Review Responsibility

For companies with multiple locations, it is common for the audit team responsible for issuing the auditors' report (the primary audit team) to request the assistance of its other domestic offices, affiliated or member firms, and other public accounting firms (participating audit teams) in performing audit procedures for certain subsidiaries, divisions, etc. . Typically, the primary audit team will distribute detailed instructions to the participating audit teams. The participating audit teams perform procedures and prepare documentation consistent with standards established by the Board, subject to supervision and review by the participating audit team personnel, and the participating audit teams provide to the primary audit team documentation summarizing the participating audit teams' findings and conclusions. The participating audit teams' summarized findings and conclusions include information responsive to the primary audit team's detailed instructions and other matters identified during the course of the engagement. It has been our experience that this summarized information generates considerable discussion and interaction between the primary audit team and the participating audit teams, and requests for additional information. Additionally, in our experience, the primary audit team visits the participating audit teams' locations, based on the primary audit team's professional judgment of the risk of significant misstatement associated with the audit client's businesses.

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We believe that, as written, the Proposed Standard would require audit documentation prepared by same-firm personnel, affiliated- and member-firm personnel, and, in certain instances, other-firm personnel be retained in the office of the firm issuing the report and require that the audit team in the office of the firm issuing the report review audit documentation prepared by affiliated- and member-firm personnel and, in certain instances, other-firm personnel. To illustrate, assume that an audit of a multi-national issuer headquartered in Chicago involves participation by same-firm and member- or affiliated-firm audit teams in Los Angeles, Houston, Atlanta, Boston, London and Tokyo. In addition, other-firm participating audit teams located in Berlin, Toronto, Shanghai, and Paris perform audit procedures at the direction of the primary audit team in Chicago and report findings and conclusions to the Chicago team. Assuming that the principal auditor does not intend to make reference to the other auditors in his or her report, the Proposed Standard would require that audit documentation (originals or copies) from each of the locations noted above be retained in Chicago, and that all documentation prepared in London, Tokyo, Berlin, Toronto, Shanghai and Paris be subject to review by the primary audit team in Chicago.

We do not believe it is necessary or practical to require that the primary audit team review audit documentation prepared by participating audit teams. In addition to the obvious duplication of effort and cost, many participating audit teams in foreign locations do not prepare audit documentation in English. Generally, the language used in preparing audit documentation is the same language used by the company in maintaining its financial records in a particular location. Maintenance in the U.S. of audit documentation not prepared in English and, accordingly, not realistically reviewable by a U.S. primary audit team does not enhance audit quality. In addition, the possibility of mistranslation and misinterpretation of information runs counter to the objective of improving audit quality.

Further, requiring duplicate reviews of audit documentation will result in incremental costs to issuers' shareholders and may result in unnecessary delays in completing audits, issuing auditors' reports, and publishing audited and reviewed financial information, thereby inhibiting an issuer's ability to meet the accelerated filing requirements imposed by the SEC. In addition, while affiliated registered public accounting firms generally employ consistent audit methodologies and documentation protocols, these methodologies and protocols are not consistent between firms (e.g., KPMG vs. Ernst & Young), thereby drawing into question the effectiveness of resulting duplicative reviews that may be required by the Proposed Standard. While all such methodologies and protocols are designed to meet the Board's standards, they are different. Consequently, the standard in AU Section 543.12 that requires the principal auditor to incorporate in his or her own audit documentation, sufficient audit documentation from the other auditor that meets the requirements of the Proposed Standard, as if the principal auditor had performed the work himself or herself, is neither realistic nor practical.



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An unintended consequence of requiring duplicative reviews of audit documentation may be that a registered public accounting firm will not assume responsibility for the work performed by participating firms. This would result in the firm issuing the auditors' report referring to the other firms' reports, without regard to the significance of the audit procedures performed by the participating firm. This form of reporting likely will result in incremental costs to issuers' shareholders and may result in issuer delays in filing documents with the SEC and accessing the capital markets, without any corresponding enhancement to audit quality (e.g., multiple firm involvement in document reviews, multiple consent requests, etc).

For the reasons noted above, we strongly recommend that the Board reconsider the proposed amendment to AU Section 543.12.

#### Retention of Audit Documentation

The release announcing the Proposed Standard indicates that the proposed audit documentation retention requirements would "...improve audit quality by enhancing the probability that *all* audit documentation will be prepared consistently with the same standards of audit quality." We do not believe that audit quality is enhanced simply by requiring that the primary audit team maintain audit documentation prepared by a participating audit team. In fact, retention of two separate copies of audit documentation or retention of audit documentation in a location other than that associated with the audit team performing the procedures may result in unintended consequences that hinder the enhancement of audit quality.

We believe that there should be only one copy of audit documentation that supports the auditor's conclusions, and that such documentation should be retained by the office of the audit team responsible for performance of the audit procedures. Maintenance of audit documentation by the audit team responsible for performance of the audit procedures facilitates effective subsequent reviews of such documentation by auditors who are new to the engagement and successor auditors. Further, maintaining multiple copies of audit documentation would increase the risk that client confidentiality would not be protected and that audit documentation would be lost or destroyed in shipment, and would inevitably result in instances where changes made to original or copies of documentation (in accordance with the Proposed Standard) are not reflected in other copies. These unintended consequences run contrary to the overarching goal of enhancing audit quality.

#### Foreign Participating Auditors – Legal Matters

Requiring a U.S. primary audit team to retain original or copies of audit documentation prepared by participating audit teams located in other countries introduces a number of legal problems regarding data privacy laws and various specific legal constraints (e.g., those arising under banking secrecy laws and national security laws) that bear on the workability of the requirements in paragraph 16 of the Proposed Standard. We understand that these specific legal matters are addressed in detail in a letter commenting

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on the Proposed Standard submitted to the Board by the law firm Linklaters, dated January 20, 2004. We refer the Board to the Linklaters letter for further consideration of legal matters affecting foreign participating auditors. Following is a general discussion of matters addressed in the Proposed Standard that present particular concerns for non-U.S. public accounting firms and, consequently, for domestic registered public accounting firms that rely on their work.

There are legal impediments imposed by the laws of virtually all foreign countries that could arise should a foreign public accounting firm provide its audit documentation to the office of the auditor issuing the auditors' report. Specifically, potential conflicts involving duties of confidentiality, data privacy laws and various specific legal constraints are relevant in a number of foreign jurisdictions. We encourage the Board to gain a full understanding of these potential conflicts and take appropriate steps to resolve these matters prior to issuance of a final standard on audit documentation.

Data privacy laws exist in many foreign jurisdictions. Pursuant to these laws, data subject to restriction may only be shared with a third party for a purpose that is deemed to be lawful (e.g., when the sharing is necessary to carry out a task in the foreign country's public interest) and are subject to strict restrictions on export from one country to another. This situation is more complicated than the deliberations encountered in conjunction with the registration of foreign public accounting firms (which, as noted below, are permitted to avoid conflicts with non-U.S. law) on the "deemed consent" of access to non-U.S. work papers under Section 106 of the Sarbanes-Oxley Act of 2002. As a consequence, both the export and disclosure issues may prevent certain foreign public accounting firms from providing the audit documentation necessary to permit the U.S. registered public accounting firm from complying with the provisions of the Proposed Standard.

In most jurisdictions, certain data privacy matters can be overcome by obtaining consents of the client, employee or other third party to whom a duty of privacy is owed. However, in the case of audit documentation, the consent would be in relation to future information of a non-specific nature and, given that audit documentation often makes reference to numerous employees, customers, suppliers, etc., the ability to gain such consents (other than a consent related to the protected information of the client itself) would be impossible to achieve as a practical matter. These legal impediments would apply equally to information gathered in a foreign country if U.S. firm personnel were to perform audit procedures there and export the related documentation to the U.S.

We believe the Board also should consider whether the Proposed Standard is consistent with Board release 2003-007, "Registration System for Public Accounting Firms," which allows registered public accounting firms to withhold information from an application, where disclosure of the information would cause the applicant to violate non-U.S. laws. We believe that the Board should analyze the legal impediments to foreign public

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accounting firms' compliance with the Proposed Standard and consider incorporation of a rule similar to Rule 2105, "Conflicting Non-US Laws" (PCAOB release 2003-007, "Registration System for Public Accounting Firms") in any final standard requiring the sharing of audit documentation across national borders.

Pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, non-U.S. public accounting firms that provide audit opinions or material services on which a registered public accounting firm relies are deemed to have consented to provide access to their work papers supporting such work to the Board and the SEC. Additionally, the terms of registration will provide the Board or its equivalent non-U.S. regulator with the ability to inspect, investigate and discipline non-U.S. registered public accounting firms and their personnel. Accordingly, we recommend that the Board rely upon these already-existing alternatives in finalizing its auditing standard on documentation.

#### Other Independent Auditors

The last sentence of paragraph 16 of the Proposed Standard provides that, as an alternative to retaining documentation prepared by others, "...if the auditor considers it necessary in the circumstances, the auditor issuing the report should prepare and retain audit documentation of the work performed by others as a part of the review required by paragraph 12 of AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, as long as the audit documentation complies with paragraphs 4-12 of this standard." It is unclear to us what is meant by requiring the auditor to "prepare and retain audit documentation of the work performed by others," and when an auditor should consider it necessary to do so. For example, does the Board contemplate that the primary audit team would document, or even reperform, the procedures performed by the other auditor? This requirement seems to run contrary to the last sentence in AU Section 543.03 that states, "[r]egardless of the principal auditor's decision [to make reference], the other auditor remains responsible for the performance of his own work and for his own report."

#### Summary

For the reasons outlined in the preceding paragraphs, we strongly recommend that the Board not require retention of audit documentation prepared by participating auditors in the office of the firm issuing the auditors' report. In addition, we strongly recommend that the Board not require the principal auditor to review audit documentation of other auditors when such documentation has been subject to the appropriate level of review by the participating audit team members. Central retention of audit documentation and requiring duplicate reviews of such documentation will, in many cases, result in irresolvable conflicts with non-U.S. laws, and likely will result in unnecessary delays to the audit process, and increased costs to issuer shareholders without a corresponding enhancement to audit quality.

Alternatively, we suggest that the Board consider requiring that the auditor issuing the report obtain documentation from each participating audit team outlining procedures,



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findings and conclusions, including uncorrected misstatements, and a conclusion that the procedures performed by the participating audit team were consistent with instructions received from the primary audit team. Such information could be assembled in consideration of data protection laws imposed on the non-U.S. audit team, and protected data could be omitted from the documentation provided to the principal auditor. Further, we recommend that the Board consider undertaking a project to provide additional guidance to primary audit teams in those instances where audit procedures are performed in multiple physical locations. The provision of additional guidance regarding instructions to participating audit teams and communication among the teams would assist in providing more consistency in the performance of audit procedures in multi-location environments that would result in achieving our shared goal of improved audit quality. We note that the IAASB recently approved for exposure an International Standard on Auditing entitled, “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements.” We recommend that the Board consider leveraging the activity of the IAASB on its project in determining whether, and to what extent, a similar standard may be appropriate for use by auditors of issuer financial statements. We would be pleased to participate on a working group or ad hoc task force to assist the Board in this regard.

### **Reviewability Standard**

Paragraph 5 of the Proposed Standard requires that audit documentation “...contain sufficient information to enable an *experienced* auditor, having no previous connection with the engagement: to understand the nature, timing, extent, and results of the procedures performed, evidence obtained and conclusions reached...” We believe that further clarification of the term “experienced auditor” is necessary.

The first general standard states that, “[t]he audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor” (AU Section 210.01). The third general standard states that, “[d]ue professional care is to be exercised in the planning and performance of the audit and the preparation of the report” (AU Section 230.01). Further, AU Section 230.06 indicates that, “[t]he auditor with final responsibility for the engagement should know, at a minimum, the relevant professional accounting and auditing standards and should be knowledgeable about the client.” We believe that the characteristics defining an “experienced auditor” should be consistent with those expected of the auditor with final responsibility for the engagement noted above. Relevant and appropriate accounting and auditing knowledge are prerequisites to serving as an auditor with final responsibility and, accordingly, we believe that an “experienced auditor” should be defined as meeting similar qualifications.

### **Rebuttable Presumption**

Paragraph 6 of the Proposed Standard indicates that failure to document the audit procedures performed, evidence obtained and conclusions reached creates a rebuttable

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presumption that the procedures were not applied, the evidence was not obtained, and the conclusions reached were not suitably supported. The Proposed Standard further indicates that this presumption is rebuttable by persuasive evidence to the contrary.

The release announcing the Proposed Standard indicates that, “[t]he Board contemplates that oral explanation alone would not constitute persuasive other evidence and invites comment on the addition of such a requirement to the proposed standard.” We believe that the determination of whether persuasive other evidence exists is a matter of judgment dictated by individual facts and circumstances. We do not believe it is appropriate to limit the consideration of oral evidence when evaluating the sufficiency of audit procedures performed, evidence obtained and conclusions reached.

### **Changes to Audit Documentation**

The Proposed Standard contains a number of references to dates or periods of time that initiate or require certain actions. Specific references to dates or periods of time in the Proposed Standard follow:

- Paragraph 14 states that, “[a] complete and final set of audit documentation must be assembled for retention within a reasonable period of time following the first time that the auditor grants permission to use the auditor’s report in connection with the issuance of the company’s financial statements. Such reasonable period of time ordinarily should not be more than 45 days.”
- Paragraph 13 states that, “[a]udit documentation must be retained for seven years from the date of completion of the engagement, as indicated by the date of the auditor’s report...”
- Paragraph 15 states that, “[i]f evidence is obtained after completion of the engagement, or if work performed before engagement completion is documented after completion, the documentation added must indicate...”

To clarify the dating and timing requirements and to enhance consistency in practice, we recommend that the date triggering the time period during which work paper assembly ordinarily should be completed be more objectively determinable than the date on which the auditor “grants permission...” We recommend that the Board consider using the issuer’s filing date with the SEC, which usually would approximate the date on which we believe auditors generally would conclude that they “grant permission” to use their report. This clarification would provide reviewers and inspectors with the ability to objectively determine compliance with dating requirements and would enhance consistency in practice.

In addition, we recommend that the final standard adopted by the Board refer to the same trigger date for initiating both the time period during which work paper assembly ordinarily should be completed and the seven-year retention period. We note that the SEC’s Final Rule, *Retention of Records Relevant to Audits and Reviews*, requires retention of certain audit and review records, which include work papers, for “seven



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years after an accountant concludes an audit or review.” If the Board decides not to adopt a filing date trigger for the seven-year retention period, we recommend that the Board’s final standard conform to language in the SEC’s rule.

We recommend that the final standard include clarification of the concept of assembling documentation for retention in paragraph 14 and the concept of subsequent additions to audit documentation in paragraph 15 of the Proposed Standard. In this context, we have interpreted the Proposed Standard such that the provisions of paragraph 15 do not apply until the expiration of the 45-day period referred to in paragraph 14. We concur with an approach that provides the auditor a reasonable time period (not to exceed 45 days) to assemble and complete the final set of audit documentation. We believe this provision is even more important in the environment of issuer accelerated filing requirements that continue to be phased-in during 2004 and 2005, ultimately resulting in a 60-day deadline for filing annual reports on Form 10-K. As noted above, we recommend that the completion of the engagement be defined as the filing date with the SEC, for purposes of implementing both the assembly provisions of paragraph 14 (i.e., when the 45-day period commences), and the provisions of paragraph 15 (i.e., additions to audit documentation subsequent to the expiration of the 45-day period). If our interpretation is not consistent with the Board’s intent, we suggest that the Board clarify the provisions of paragraphs 14 and 15 to assure consistency in practice and objectively determinable documentation requirements.

In addition to the issues presented above, we encourage the Board to consider undertaking a project to reconsider report-dating protocols in general. AU Section 530.01 indicates that, “[g]enerally, the date of completion of field work should be used as the date of the independent auditor’s report.” Determining the “date of completion of fieldwork” is subject to varying interpretation and, accordingly, we suggest the Board consider introduction of a more objective measure for establishing the date of the auditors’ report.

### **Other Matters**

We note that the Proposed Standard does not address several fundamental tenets of audit documentation currently included in AU Section 339. These matters are discussed further in the following paragraphs.

*Auditor judgment.* AU Section 339.01 states that, “[t]he quantity, type, and content of audit documentation are matters of the auditor’s professional judgment.” AU Section 339.09 indicates that “...the auditor should document audit findings or issues that *in his or her judgment* are significant” [emphasis added]. In addition, according to the release announcing the Proposed Standard, the Board is adopting the substance of the General Accounting Office’s documentation standard. That standard includes a reference to auditor judgment consistent with the aforementioned language in AU Section 339.01. Auditor judgment clearly influences the determination of the quantity, type, and content

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of audit documentation. Accordingly, we recommend that the Board's final standard appropriately acknowledge the importance of auditor judgment in determining the sufficiency of audit documentation.

*Ownership and client confidentiality.* AU Sections 339.10 through 339.13 refer to the auditor's ownership of audit documentation and the auditor's obligation, ethical and sometimes legal, to maintain the confidentiality of client information. Further, AU Section 339 indicates that the auditor "should adopt reasonable procedures to prevent unauthorized access to the audit documentation." We recommend that the Board's final standard include provisions regarding ownership and client confidentiality to remind auditors of their ethical, and sometimes legal, obligations regarding confidentiality and to facilitate compliance with such obligations.

Paragraph 12 of the Proposed Standard states that, "[i]n addition to the documentation necessary to support the auditor's final conclusions, *information* the auditor has identified relating to significant findings or issues that is inconsistent with or contradicts the auditor's final conclusions must also be included in the audit documentation" [emphasis added]. We believe this provision confuses, and may be inconsistent with, the related concept in the SEC's Final Rule: *Retention of Records Relevant to Audits and Reviews* and AU Section 311.14 of the Board's interim standards.

AU Section 311.14 provides guidance to the auditor in those instances where differences of opinion concerning accounting and auditing issues exist among audit engagement team personnel. AU Section 311.14 provides that an audit engagement team member should document a disagreement with final conclusions reached if, after appropriate consultation, he or she believes it is necessary to be disassociated from the resolution of the matter. We suggest that the Board's final standard clarify that the "information" referred to in paragraph 12 of the Proposed Standard is consistent with that contemplated in AU Section 311.14. However, if the intent of paragraph 12 of the Proposed Standard is to expand documentation requirements in the work papers beyond the resolution of differences in professional judgment, we recommend that the Board provide additional guidance on what constitutes information identified by the auditor that is inconsistent with or contradicts the auditor's final conclusions. We recommend that this guidance include several examples identifying such information and the Board's proposed approach to the documentation of such matters in its final standard on audit documentation. Finally, we encourage the Board to coordinate its deliberations in this area with the SEC staff and consider clarifying guidance on the scope of both the Board's final standard and the SEC's Final Rule on retention of records.

### **Effective Date**

The Proposed Standard provides that the final standard adopted by the Board would apply to engagements completed on or after June 15, 2004. Registered public accounting firms require time to develop and implement processes and provide training with respect



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to several aspects of the Proposed Standard. Also, it is important to understand that audit documentation is, in many instances, prepared throughout the year under audit. Accordingly, we believe it is imperative that any final audit documentation standard be effective for years beginning after a specified date. We recommend that the Board consider an effective date for the final standard as follows:

This standard applies to engagements to audit financial statements for years beginning on or after September 15, 2004 (for calendar year issuers, the year ending December 31, 2005) and for reviews of interim financial information for the first interim period of the first annual fiscal year the standard is applied (for calendar year issuers, the interim period ending March 31, 2005).

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Very truly yours,

KPMG

cc: William J. McDonough, Chairman  
Kayla J. Gillian  
Daniel L. Goelzer  
Willis D. Gradison, Jr.  
Charles D. Niemeier

The following other comments and suggestions are presented for your consideration:

1. Paragraph 1 of the Proposed Standard indicates that the standard “does not supplant specific documentation requirements of other auditing and related professional practice standards.” It is not clear which other standards are being referenced in this statement and, accordingly, we recommend that this statement be deleted or clarified. To the extent that the Proposed Standard is referring to other auditing standards adopted by the Board, we recommend specifically referring to, or incorporating the guidance from, those standards. We believe a statement that this standard does not “supplant” documentation standards outside the auditing standards (presumably for example, state law) will lead to unnecessary confusion.
2. Paragraph 3 (d) and (f) – Generally, parties other than those identified in paragraphs 3(a), (b), (c), and (e) review work papers at the discretion of the independent auditor. In order to avoid confusion with respect to the auditor’s obligation to provide work papers to other parties, we recommend that paragraph 3 (d) and (f) be deleted and be replaced with the following language, that would follow paragraph 3(e), as currently numbered: “At the discretion of the auditor, other parties such as a successor auditor.”
3. Paragraph 6 refers to “auditors, including any specialists.” It is unclear to us what “specialists” are referred to in this phrase. The Board’s Statement of Authority defines the auditor as “a registered public accounting firm or an associated person of such a firm.”; therefore, we believe that specialists employed by the auditor or third parties with which the auditor contracts to function as a specialist are encompassed by the reference to auditors. Specialists not employed or contracted by the auditor (for example, an actuary engaged by the issuer to prepare actuarial calculations), are outside the scope of an auditing standard on documentation. Accordingly, we recommend that the reference to specialists in Paragraph 6 be deleted.
4. We recommend that paragraph 7(b) of the Proposed Standard be revised to read, in part, that “support the basis for the auditor’s conclusions concerning ~~each~~every ~~material~~ financial statement assertion that, in the auditor’s judgment, is material.”
5. Paragraph 8 of the Proposed Standard indicates that, “[c]ertain matters, such as auditor independence and staff training and proficiency, may be documented in a central repository....” This paragraph also indicates that the audit documentation for a particular engagement should contain a reference to the central repository and that “[d]ocumentation of matters unique to a particular engagement should be included in the audit documentation of the pertinent engagement.” We do not believe it is necessary for audit documentation to include a “boiler plate” reference that certain documentation is maintained in a central repository. Accordingly, we recommend

that the first two sentences of paragraph 8 be deleted, such that the paragraph refers only to documentation of these matters unique to a particular engagement.

If the Board elects to retain the requirement to refer to a central repository, we recommend that specificity be added to the phrase, “certain matters, such as auditor independence and staff training and proficiency.” Without such specificity, widely varying interpretations and practices will develop among auditors with respect to matters that are referenced and the nature of such references.

6. Paragraph 9(c) of the Proposed Standard defines an audit adjustment as “a proposed correction of a misstatement of the financial statements that could, in the auditor’s judgment, either individually or in the aggregate, have a material effect on the company’s *financial reporting process*”. The Board’s interim standards, AU Section 380.09, define an audit adjustment as, “...a proposed correction of the financial statements that, in the auditor’s judgment, may not have been detected except through the auditing procedures performed.” We recommend that the final standard adopt the definition of an audit adjustment consistent with that in AU Section 380.09.

Paragraph 9(c) of the Proposed Standard also states that “[a]udit adjustments include corrections of misstatements, of which the auditor is aware, that were or should have been proposed based on the *known* audit evidence”. We recommend that the word *known* be deleted or that this phrase be clarified.

7. We recommend the following editorial revision to paragraph 9(d) of the Proposed Standard: “Disagreements among members of the engagement team or with others consulted on the engagement about final conclusions reached on significant accounting or auditing matters.”
8. We recommend the following editorial revision to paragraph 9(e) of the Proposed Standard: “Significant findings or issues identified during the review of ~~quarterly~~ interim financial information.”
9. Paragraph 10 of the Proposed Standard states that, “[t]he auditor must identify all significant findings or issues in an engagement completion memorandum” and further discusses the nature and content of this memorandum. We recommend that the word *memorandum* be replaced with *document*. We believe that various forms of communication may meet the objectives of the “completion memorandum” referenced in the Proposed Standard and the form of documentation should not be mandated in an auditing standard.
10. Paragraph 11 of the Proposed Standard requires documentation of auditing procedures that involve inspection or confirmation to include identification of the items tested. Footnote 2 to paragraph 11 provides that this requirement may be satisfied by indicating the source from which the items were selected and the

specific selection criteria. We recommend that the Board's final standard specifically indicate that the auditor is not required to retain as audit documentation copies of the client's records from which the tested items were selected.

11. Paragraph 15 of the Proposed Standard, states that, "Audit documentation must not be deleted or discarded; however, information may be added, including *an explanation of its relevance*, as long as the information identifies the date the information was added; by whom it was added; and *the reason for adding it*". We view the two italicized phrases to be duplicative and recommend that the first italicized phrase be deleted.
12. Paragraph 17 of the Proposed Standard and related footnote 4 refer to document retention requirement relative to the SEC's Final Rule. The specific section of the SEC's Final Rule referred to relates to documents other than work papers required by the Board's auditing and related professional practice standards. We recommend that paragraph 17 be removed, or clarified to note the referred documents do not constitute work papers or audit documentation pursuant to the Board's auditing and related professional practice standards.

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