

August 18, 2003

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

Subject: PCAOB Rulemaking Docket Matter No. 006, Comment Letter from PricewaterhouseCoopers LLP on Proposed Rules Relating to Inspections

Dear Mr. Secretary:

We appreciate this opportunity to provide our views on the proposed rules relating to inspections.

We fully support the PCAOB's (the Board's) mission to serve the public interest and rebuild public trust of the accounting and auditing profession, and we pledge our full cooperation with the Board and its staff to that end. In the inspection area, in particular, we believe that our relationship must be based on this shared purpose – and that an environment of mutual trust and respect is crucial to its achievement.

The press release that accompanied the proposed inspection rules characterized the proposal as a “general procedural framework for a program of inspections.” That characterization ties into our primary comment on the proposal, which is that the proposed rules are overly general and non-specific, leaving many questions unasked and unanswered and promoting an environment of uncertainty that could impede progress toward our shared goals.

A good understanding of what to expect in terms of the breadth and depth of the inspection procedures and the standards to which an engagement team will be held is critical. Without this understanding, the “human nature” response to the uncertainties involved is to be overly cautious and tentative. For example, there are no specifics around either the nature of the actual testing programs to be undertaken or any standards or thresholds that would be employed to determine which findings might rise to a level requiring them to be reported and/or referred to other regulatory bodies. In addition, we believe that a better understanding is important in the context of establishing expectations of investors and other interested parties.

With respect to item 7 in the overview of the proposed rules, please know that we strongly support the Board's ongoing dialogue with its foreign counterparts and, of course, we have a keen interest in the "Special Issues Relating to Non-U.S. Firms" which are "open" while that dialogue continues.

Other comments and suggestions about specific proposed rules follow.

Rule 4000 We note that this rule provides for persons beyond the Board's staff to be involved in the inspection process. The wording here is quite broad, and it is unclear to whom it is intended to extend. We recommend that the rules explicitly provide that any consultants, sub-contractors or others involved in the inspections would be subject to the PCAOB's code of conduct and bound by the same confidentiality protocols as the Board and staff.

Rule 4002 It is not clear to us whether a single Board member can authorize a "special inspection" or whether the formal approval of the entire Board would be required. We believe that approval by the entire Board is important, and also recommend that the final rules describe the process the Board intends to undertake in seeking such authorization.

Rule 4003 We believe it is likely that "traditional" peer reviews will need to continue indefinitely to satisfy state licensing and other regulatory requirements. We look forward to working with the Board and others to identify ways in which we can capture efficiencies from the peer review process and the Board's inspection process. With that in mind, we recommend that the frequency of PCAOB inspections, as well as their timing within the year, be aligned with the peer review process in a manner that optimally supports the public interest goals of all licensing and regulatory authorities.

Rule 4004 With regard to the note added at the end of this proposed rule, we recommend that the wording be amended to convey a sense of the other entities to which the Board may make information available. In addition, given the clear intent of Congress around confidentiality, it should be explicitly provided that all recipients of documents and information protected under section 105(b)(5)(A) of the Act are subject to the confidentiality provisions of the Act.

Rule 4006 The proposed rules do not address issues around access to and the confidential treatment of non-issuer information that might be requested in connection with the Board's involvement with our internal quality inspection program or that may otherwise come up in the course of the Board's inspections. We believe it is critical that these issues be addressed so that the rules can be scoped to apply only to issuer data or that protocols can be established that appropriately reflect our professional, ethical and legal obligations to our non-issuer clients.

We also recommend that Rule 4006 cover record retention policies for copies obtained, notes taken and other documentation created in the course of the Board's inspections.

Rules 4007-4008-4009 We recommend that the proposed rules be amended to extend the “due process” around reporting through to the Board’s final report, our response thereto and “any additional letter of comments” that may accompany the report. In addition, there is currently no provision for a firm to respond to, and no “due process” around, any potential disagreement about whether a firm has adequately remediated defects in its quality control system within the required twelve-month period. Our only interest here is the accuracy of these reports, and we believe that a comprehensive “due process” that builds in the final reviews necessary to ensure that the Board’s reports are accurate and that our responses are faithful to the Board’s final report, not a prior draft, is essential to serving the public interest.

Rule 4009 Building on other comments and suggestions set forth above, we note that the proposed rules do not articulate a concept or framework for how to determine whether or not a finding is related to the firm’s quality control system. We believe that a broad definition is appropriate here because, quite simply, we cannot think of a finding that would not be tied in some way to our system of quality controls.

We also recommend that Rule 4009 make clear the Board’s expectations around the types and nature of evidence required to demonstrate that the systems have been improved and defects remediated.

Rule 4010 In addition to not mentioning a specific firm by name, we recommend that this rule explicitly address the need to ensure that these reports do not inadvertently identify a firm indirectly. We also suggest that the rules clearly set out that best practices and positive trends – not just criticisms and defects – will also be communicated.

* * * * *

Finally, given the volume of rule proposals being put forth at this time, and in light of the fact that the Board’s inspection process is sure to evolve as the Board learns from its experiences in executing it, we believe that it would be in the best interests of all involved that a provision for a “sunset review” (or some other means) be built into the inspections rules, enabling the Board to easily amend the rules as issues that will need to be addressed emerge.

Thank you for this opportunity to provide our views. Should you have any questions about anything in this letter, please call John Gribble at 973-236-7215.

Very truly yours,

PricewaterhouseCoopers LLP