

June 20, 2007

Ms. Sherry Hazel
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: March 20, 2007 ASB Discussion Paper, *Improving the Clarity of ASB Standards*

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the Discussion Paper and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC places great importance on the ASB's Clarity Project and appreciates that the Board is reaching out to constituents to seek their views on some of the key elements of the clarification process. TIC believes the Clarity project should be a high priority for the Board over the next 2-3 years.

TIC believes that a U.S. Clarity project, which potentially encompasses all of the following components, will benefit the readability and understandability of auditing standards:

- issuance of a standard on the objectives of the audit and auditor,
- the establishment of individual objectives for each SAS and the obligations related to the objectives,
- the appropriate use of terminology denoting professional requirements,
- the restructuring of requirements and guidance within a standard,
- inserting guidance for small and public sector entities,
- development of a glossary, and



- the re-codification of auditing standards

To accomplish the objectives of the clarity project in the shortest time-frame without increasing standards overload for its constituents, TIC is asking the Board to slow down its regular standard-setting process during the clarification transition period and to tailor the rollout of all new and revised standards to the needs of local firms.

TIC recognizes the Board did not ask for comments on this issue in the Discussion Paper. However, TIC requests that the Board take the time to discuss TIC's concern in connection with other comments received.

TIC's specific comments on the above matters and the questions for respondents are presented below.

COORDINATION OF THE CLARITY PROJECT WITH NEW (REVISED) CONTENT IN AUDITING STANDARDS

TIC is concerned that practitioners (especially those from local firms) will become overwhelmed if the Board's regular standard-setting agenda continues at today's current pace while the existing standards are being clarified and codified.

Firms are in the middle of what may be an unprecedented period of change in standards of all types, including some changes that affect the way many firms conduct their practices. As a result, practitioners are finding it to be increasingly difficult to stay up-to-date with the myriad of technical changes confronting them. TIC believes practitioners' inability to stay current on technical changes contributes to audit deficiencies, such as those expected in the government findings on quality control reviews of single audits and employee benefit plans. The reports are expected to contain recommendations to the ASB. Potentially, the ASB's already active agenda could grow rapidly—changing standards to respond to identified audit deficiencies, converging with other standard setters, and clarifying and codifying existing standards.

Ideally, TIC would like the ASB to establish a moratorium on the issuance of new or revised standards until the existing standards have been clarified. However, TIC understands that a complete moratorium on content changes is not a practical alternative. The quality control standard is nearly finished and is needed to support the Peer Review exposure draft. SAS 74 has been out-of-date for some time and may need further revisions to address identified deficiencies in governmental audits. SAS 107 and SAS 69 will need to be updated to reflect the FASB's conclusions on evaluating the materiality of misstatements using the iron curtain/rollover approaches for nonissuers and the FASB's changes to the GAAP hierarchy, respectively. All of the above revisions are justifiable, and some are outside the Board's

control. However, it is equally true that practitioners cannot tolerate constant change from all standard setters (ASB, ARSC, Peer Review, Quality Control, Ethics, and FASB) simultaneously for an extended period of time.

TIC therefore recommends that the pace of change for all projects (including clarity) that are under the Board's control be appropriately planned and monitored. TIC's suggestions for minimizing the burden on firms follow.

- Suspend the exposure and final issuance of any new or substantially revised standards until they have been fully clarified in terms of objectives, language, format and structure—even if this causes a delay in the ASB's convergence with specific IAASB standards. This recommendation is prompted by TIC's concern with the standard-setting precedent established by SAS No. 114, *The Auditor's Communication With Those Charged With Governance* and the IAASB's clarity process. SAS 114 became effective in a pre-clarified format and will have to be re-issued at some future date as a clarified standard. TIC believes this practice and the IAASB's practice of exposing and then issuing final standards with substantive changes in content, followed by re-exposing and re-issuing the same standard in clarity format should be avoided at all costs. These practices create confusion and frustration, waste time, prolong the learning curve for practitioners and damage the standard-setter's credibility.
- Defer convergence with certain IAASB standards that do not have immediate importance in the U.S. The current IAASB projects on service organizations, management representations, related parties and group audits are examples.
- Allow sufficient transition periods for all substantive revisions and clarity changes that will drive changes in practice (e.g., those that elevate optional procedures to professional requirements). The firms within our constituency need longer transition periods to ensure that appropriate training and implementation of such changes have time to occur.

SPECIFIC COMMENTS ON QUESTIONS FOR RESPONDENTS

Use of Objectives

1. *Do you agree that the use of objectives, as proposed, will enhance the clarity of standards and how professional judgment should be exercised in applying them? Please explain why or why not.*

TIC agrees that objectives should be provided for each standard and likes the format and wording used in the objectives of the Reformatted SAS No. 114. The objectives will remind auditors of the goal and intent of each standard so that the procedures to be performed will be placed in an appropriate context. Clarity is improved when objectives are linked to the

auditor's obligations under a standard. Setting objectives for each standard within the context of the 10 existing standards and stating an overall objective for the auditor will provide a unifying framework for the audit process as a whole.

Preferred Presentation Format

2. *Which presentation do you believe will help you better understand and implement the standard? Please explain why.*

TIC prefers the presentation that separates the requirements from the application material with cross-references between them (Appendix 2), which is modeled after the format of the International Auditing Standards (ISAs). Over the last few years, as committee members have commented on the clarification project at the IAASB, TIC has consistently preferred the ISA format for clarity and readability. However, we believe one of the overriding reasons for the ASB to adopt the ISA format is to promote convergence. TIC believes the mechanics of convergence will be much more difficult if the placement of application material differs between the international and U.S. standards. The IAASB presentation format has been used successfully for many years and would facilitate comparisons of ISAs and SASs.

TIC applauds the proposed drafting improvements that are mentioned on page 9 of the Discussion Paper. TIC requests, however, that the clarity process include an explicit commitment to the use of "plain English" within existing and future standards. This commitment would go beyond using shorter sentences and appropriate formatting techniques and would get to the heart of the readability and understandability issue. It would eliminate stilted speech, awkward phrasing and inappropriate gender references, such as the following example from AU 110.01, *Responsibilities and Functions of the Independent Auditor*:

The auditor's report is the medium through which he expresses his opinion....

The above drafting improvements may already be planned. However, TIC recommends that clarity guidelines for board members and staff explicitly state all proposed drafting improvements to ensure consistency of application throughout existing and future standards.

Special Considerations in the Audits of Public Sector Entities and Small Entities

3. *Will inclusion of these special considerations throughout the SASs be helpful? Please explain why or why not.*

Yes. TIC believes this section has special importance today given the volume and complexity of new standards and the specialized nature of public sector audits. Special advice for audits of small entities helps the auditor understand the flexibility within a standard and the opportunities for added efficiency through simpler approaches and reduced documentation. Such advice also acknowledges that the AICPA recognizes the needs of local firms that perform the vast majority of such audits.

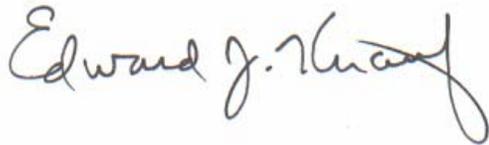
Glossary of Terms

4. *Will inclusion of a glossary of terms in the Codification of the Statements on Auditing Standards be helpful? Please explain why or why not.*

Yes. TIC agrees that a comprehensive glossary covering all of the specialized terms throughout the auditing standards would be a useful addition to the Codification. A glossary is an efficient memory refresher since it is easier to refer to an alphabetical list of terms than remember where a specific term was defined within the standards.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Edward J. Knauf, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees