

Deloitte & Touche LLP
10 Westport Road
PO Box 820
Wilton, CT 06897-0820

Tel: 203-761-3000
Fax: 203-834-2200



November 5, 2003

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

Re: PCAOB Rulemaking Docket Matter No. 009
Proposed Rule Regarding Certain Terms Used in Auditing and
Related Professional Practice Standards

Deloitte & Touche LLP is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") on its *Proposed Rule Regarding Certain Terms Used in Auditing and Related Professional Practice Standards*, PCAOB Rulemaking Docket Matter No. 009 (October 7, 2003). This proposed standard creates three categories of professional obligations in effort to provide definitive imperatives for procedures performed by auditors. The three categories of imperatives as defined in the proposed standard are as follows: 1) must, shall, and is required; 2) should; and 3) may, might, could. We support the concept of providing clear standards and guidance to auditors. However, we have certain concerns regarding the proposed standard which are described below.

The first category of "must, shall, and is required" describes obligations that the auditor must accomplish. We believe the words "must, shall, and is required" should be used judiciously in setting standards, especially in conjunction with the word "all." It is not possible to anticipate all potential fact patterns in which the auditor may not be able to perform certain procedures.¹ Accordingly, we support the Board's intent to use "must, shall, and is required" sparingly as stated in the release discussion of the proposed rule.²

Additionally, the proposed standard indicates that the three categories will be applied to the interim standards adopted by the Board. The Board acknowledges in the release discussion that "must" appears infrequently in the interim standards. But to be clear, we urge the Board to be explicit in the final rule or accompanying release that any elevation of procedures contained in the

¹ As noted by the Board, the Panel on Audit Effectiveness observed that "standards need to be reasonable in that they should not force auditors to adhere to rules that do not take into account the myriad of circumstances that may exist on audits." *Report and Recommendations of the Panel on Audit Effectiveness*, Section 2.228.

² PCAOB Release No. 2003-018, page 3.

interim standards to the level of “must, shall, and is required” will be subject to the standard-setting process.

Finally, although not specifically part of this rule as proposed, we believe the Board should use this opportunity to clarify the authority level of appendices to audit standards. The Board has stated in its *Proposed Auditing Standard An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*, PCAOB Release No. 2003-17, that appendices to the Board’s standards are an integral part of the auditing standards and carry the same authoritative weight as the body of the standard.³ However, the status of appendices in AICPA Professional Standards, which are now the Board’s interim standards, is different. AICPA Statement on Auditing Standards (SAS 95), *Generally Accepted Auditing Standards* (AU 150), which is incorporated into the Board’s interim standards, includes appendices as interpretive publications that the auditor should be aware of and consider but they are not required to apply; if the auditor does not apply the auditing guidance in an applicable interpretive publication, the auditor should be prepared to explain how he or she complied with the SAS provisions addressed by such guidance.⁴ As such, while the auditor is responsible for following the interim standards themselves, the auditor has a lower level of responsibility for following the guidance in the appendices. We believe the Board should clarify that the appendices as they exist in the interim standards have not been elevated to the same authoritative level as the related interim auditing standards themselves.

Further, we are concerned that if the authority of appendices in the Board’s standards is different than the authority of appendices in the Board’s interim standards and this difference is perpetuated, confusion about the application of appendices will result. We would suggest setting a consistent level of authority for all appendices. However, if the Board decides to accomplish this by either modifying the appendices in the interim standards or elevating them to a different authority level, we would urge the Board to subject such changes to the rulemaking process on a standard by standard basis.

We appreciate the opportunity to comment, and would be pleased to discuss these issues with you further. If you have any questions or would like to discuss these issues further, please contact Robert J. Kueppers at (203) 761-3579.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: William J. McDonough, Chairman of the PCAOB
Kayla J. Gillan, Member
Daniel L. Goelzer, Member
Willis D. Gradison, Jr., Member
Charles D. Niemeier, Member

³ PCAOB Release No. 2003-17, *Statement of Authority*, Page A-2.

⁴ AICPA Statement on Auditing Standards (SAS) 95, *Generally Accepted Auditing Standards*, AU 150.06.