

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-58555; File No. PCAOB-2008-01)

September 16, 2008

Public Company Accounting Oversight Board; Order Approving Proposed Rule on Auditing Standard No. 6, Evaluating Consistency of Financial Statements, and Conforming Amendments.

I. Introduction

On February 1, 2008, the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") filed with the Securities and Exchange Commission (the "Commission") Proposed Auditing Standard No. 6, Evaluating Consistency of Financial Statements, ("Auditing Standard No. 6"), and Conforming Amendments, pursuant to Section 107 of the Sarbanes-Oxley Act of 2002 (the "Act") and Section 19(b) of the Securities Exchange Act of 1934 (the "Exchange Act").

Auditing Standard No. 6 will supersede the PCAOB's interim auditing standard on evaluating consistency, AU section 420, Consistency of Application of Generally Accepted Accounting Principles. Auditing Standard No. 6 will establish requirements and provide direction for an auditor's evaluation of the consistency of financial statements, including changes to previously issued financial statements, and the effect of that evaluation on the auditor's report on financial statements.

The Board's proposed conforming amendments affect several of the Board's interim auditing standards. Those standards are: AU section 328, Auditing Fair Value Measurements and Disclosures, AU section 410, Adherence to Generally Accepted Accounting Principles, AU section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles, AU section 431, Adequacy of

Disclosure in Financial Statements, AU section 508, Reports on Audited Financial Statements, and AU section 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report. With the exception of the proposed amendment to AU section 411, the Commission believes the aforementioned amendments are generally technical or conforming in nature, such as updating references in the interim standards to the proposed new standard's paragraph numbers and definitions.

The proposed amendment to AU section 411 will have the effect of removing the hierarchy for accounting principles generally accepted in the United States (the "U.S. GAAP hierarchy") from the PCAOB's auditing standards. The Financial Accounting Standards Board (the "FASB") recently issued Statement of Financial Accounting Standards ("SFAS") No. 162, The Hierarchy of Generally Accepted Accounting Principles, which will include the current U.S. GAAP hierarchy going forward.¹

Notice of the proposed standard and the conforming amendments was published in the Federal Register on August 5, 2008.² The Commission received three comment letters on the proposed rules and amendments. For the reasons discussed below, the Commission is granting approval of the proposed standard and conforming amendments.

II. Description

The Act established the PCAOB to oversee the audits of public companies and related matters, in order to protect the interests of investors and further the public interest in preparation of informative, accurate and independent audit reports. Section 103(a) of the Act directs the PCAOB to establish auditing and related attestation standards, quality

¹ The FASB issued SFAS No. 162 on May 9, 2008. SFAS No. 162 becomes effective 60 days after the date of this approval order.

² Release No. 34-58259 (July 30, 2008).

control standards, and ethics standards to be used by registered public accounting firms in the preparation and issuance of audit reports as required by the Act or the rules of the Commission.

On January 29, 2008, the Board adopted Auditing Standard No. 6, Evaluating Consistency of Financial Statements, and amendments to the Board's interim auditing standards. The Board proposed these changes to its auditing standards in response to two actions of the FASB.

First, in May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which superseded Accounting Principles Board ("APB") Opinion No. 20, Accounting Changes. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to a newly adopted accounting principle. SFAS No. 154 also redefines the term "restatement" to refer only to "the process of revising previously issued financial statements to reflect the correction of an error in those financial statements."³ Under SFAS No. 154, therefore, the term "restatement" does not refer to changes made to previously issued financial statements to reflect a change in accounting principle.

AU section 420, Consistency of Application of Generally Accepted Accounting Principles, the Board's interim standard on the auditor's responsibilities for evaluating the consistency of the application of generally accepted accounting principles ("GAAP"), generally reflected the provisions of APB Opinion No. 20, which was superseded by SFAS No. 154. To better align the Board's standards with the new accounting standard, the Board adopted a new auditing standard on evaluating consistency, which will

supersede AU section 420, and conforming amendments to AU section 508, Reports on Audited Financial Statements, of its interim auditing standards.

Second, in 2005, the FASB issued an exposure draft of a proposed Statement of Financial Accounting Standards, The Hierarchy of Generally Accepted Accounting Principles. The FASB proposed that this standard incorporate the hierarchy found in the current auditing standards into the accounting standards. Historically, a description of the U.S. GAAP hierarchy has resided only in the auditing standards. However, because the current U.S. GAAP hierarchy identifies the sources of accounting principles and the framework for selecting principles to be used in preparing financial statements, the PCAOB and the FASB believed that these requirements are more appropriately located in the FASB's accounting standards. Accordingly, the PCAOB adopted amendments to its auditing standards to remove the U.S. GAAP hierarchy.

In May 2008, the FASB issued in final form, SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 will become effective 60 days from the date of this order approving Auditing Standard No. 6 and conforming amendments.

In addition to proposing Auditing Standard No. 6 and the amendment to AU section 411, the PCAOB proposed amendments to other interim auditing standards and related interpretations. The Commission believes the amendments to AU section 328, Auditing Fair Value Measurements and Disclosures, AU section 410, Adherence to Generally Accepted Accounting Principles, AU section 431, Adequacy of Disclosure in Financial Statements, AU section 508, Reports on Audited Financial Statements, and AU

³ See SFAS No. 154, paragraph 2j.

section 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report, are technical or conforming in nature.

As discussed further below, one of the proposed amendments to AU section 431, Adequacy of Disclosure in Financial Statements, proposes to delete footnote 1 to paragraph 4 of AU section 431, which is an application of the AICPA's Code of Professional Conduct regarding the disclosure of confidential client information. In 2003, when the Board adopted certain AICPA rules and ASB standards as interim Board standards, the Board did not adopt Rule 301. Consistent with that action, the proposed amendments would eliminate the reference to Rule 301 that is included in paragraph 4 of AU section Sec. 431.

The proposed Auditing Standard No. 6 and amendments to the Board's interim standards are intended to update and clarify the auditing standards in light of SFAS No. 154 and SFAS No. 162. In particular, these updates and clarifications are intended to enhance the clarity of auditor reporting on accounting changes and corrections of misstatements by distinguishing between these events.

III. Discussion

The Commission received three comment letters in response to its request for comments on Auditing Standard No. 6 and conforming amendments. The comment letters came from three registered public accounting firms.⁴ All three commenters expressed support for the Commission's approval of the proposed standard.

As noted above, the PCAOB's proposed amendment to AU section 431 deletes a reference to Rule 301 of the AICPA's Code of Professional Conduct – a rule the PCAOB

⁴ Deloitte and Touche LLP, Grant Thornton LLP, and PricewaterhouseCoopers LLP .

did not adopt as part of its original interim standards. Similar to comments made to the PCAOB during its comment period, one commenter believed concerns exist that the Board's action in removing a reference to a rule the PCAOB did not adopt might be construed as minimizing the auditor's responsibilities for maintaining the confidentiality of client information. The commenter requested that the Commission encourage the PCAOB to adopt a rule establishing the auditor's responsibility with respect to maintaining the confidentiality of client information.

In its adopting release, the PCAOB discussed the concerns the comments raised about client confidentiality and noted its awareness of many auditors' legal or professional obligations to maintain the confidentiality of client information, and made reference to the confidentiality requirements included in the provisions of the Uniform Accountancy Act and the provisions of the International Federation of Accountants' Code of Ethics for Professional Accountants. The PCAOB also noted that its decision to omit Rule 301 from its interim standards was based on a determination that incorporation of that rule was not necessary to fulfill the Board's mandate under Section 103(a)(1) and (3) of the Act at that time, and that it did not reflect a decision that auditor confidentiality requirements imposed by other authorities were inappropriate. Similarly, in amending AU section 431, the PCAOB noted that it seeks neither to modify nor detract from existing confidentiality requirements.

The Commission agrees with the Board's proposed action to remove from its interim standards a reference to a rule it did not adopt. However, the Commission

encourages the PCAOB to develop and adopt a rule addressing the auditor's responsibility with respect to maintaining the confidentiality of client information.⁵

IV. Conclusion

On the basis of the foregoing, the Commission finds that proposed Auditing Standard No. 6 and the Conforming Amendments are consistent with the requirements of the Act and the securities laws and are necessary and appropriate in the public interest and for the protection of investors.

IT IS THEREFORE ORDERED, pursuant to Section 107 of the Act and Section 19(b)(2) of the Exchange Act, that proposed Auditing Standard No. 6, Evaluating Consistency of Financial Statements, and Conforming Amendments (File No. PCAOB-2008-01) be and hereby are approved.

By the Commission.

Florence E. Harmon
Acting Secretary

⁵ One commenter also noted that the adoption of Auditing Standard No. 6 would cause existing published PCAOB Staff Questions and Answers to require updating. The Commission encourages the PCAOB to ensure that its guidance is up to date with its current standards and presumes the PCAOB will update these Questions and Answers once these amendments are approved.