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

PCAOB Rulemaking Docket Matter No. ~~026~~ 006
Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk, and Conforming Amendments to PCAOB Standards

Dear Mr. Secretary:

KPMG appreciates this opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) Release No. 2008-006, "*Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk, and Conforming Amendments to PCAOB Standards,*" that includes the following proposed auditing standards as appendices (collectively, the Proposals):

- *Audit Risk in an Audit of Financial Statements*
- *Audit Planning and Supervision*
- *Identifying and Assessing Risks of Material Misstatement*
- *The Auditor's Responses to the Risks of Material Misstatement*
- *Evaluating Audit Results*
- *Consideration of Materiality in Planning and Performing an Audit*
- *Audit Evidence.*

We would like to take this opportunity to formally recognize the significant effort of the PCAOB and its staff in development of the Proposals.

Effective identification and assessment of, and response to, risks are fundamental to the conduct of high quality audits. Further, global consistency in auditing standards and auditor execution relative to risk assessments and responses are important to furthering the objective of enhancing audit quality around the world. We support the Board's efforts to update its risk standards and believe that the final standards will improve auditor performance and enhance consistent execution in areas that are fundamental to the conduct of an audit.

This letter is organized by first providing a number of general observations and comments on the Proposals as a whole, followed by comments on specific issues in the Attachment. Our general observations discussed below are organized by the following topics:

- Convergence of Auditing Standards
- Consistency of Risk Assessment Activities
- Prescriptive Nature of the Proposals
- Codification of the Board's Standards
- Integration of Fraud Guidance
- Scalability
- Organization and Content
- Effective Date

Convergence of Auditing Standards

We fully support the Board's consideration of the work of other standards setters, as evidenced by the degree of alignment of the Proposal's content with the corresponding risk assessment standards issued by the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board of the AICPA (ASB). We acknowledge steps taken to date and urge the PCAOB to continue its consideration of auditing standards convergence, with the overarching objective of enhancing audit quality around the world.

Converged auditing standards will serve to enhance auditors' understanding, implementation, and consistent application of standards on *all* audits they perform, beyond those subject to the Board's oversight. Enhanced understanding, implementation and consistent application of auditing standards will serve to improve the quality of audits on a broad basis. Additionally, appropriate convergence affords auditing firms the ability to avoid redundant costs, for example, by allowing for synergies related to training, implementation, and the development and maintenance of quality control systems that accommodate the standards of the various standards-setting bodies.

We acknowledge the analysis of significant differences in requirements between the Proposals and those of the corresponding International Standards on Auditing (ISA) included in Appendix 10 of the Proposals. In light of the increasing global acceptance of the ISAs, we believe that the Board should provide a more detailed comparison of these and future proposed standards with those of the IAASB. A robust comparison will help auditors better understand differences in the standards and promote further convergence of auditing standards and auditor performance

We support the following remarks made by Board member Bill Gradison at the Board's October 21, 2008, open meeting:

> "For the first time, the PCAOB is putting out a new standard for comment that includes an extensive comparison of its proposal with the standards promulgated by another standard setter, in this case the Risk Assessment Auditing Standards of the International Auditing and Assurance Standards Board - the so-called ISAs. I would hope that the PCAOB would continue to put out such comparative information in connection with future proposals for new PCAOB standards. We are fast entering an auditing environment with three differing standards, especially as the PCAOB gradually replaces its interim standards (the pre-2003 ASB standards) and the ASB revises its standards, using the ISAs as the base - that is, "ISAs plus." I don't know whether over the long run having three standards is sustainable, but as long as there are three standards, I believe each standard setter has a responsibility to make it as clear as possible how its standards differ from those of the other two standard setters so that practitioners know what is expected of them. Today's Board action is, in my mind, a constructive step in that direction."

Consistency of Risk Assessment Activities

We support the Board's stated goal of enhancing integration of the audit of the financial statements with the audit of internal control over financial reporting. We agree with the statement in paragraph 7 of Appendix 3 of the Proposals that, "In an integrated audit, the risks of material misstatement of the financial statements are the same for both the audit of internal control over financial reporting and the audit of the financial statements. Accordingly, the auditor's risk assessment procedures should apply to both the audit of internal control over financial reporting and the audit of the financial statements."

We believe that the auditor's process for identifying and assessing risks should be the same in both an integrated audit and an audit of financial statements only, and that differences in the conduct of integrated and financial statement only audits should arise only in the auditor's response to assessed risks.

However, there are a number of areas in which we believe that the Proposals do not align with the Board's stated goal. First, the use of a "top-down" approach is neither encouraged nor required in the Proposals, whereas paragraph 21 of Auditing Standard No. 5 (AS 5) states that, "The auditor should use a top-down approach…" We believe that the use of a top-down approach is particularly relevant in identifying and assessing risks of material misstatement. We recommend that the Board consider adding language to the Proposals similar to that found in paragraph 21 of AS 5.

Second, the Proposals do not appear to contemplate the risk assessment activities noted in paragraphs 34 through 38 of AS 5. We note that such paragraphs provide for certain basic risk assessment activities to be undertaken to identify risks at the assertion level.

We recommend that the Board clarify that the process for identifying and assessing risks of material misstatement is the same in an audit of internal control over financial reporting and in an audit of financial statements only. Doing so would serve to reduce the risk that an auditor might execute a non-integrated approach for assessing risks and obtaining audit evidence when performing an integrated audit.

Finally, we believe that the guidance in paragraphs 46 and 47 of AS 5 regarding risk of control failure also is relevant to the risk identification and assessment process when the auditor intends to place reliance on a control for audits of financial statements only. Accordingly, we recommend that the final standards include this guidance as applicable to both integrated audits and audits of financial statements only.

Prescriptive Nature of the Proposals

We believe that the Proposals are unnecessarily prescriptive and may limit the auditor's ability to exercise professional judgment to design and implement audit procedures that appropriately address the risks of material misstatement in the most efficient manner. Furthermore, audit documentation of compliance with these prescriptive measures may have a negative effect on audit efficiency. Our detailed comments in the Attachment provide specific examples of areas where we believe that the Proposals are written in an overly-prescriptive manner and may have the unintended consequence of reducing audit efficiency without a concomitant increase in audit effectiveness. We recommend that the Board reconsider the need for each of the mandatory or presumptively mandatory auditor performance matters included in the Proposals.

Codification of the Board's Standards

We support the Board's objective of looking to the Proposals as a foundation for its future standard-setting activities. However, we believe that the current organization of the PCAOB's auditing standards, as a whole, impedes the most effective and efficient application of those standards. More specifically, we note that the introduction of these standards into the Board's framework will add a significant layer of professional standards to existing interim standards and previously issued PCAOB auditing standards. As a result, we believe that the Board's standards are becoming increasingly cumbersome for an auditor to understand and effectively apply in practice. For example, if an auditor sought guidance with respect to assessing fraud risk in an integrated audit, he or she potentially would consult interim standard AU 316, AS 5, and the Proposals in order to gather all relevant guidance.

We recommend that the Board undertake a project, concurrent with the issuance of any final standard, to enhance the organization, consistency, and understandability of all of its standards. We believe that effective execution of the audit risk foundation standards requires a clear and understandable format that will be consistently applied in future standard-setting activities.

Integration of Fraud Guidance

We support the Board's stated intention of emphasizing the auditor's responsibilities for considering the risk of fraud during an audit. We also acknowledge the Board's view that deficiencies have been noted in some inspections of firms resulting from a 'mechanical' or 'checklist' approach to addressing fraud risk. However, while we support the Board's objective of ensuring that auditors consider fraud throughout an audit, we believe that the approach used in the Proposals of incorporating some components of AU 316, while leaving, amending, or deleting others in the existing interim standards, is confusing and may lead to misapplication of the relevant requirements. Specifically, an auditor may consult fraud guidance within an individual standard that is out of context or incomplete because of other guidance that may be contained in another standard. We believe that the Board's interim standards, located at AU 316, provide sound guidance relative the auditors' consideration of fraud in an audit. Accordingly, we recommend that the Board maintain interim standard AU 316 in its current form and provide application guidance, such as through the use of "Notes" in relevant sections of the final standards, to improve auditor performance in this area.

Scalability

The Proposals do not appear to consistently acknowledge that there may be significant differences with respect to identifying and assessing risks of material misstatement based upon size or complexity of entities. While the Proposals acknowledge that there may be differences between smaller and larger entities with respect to particular risk assessment activities, we believe that differences also exist in many of the areas encompassed by the Proposals. Accordingly, we recommend that the Proposals be revised by adding application guidance intended to assist auditors in determining appropriate procedures that may be effective in identifying and assessing risks of material misstatement at smaller, less complex entities.

Organization and Content

Use of Objectives in the Proposals

We agree with the Board's use of "objective of the auditor" in the Proposals. While our detailed comments below contain some suggested revisions to the objectives used in the Proposals, we believe that the use of objectives assists an auditor to understand the overall goal of his or her procedures. We recommend that the Board review the objectives included in the Proposals to ensure that they are drafted in a format that is outcome-based. For example, in paragraph 3 of Appendix 3 the Board might adopt an objective similar to the following from ISA 315 (redrafted) in order to provide linkage between identifying and assessing risks and designing and implementing responses to those risks.

"The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion level, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement."

Revision of "should consider" to "should evaluate" and "should assess"

We observe instances in the Proposals in which the Board has revised "should consider" guidance drawn from its interim standards or from the ISAs to "should evaluate," or to "should assess" guidance. These revisions will result in incremental auditor effort, including documentation. We encourage the Board to reconsider those areas where incremental auditor effort, including documentation, is reflected in the Proposals and determine whether the increase in auditor effort is appropriate in the circumstances.

Definitions

We believe that the Board should develop and follow a consistent approach with respect to definitions. Some of the Proposals include definitions in a separate 'Definitions' section, similar to the redrafted ISAs. Other Proposals define terms within the text of the respective standard. We also note that AS 5 provides a glossary of defined terms, inconsistent with both approaches noted in the Proposals.

Effective Date

We encourage the Board to provide sufficient time between the final standards' issuance and effective dates for audit firms to incorporate the provisions of the final standards into their respective training programs, audit methodologies and related audit tools prior to implementation. Further, we strongly support the remarks of Board member Dan Goelzer at the Board's October 21, 2008 open meeting, where he noted that the Board might consider additional steps to promote transparency to its standard-setting process. Mr. Goelzer suggested potential actions such as circulating revised Proposals, initiating a second comment period and holding additional public forums or Board discussions to consider the comments. Finally, we encourage the Board to issue the final standards as a suite with the same effective dates.

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Set forth in the Attachment to this letter are comments on specific matters included in the Appendices and the conforming amendments to PCAOB Standards.

We fully support the Board's efforts to update and improve its existing audit risk standards. If you have any questions about our comments or other information included in this letter, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, sranzilla@kpmg.com, Glen L. Davison, (212) 909-5839, gdavison@kpmg.com, or Craig W. Crawford, (212) 909-5536, ccrawford@kpmg.com.

Very truly yours,

KPMG LLP

cc: PCAOB Members and SEC Commissioners

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Comments on Proposed Standards

	Appendix 1: Audit Risk in an Audit of Financial Statements
1a	Paragraph 6 – The proposed standard does not sufficiently describe the types of risks of material misstatement at the financial statement level and how to identify such risks. In order to provide sufficient guidance to auditors regarding the risk assessment process, we believe the PCAOB should include in this standard additional guidance similar to that included in ISA 315 paragraphs A98-A101 related to identification and assessment of risks of material misstatement at the financial statement level.
1b	Paragraph 10 – We believe that the language in the first sentence of paragraph 10 inappropriately limits the auditor's ability to reduce detection risk through the use of substantive procedures only. Detection risk might also be reduced through risk assessment procedures or tests of controls, as described in paragraph 13 of Appendix 7. We recommend that the first sentence in paragraph 10 be deleted.

	Appendix 2: Audit Planning and Supervision
2a	Paragraph 3 – We believe that the statement contained in paragraph 3 of the proposed standard is redundant and would be more appropriately included as a requirement of the auditor in sections of the proposed standard discussing "planning an audit" and "supervision".
2b	Paragraph 3 – We observe inconsistency in the use of the terms "must" and "should" within the Board's existing standards and the Proposals. For example, AS 5 paragraph 9 states that "the auditor should properly plan the audit of internal control over financial reporting and properly supervise any assistants," but paragraph 3 of the proposed standard states that "the auditor must adequately plan the audit and properly supervise the members of the engagement team." Because "must" and "should" impose different levels of responsibility on the auditor, we recommend that the Board conform use of the terminology and use "should" in this instance.

2c	Paragraph 5 – The proposed standard states that "The engagement partner is responsible for planning the engagement but may seek assistance from other members of the engagement team". Appendix 9 of the release states that "The proposed standard also indicates that the engagement partner may seek assistance from other engagement team members because in many situations, particularly those involving larger or multi-location engagements, it is appropriate and necessary to do so." We believe that the statement in Appendix 9 is too limiting because the engagement partner seeks assistance from other engagement team members in virtually all audit engagements, not just those involving larger or multi-location engagements.
2d	Paragraphs 13 – 15 – The proposed standard addresses the auditor's responsibility to evaluate whether specialized skill or knowledge is needed in assessing risks, applying audit procedures, or evaluating the results. Examples of specialists (other than IT specialists) that might be necessary in conducting an audit are not included in the proposed standard. We recommend that the Board include such examples in the final standard. Also, we recommend that the Board incorporate a reference to the existing guidance in AU 336, *Using the Work of a Specialist*, to address more comprehensively the auditor's consideration of using parties with specialized skills and knowledge.
2e	Paragraphs 18 – 20 – Paragraph 18 states that "the engagement partner should supervise other engagement team members...." Paragraph 19 states that "Supervision should include the following," and then provides a list. Paragraph 20 states that the level of supervision "should be appropriate for the circumstances...." We believe that creating multiple "should" statements and thereby imposing presumptively mandatory requirements is unnecessary in this instance. We believe that the initial "should" statement in paragraph 18 is sufficient to communicate the intended auditor behavior. We recommend that paragraphs 19 and 20 be revised to provide guidance on how to implement paragraph 18. For instance, paragraph 19 could be revised to begin with "Elements of effective supervision include....", and paragraph 20 could be revised to state that "the level of supervision of other engagement team members depends on many factors including...". If the "shoulds" are not removed from paragraphs 19 and 20, the language could be revised to clearly indicate the expected auditor response. It is unclear to us how an auditor could effectively and efficiently document that he or she has complied with the requirements of paragraphs 19 and 20. The above structure can be contrasted with paragraph 14, which we believe provides a good example of how to structure guidance and directs the action expected of an auditor. The first sentence of paragraph 14 contains the "should" statement in an actionable context.

	Appendix 3: Identifying and Assessing Risks of Material Misstatement
3a	Paragraph 4 – The definition of significant risk in the proposed standard is different from that in the ISAs. The definition in the proposed standard does not refer to "identified and assessed" risks, but rather refers only to "risks." The resulting implications are unclear. We believe that the definition of significant risk should include the phrase "identified and assessed" risk. The entire concept of a "significant risk" in an auditor's risk assessment process is that the auditor identifies and then assesses that risk, and subsequently plans and performs audit procedures accordingly.
3b	Paragraph 10 – The proposed standard does not acknowledge that ongoing matters, in addition to significant changes, may affect the identification and assessment of risks of material misstatement. We recommend that the proposed standard be revised to acknowledge that ongoing matters (i.e., those matters that may have been significant in a prior year and are present in the current year) should be considered in the risk identification and assessment process.
3c	Paragraph 19 – We do not believe the Board's use of the term "transparency" relative to an auditor's responsibility to obtain an understanding of the application of accounting policies is sufficiently clear. We recommend that the Board either delete the reference to "transparency" of accounting policies, or provide further clarification of its expectations in this regard.
3d	Paragraphs 42 and 44 – The language in paragraphs 42 and 44 appears to describe substantive analytical procedures as opposed to preliminary analytical procedures, particularly in paragraph 44 which discusses "developing expectations." Also, paragraphs 6 through 8 of interim standard AU 329 provide valuable guidance to the auditor with respect to performing planning analytical procedures. However, those paragraphs are proposed to be deleted in the conforming amendments. We recommend that the PCAOB clarify that the expectations developed may be implicit in nature, particularly when performing preliminary analytical procedures, and consider retaining the guidance in paragraphs 6 thorough 8 of interim standard AU 329.

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3e	Paragraph 52 – Section d of paragraph 52 of the proposed standard indicates that inquiries of accounting and financial reporting personnel should be made with respect to whether "... accounting policies were appropriately or aggressively applied." We believe the Board should eliminate use of the term "aggressively". The use of this term is unclear and could lead to confusion on the part of auditors.
3f	Paragraph 56 (c) – The proposed standard states that the auditor should "evaluate the types of potential misstatements..." We recommend that the PCAOB incorporate the concept of "What could go wrong?" consistent with paragraph 30 of AS 5. We believe that consistent use of this terminology would enhance clarity and promote uniformity of execution.
3g	Appendix A – The reasons for this guidance appearing in an Appendix rather than the standard itself are unclear. Both paragraphs A1 and A4 contain presumptively mandatory obligations of an auditor. If Appendix A is intended to hold the same authority as the standard, it should be incorporated into the standard, particularly those paragraphs that contain presumptively mandatory obligations. We recommend that the Board incorporate the Appendix A guidance into the body of the standard, or remove the presumptively mandatory provisions embedded in Appendix A.

	Appendix 4: The Auditor's Responses to the Risks of Material Misstatement
4a	Paragraph 1 – The description in paragraph 1 omits a crucial element in responding to risk – the notion of the auditor's ***identification and assessment*** of the risk of material misstatement. We understand that the Board considered this matter and concluded that obtaining sufficient appropriate evidence to support the auditor's opinion requires the auditor to adequately respond to the risks of material misstatement. However, we do not believe that this approach appropriately makes the connection between the assessment of risk and the audit response. For instance, in each audit the auditor performs risk assessment procedures to determine where risks of material misstatement exist, and based on this assessment the audit response is designed and implemented to obtain sufficient appropriate evidence. The effectiveness with which this assessment is performed logically affects any audit response. By eliminating this connection between assessment and response, the standard would not explicitly require a linkage between the auditor's responses and the assessed risks of material misstatement. We believe that the notion of linkage is a fundamental concept of the audit risk process that enhances the quality of an audit. We recommend that the standard include the concept of linkage, that is, the auditor should design and implement appropriate responses based on the *identified and assessed* risks of material misstatements, which is consistent with ISA 330, *The Auditor's Responses to Assessed Risks.*

4b	Paragraph 3 – We do not believe that the objective of the proposed standard is sufficiently descriptive to provide guidance that assists an auditor in achieving the requirements of the standard. We believe that the objective in the ISA 330 (redrafted) more clearly describes the auditor's responsibilities relative to responses to risks of material misstatement. Accordingly, we suggest replacing the phrase, "The objective of the auditor *is to address* the risk of material misstatement..." with the phrase, "The objective of the *auditor is to obtain sufficient and appropriate audit evidence*..." Furthermore, the phrase "through appropriate responses and audit procedures," does not clearly communicate the various actions necessary to address assessed risks, and therefore we suggest replacing such phrase with, "through designing and implementing appropriate responses to the assessed risks of material misstatement."
4c	Paragraph 4 – The proposed standard indicates that the auditor "should design and implement overall responses to address the risks of material misstatement as follows...", and provides a list of items. It is unclear what level of documentation is required of an auditor to meet the requirements of this paragraph. For example, an auditor might believe a memorandum to the file describing his or her judgments with respect to 'making appropriate assignments of significant engagement responsibilities' is required. We believe that the matters listed in paragraph 4 are routinely performed in practice by auditors and that imposing a 'should' requirement may likely create additional documentation requirements that may reduce audit efficiency without a corresponding increase in audit effectiveness. We recommend that the Board revise the proposed standard to eliminate these presumptively mandatory requirements, and clarify what actions are expected of the auditor.
4d	Paragraphs 14 – 15 – These paragraphs of the proposed standard relate specifically to audits of internal control over financial reporting. We believe that the inclusion of this information in the proposed standard may lead to confusion as to the requirements of the auditor in an audit of financial statements only. We recommend removing this guidance and retaining this guidance only in AS 5.

4e	Paragraph 19 – The proposed standard contains a presumptively mandatory requirement whereby "tests of controls should be performed in the audit of the financial statements for each relevant assertion for which substantive procedures alone cannot provide sufficient appropriate audit evidence…" To clarify the intent of this paragraph, we suggest including an example similar to that contained in ISA 330 (redrafted), which states that "In some cases…the auditor may find it impossible to design effective substantive procedures that by themselves provide sufficient appropriate evidence at the assertion level. This may occur when an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system." Additionally, in paragraph 19, assessing completeness and accuracy is limited to substantive analytical procedures, but the auditor may need to test completeness and accuracy of data when performing other types of procedures, including tests of details. We recommend that the Board revise this paragraph to clarify its application, and the requirements imposed on the auditor.
4f	Paragraphs 14 – 39 – The guidance related to testing controls contained in paragraphs 14 through 39 appears to address testing controls in both an audit of financial statements only and in an integrated audit. It is not clear which guidance is applicable in a particular type of audit. A significant portion of this guidance also is included in AS 5. We believe that the requirements in this area could be clarified by removing integrated audit guidance that is included in AS 5.

	Appendix 5: Evaluating Audit Results
5a	Paragraph 3a – The proposed definition of "error" differs from the definition in both U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. We believe that the definition of an error should be determined by the accounting framework and that a separate definition is not necessary in the auditing literature. We believe the difference between fraud and error can be clearly delineated in the definition of "misstatement."

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5b	Paragraph 3b – The term "misstatement" appears to be defined using the concept of materiality. As currently written, the first sentence of the definition may be understood by some to be a statement of fact, or may be understood to be a definition of "material misstatement." To clarify, we believe that the term should be defined absent a reference to itself and absent the concept of materiality. A separate definition of material misstatement could be provided.
5c	Paragraph 19 – Regarding the evaluation of misstatements, the proposed standard uses the term "<u>detected</u> in prior years" instead of "<u>related</u> to the prior year." ISA 450 (revised and redrafted), paragraph 11 uses the term "related to the prior year". We believe the Board's proposed terminology does not address situations where misstatements are detected in the current year that relate to the prior year. We also believe the requirement does not accurately capture the requirements in Staff Accounting Bulletin 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,* which provides guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement.
5d	Paragraphs 28 and 29 – These paragraphs of the proposed standard are included under the heading, *Assessing Bias in Accounting Estimates*. However, paragraph 28 deals with whether a misstatement exists in an accounting estimate, and not bias. Furthermore, this paragraph, on its own, is not sufficient to determine whether a misstatement in an accounting estimate exists. As written, these paragraphs may be more appropriately included in the section, "*Accumulating and Evaluating Identified Misstatements*." With respect to paragraph 29, we understand that this requirement is similar to requirements in the Board's interim standards. However, we believe that ISA 540 (revised and redrafted) provides an auditor with valuable guidance relative to assessing potential bias in the financial statements that should be considered by the PCAOB. Although the proposed suite of risk standards address bias throughout, we believe that such standards lack application guidance with respect to the indicators of management bias and its effect on the audit. It would be helpful to clarify that, in addition to the fact that a misstatement due to fraud may exist, indicators of bias may affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate, and whether the financial statements as a whole are free from material misstatement. Such guidance is particularly important in light of the requirement in paragraph 25 for the auditor to "assess" possible bias.

	Appendix 6: Consideration of Materiality in Planning and Performing an Audit
6a	Paragraph 7 – The proposed standard uses the term "***reasonable investor***" when considering whether certain accounts or disclosures may carry more weight with financial statement readers. We believe "reasonable investor" is too limiting, as there may be users of the financial statements that are not investors. Other PCAOB standards, for example paragraph 91 of AS 5, as well as the ISAs (see ISA 320 revised and redrafted), utilize the term "user." We recommend that the Board revise the proposed standard to utilize the term "user."
6b	Paragraphs 8 and 9 – The proposed standard requires the auditor to determine the amount of "tolerable misstatement." Paragraph 9 of ISA 320 (revised and redrafted) uses the term "performance materiality" for essentially the same concept. We believe that these terms have the same meaning, and in order to promote consistency among the auditing standards, we recommend that the Board utilize the term "performance materiality" in the final standard.