



## **Board Proposes New Auditing Standard and Amendments Relating to Consistency and the Hierarchy of GAAP And Further Implements Rules Relating to Tax Services and Independence**

**Washington, DC, April 3, 2007** – The Public Company Accounting Oversight Board today proposed for public comment an auditing standard, *Evaluating Consistency of Financial Statements*, and a concept release concerning Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*. In addition, the Board provided guidance, in the form of questions and answers, on Rule 3522, *Tax Transactions*, and Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*.

### **Consistency and the Hierarchy of Generally Accepted Accounting Principles**

The proposed standard and related amendments to the interim standards would update and clarify the auditors responsibilities with respect to evaluating and reporting on matters relating to the consistency of the financial statements. These updates and clarifications also would enhance auditor reporting on accounting changes and corrections of misstatements by more clearly distinguishing between these events. The Board also proposed to remove the hierarchy of generally accepted accounting principles (GAAP) from its interim auditing standards in light of the proposal by the Financial Accounting Standards Board to place the hierarchy in the accounting standards. Because the GAAP hierarchy identifies the sources of accounting principles and the framework for selecting principles to be used in preparing financial statements, these requirements are more appropriately located in the accounting standards.

### **Rule 3523, Tax Services for Persons in Financial Reporting Oversight Roles**

Separately, the Board issued a concept release as part of the ongoing implementation of the Board's rules related to tax services and independence. The concept release solicits comment regarding one part of Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*.

Rule 3523 provides that a registered firm, subject to certain exceptions, is not independent of an audit client if the firm, or an affiliate of the firm, provides tax services during the audit and professional engagement period to a person in, or an immediate family member of a person in, a financial reporting oversight role at an audit client. As of November 1, 2006 registered firms have been required to comply with Rule 3523 as it relates to tax services provided while they serve as auditor of record for an audit client – that is, during the "professional engagement period." As previously announced, the Board is revisiting the application of Rule 3523 to tax services provided during the "audit period."

The Board is seeking information about the possible effects on a firm's independence of providing tax services to a person covered by Rule 3523 during the portion of the audit period that precedes the beginning of the professional engagement period, and other practical consequences of applying the restrictions imposed by Rule 3523 to that portion of the audit period.

The Board has determined to extend the implementation schedule for Rule 3523 in order to allow sufficient time for consideration of comments on the issues raised in the concept release. Specifically, Rule 3523 will not apply to tax services provided on or before July 31, 2007, when those services are provided during the audit period and are completed before the professional engagement period begins. Rule 3523 is one of six rules adopted by the Board along with related definitions concerning independence, tax services, and contingent fees that were approved by the Securities and Exchange Commission (SEC) in April 2006. The concept release and implementation schedule adjustment do not affect any other aspect of these rules.

### **Ethics and Independence Questions and Answers Concerning Tax Services**

Also in the area of ethics and independence, the PCAOB staff today issued six questions and answers, on Rule 3522, *Tax Transactions*, and Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*. Several of the questions and answers address issues that the SEC encouraged the Board to provide additional guidance on when it approved the Board's rules on tax services and independence. The staff publishes questions and answers to help auditors implement and the Board's staff to administer, the Board's standards. The statements contained in the staff questions and answers are not rules of the Board, nor have they been approved by the Board.

The Board will seek comment on the proposed auditing standard, the amendments to the interim audit standards, and the concept release for a 45-day period. Interested persons are encouraged to submit their views to the Board. The Board will carefully consider all comments received before taking final action on the proposals. Any new auditing standard amendment to the interim auditing standards or rule amendment that is adopted will be submitted to the SEC for approval.

The text of the proposed auditing standard and amendments, concept release concerning Rule 3523, and the staff guidance relating to Rules 3522 and 3523 are available on the Board's Web site.

An archive of the [Webcast](#) of the Board's public meeting also is available on the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org).

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