

October 9, 2012

Ms. Elizabeth M. Murphy  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

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Re: Release No. 34-67807; File No. PCAOB-2012-001

Dear Ms. Murphy:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants.

The CAQ appreciates the opportunity to comment on SEC Release No. 34-67807, *Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Auditing Standard No. 16, Communications with Audit Committees and Related and Transitional Amendments to PCAOB Standards*<sup>1</sup> (Release). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The audit committee serves an essential role in the corporate governance framework by protecting investors through its oversight of a company's financial reporting process. As noted in our February 29, 2012 comment letter to the PCAOB,<sup>2</sup> we believe that the role of the audit committee should continue to be supported and enhanced. We support efforts to continually improve the effectiveness of two-way communications between the auditor and the audit committee, with the objective of further assisting audit committees in fulfilling their responsibilities. This communication is important to the audit committee's oversight of the auditor, and improving this oversight fosters continuous improvement in audit quality.

<sup>1</sup> <http://www.sec.gov/rules/pcaob/2012/34-67807.pdf>

<sup>2</sup> [http://pcaobus.org/Rules/Rulemaking/Docket030/030b\\_CAQ.pdf](http://pcaobus.org/Rules/Rulemaking/Docket030/030b_CAQ.pdf)

We believe that adoption of Auditing Standard No. 16 (AS 16) is in the public interest and contributes to investor protection because it establishes requirements that enhance the relevance, timeliness, and quality of communications between auditors and audit committees. This should improve audit quality and audit committees' financial reporting oversight, fostering improved financial reporting.

While there inevitably will be some costs associated with applying any new standard, we do not anticipate that the costs of applying AS 16 will be significant over time primarily because a) the auditor's communications under the new standard are limited to communicating the results of the audit or specific audit procedures already required under the existing standards, b) leading practices at many audit firms are largely consistent with the requirements of AS 16, and c) comment letters filed by various stakeholders in response to the PCAOB's re-proposal<sup>3</sup> generally were supportive and did not express significant concern about the costs associated with applying AS 16.

Accordingly, we believe that applying AS 16 will be beneficial for audits of public companies of various sizes, including emerging growth companies (EGCs),<sup>4</sup> some of which may be relatively new to the SEC reporting process. As described in the Release, improved financial reporting reduces information asymmetry and should increase the efficiency of capital allocation, fostering capital formation. This may be particularly important for EGCs, which may need to access the capital markets more regularly than more established companies. Additionally, we are unaware of any aspects of AS 16 that would harm competition. Given the above, we support the application of AS 16 to all audits subject to PCAOB oversight, including audits of EGCs.

Finally, applying AS 16 to audits of EGCs would avoid further bifurcation of the rules applied to the preparation and audit of public company financial statements. Having different sets of rules for different categories of public companies makes it more difficult for investors to know what rules governed the preparation and audit of a given set of financial statements. We believe that investors in public companies of all sizes are entitled to the same level of protection, including the protection provided by improved communications between auditors and audit committees.

With regard to appropriately meeting the requirements under the JOBS Act relative to EGC application, we encourage the SEC and the PCAOB to engage with various stakeholders regarding an accepted impact assessment process that facilitates the continuance of a timely and effective audit standard setting process.

The CAQ appreciates the opportunity to provide our views on the Release. We welcome the opportunity to respond to any questions regarding the views expressed in this letter.

Sincerely,



Cynthia M. Fornelli  
Executive Director  
Center for Audit Quality

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<sup>3</sup> [http://pcaobus.org/Rules/Rulemaking/Docket030/Release\\_2011-008.pdf](http://pcaobus.org/Rules/Rulemaking/Docket030/Release_2011-008.pdf)

<sup>4</sup> "Emerging growth companies" is defined in Section 3(a)(80) of the Securities Exchange Act of 1934.

cc:

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