



February 29, 2012

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

Re: Request for Public Comment: *Proposed Auditing Standard Related to Communications with Audit Committees, Related Amendments to PCAOB Standards, and Transitional Amendments to AU sec. 380, PCAOB Rulemaking Docket Matter No. 30*

Dear Office of the Secretary:

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 (AICPA).

The CAQ appreciates the opportunity to respond to the Public Company Accounting Oversight Board (PCAOB or the Board) on its release, *Proposed Auditing Standard Related to Communications with Audit Committees, Related Amendments to PCAOB Standards, and Transitional Amendments to AU sec. 380 (Proposed Standard)*. This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

Supporting and Enhancing Audit Committee Communications

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 the CAQ's recent comment letter on the Board's *Concept Release on Auditor Independence and Audit Firm Rotation*, we believe that the role of the audit committee should continue to be supported and strengthened. The CAQ acknowledges the importance of effective two-way communications between the auditor and the audit committee and is supportive of efforts to enhance these communications with the objective of further assisting audit committees in fulfilling their fiduciary responsibilities on behalf of investors.

Overall, we are supportive of the Proposed Standard and its objective to enhance the relevance and effectiveness of the communications between the auditor and the audit committee. We have, however, identified certain areas in the Proposed Standard where we believe further clarification or modification would help to achieve better alignment with the stated objectives of the Proposed Standard. We are pleased to offer for the Board's consideration our observations on these areas as well as our thoughts on some of the specific questions posed by the Board.

Applicability to the Audits of Brokers and Dealers

The Proposed Standard requests comment on whether it should apply to the audits of all brokers and dealers and on whether the Board's interim standard, AU sec. 380, should apply to such audits prior to the effective date of the Proposed Standard. The CAQ believes that the Proposed Standard should be applicable to all audits of brokers and dealers conducted in accordance with PCAOB standards. We also support the application of the Board's interim standard, AU sec. 380, to all audits of brokers and dealers prior to the effective date of the Proposed Standard, if the Securities and Exchange Commission's (SEC) proposed rule requiring such audits to be performed in accordance with PCAOB standards¹ becomes effective prior to the effective date of the Proposed Standard.

The Proposed Standard also requests comment on whether there are any communication requirements specific to the audits of brokers and dealers that should be added to the new proposed standard. As additional communication requirements exist for audits of brokers and dealers under SEC Rule 17a-5, and under the Board's proposed attestation standards, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, and *Review Engagements Regarding Exemption Reports for Brokers and Dealers*, we recommend that Appendix B of the Proposed Standard ultimately be updated to reference the PCAOB rules and standards that would require these additional communications for brokers and dealers when such rules and standards become effective.

Involvement of Others in the Audit

Paragraph 10d of the Proposed Standard requires the auditor to communicate to the audit committee the "names, locations, planned roles, and responsibilities, including the scope of audit procedures, of other independent public accounting firms or other persons, who are not employed by the auditor, that perform audit procedures in the current period audit." The CAQ supports providing additional information to the audit committee to enhance its understanding of the auditor's role and responsibilities and the audit process, including information about the involvement of others to support the audit effort. We note, however, that the proposed requirement for the auditor to communicate to the audit committee regarding the involvement of participants that are not considered key participants in the audit could result in a disproportionate amount of the overall communication to the audit committee being devoted to this requirement, thereby potentially shifting the emphasis away from other more important matters. We believe that establishing a threshold for this communication would be more consistent with the Board's intent to encourage effective two-way communications between the auditor and the audit committee regarding important matters related to the audit.

One method of establishing the threshold would be to utilize a minimum percentage that is consistent with that ultimately used in the Board's transparency proposal² (if adopted) for disclosing in the audit report the involvement of other firms or persons. In the context of communicating with the audit committee regarding significant risks as required by the Proposed Standard, this minimum percentage could be coupled with a

¹ See SEC Release No. 34-64676; File No. S7-23-11, *Broker Dealer Reports*

² See PCAOB Release No. 2011-007, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*



requirement to communicate with the audit committee regarding other participants who performed audit procedures to address one or more assertion(s) for which significant risks have been identified, even if such involvement fell below the minimum percentage. We believe this approach would be consistent with the objectives of the Proposed Standard and will help focus these additional audit committee communications on the other firms or participants that have a more meaningful involvement in the audit.

Consultations

Paragraph 13 of the Proposed Standard requires the auditor to communicate to the audit committee, “matters that are difficult or contentious for which the auditor consulted outside the engagement team and that the auditor reasonably determined are relevant to the audit committee’s oversight of the financial reporting process.” The Board has provided a discussion of “difficult or contentious matters” on page A4-28 in Appendix 4 to provide additional guidance to the auditor regarding what types of consultations would be required to be communicated to the audit committee. We recommend that this discussion be included within the final standard to assist the auditor in determining what consultations are required to be communicated to the audit committee.

Uncorrected and Corrected Misstatements

We note that the first sentence of paragraph 18 requires the auditor to provide the audit committee with the “schedule of uncorrected misstatements related to accounts and disclosures,” while paragraph 19 requires the auditor to communicate “corrected misstatements” without specifying that the corrected misstatements also relate to both accounts and disclosures. We suggest that clarifying language be added to paragraph 19 to better align it with paragraph 18 and to more clearly indicate that the communication requirement for corrected misstatements includes misstatements related to both accounts and disclosures.

Amendments to PCAOB Standards

The required communications to audit committees under the proposed amendments to AU sec. 722, *Interim Financial Information* (AU sec. 722), generally are limited to the effect of significant events, transactions, and changes in accounting estimates that the auditor considered when conducting the review of interim financial information. We recommend that the Board include clarification in the Proposed Standard to indicate that, as noted on page A4-46 in Appendix 4, the auditor is not required to repeat communications that were made as part of the annual audit.

In addition, implementation of the proposed amendments to AU sec. 722 prior to the time of the auditor’s required annual communications under the Proposed Standard likely would result in expanded communication requirements related to the auditor’s review of interim information. Accordingly, we recommend that the proposed amendments to AU sec. 722 only become effective for interim periods following the annual period in which the Proposed Standard becomes effective.

Engagement Letter

As noted on page A4-6 in Appendix 4, the Board would allow the audit committee to acknowledge the engagement letter orally or in writing. We suggest that clarifying language be added to paragraph 6 of the Proposed Standard to reflect this option.

Timing of Communications

We agree that it is essential for the auditor to communicate with the audit committee on a timely basis and we appreciate the Board’s acknowledgement of instances where it is most efficient to communicate to the audit



committee through the audit committee chair. We also support the requirement for the auditor to subsequently communicate to the audit committee those matters initially communicated to the audit committee chair. In order to recognize that not all members of the audit committee must be present in order to achieve a quorum, and under such circumstances a full audit committee may not be present (and is not required to be present) when the auditor provides the required communications, we recommend that the word “full” be removed from the note to paragraph 25 of the Proposed Standard.

In conclusion, the CAQ supports the Board’s efforts to encourage effective, two-way communication between the auditor and the audit committee. We appreciate the opportunity to comment on the Proposed Standard and 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

cc:

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