

May 26, 2010

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

RE: PCAOB Rulemaking Docket Matter No. 030  
*Proposed Auditing Standard Related to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing issues. The PSC has been authorized by the TSCPA's Board of Directors to submit comments on matters of interest to the PSC's membership. The views expressed in this letter have not been approved by the TSCPA's Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

We are delighted to have the opportunity to provide input into your deliberations. Our response includes answers to the questions that were posed in the Exposure Draft.

**Question 1: Are the objectives of the auditor in the proposed standard appropriate? If not, why? Should other matters be included in the objectives?**

We believe the objectives as stated in the proposed standard are appropriate and should not include additional matters.

**Question 2: Are the objectives adequately articulated? Should the articulation of the objectives focus on the outcome that should be achieved by performing the required procedures?**

We believe the objectives are adequately articulated and need not focus on the outcome that should be achieved by performing the required procedures.

**Question 3: Is it appropriate for the proposed standard to require that an engagement letter be prepared annually? If not, why?**

An engagement letter is an appropriate vehicle to use in establishing a mutual understanding of the terms of the audit engagement with the audit committee. We believe the requirement for a written engagement letter in connection with an audit engagement is long overdue. We further believe this requirement will serve to align the professional literature with the protocol currently followed by a vast majority of accounting practitioners.

**Question 4: Are there other matters that would enhance investor protection that should be added to an engagement letter? If so, what other matters should be included in an engagement letter?**

We are comfortable with the items currently addressed in the proposed engagement letter. However, we do have some concerns regarding the use of the term "investor protection" in question 4. In our opinion, and based on what is currently presented in our professional literature, we do not believe the auditor's role is to protect the investor. Auditors are responsible for opining on a client's financial statements by indicating whether or not the auditor believes those financial statements are presented fairly in accordance with generally accepted accounting principles. We believe use of the phrase "enhance investor protection" in an auditing standard could lead to the presumption that auditors are taking on responsibilities that extend the auditor's perceived and actual responsibilities to investors. As an illustration, note that the auditor's opinion is not addressed to investors but, rather, to the audit committee or board of directors. We see a great deal of difference between being responsible for issuing an opinion on the fair presentation of an entity's financial statements and the far reaching concept of investor protection.

**Question 5: Is the proposed requirement to inquire of the audit committee appropriate? What other specific inquiries, if any, should the proposed standard include for the auditor to make of the audit committee?**

The inquiry proposed by the Board regarding whether the audit committee is aware of matters that may be related to the audit, including complaints or concerns raised regarding accounting or auditing matters, is most appropriate. Such an inquiry is sufficiently broad to garner the kind of information that would be valuable to an auditor. We do wish to raise a word of caution in relation to the proposed inquiry of the audit committee. This caution concerns situations that occur in most small public entities where the audit committee is composed of internal directors rather than independent directors. In such instances, the auditor should be alerted to the fact that a management-constituted audit committee might not be prone to raise contentious issues with the auditor. In such situations, the auditor should not rely totally on the fact that no complaints or concerns were voiced by members of the audit committee. The auditor should be alerted to exercise caution in such situations and approach them with a greater degree of skepticism than would result if the audit committee was composed entirely of independent directors.

**Question 6: Are the requirements to provide information on the auditor's audit strategy and timing of the audit appropriate? Does the auditor need more guidance related to the requirement to provide information on the auditor's audit strategy? If so, what type of guidance would be helpful?**

We believe the requirement to provide information on the auditor's audit strategy and timing is appropriate. However, this requirement introduces new and unfamiliar territory for most auditors. Thus, we suggest that the Board provide more specific guidance, as well as relevant examples, on the kind of audit strategy/timing communications that would serve to avoid compromising the effectiveness of the audit procedures.

**Question 7: Is it sufficiently clear which types of arrangements should be communicated to the audit committee related to the roles, responsibilities, and locations of firms participating in the audit?**

To the extent that the types of arrangements mirror those identified by the SEC, this aspect of the proposed standard is clear.

**Question 8: Are the proposed requirements regarding the auditor's communication responsibilities with respect to accounting policies and practices sufficiently clear in the proposed standard (e.g., is the difference between a critical accounting policy and a significant accounting policy or practice adequately described)?**

Yes, the proposed requirements are clear.

**Question 9: Is it helpful to include in the proposed standard the audit committee communications required by the SEC relating to accounting matters?**

We believe it's completely appropriate to include the SEC requirements in a standard involving the audits of public companies since the SEC has the ultimate responsibility and oversight in this area. However, the proposed standards should be consistent with the guidance provided by the SEC and not include significant differences.

**Question 10: Is the definition of critical accounting estimates appropriate for determining which estimates should be communicated to the audit committee?**

As long as this definition is consistent with the definition used by the SEC, there should be no dissention. Since the rules of the PCAOB must be functionally consistent with the rules of the SEC, the definition of critical accounting estimates should be the same.

**Question 11: Are the communication requirements regarding critical accounting estimates appropriate? If not how should the proposed standard be modified to provide appropriate information to the audit committee?**

We believe, in their purest form, the communication requirements regarding critical accounting estimates are appropriate. However, we believe the composition of the members of an entity's audit committee, to whom these communications are made, poses a potentially significant problem. That problem concerns the composition of the audit committees of a majority of public companies to which this proposed standard applies. According to a white paper issued by the SEC Advisory Committee on Smaller Public Companies, dated August 10, 2005, "Approximately 80% of all U.S. public companies provide 6.4% of all U.S. public market capitalization." Further, the Sarbanes-Oxley Act (Section 2) defines the term audit committee to mean, "(A) a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting process of the issuer and audit of the financial statements of the issuer; and (B) if no such committee exists with respect to an issuer, the entire board of directors of the issuer." We assume the 20% of public companies that provide approximately 93.6% of U.S. public market capitalization have audit committees composed entirely of independent directors. In these instances, we believe the

communications regarding critical accounting estimates are appropriate and are being made to an appropriate group. However, we are concerned about the 80% of public companies whose audit committee, we assume, is often composed of directors who are also members of the entity's management team. In these instances, we have some concern about the communications regarding critical accounting estimates being made to management and the effect of those communications. Could such communications compromise the auditor's independence and objectivity? These communications could be interpreted as an auditor assisting the client in the implementation of accounting principles and the determination of accounting estimates. Such implications seem to us to represent a slippery slope when the audit committee is also a part of the entity's management team. As a minimum, we believe the Board should address the issue of the composition of an audit committee for small public companies and the implications for such communications regarding the auditor's independence and objectivity.

**Question 12: Should this requirement be expanded to include consultations on accounting or auditing matters with non-accountants, such as consulting firms or law firms?**

Yes, if such consultations concern matters considered important enough for the auditor to discuss with the audit committee, the company should be required to disclose these matters to the auditor. Also, the auditor should be required to inquire about whether such consultations have occurred.

**Question 13: Is the communication requirement on going concern clear? If not, how could the requirement be clarified?**

We believe the communication regarding going concern matters is clear.

**Question 14: Are the requirements appropriate regarding the communications for uncorrected misstatements?**

These requirements are appropriate.

**Question 15: Should all corrected misstatements including those detected by management be communicated to the audit committee?**

We believe all corrected misstatements should be communicated to the audit committee as these may also be indicative of challenges within the financial reporting process that should be addressed by the board and management.

**Question 16: Like the existing standard, the proposed standard would allow the auditor to communicate many matters orally or in writing. Should the standard require that all or certain matters be communicated to the audit committee in writing? If only certain matters should be communicated to the audit committee in writing, what are those matters?**

We believe the choice of communication method should be left to the judgment of the auditor. The auditor is in the best position to determine which matters should be communicated orally and which

should be in writing. The prudent auditor would document all oral communications in the audit working papers so a record of the communication is available.

**Question 17: Are the requirements in the proposed standard on the timing of the auditor's communications appropriate? Should only certain matters be communicated annually? If so, which ones?**

The requirements in the proposed standard are appropriate. We believe the matters communicated annually should be consistent with current guidance in the professional literature.

**Question 18: Does the requirement to evaluate the adequacy of the communication process promote effective two-way communications? Is more information on this requirement needed?**

We believe the requirement is **not** effective. An evaluation of two-way communications can only be adequate if both parties are involved. If only the auditor evaluates the effectiveness, and he or she understands what was communicated, it doesn't indicate anything about the other party's understanding.

**Question 19: Are these other communication requirements appropriate and sufficiently clear? What other communication requirements should the proposed standard include, if any?**

We believe the suggested language is sufficient provided it considers that the results of audit procedures performed after the initial communication with the audit committee may result in a modification to the audit report that was not previously expected. We do not believe any additional communication requirements should be added to the proposed standard.

**Question 20: Are the matters included as significant difficulties in paragraph 21 of the proposed standard appropriate? What other matters should be included as significant difficulties?**

We believe the matters included in paragraph 21 are appropriate and no other matters should be included as significant difficulties.

**Question 21: Are any of the requirements included in the proposed standard inappropriate for auditors to communicate to audit committees based on the size or industry of the company under audit?**

We do not consider any of the requirements included in the proposed standard to be inappropriate. However, as we have mentioned earlier in our response we encourage the Board to give further consideration to the fact that many small public companies do not have separate audit committees, and the board and management are often interchangeable. These companies typically have limited internal accounting and financial reporting resources. Thus, it is often difficult to communicate formally with the board prior to the issuance of the audit opinion. Some consideration of the potential problems with the applicability of this proposed standard to small public companies should be given and addressed in the final standard.

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**Question 22: Is the information in Appendices A – C to the proposed standard sufficiently clear? Should the appendices include other matters, e.g., should other items be included in an audit engagement letter?**

We find the appendices to be sufficiently clear and appropriately constructed.

We appreciate the opportunity to provide our input to the standard-setting process.

Sincerely,

A handwritten signature in cursive script that reads "Melissa A. Frazier".

Melissa A. Frazier, CPA  
Chair, Professional Standards Committee  
Texas Society of Certified Public Accountants