American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C. 20006
(202) 637-5000
www.aflcio.org

May 26, 2010

Sent via Electronic and U.S. Mail

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

Re: Rulemaking Docket Matter No. 030, Proposed Auditing Standard Related to Communications with Audit Committees

Dear Mr. Seymour:

On behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), I appreciate the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") proposed auditing standard related to communications with audit committees.

The AFL-CIO is the largest labor federation in the United States, representing 11.5 million members. Union-sponsored pension plans hold approximately $480 billion in assets and union members also participate directly in the capital markets as individual investors.

Collectively, America's workers have lost hundreds of billions of dollars of their retirement savings through accounting-related scandals in the past decade. These include scandals involving Enron, WorldCom, Global Crossing, American International Group, and many others. The ability of investors to rely on accurate and reliable audited financial statements is fundamental to ensuring the integrity of the capital markets.

The Sarbanes-Oxley Act of 2002 (the "Act") requires that audit committees approve all audit and non-audit services provided by the auditor. Auditors, in turn, are required to keep the audit committee well-informed. It follows, then, that "an audit committee that is well- informed...may be able to better able to carry out its role of overseeing the financial reporting process."[1]

The AFL-CIO commends the PCAOB for updating the interim auditing standards to reflect that the auditor reports directly to the audit committee and to expand and clarify the rules governing communications between them. As Acting Chairman Daniel Goelzer said, the provisions of the Act which deal with the audit committee's oversight of the audit "are predicated on the idea that independent, informed, and pro-active audit committees can and should be one of the keys to protecting the interests of public company investors."[2]

We strongly support the requirement in the proposed standards for the auditor to establish a mutual understanding of the terms of the audit in an annual engagement letter to the audit committee. However, we agree with the comment of Dennis Beresford, a professor of accounting at the University of Georgia and a former chairman of the Financial Accounting Standards Board, that to guard against excessive boilerplate, auditors should highlight changes in the engagement letter from one year to the next.[3]

To ensure that auditors undertake their duties with the diligence and care that they warrant, it is essential that auditors are legally responsible for the integrity of their work. For this reason, the AFL-CIO believes that audit committees and companies should not indemnify auditors. We concur with the Council of Institutional Investors that if companies indemnify auditors for their work, the engagement letter should explain the potential impact of such a provision on the quality of the audit.[4]

We also support the proposal's new requirement that auditors communicate to the audit committee an overview of the audit strategy, including a discussion of the significant risks identified, and the timing of the audit. Ultimately, the overarching objective of the proposal should be to ensure that the audit committee is recognized as the ultimate client, and has all the information it needs to make educated decisions regarding the auditor. In particular, this is especially important if the audit is conducted by a foreign audit firm that is not subject to inspections by the PCAOB. The PCAOB recently published a list of more than 400 foreign firms whose securities trade in U.S, but are domiciled in countries where the PCAOB is not allowed to conduct inspections. [5]

[1] PCAOB Proposed Auditing Standard Related to Communications With Audit Committees, March 29, 2010.
[2] Statement of Acting Chairman Daniel L. Goelzer, March 29, 2010 open meeting.
[3] Comment letter of Dennis Beresford, April 23, 2010.
[4] Comment letter of the Council of Institutional Investors, May 26.2010.
[5] PCAOB press release, May 18, 2010.

While we recognize that it is ultimately up to audit committees to ask the tough questions of auditors, we believe the proposal will encourage more open, forthright and robust communications between auditors and audit committees. The PCAOB's Auditing Standard No. 5 notes that "ineffective oversight of the company's external financial reporting and internal control over financial reporting by the company's auditing committee" is in itself a material weakness.[6]

Finally, we support the proposal's new requirements for auditors to communicate to audit committees "significant assumptions used in critical accounting estimates that have a high degree of subjectivity."[7] The proposal appropriately requires auditors to discuss material changes to these estimates during the year in question, as well as a range of possible outcomes. As PCAOB board member Steven B. Harris said, these requirements are intended to ensure that the audit committee "is knowledgeable of critical financial reporting decisions made by management."[8]

Thank you again for the opportunity to comment on the proposal. If you need any additional information, please contact me at 202-637-3900.

Sincerely,

D. F. Pedrotty

Daniel Pedrotty
Director, AFL-CIO Office of Investment

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opeiu # 2, afl-cio

[6] Auditing Standard No. 5, Indicators of Material Weaknesses.
[7] PCAOB Proposed Auditing Standard Related to Communications With Audit Committees, March 29, 2010.
[8] Statement of Steven B. Harris, Board Member, March 29, 2010 open meeting.