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Via E-mail: comments@pcaobus.org

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

Re: Request for Public Comment: PCAOB Release No. 2011-008, Rulemaking Docket Matter No. 030, *Proposed Auditing Standard Related to Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU sec. 380*

Dear Members and Staff of the Public Company Accounting Oversight Board (PCAOB):

BDO USA, LLP welcomes this opportunity to comment on the PCAOB's Proposed Auditing Standard, *Communications with Audit Committees* (proposed standard), which would supersede the PCAOB's interim standards AU sec. 380, *Communication with Audit Committees*, and AU sec. 310, *Appointment of the Independent Auditor*, and related amendments to PCAOB standards. Overall, we support the issuance of the proposed standard, which we believe strengthens the functioning of the audit committee by encouraging more robust discussions between the auditor and the audit committee.

Following our overall comments are specific items that we ask the PCAOB to consider to either provide additional clarification or to better align with the PCAOB's stated objectives for the proposed standard.

Overall Comments

We reiterate our support of the PCAOB's efforts to enhance the relevance and quality of the communications between the audit committee and the auditor. Effective two-way communication that involves active participation by both the audit committee and the auditor underlie and support both the audit committee's oversight responsibility for the integrity of a company's financial statements and the financial reporting process, as well as the auditor's responsibility to obtain reasonable assurance about whether the financial statements are free from material misstatement. We believe that issuance of this proposed standard will better enable both the audit committee and the auditor to fulfill these responsibilities through the PCAOB's requirements designed to promote more robust and relevant discussions.



Specific Comments

Significant Issues Discussed with Management in Connection with the Auditor's Appointment or Retention

Paragraph 4 of the proposed standard requires the auditor to discuss with the audit committee significant issues discussed with management in connection with the auditor's appointment or retention, including significant discussions regarding the application of accounting principles and auditing standards. In addition to this discussion, we recommend that the proposed standard include guidance around more robust fee discussions with the audit committee at the appointment or retention stage, in the context of aligning fees with the committee's expectations regarding audit scope and quality. In addition, such discussions would reflect the intent of the current SEC requirements relating to the audit committee's oversight responsibilities to engage auditors and approve compensation for the audit services they perform.

Establishing an Understanding of the Terms of the Audit - Acknowledgment/Agreement of Engagement Letter

With regard to the audit engagement letter, we recommend including the guidance contained on page A4-6 (Appendix 4) within paragraph 6 of the proposed standard to clarify that acknowledgment of and agreement to the terms of the annual engagement letter may be made by the audit committee to the auditor either orally or in writing or may be demonstrated through other means such as through the minutes of the audit committee meeting.

Overall Audit Strategy and Timing of the Audit - Involvement of Others

We agree with the overall communication of the audit strategy by the auditor to the audit committee, including involvement of other participants in the audit engagement. Paragraph 10d of the proposed standard requires communication of "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." We suggest the PCAOB consider inclusion of a guideline or threshold for such communications that recognizes that not all parties may be considered significant participants to the audit based upon the procedures being performed by them; thus, such communication may not be meaningful to the audit committee. This guideline might be tied to a minimum percentage threshold, similar to the threshold for disclosing other participants in the audit that we suggested in our comment letter on the PCAOB's proposed standard on *Improving the Transparency of Audits*, dated January 9, 2012.

Additionally, we suggest that a second screen involving auditor judgment as to whether procedures being performed by others address significant risks, even if they would fall below the threshold established in the first screen. By way of example, consider an auditor of a financial institution who engages a third party expert to perform a valuation and assist in determining potential other-than-temporary impairment of a material, hard-to-value



security. The third party spends an insignificant amount of time relative to the total audit hours in assisting the auditor; however, considering the significant impact on the auditor's procedures and conclusion related to the valuation of and accounting for the security, he/she believes the audit committee would find the involvement of the valuation expert relevant to their understanding of the audit approach to this area. As another example, consider the use of a network member firm that performs audit procedures associated with a goodwill impairment analysis associated with a recent and material foreign acquisition. The auditor would likely conclude that the risk associated with such an analysis, along with the audit procedures performed underlying the analysis, would be information that the audit committee would likely be interested in, regardless of the time spent or who actually performed the work. We believe that including these or similar examples in the proposed standard would assist the auditor in determining the types of communications that would be relevant to the audit committee in situations where the involvement of others is below the established threshold.

We also suggest that the proposed standard include, within paragraph 10d, guidance for more robust discussions with the audit committee when network member firms, or other firms, are utilized to audit foreign components. Depending upon the nature and size of the foreign components, we believe it may be relevant to audit committees to more fully understand certain considerations and implications in auditing such locations (e.g., working paper access issues, independence rules, local regulatory oversight matters, whether the foreign firm is registered with the PCAOB, etc.).

Consultations

We agree with the PCAOB's direction to focus communications regarding consultations with others outside of the engagement team on matters that are defined as difficult or contentious or that the auditor reasonably determined are relevant to the auditor committee's oversight of the financial reporting process. Pages A4-27 and 28 (Appendix 4) contain pertinent guidance on such matters that we recommend the PCAOB include within paragraph 13e of the proposed standard to promote consistency in application of this new requirement.

With regard to the auditor's determination of relevance of matters to communicate, we believe it would be useful, as a means to encourage effective two-way communication, to emphasize that the auditor is encouraged to discuss with the audit committee its expectations as to the nature and extent of detail of consulted matters that should be communicated.

Furthermore, we believe that it is important for the auditor to understand the PCAOB's focus on the matters on which the auditor consulted and not on the parties involved in the consultation. On page A4-28 (Appendix 4), the PCAOB indicates that these consultations are not intended to exclude discussions with the engagement quality reviewer. To avoid any misunderstanding about whether relevant consultations with the engagement quality reviewer are required to be communicated to the audit committee, especially since such consultations were explicitly excluded in the previously proposed standard, we recommend



including this clarification within paragraph 13e of the proposed standard to emphasize that consultations with the engagement quality reviewer involving difficult or contentious matters that are relevant to the audit committee should be communicated by the auditor.

Uncorrected and Corrected Misstatements

We agree with providing the audit committee information regarding uncorrected and corrected misstatements but recommend that clarification to paragraph 19 be added to emphasize that communication of corrected misstatements relates to both “accounts and disclosures,” to be consistent with the language included in paragraph 18.

Timing

Paragraph 25 of the proposed standard indicates that all audit committee communications should be made in a timely manner and prior to the issuance of the auditor’s report. We agree with this proposed requirement. The proposed standard further scopes in consideration of other timing requirements as specified by PCAOB rules or the rules and regulations of the Securities and Exchange Commission. To that point, we recommend that the PCAOB provide clarification, perhaps in a footnote, to address situations involving the subsequent issuance of a consent related to the auditor’s report (e.g., related to a 1933 Act filing) and the extent that updating communications would be required. For example, Question 26 of the SEC’s Office of the Chief Accountant: Application of the January 2003 Rules on Auditor Independence Frequently Asked Questions¹ provides guidance as to the type of information that the auditor would be required to communicate:

Question 26

Q: Would the requirement to communicate with audit committees apply to situations where the auditor is providing a consent (e.g., related to a 1933 Act filing)? If so, what information should be communicated to the audit committee?

A: Yes. In that situation, the audit report is deemed to be filed. As a result, the auditor would be required to communicate the relevant information to the audit committee. Since the auditor would have communicated the relevant information when the audit report was originally filed, this communication at the time of the consent may properly be restricted to updating the audit committee. However, if in the process of applying audit procedures required by AU §711, matters come to the auditor’s attention that would or could have affected the financial statements or the auditor’s report that was previously filed, all relevant information should be communicated to the audit committee.

Proposed Amendments to PCAOB Standards - Interim Financial Information

Page A4-48 (Appendix 4) emphasizes that the amendments proposed to AU sec. 722, *Interim Financial Information*, do not change the scope of existing required communications which

¹ Refer to: <http://www.sec.gov/info/accountants/ocafaquaudind080703.htm>



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limit communications to the audit committee in an interim review to the effect of significant events, transactions and changes in accounting estimates that the auditor considered when conducting the review of interim financial information. Nor does the proposed standard require the auditor to repeat communications that were made as part of the annual audit. We recommend also including this discussion within the proposed standard.

We further recommend that the amendments to AU sec. 722 become effective for interim periods occurring after the first annual period in which the proposed standard becomes effective. Otherwise, all of the incremental communications required by the proposed standard would be required for the first interim period in the year of adoption, significantly increasing the amount of communications typically involved related to interim reviews. Also, because that first interim period may not be interpreted to be "part of the annual audit," it seems the same may apply to the second and third interim periods in the year of adoption.

Audits of Brokers and Dealers

In response to the PCAOB's questions related to audits of brokers and dealers, we agree that the proposed standard should be applicable to all audits of brokers and dealers. We further agree with the PCAOB that the audit committee communication requirements under the PCAOB's interim standard, AU sec. 380, should be applicable to all audits of brokers and dealers prior to the effective date of the proposed standard if the Securities and Exchange Commission's proposed rule requiring audits of brokers and dealers in accordance with PCAOB standards becomes effective prior to the effective date of the proposed standard.

We appreciate your consideration of our comments and suggestions and would be pleased to discuss them with you at your convenience. Please direct any questions to Chris Smith, National Accounting & Auditing Professional Practice Leader at 310-557-8549 (chsmith@bdo.com) and Susan Lister, National Director of Auditing at 212-885-8375 (slister@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP