financial executives international

COMMITTEE ON CORPORATE REPORTING

May 28, 2010

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 030

Dear Board:

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to share its views on the Public Company Accounting Oversight Board's ("PCAOB") Release No. 2010-001, "Proposed Auditing Standard Related to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards." FEI is a leading international organization of senior financial executives. CCR is the senior technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

We support the Board's efforts to comprehensively update the interim auditing standards in regard to communications with audit committees, which is consistent with the Sarbanes-Oxley Act of 2002. We agree with the objectives noted in the release of increasing the relevance and effectiveness of communications between the auditor and the audit committee and emphasizing the importance of effective, two-way communications. We also believe that in practice, many of the proposed communications are already taking place.

However, we are concerned by and do not support some of the additional communication requirements proposed by the Board, especially those related to accounting policies, practices and estimates. We are concerned that these additional requirements seem to place the auditors in the role of management. We also believe that they are overly prescriptive and could result in increased audit costs with little or no benefit. We have set out our concerns and suggestions in the following paragraphs and believe the Board should consider them in preparing the final standard.

Accounting Policies, Practices, and Estimates

The proposed standard includes significant additional communication requirements in paragraphs 12 and 13 relating to the selection, changes, processes, and evaluation of the reasonableness of accounting policies, practices and estimates. We believe that many of these additional reporting requirements are the responsibility of management and are already embedded in the internal control and financial reporting processes of a registrant.

Management is responsible for the financial statements of the registrant. This includes the evaluation and selection of accounting policies that are appropriate for the registrant; the identification and reporting of critical accounting policies; evaluating and recording estimates; and establishing processes and internal controls to ensure the accurate reporting of matters as they relate to such policies and estimates. Auditors already have the responsibility of evaluating these selections, processes, internal controls and estimates as part of their audit of the financial statements and internal control over financial reporting. Deficiencies in management's selection and evaluation of accounting policies, processes and internal controls, and estimates are already communicated to management, with significant deficiencies and material weaknesses also reported to the audit committee.

Specifically, we believe the new proposed required communications for critical accounting estimates by management or the auditors on (1) subsequent monitoring of critical accounting estimates, (2) significant assumptions used in critical accounting estimates, (3) significant changes to assumptions or processes made by management to the critical accounting estimates, and (4) range of possible outcomes, are overly prescriptive requirements that may result in additional audit effort and information in audit committee reports that is of limited value and has the potential to dilute attention from high risk and substantive matters. Furthermore, we are concerned that these requirements will be very challenging to implement in practice, especially those related to range of possible outcomes.

We also believe that the new requirement to communicate the anticipated application of new accounting or regulatory pronouncements is already sufficiently covered through the current required disclosures in the financial statements that provide information on the applicability and effect of new pronouncements upon adoption by the registrant.

We are concerned that the additional proposed reporting requirements may result in a compliance exercise that would remove the focus from concerns and issues the auditors should cover during their discussions with the audit committee. The additional proposed requirements will place additional time burdens on both management and the audit committee of the registrant related to issues that we believe are already addressed through the current audit processes and communications that management and auditors have with audit committees. We also believe that the additional requirements could result in a meaningful increase in the audit costs without any corresponding benefit. Current requirements in AU Section 380 already address these areas in a manner we believe is efficient and productive.

Corrected and Uncorrected Misstatements

We are generally in agreement with the requirements of the proposed standard in this area. We are concerned, however, with the proposal that auditors provide the audit committee with a schedule of uncorrected misstatements relating to *disclosures*. We believe that this could result in auditor's communicating items to the audit committee that are required by GAAP but are insignificant to the financial statements as a whole or to the understanding of users of the registrant's financial statements. In practice today, disclosure questions are resolved through discussions between management and their auditors. If a significant unresolved difference of opinion remains related to a disclosure issue, existing auditing standards already require the auditor to report this disagreement between management and the auditor to the audit committee. Accordingly, we believe existing audit standards are sufficient and further that only disclosure matters of significance should be communicated by management or the auditors to the audit committee.

Additionally, in response to question 15, we don't believe that all corrected misstatements should be communicated by auditors to the audit committee. We believe it is appropriate to communicate those corrected misstatements that result in a significant deficiency or material weakness to the audit committee, but that it isn't appropriate or necessary to expand such reporting beyond what is already required under Auditing Standard No. 5. We also don't believe it is necessary for auditors to report corrected misstatements that were detected by management to the audit committee as these may result from simply the effective functioning of internal control over financial reporting of the registrant. Misstatements detected and corrected by management should only be required to be reported to the audit committee by management and/or by the auditors in the event that they relate to a significant deficiency or material weakness in internal control over financial reporting.

Form and Content of Communications

We believe that all required audit committee communications should be in writing. Auditors should include all items in a written communication in sufficient detail for members of the audit committee to understand and to enable audit committee members and the registrant to refer to in subsequent periods if necessary. We believe that any item that is important enough to be brought to the attention of the audit committee should be recorded in sufficient detail to avoid possible misunderstanding in the future.

Auditor Consultations Outside of the Engagement Team

The proposed standard would require an auditor to communicate to a company's audit committee any significant accounting matters for which the auditor has consulted outside the engagement team. This could include discussions with the firm's national office, industry specialists or consultations with external parties. We are concerned that this broad proposal could have the unintended effect of stifling meaningful consultations and discussions between an audit firm and its national office or industry specialists. Further, the proposed requirement may reduce other more important communications from the engagement team to the audit committee. We believe that the auditor should be able to utilize their sound professional judgment to discuss only those matters with the audit committee that it believes are material to the company or otherwise appropriate to be discussed. Specifically, we believe that (i) communications between the engagement team and other individuals at the audit firm should not be covered by this proposed standard and (ii) this requirement should be limited to matters that are qualitatively or quantitatively material to the company. Additionally, in response to question 12, we do not believe that the auditors' communications of management consultations should be expanded, for reasons similar to those provided above

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We appreciate the PCAOB's consideration of these matters and welcome the opportunity to discuss any questions you have with respect to our comments.

Sincerely,

Arnold C. Hanish
Chairman, Committee on Corporate Reporting
Financial Executives International