

February 29, 2012

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

Response e-mailed to comments@pcaobus.org

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

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) welcomes the opportunity to comment on the *Proposed Auditing Standard Relating to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards*. Our comments are based on a thorough analysis and discussion, utilizing a core team of internal audit experts who serve on The IIA’s Professional Issues Committee. These individuals consist of experienced Certified Public Accountants and Certified Internal Auditors who have worked in public accounting and in audit management positions in small, medium, and large multinational companies.

The proposed standard is extremely important to The IIA. The board of directors, management, internal audit and external audit are the pillars of corporate governance. As defined in The IIA’s International Professional Practices Framework (IPPF), “Internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” As internal audit professionals, we understand the implications of the proposed standard on audit, risk management, control, and governance practices within companies. In addition, in many organizations, the internal audit leader reports to the audit committee, communicates with the audit committee on a regular basis, and provides administrative support for the audit committee on matters such as preparing the core audit committee meeting agenda and compiling audit committee meeting materials. These experiences enable internal audit to provide unique insights on external auditors’ communication with the audit committee.

We remain in strong support of the proposed PCAOB standard that addresses the need for improved communication between the auditor and the audit committee and appreciate the considerations and changes made to the March 2010 exposure draft, particularly the consideration afforded to The IIA’s comments thereon. We firmly believe that a properly

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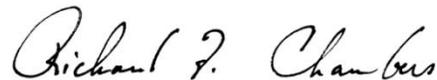
organized and resourced internal audit function compliments and supports the external audit of the organization's financial statements and internal controls over financial reporting.

The following are our principal comments and observations. More detailed responses to the exposure document are included in Attachment A.

1. Overall, the document is very well written. We agree the audit committee is the appropriate governance body to engage and oversee the work of the external auditor. We also agree the external auditor has a responsibility to clearly communicate with the audit committee the terms of the engagement, the strategy, objectives, approach, risk assessment process, significant risks of financial misstatement, and timing of work. This two-way communication should occur throughout the audit to maintain a strong governance structure.
2. We would like to clarify a matter from our response to the PCAOB's previous exposure draft. With respect to the PCAOB's comment in Appendix VI B, our previous response, "...other chartered or mandated responsibilities ..." was related to the internal audit charter and responsibilities, not those of the external auditor.
3. We appreciate the compromise made in the Note following paragraph 12 (c) 3 of the proposed standard, reinforcing management's responsibility for numerous disclosures to the audit committee. That Note, with appropriate revisions, should also apply to paragraphs 13G, 14, 16, 18 and 19.

The IIA welcomes the opportunity to discuss any and all of these recommendations with you. We offer our assistance to the PCAOB in the continued development of this standard.

Best Regards,



Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 170,000 members across the globe and has 105 Institutes in 165 countries that serve members at the local level.

Attachment A

PCAOB release 2011-008 - Request for Comment on Audit Committee Communications

The Board requests comments on all aspects of the new proposed standard and is particularly interested in responses to the specific questions below.

1. Are the communication requirements in the new proposed standard appropriately aligned with the performance requirements in the risk assessment standards, where applicable? If not, why?

Yes, they are reasonably aligned, with the exception of paragraph 8 of the proposed standard. When the external auditor's inquires about information that may be relevant to the audit, the external auditor should also inquire about the audit committee's view regarding fraud risks and how they exercise oversight of the company's assessment of fraud risks (per AS No. 12 – paragraph 56b).

2. The communication requirements included in the new proposed standard are based on the results of procedures performed during the audit. Are there additional matters that should be communicated to the audit committee that also are based on existing auditor performance obligations?

No, the standard provides adequate flexibility for emerging areas by virtue of the provisions in paragraphs 2 and 23 that state, "Nothing in this standard precludes the auditor from communicating other matters to the audit committee" and "...the auditor should communicate...other matters..."

3. The auditor is required to have the engagement letter executed by the appropriate party or parties on behalf of the company. If the appropriate party or parties is other than the audit committee, or its chair on behalf of the audit committee, the auditor should determine that the audit committee has acknowledged and agreed to the terms of the engagement.
 - a. Is the requirement in the standard clear? Yes.
 - b. As stated, the new proposed standard allows the acknowledgment by the audit committee to be oral. Should the acknowledgement by the audit committee, or its chair on behalf of the audit committee, be required to be in a written form or is oral acknowledgment sufficient?

Oral is sufficient if corroborated by the company's minutes of the audit committee meeting and the auditor's documentation.

An additional comment about communications with audit committees relates to the Note following paragraph 25. Our interpretation is that a written communication to the full audit committee prior to issuance of the external auditor's report will suffice where a discussion with the full audit committee did not take place. The Board might consider clarifying the intent of the words "communicate to" to reflect this option.

4. Is the requirement for the auditor to communicate significant unusual transactions to the audit committee appropriate? If not, how should the requirement be modified?

The requirement is appropriate. However, consistent with the Note following paragraph 12 (c) 3, we believe the external auditor should actively participate in the disclosure process. A discussion between management and the audit committee on these significant matters is important; the external auditor should then provide commentary based on that discussion coupled with the auditor's observations.

Additionally, paragraph 14 states, "The auditor should communicate....significant transactions, of which the auditor is aware, that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature." We recommend that "Normal course of business" be defined.

5. Is the requirement appropriate for the auditor to communicate to the audit committee his or her views regarding significant accounting or auditing matters when the auditor is aware that management has consulted with other accountants about such matters and the auditor has identified a concern regarding these matters? If not, how should the requirement be modified?

Management should have primary responsibility for communicating significant accounting matters and consultation(s) with other accountants to the audit committee. If the communication is inadequate or if the auditor has different views, the auditor should communicate any omitted or inadequately described matters to the audit committee. The proposed standard should add the Note following paragraph 12 (c) 3, which allows for and reinforces management's responsibility for disclosures to the audit committee, such that the Note, with appropriate revisions, also applies to paragraphs 13G, 14, 16 (we observe the

external auditor's awareness is primarily based upon management's disclosures of such conversations with other accountants), 18 and 19.

6. Are the amendments to other PCAOB standards appropriate? If not, why?

We did not perform a comprehensive review of all standards to determine completeness and appropriateness of amendments to those other standards.

7. The Board requests comments regarding the audits of brokers and dealers on the following matters:

- a. Whether the communication requirements under the Board's interim standard, AU sec. 380, should be applicable to audits of brokers and dealers if audits of brokers and dealers are to be performed under PCAOB standards before the new proposed standard becomes effective? If so, should it be applicable to audits of all brokers and dealers?
- b. Whether the auditor's communications to audit committees included in the new proposed standard should be applicable to all audits of brokers and dealers?
- c. Are there any communication requirements specific to audits of brokers and dealers that should be added to the new proposed standard? Alternatively, are there any communication requirements contained in the new proposed standard that should not be applicable the audits of brokers and dealers? If so, provide examples and explanations for why the communication requirements for audits of brokers and dealers should be different from other audits covered by the new proposed standard.

We have elected to not respond to this question.