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February 29, 2012

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

**PCAOB 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 Mr. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2011-008, "*Proposed Auditing Standard Related to Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU sec. 380*" (the Release or the revised proposed standard).

We also appreciate the Board addressing many of our comments provided on the Board's March 2010 proposed standard, *Communication with Audit Committees* (the original proposed standard) within the revised proposed standard. We are supportive of the revised proposed standard and offer the following comments for the Board's consideration to either enhance the communication of important information or clarify the auditor's responsibilities in the development of a final standard.

**Overview**

We support the Board's overall objectives reflected in the revised proposed standard to enhance the relevance and effectiveness of communications between the auditor and the audit committee and emphasize the importance of these two-way communications. More specifically, we support the four objectives<sup>1</sup> for the auditor's communications with the audit committee as described within the revised proposed standard and believe that the communication requirements appropriately align with the auditor's performance requirements in the risk assessment standards.

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<sup>1</sup> Refer to paragraph 3 of the revised proposed standard.



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We believe a well-informed audit committee is better equipped to effectively perform its role of overseeing both a company's financial reporting process and its independent registered auditor, and accordingly, we support the continued strengthening of existing requirements for auditor communications with the audit committee. As described within several of our recently issued comment letters on other PCAOB proposals, we strongly support enhancing our communications with and the role of the audit committee. For example, in our December 13, 2011 comment letter response<sup>2</sup> to the Board's *Concept Release on Auditor Independence and Audit Firm Rotation*, we note that audit committees are essential to effective corporate governance and are best placed to make decisions on what is in investors' best interests. That comment letter then provides some suggested enhancements to the process, aimed at increasing the information and resources available to audit committees, which could, in turn, increase their ability to monitor auditor performance and gauge audit quality. We recognize that some of those enhancements are included in the Release; while others require further consideration and development. In that regard, we look forward to continuing to work with the Board and other stakeholders on finding ways to enhance auditor communications and strengthen audit quality.

### **Obtaining Information and Communicating the Audit Strategy**

*Other participants in the audit not employed by the auditor.* The revised proposed standard currently requires the communication of the names, locations, planned roles, and responsibilities, including the scope of audit procedures of other participants in the current period audit that are not employed by the auditor. We support this requirement, but suggest the Board consider applying a significance threshold in identifying those participants to include in this communication.

We believe that communicating this information only for those participants that perform audit procedures over a significant risk or are considered key participants in the audit, for example, would be more effective in assisting the audit committee with understanding matters that are most significant to the conduct of the multi-location audit. We recommend that the criteria for determining a key participant in the audit be consistent with the final amendments

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<sup>2</sup> Refer to our December 13, 2011 comment letter response to the Board's Release No. 2011-006 that includes a Concept Release on Independence and Mandatory Audit Firm Rotation at [http://pcaobus.org/Rules/Rulemaking/Docket037/337\\_KPMG.pdf](http://pcaobus.org/Rules/Rulemaking/Docket037/337_KPMG.pdf).



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associated with the Board's October 2011 Release, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*.

### **Results of the Audit**

*Matters for which the auditor consulted.* The revised proposed standard would require the auditor to communicate to the audit committee those matters that are difficult or contentious for which the auditor consulted outside the engagement team and that the auditor reasonably determined are relevant to the audit committee's oversight of the financial process. The original proposed standard indicated that this communication would not include discussions with the engagement quality reviewer (EQR) conducting a review in accordance with Auditing Standard No. 7, *Engagement Quality Review* (AS7). However this exclusion was removed within the revised proposed standard. The Board indicated that, "the focus of the revised communication requirement is on matters on which the auditor consulted, not on the parties involved in the consultation."<sup>3</sup>

We appreciate the Board's focus on the significance of the matter subject to a consultation, however, we believe that it will be operationally difficult to differentiate a consultation undertaken by the lead audit partner from discussions with the EQR fulfilling its obligations under AS7. As a result, we are concerned that the audit committee will receive information relative to "consultations" that simply evidence that the EQR was appropriately engaged pursuant to the AS7 requirements.<sup>4</sup> While we support the Board's objective, we believe that the requirements of AS7 and the defined role of the EQR warrant the exclusion of the EQR's normal interactions with the lead audit partner and engagement team from this specific communication requirement.

Accordingly, we strongly recommend that interactions between the EQR and the engagement team required by AS7 be excluded from the consultation requirement for difficult or contentious matters under the revised proposed standard. Additionally, we find the discussion of "difficult or contentious matters" as described on page A4-28 of the Release to be helpful and therefore recommend that this discussion be included within the final standard.

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<sup>3</sup> Refer to Section D of Appendix 4 of the Release.

<sup>4</sup> The EQR's responsibility includes evaluating the engagement team's assessment and audit response to all significant judgments, risks, findings and issues, and accordingly the provisions of AS7 likely would result in the EQR discussing all "difficult or contentious matters" identified in the course of the audit with the engagement team.



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## **Other Clarifications**

*Timing of communications.* We agree that it is essential for the auditor to communicate with the audit committee on a timely basis and appreciate the Board's acknowledgement of instances where it is most efficient to communicate to the committee through the audit committee chair. We also support the requirement for the auditor to communicate to the audit committee those matters initially communicated to the audit committee chair. In order to recognize that not all members of the audit committee must be present in order to achieve a quorum, we recommend that the word "full" be removed from the note to paragraph 25 of the revised proposed standard.

*Consideration of anticipated future events.* Paragraph 12(b)(2) of the revised proposed standard requires the auditor to communicate how current and anticipated future events might affect the determination of whether certain policies and practices are considered critical. Page A4-19 of the Release implies that this communication is consistent with existing SEC requirements under Rule 2-07 of Regulation S-X and provides some related implementation guidance. While we believe this communication requirement is incremental to the requirements within Rule 2-07, we believe it can be implemented. However, we recommend that the Board provide further clarification and/or implementation guidance within the final standard.

*Considerations related to Critical Accounting Estimates portion of management's discussion and analysis (MD&A).* We support the revisions within the revised proposed standard to remove the requirement to communicate both how management subsequently monitors critical accounting estimates and information about critical accounting estimates when these estimates involve a range, as we believe these communications are management's responsibility. Appendix 4 Section B of the Release references SEC guidance that requires management to disclose within its Critical Accounting Estimates portion of MD&A, material implications of uncertainties associated with the methods, assumptions and estimates underlying the company's critical accounting measurements.<sup>5</sup> This section further describes the Board's rationale for removing these communication requirements in the revised proposed standard and highlights the auditor's responsibility for this information presented within

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<sup>5</sup> Refer to Section 501.14 of Financial Reporting Codification, *Critical Accounting Estimates*, for a description of the MD&A disclosure requirements for critical accounting estimates.



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MD&A under the provisions of AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*. We believe this reference to AU sec. 550 may imply an auditor performance requirement relative to the disclosures within a Critical Accounting Estimates portion of MD&A that exceeds the requirements of AU sec. 550 and suggest that the Board remove this reference or provide additional clarification within the final standard.

### **Amendments to PCAOB Standards**

The required communications to audit committees under the proposed amendments to AU sec. 722, *Interim Financial Information*, generally are limited to the effect of significant events, transactions, and changes in accounting estimates that the auditor considered when conducting the review of interim financial information. We recommend that the final standard clarify that the auditor is not required to repeat communications that were made as part of the annual audit.

Based on the proposed effective date included in the Release, it would appear that the amendments to AU sec. 722 would become effective prior to the initial implementation of the final standard (replacing AU sec. 380, *Communication with Audit Committees*) for fiscal years beginning after December 15, 2012. Given that the objective of a review of interim financial information differs significantly from that of an audit, we recommend that the proposed amendments to AU sec. 722 only become effective for periods following the first annual period in which the final standard is effective.

### **Broker-Dealer Considerations**

We support the proposed standard being applicable to all audits of brokers and dealers. We also support the application of the Board's interim standard AU sec. 380 to all audits of brokers and dealers should the SEC adopt its proposal requiring such audits to be performed in accordance to PCAOB standards prior to the effective date of the revised proposed standard.

For those broker-dealers with governance structures that do not include a board of directors or audit committee, the revised proposed standard allows for the required discussions to occur with "those persons designated to oversee the accounting and financial reporting process of the company and audits of the financial statements of the company." In many instances, particularly at smaller non-issuer brokers and dealers, oversight of the accounting, financial



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reporting, and audit process is performed directly by the Chief Financial Officer. In order to achieve the objectives of the revised proposed standard, the individuals to whom these communications are made should include the Chief Executive Officer in addition to any other persons so designated. Accordingly, we suggest that this clarification be included in the final standard.

As additional communication requirements exist for brokers and dealers under Exchange Act Rule 17a-5, and under the Board's proposed attestation standards, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, and *Review Engagements Regarding Exemption Reports for Brokers and Dealers*, we recommend that Appendix B to the final standard be updated to reference these PCAOB standards relative to brokers and dealers.

#### **Codification**

As evidenced within Appendix B, a number of the PCAOB Rules and Standards, in addition to AU sec. 380, include communication requirements with audit committees. We believe that codifying these requirements into a single topic would significantly benefit the auditor and may improve the consistent application of each of the communication requirements.

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We appreciate the Board's careful consideration of our comments, and support the Board's efforts to enhance the role of the audit committee through improved auditor communications. We would be pleased to answer any questions regarding this comment letter.

Very truly yours,

**KPMG LLP**

Cc:

**PCAOB**

James R. Doty, Chairman  
Lewis H. Ferguson, Member  
Daniel L. Goelzer, Member  
Jeanette M. Franzel, Member  
Jay D. Hanson, Member  
Steven B. Harris, Member  
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