CENTER FOR AUDIT QUALITY
Serving Investors, Public Company Auditors & the Markets

May 28, 2010

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

Re: Request for Public Comment: *Proposed Auditing Standard Related to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards*, PCAOB Rulemaking Docket Matter No. 030

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants (AICPA). The CAQ appreciates the opportunity to respond to the Public Company Accounting Oversight Board's (PCAOB or the Board) *Proposed Auditing Standard Related to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards* (the proposal or proposed standard). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual or CAQ Governing Board member.

The audit committee serves an important role in protecting investors by assisting the board of directors in fulfilling its responsibility to shareholders and others to oversee the integrity of a company's financial statements and the financial reporting process. The Sarbanes-Oxley Act of 2002 (SOX) strengthened the role of the audit committee by specifically vesting it with the authority and responsibility to oversee a company's external auditor. We acknowledge the importance of effective two-way communications between auditors and audit committees to the effective conduct of the audit committee's oversight responsibilities. As such, we are supportive of efforts to continue to strengthen the communications between auditors and audit committees given the important role audit committees play in protecting the interests of investors.

We support the Board's objective of enhancing interim standards by reflecting improvements in the communication between firms and audit committees since the enactment of SOX, centralizing all required communications with audit committees within one standard, and considering the requirements of relevant standards of the International Auditing and Assurance Standards Board (IAASB) and the AICPA's Auditing Standards Board (ASB) in development of the standard. We believe that, when taken as a whole, many of the proposed requirements should result in auditors providing audit committees with meaningful information to better inform its oversight of the company's financial reporting process and the external auditor. In addition, we believe that the inclusion of requirements for auditors to make inquiries of the audit committee is appropriate as such inquiries can provide valuable input into the planning and conduct of the audit.

We have certain overall observations that we believe will enhance the PCAOB's proposal and have organized these observations and comments as follows:

- Objective of the standard
- Improving effectiveness of communications between the auditor and audit committee
- Interaction of certain proposed requirements with existing PCAOB standards
- Management's responsibility for communications with the audit committee
- Interim communications
- Use of release text

In addition, we have other specific comments which we have included as an Attachment to this letter.

Objective of the Standard

The PCAOB has proposed the following objectives of the auditor (paragraph 3 of the proposed standard):

- Communicating to the audit committee the responsibilities of the auditor in relation to the audit and establishing a mutual understanding of the terms of the audit engagement with the audit committee;
- Communicating to the audit committee an overview of the audit strategy and timing of the audit;
- Providing the audit committee with timely observations arising from the audit that are significant and relevant to the financial reporting process; and
- Evaluating the adequacy of the two-way communications between the auditor and the audit committee to support the objectives of the audit.

We generally believe that these objectives are appropriate for promoting effective two-way communications between the audit committee and the auditor.

In addition, as stated by Chairman Goelzer in his opening remarks during the PCAOB's March 29, 2010 open meeting, the audit committee's perspective on a company's financial reporting, as well as the manner in which it conducts its oversight responsibilities, is important in supporting the objectives of the external audit.[1] We agree with Mr. Goelzer's statement; however, we do not believe the objectives adequately emphasize the outcome of the requirement in paragraph 8 of the proposed standard for the auditor to inquire whether the audit committee is aware of matters that may be relevant to the audit. Given the importance of such communications to the audit, we believe a related objective should be added to the standard. We note that International Standard on Auditing 260, *Communication with Those Charged with Governance* (ISA 260),

[1] See "Statement on Proposed Auditing Standard Related to Communications with Audit Committees," Dan Goelzer, Acting Chairman, PCAOB available at http://pcaobus.org/News/Speech/Pages/03292010_GoelzerStatement.aspx.

paragraph 9(b) and the ASB's Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance* (SAS 114), paragraph 7(b), recognize this communication as an objective and recommend that the PCAOB consider incorporating this as part of the overall objectives of the standard.

In addition, we note that the fourth objective included in the proposed standard is focused on the auditor's evaluation of the adequacy of the two-way communications between the auditor and the audit committee. Given that an overarching objective for the PCAOB's proposal is to facilitate more effective two-way communications between the auditor and the audit committee, we recommend that the PCAOB consider whether a more appropriate objective would be to "promote" effective two-way communications with the audit committee, while maintaining the requirement in the standard for the auditor to evaluate the effectiveness of the communication. We believe that such an objective, which would also be consistent with ISA 260, would help emphasize to auditors the important role that communications with the audit committee serve in the successful conduct of the audit committee's oversight responsibilities, as well as the successful planning and conduct of the audit.

Improving Effectiveness of Communications between the Auditor and Audit Committee

As mentioned previously, we are supportive of the PCAOB's overall objective of facilitating more effective communications between the auditor and the audit committee, which is intended to have a positive impact on audit effectiveness and the audit committee's oversight of a company's financial reporting and the external audit. A key aspect of facilitating effective communications includes providing information that audit committees believe is relevant and meaningful to its oversight responsibilities. In addition, while we believe that many of the requirements within the proposed standard will result in useful information being provided to audit committees, we note that they will result in increasing both the quantity and depth of the information provided.

Therefore, we recommend that the PCAOB consider further outreach to gather additional input on information that audit committee members believe will contribute meaningfully to the conduct of their oversight responsibilities. In addition, to fully realize the benefits of the enhanced communications, audit committees will need to be in a position to evaluate and take action on the information provided. Although we recognize that the PCAOB does not have jurisdiction over audit committees, understanding the information audit committees need to conduct their oversight responsibilities and developing mechanisms by which auditors can effectively provide such information in a manner that is useful, is integral to the accomplishment of the PCAOB's overall objective. As such, we believe the PCAOB should consider initiating efforts to collaborate with others (e.g., partnering with the National Association of Corporate Directors or other organizations) to further inform audit committees of its proposal, to provide the PCAOB with additional perspectives on information that is meaningful to an audit committee's responsibilities, and collaborate in the development of guidance to enhance audit committees' abilities to utilize the information provided by auditors in their governance activities.

Interaction of Certain Proposed Requirements with Existing PCAOB Standards

We note that extant PCAOB standards include consideration of the audit committee as part of the auditor's process to identify and assess the risks of material misstatement and, for an integrated audit, the auditor's consideration of the effectiveness of a company's internal control over financial reporting. While it would appear that the evaluation of the effectiveness of two-way communications required by the proposed standard, which is consistent with the requirements in ISA 260 and the SAS 114, would be an input into the auditor's procedures under extant PCAOB standards, we believe the PCAOB should consider more clearly linking how the evaluation requirement relates to the consideration of the audit committee in accordance with other PCAOB standards.

For example, Auditing Standard No. 5 (AS 5), *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, contains explicit requirements for the auditor to evaluate the effectiveness of the audit committee as part of the consideration of entity-level controls, including the control environment and period-end financial reporting process (paragraphs 25 and 26). In addition, we believe situations where an auditor determines that the two-way communications were ineffective would generally represent at least a control deficiency within the company's internal control over financial reporting in accordance with AS 5. Linking the requirements between the standards through cross references would be helpful.

Management's Responsibility for Communications with the Audit Committee

While the PCAOB permits the auditor to consider management's communications to the audit committee for certain communications related to accounting policies, practices and estimates, we do not believe that the PCAOB has adequately emphasized that the auditor's role, particularly in areas related to the company's financial reporting, should be focused on providing an objective evaluation of management's judgments involved in the preparation of the company's financial statements. In this regard, we believe that the auditor's starting point in determining the nature and extent of its communications with the audit committee should be its consideration of management's communications. We are concerned that without such an emphasis throughout the standard, combined with the detailed communication requirements, auditors may provide significant information that is duplicative to that provided by management or already existing in the company's financial statement disclosures or management's discussion and analysis. This may result in the unintended effect of diluting the information provided, which may reduce the usefulness of the information to the audit committee and potentially encourage more boiler plate communications. All of these possible outcomes would be contrary to the PCAOB's objective of facilitating more effective two-way communications between the auditor and audit committee. The following represent examples within the proposed standard that highlight this concern:

- While the Note at the end of paragraph 12 allows the auditor to consider management's communications to the audit committee when determining the nature and extent of its communications with the audit committee related to a company's accounting policies, practices and estimates, we believe that such a consideration may be appropriate for other matters included within the proposed standard. For example, management may communicate to the audit committee matters related to a company's ability to continue as a going concern (paragraph 16 of the proposed standard) as well as other matters arising from the audit that are significant to the oversight of the financial reporting, such as complaints or concerns raised regarding accounting or auditing matters (paragraph 22).

- Question #15 in the release inquires whether the proposed standard should require all corrected misstatements, including those detected by management, be communicated to the audit committee. Management may identify a number of adjustments to its financial statements as part of the routine financial statement close process and correct the financial statements accordingly. We are concerned that an auditor may not have knowledge of all such adjustments due to the nature of the company's financial statement close process and the timing of the auditor's procedures. Furthermore, it may not be clear what constitutes a "misstatement" for the purpose of such communication if management's controls identified and corrected the item under consideration on a timely basis. Establishing such a requirement would likely result in auditors expending significant efforts to identify "misstatements" that were previously identified by the company's internal controls and established financial close process, and we do not believe that the knowledge of such misstatements would significantly enhance the audit committee's oversight.

- Paragraph 12(b)(iii) requires the auditor to communicate to the audit committee "a description of the reasons for the changes [to assumptions or processes made to critical accounting estimates]." We believe this requirement should be clarified to indicate that the auditor should be communicating *management's* reasons for significant changes to properly reflect that management is responsible for the financial statements. This clarification would emphasize that such information was management's responsibility, while paragraph 13(c) addresses the auditor's role with regard to the information.

- Paragraph 12(b)(iv) requires the auditor to communicate to the audit committee "when critical accounting estimates involve a range of possible outcomes, how the recorded estimates relate to the range and how various selections within the range would affect the company's financial statements." We are concerned that such a requirement of the auditor may result in a significant increase in information provided to the audit committee at a level of detail that may dilute the impact of such information, as well as may result in significant increases in auditor effort without a corresponding significant benefit to the audit committee. Critical accounting estimates typically involve judgments around a number of assumptions – all of which can affect the range of possible outcomes. We believe the requirement as drafted may also result in auditors and management expending significant amounts of time reconciling views around the ranges associated with the corresponding estimates – even after the auditor has already concluded that the recorded amount is reasonable - a process that may not be necessary in each circumstance in order to enhance the discussion of such matters with the audit committee. In addition, in some circumstances, such an exercise to reconcile ranges would be beyond what is required by auditors in accordance with extant PCAOB standards (e.g., paragraph 40 of AU sec. 328, *Auditing Fair Value Measurements and Disclosures*, and paragraph 10 of AU sec. 342, *Auditing Accounting Estimates*) when evaluating management's estimates. Therefore, we recommend the Board consider whether allowing the auditor and audit committee to establish an understanding regarding the nature and extent of information to be provided to the audit committee to assist in its evaluation of the company's critical accounting estimates would more appropriately strike a balance between providing the audit committee with relevant information to inform its oversight and the effort associated with providing such information.

Interim Communications

Appendix 2, item e (page A2-4) includes a proposed amendment to paragraph 34 of AU sec. 722, *Interim Financial Information* which would require the auditor to communicate *any* items pursuant to the proposed standard that arise during the conduct of a review of interim financial information. We believe that such a requirement is overly broad and may result in redundant and/or unnecessary auditor communications to the audit committee on an interim basis for ongoing issues that are communicated as part of the annual audit. In addition, we believe that the limited scope procedures of an interim review may prevent the auditor from being able to provide the audit committee with observations at the same level of detail as compared to communications that are based on information obtained in conjunction with an annual audit. As a result, we believe the Board should reconsider the nature and extent of auditor communications related to review of interim financial information.

Use of Release Text

As we have indicated in previous comment letters, we are supportive of the Board's efforts to increase the transparency of the standards-setting process, including efforts to provide its perspective on the differences between its proposed standards and those of the IAASB and ASB, as well as its consideration of comments received on proposals. However, we are concerned that in some situations, it appears that in addition to providing insight into the Board's decision-making process, the Board is also attempting to interpret aspects of the standard in the release. Interpreting standards through release text can result in confusion over the requirements within the related standard and result in inconsistent application by auditors. In addition, given that the release is not ultimately part of the final standard, any interpretive guidance contained within it may not be given the same consideration by auditors and other interested parties. As a result, we encourage the Board, to the extent it believes clarifications need to be made within the release accompanying a standard, to provide such guidance within the standard as opposed to its accompanying release. We have included the following examples where it appears the Board is interpreting aspects of the standard within the release:

- *Overview of the Audit Strategy and Timing of the Audit* - Paragraph 10(d) of the proposed standard requires auditors to communicate the "roles, responsibilities, and locations of firms participating in the audit." The corresponding section within the release on page 9 makes clear that the PCAOB believes this communication should include participation of *affiliated* or *network firms*. We note that since this expectation is not explicit in the standard, it could be misunderstood or overlooked.

- *Establish a Mutual Understanding of the Terms of the Audit* - Page 6 of the release indicates that the engagement letter is required to be "*provided annually*" yet in paragraph 6 of the proposed standard there is no indication that the engagement letter is required to be provided annually. We note that paragraph 25 of the proposed standard requires that all communications pursuant to the standard should be made annually. In addition, question 3 in the release asks whether it is appropriate to require that an engagement letter be "prepared" annually. Because these various references raise potential questions, we suggest the PCAOB clarify its expectation in order to minimize any potential misunderstanding.

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We appreciate the opportunity to comment on the proposed standard and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,

Cindy Fornelli
Executive Director
Center for Audit Quality

Enclosure

cc: PCAOB
Daniel L. Goelzer, Acting Chairman
Willis D. Gradison, Member
Steven B. Harris, Member
Charles D. Niemeier, Member
Martin F. Baumann, Chief Auditor and Director of Professional Standards

SEC
Chairman Mary L. Schapiro
Commissioner Luis A. Aguilar
Commissioner Kathleen L. Casey
Commissioner Troy A. Paredes
Commissioner Elisse B. Walter
James L. Kroeker, Chief Accountant

ATTACHMENT

Specific Comments

#	COMMENT
	Significant Issues Discussed with Management Prior to the Auditor's Appointment or Retention
1	Paragraph 4 requires that the auditor discuss with the audit committee "any significant issues discussed with management in connection with the appointment or retention of the auditor, including any discussions regarding the application of accounting principles and auditing standards. " We also note that page 18 of the release provides that the communications pursuant to this requirement are not intended to include only discussions that occur around the time of the auditor's reappointment, but could include discussions throughout the audit engagement period. An auditor typically holds discussions with management throughout the engagement period related to the application of accounting principles and auditing standards. Given the communication requirements currently included in the proposal related to accounting policies, practices and estimates, it is unclear whether this requirement is intended to provide any incremental communications and if so, the nature of those communications. Without additional clarity, we are concerned that auditors may be required to provide additional information regarding accounting or auditing matters that may not be meaningful to the audit committee's oversight, potentially over complicating and detracting from the effectiveness of the communications. We believe the PCAOB should clarify the intent of this requirement and at a minimum, clarify that the auditor should communicate any discussions related to these matters that the auditor deems significant to the decision to appoint or reappoint the auditor and that have occurred since the auditor's last appointment or reappointment.
	Establish a Mutual Understanding of the Terms of the Audit
2	Paragraph 5 states that a mutual understanding of the terms of the audit should be established, including communicating the objective of the audit, the responsibilities of the auditor and the responsibilities of management within the audit engagement letter. However, we note that the proposal does not include establishing the audit committee's responsibilities within the audit engagement letter, such as communicating to the auditor any matters related to the audit of which it is aware. Given the important role that the audit committee plays in the oversight of a company's financial reporting, it would appear that outlining the responsibilities of the audit committee in addition to the responsibilities of the auditor and management would help clarify all parties' roles in relation to the audit of the company's financial statements, as well as promote more effective communications.
	Overview of the Audit Strategy and Timing of the Audit
3	Paragraph 8 requires the auditor to inquire of the audit committee whether it is aware of matters that may be related to the audit, including complaints or concerns raised regarding accounting or auditing matters. We believe this requirement should be modified as follows to emphasize the intended broad nature of the auditor's inquiry: "The auditor should inquire of the audit committee whether it is aware of matters that may be related to the audit including, *but not limited to, knowledge of potential illegal acts and complaints or concerns raised regarding accounting or auditing matters.*"
4	Paragraph 10(e) requires the auditor to communicate the basis for the auditor's determination that he or she can serve as principal auditor. For a majority of audits, this

	conclusion does not require significant judgment and as such, could encourage boiler plate communications to the audit committee that do not enhance its oversight responsibilities. We recommend the PCAOB consider requiring such communications only in situations where more than insignificant portions of the audit are performed by other auditors.
	Accounting Policies, Practices, and Estimates
5	Paragraph 12(a)(ii) requires auditor communication of "the anticipated application by management of accounting or regulatory pronouncements that have been issued but are not yet effective and may have a significant effect on financial reporting." We believe it is unclear what "regulatory pronouncements" is referring to. We believe mirroring the auditor's communication requirements with those required of management under SEC Staff Accounting Bulletin No. (SAB) 74 is appropriate.
6	Paragraph 12(a)(iii) requires the auditor to communicate the methods used by management to account for *significant* ***and*** *unusual transactions*. Paragraph 7 of AU sec. 380, *Communication with Audit Committees,* states, "the auditor should also determine that the audit committee is informed about the methods used to account for *significant unusual transactions*." Additionally, recently issued PCAOB Staff Audit Practice Alert No. 5, *Auditor Considerations Regarding Significant Unusual Transactions*, also utilizes the terminology "significant unusual transactions." We believe the PCAOB should utilize terminology within the proposal that is consistent with existing PCAOB standards and guidance.
	Auditor's Evaluation of the Quality of the Company's Financial Reporting
7	Paragraphs 13(a) and 13(b) propose communication requirements related to both a company's significant accounting policies and practices and critical accounting policies and practices. Paragraph 7 of AU sec. 380 requires the auditor to communicate certain information related to significant accounting policies. Rule 2-07(a)(1) of Regulation S-X requires auditors to communicate all critical accounting policies and practices. We believe that the PCAOB should consider providing further clarification regarding whether the proposal is intended to require any communications incremental to the existing requirements noted above.
8	Paragraph 13(b)(iii) requires the auditor to communicate "How current and anticipated future events generally may affect the determination by the auditor of whether certain policies and practices are considered critical" related to a company's critical accounting policies and practices. We suggest that the PCAOB further clarify and provide guidance regarding the auditor's consideration of "anticipated future events" that may affect the assessment of whether certain policies and practices are considered critical, as this proposed requirement appears to be incremental to the requirements of Rule 2-07 of Regulation S-X. Without additional guidance related to how an auditor should anticipate future events and determine whether they are relevant and/or are likely to affect the company's current policies or practices, we are concerned that auditors, management and audit committees may spend unnecessary efforts debating matters that may not ultimately provide information that is meaningful and/or relevant to the audit committee's oversight. Such discussions could also potentially dilute discussions related to other, more significant matters.

9	Paragraph 13(f) requires the auditor to communicate to the audit committee significant accounting matters for which the auditor has consulted outside the engagement team. We agree that providing audit committees with information regarding areas of a company's financial reporting that are complex, higher risk and controversial is necessary for the audit committee's oversight of a company's financial reporting. However, we are unclear as to the incremental benefit the requirement to communicate where consultations have occurred will have – particularly given the other communication requirements related to critical matters contained within the proposed standard. In addition, we believe this requirement could result in the following unintended consequences. 1. First, the structure of the consultation process may vary within and among firms. Additionally, the level of consultation may vary on similar issues across audit engagements due to the expertise within the audit team and specific firm policies. As a result, the consultations reported to audit committees will vary by audit and audit firm. Given the varied manner in which engagement teams and firms may consult on issues, we are concerned that audit committees may place an inappropriate level of emphasis on certain matters where consultations occur. For example, a matter that is not consulted on may be more important than one that was consulted on in light of the ultimate judgments and conclusions that are involved. 2. Second, such a requirement may have the effect of discouraging auditors from consulting, particularly if the matter may be less complex, to avoid audit committees perceiving that an audit team lacks expertise.
Management Consultations with Other Accountants	
10	Release question #12 regarding paragraph 15 of the proposed standard asks of commenters whether this requirement should be expanded to require the auditor to communicate his or her views on management's consultations with non-accountants such as consultants or law firms on accounting or auditing matters. We do not believe the proposed standard should be expanded to include management consultations with non-accountants. Given the fact that such communications may not be relevant to the audit, we do not believe such a requirement will provide a benefit to the audit committee's oversight.
Going Concern	
11	Paragraph 16 requires the auditor to communicate certain matters related to the consideration of a company's ability to continue as a going concern. We have two concerns related to this requirement: 1. Paragraph 16(a) requires the auditor to communicate to the audit committee conditions or events that indicate there *could* be substantial doubt about the company's ability to continue as a going concern and the conditions and events that mitigated the auditor's doubt (to the extent that those concerns were mitigated). Paragraph 3(a) of AU sec. 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,* of the PCAOB's interim standards requires the auditor to consider whether the results of his/her audit procedures identify conditions or events that indicate that there could be substantial doubt about the entity's ability to continue as a going concern. In addition, in such situations, it may be necessary for the auditor to obtain additional evidence that mitigates the auditor's doubt. Since auditors are not required in all situations to perform

	additional procedures to obtain evidence to mitigate the concern, we are concerned that using the threshold "could" may result in the auditor communicating his/her consideration in situations where the auditor does not have a significant doubt about the ability to continue as a going concern. We do not believe communications around such situations provide the audit committee with meaningful information. We note that ISA 570, *Going Concern*, provides additional guidance regarding when to communicate the auditor's concern and the nature of such communications.[2] We recommend the PCAOB consider utilizing the language in ISA 570 to describe the auditor's obligations to communicate matters related to the consideration of a company's ability to continue as a going concern. 2. We do not believe the requirements included in paragraphs 16(a) and 16(b) adequately describe that the considerations related to an auditor's evaluation of a company's ability to continue as a going concern are initially made by management and then evaluated by the auditor (e.g. assessment of the conditions and events, management's plans to overcome the conditions and events, effect on the financial statements, etc.). As such, we recommend the PCAOB consider clarifying this perspective in both paragraphs to this section.
Corrected and Uncorrected Misstatements	
12	Paragraph 18 requires auditors to communicate the implications that corrected misstatements might have on the financial reporting process. It appears that this requirement relates to the auditor's consideration of the impact a misstatement may have on an auditor's consideration of a company's internal control over financial reporting. Given the communication requirements related to significant deficiencies and material weaknesses for integrated audits in AS 5, and AU sec. 325, *Communications About Control Deficiencies in an Audit of Financial Statements* for non-integrated audits, we recommend the PCAOB clarify how the proposed requirement relates to those included in AS 5 and AU sec. 325.
13	The Note accompanying paragraph 18 states, "The auditor should communicate that uncorrected misstatements or matters underlying uncorrected misstatements could cause financial statements to be materially misstated in future periods, even though the auditor has concluded that the uncorrected misstatements are not material to the financial statements for the year under audit." We believe the PCAOB should consider clarifying this Note to express that the auditor should communicate only those uncorrected misstatements that, in the auditor's judgment, have a higher likelihood of causing financial statements in future periods to be materially misstated. We also recommend the PCAOB consider including references to SAB 99 and SAB 108 and modify the Note as follows: "Note: The auditor should communicate *those* ~~that~~ uncorrected misstatements or matters underlying uncorrected misstatements *that* could cause ~~the~~ financial statements to be materially misstated in future periods, even though the auditor has concluded that the uncorrected misstatements are not material to the financial statements for the year under audit."

[2] See paragraph 23, ISA 570

Departure from the Standard Auditor's Report	
14	Paragraph 19 of the proposed standard states, "When the auditor expects to modify the opinion in the auditor's report or to include an explanatory paragraph in the report, the auditor should communicate with the audit committee the reasons for the modification or explanatory paragraph and the proposed wording of the report." We believe the Board should consider excluding from the communication requirements those standard report modifications related to emphasis of matters and consistency explanatory paragraphs (e.g., situations where the auditor's report discloses the adoption of a new accounting principle). We do not believe such matters should be subject to specific communication requirements given that such matters are subject to other communication requirements contained within the proposed standard and will be clearly disclosed in the financial statements and auditor's report (which are subject to audit committee review).
Difficulties Encountered in Performing the Audit	
15	Paragraph 21(b) states the auditor should communicate significant difficulties encountered during the audit including an unnecessarily brief time within which to complete the audit. We suggest that the PCAOB consider using "inappropriately" rather than "unnecessarily" in the above requirement. We believe such a change would more clearly articulate the situations in which an auditor should provide such a communication to the audit committee.
Form and Content of Communications	
16	Release question 16 regarding paragraph 23 asks whether the proposed standard should require that all or just certain matters be communicated to the audit committee in writing. We believe that the current requirement strikes the appropriate balance by allowing the auditor to tailor his or her communications with the audit committee to the particular facts and circumstances and therefore, do not believe that a requirement for all communications to be in writing is appropriate.
Adequacy of the Two-Way Communications	
17	Paragraph 28 of the proposed standard states that the auditor should consider taking the following actions if the auditor determines that the two-way communications between the audit committee and the auditor have not been adequate and the situation cannot be resolved: a. Communicating with the full board of directors; b. Modifying the auditor's opinion on the basis of a scope limitation; or c. Withdrawing from the engagement. In situations in which the auditor determines that the two-way communications are not effective, we believe it would be rare that the auditor would not inform the company's full board of directors. Therefore, we recommend the PCAOB elevate the requirement to communicate with the full board of directors to "should" as opposed to "should consider" to more appropriately describe the auditor's obligation, as well as an obligation for the auditor to consider 28(b) and 28(c) if he or she is not satisfied with the board of directors' response.

Appendix 2 - Proposed Amendments to PCAOB Standards	
18	Appendix 2, page A2-4 item e, details amendments to paragraph 34 of AU sec. 722, *Interim Financial Information*, to conform this guidance to requirements in the proposed standard. We believe the PCAOB should reconsider the interim period auditor communication requirements to the audit committee for the following reasons: 1. This requirement may result in redundant and/or unnecessary auditor communications to the audit committee on an interim basis for ongoing issues that are communicated as part of the annual audit. 2. Given the limited scope of procedures performed as part of an interim review, we believe the auditor may be unable to provide the audit committee with observations at the same level of detail as compared to communications that are based on information obtained in conjunction with the annual audit.