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

February 29, 2012

RE: 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 "Board") *Proposed Auditing Standard Related to Communications With Audit Committees; Related Amendments to PCAOB Standards;* and *Transitional Amendments to AU Sec. 380* (the "proposed standard" or "proposal"), and to respond to questions posed in the proposal's accompanying Release No. 2011-008 (the "release"). We believe that an informed and engaged audit committee is an integral element of a high quality financial reporting system. An audit committee that has robust communications with the company's independent auditor will be better able to execute its responsibilities. Likewise, the independent auditor also benefits from these communications, gaining important information and insights that can further enhance the quality of the audit.

We commend the Board for issuing a re-proposal of the proposed standard and appreciate the Board's responsiveness in considering, addressing and providing feedback with respect to comments received on the original proposal. Although we respectfully offer some suggestions that we believe will further improve the proposal, we applaud the Board for moving forward on this critical subject. In the remainder of our letter, we have organized our overall observations and suggestions about the proposal into the following topical areas:

- Applicability to the audits of brokers and dealers
- Use of others not employed by the auditor
- Establishing an understanding of the terms of the audit with the audit committee
- Use of the release to interpret requirements
- Changes in significant accounting policies
- Proposed amendment to quality control standards
- Communication of inspection results

Applicability to the audits of brokers and dealers

In response to question 7(b) of the release, we do believe that the proposed standard should be applicable to all audits of brokers and dealers. However, we also encourage the Board to address the matter discussed below to improve the clarity of the proposed standard as it relates to these audits.

In connection with the audits of nonissuer brokers and dealers that are subsidiaries of issuers, the proposed standard should clarify that auditor communications are required within the governance structure established at the nonissuer which, in the absence of an audit committee or board of directors, could be the CEO or other persons designated to oversee the accounting and financial reporting process. In such situations, requiring communications to the parent's audit committee about the audit of a subsidiary could diminish the effectiveness of the required communications. Therefore, we recommend that the definition of "audit committee" in Appendix A be clarified to indicate that communications are required within the governance structure of the subsidiary and need not be directed to the parent's audit committee.

Finally, in response to question 7(a) of the release, we support the application of the Board's interim standard, AU 380, to audits of brokers and dealers prior to the effective date of the proposed standard.

Use of others not employed by the auditor

Paragraph 10d of the Proposed Standard requires the auditor to communicate to the audit committee 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 support a communication requirement that will enhance the audit committee's understanding of the auditor's use of others to support the audit effort. Communicating the involvement of other audit firms in the consolidated audit is routinely done now. Often the work of others who are not employed by the auditor, however, is limited to routine audit procedures such as, for example, a physical inventory observation at a foreign location, and is insignificant in terms of time. Accordingly, we recommend that the Board establish a threshold for communication about the work of others not employed by the auditor to ensure that such communications are meaningful to the audit committee. We believe a minimum threshold percentage consistent with that ultimately used in the PCAOB's proposal, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* would be appropriate.

Establishing an understanding of the terms of the audit with the audit committee

Question 3(a) in the release asks whether the requirement that the auditor have the engagement letter executed by the appropriate party or parties on behalf of the company, and 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, is clear. We believe this requirement from paragraph 6 of the proposed standard could be further clarified. Specifically, we recommend the following revision (proposed deletions are in strikethrough):

> The auditor should record the understanding of the terms of the audit engagement in an engagement letter and provide the engagement letter to the audit committee annually. The auditor should have the engagement letter executed by the appropriate party or parties on behalf of the company. [Footnote omitted.] 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.

Neither the proposed standard nor the release describes how "agreement" differs from "acknowledgement" and, therefore, introducing the term "agreement" has the potential to cause unnecessary confusion. Paragraphs 5 and 7 focus on "establishing an understanding of the terms of the engagement with the audit committee." In our view, the purpose of the requirement in paragraph 6 is to obtain the audit committee's acknowledgement of its understanding of the terms of the engagement when the engagement letter has been executed by parties other than the audit committee or its chair. If the PCAOB retains both "acknowledged" and "agreed," we recommend that the PCAOB describe how these terms differ.

Question 3(b) asks whether the acknowledgement by the audit committee, or its chair on behalf of the audit committee, should be required to be in a written form, or whether oral acknowledgment is sufficient. We recommend requiring the auditor to obtain written acknowledgement from the audit committee, or its chair on behalf of the audit committee, of the audit committee's understanding of the terms of the engagement to avoid potential subsequent misunderstanding that the audit committee's oral acknowledgement has been obtained.

Use of the release to interpret requirements

As discussed in our May 27, 2010 comment letter on the original proposed standard, we believe that some of the guidance and examples that have been provided in the release would drive more consistent execution if instead contained in the standard itself. Examples of requirements that we believe would be enhanced by moving guidance and examples from the release into the standard are identified below.

Obtaining information from the audit committee

Paragraph 8 of the proposed standard requires the auditor to inquire of the audit committee whether it is aware of matters that might be relevant to the audit, including, but not limited to, knowledge of violations or possible violation of laws or regulations and complaints or concerns raised regarding financial reporting matters. We recommend adding the following example from page A4-7 of the proposal after this requirement:

> Such matters may include, for example, strategic decisions that might significantly affect the nature, timing, and extent of audit procedures.

New accounting pronouncements

Paragraph 13(f) of the proposed standard requires the auditor to communicate to the audit committee situations in which, as a result of the auditor's procedures, the auditor identified a concern regarding management's anticipated application of accounting pronouncements that have been issued but are not yet effective and might have a significant effect on future financial reporting. Page A4-29 of the proposal states that "The auditor might be concerned about changes to accounting or disclosure processes, or systems that could affect financial reporting or whether management has devoted adequate resources to the pending adoption." We believe this guidance adds clarity to the scope of the requirement and should be incorporated into paragraph 13(f) of the proposed standard.

Disagreements with management

Paragraph 21 of the proposed standard retains from AU 380, *Communication With Audit Committees*, the Board's interim standard, a requirement for the auditor to communicate to the audit committee any disagreements with management about matters, whether or not satisfactorily resolved, that individually or in the aggregate could be significant to the company's financial statements or the auditor's report. Page A4-38 of the proposal states that "Examples of disagreements might include disagreements with management about the application of accounting principles to the company's specific transactions and events and the basis for management's judgments about accounting estimates. Disagreements might also arise regarding the scope of the audit, disclosures to be made in the company's financial statements, or the wording of the auditor's report." We believe this clarifying guidance, which appears in the Board's interim standard, should be incorporated into paragraph 21 of the proposed standard.

Changes in significant accounting policies

Paragraph 12(a)(1) of the proposed standard requires the auditor to communicate to the audit committee "management's initial selection of, and changes in significant accounting policies, or the application of such policies in the current period." We believe the rewording of this requirement has lost the clarity of the Board's interim standard and raises questions about whether the phrase "changes in" applies to the company's application of significant accounting policies in the current period. As currently drafted, one might infer that the application of significant accounting policies needs to be communicated in the current period even if there is not a change. We do not believe such communication on an annual basis would be meaningful to audit committees unless a significant accounting policy is new or its application has changed in the current period. For example, the depreciation method may be a significant accounting policy, but its application is straightforward and need not be communicated annually unless there is a change. We recommend that paragraph 12(a)(1) be revised as shown below (proposed additions are in boldface italics; deletions in strikethrough) to clarify this requirement:

> Management's initial selection of, and changes in**,** significant accounting policies~~,~~ or ***their*** ~~the~~ application ~~of such policies~~ in the current period;

Proposed amendment to quality control standards

Paragraph 16 of the Board's interim quality control (QC) standard, QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, currently requires that a CPA firm's policies and procedures should provide for obtaining an understanding with the client regarding the services to be performed. A proposed amendment to this paragraph would replace "client" with "audit committee." We recommend that the term "client" be retained because the quality control standards apply to attestation engagements as well as audits and interim reviews, and engagement letters for such services may be executed by management of the company, even though audit committee preapproval for such services may be required. We believe the Board's objective would be met by adding the following footnote to the word "client:"

> With respect to a financial statement audit or an audit of internal control over financial reporting that is integrated with an audit of financial statements, paragraph 5 of Auditing Standard [ ], *Communications With Audit Committees,* and paragraph 8 of AU 722, *Interim*

Financial Information, as amended, require the auditor to establish an understanding of the terms of the audit engagement with the audit committee as defined.

Communication of inspection results

In response to question 2 of the release, we agree that the communication requirements of the proposed standard are aligned with performance requirements in the risk assessment and other standards of the Board, where applicable. Although not a direct performance requirement in the current audit, we reiterate one of our comments on the PCAOB's *Concept Release on Auditor Independence and Audit Firm Rotation* and suggest that the PCAOB consider establishing standards to promote the consistency of communications with audit committees by the independent accounting firm of any PCAOB inspection results, together with any remediation related thereto, pertaining to their public company. We encourage the PCAOB to consider incorporating such communications in the proposed standard.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Michael J. Gallagher (646-471-6331), Brian R. Richson (973-236-5615) or Thomas Gaidimas (973-236-5036) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP