



29 February 2012

Our ref: ICAEW Rep 19/12

Your ref: PCAOB Rulemaking Docket Matter No. 030

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

Dear Sir

RE-PROPOSED AUDITING STANDARD RELATED TO COMMUNICATIONS WITH AUDIT COMMITTEES AND RELATED AND TRANSITIONAL AMENDMENTS

ICAEW is pleased to respond to your request for comments on PCAOB Release No. PCAOB Release No. 2011-008 of December 20, 2011 entitled *Proposed Auditing Standard Related to Communications With Audit Committees; Related Amendments to PCAOB Standards and Transitional Amendments to AU Sec. 380*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

ICAEW RESPONSE TO THE PCAOB'S REQUEST FOR COMMENT ON ITS PROPOSED AUDITING STANDARD RELATED TO COMMUNICATIONS WITH AUDIT COMMITTEES; RELATED AMENDMENTS TO PCAOB STANDARDS; AND TRANSITIONAL AMENDMENTS TO AU SEC. 380.

Memorandum of comment submitted in February 2012 by ICAEW, in response to the PCAOB's consultation *Proposed Auditing Standard Related to Communications With Audit Committees; Related Amendments to PCAOB Standards and Transitional Amendments to AU Sec. 380* published in December 2011.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the PCAOB's *Proposed Auditing Standard Related to Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to Au Sec. 380* published on 11 October 2011 a copy of which is available from this [link](#).

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 136,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Audit and Assurance Faculty is a leading authority on external audit and other assurance activities and is recognised internationally as a source of expertise on audit issues. It is responsible for technical audit and assurance submissions on behalf of ICAEW as a whole. The faculty membership consists of nearly 8,000 members drawn from practising firms and organisations of all sizes from both the private and public sectors. Members receive a range of services including the monthly *Audit & Beyond* magazine.

MAJOR POINTS

Re-exposure and Improvements

5. We welcome the re-exposure of these important proposals and we support PCAOB's desire to improve communications with audit committees. In particular, we welcome greater focus on the provision of quality information by management, on ensuring that information is not duplicated, and on narrowing the scope of some excessively wide and extensive communication requirements. These include:
 - the requirement to communicate 'significant' issues regarding the application of accounting standards (rather than all of them);
 - limiting communications regarding the need for specialist auditor skills or knowledge to those relevant to significant risks;
 - the removal of requirements to communicate (a) matters in emerging areas; (b) how management subsequently monitors critical accounting estimates; and (c) the auditor's evaluation of the 'quality' of significant accounting policies;
 - the restriction of the requirement to communicate matters on which the auditor consulted to 'difficult or contentious' matters that are relevant to the oversight of the audit; and
 - clarification of the requirements to disclose details of the roles, responsibilities and locations of the firms participating in the audit. We urge the PCAOB to ensure that it aligns its October 2011 proposed *Amendments to Improve Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits* with these proposals; it makes sense for the audit committee to receive detailed information and for higher level information to appear in the auditor's report. We also re-emphasise our belief that while these disclosures will satisfy a need to know who is involved in the audit, they are unlikely

to change auditor behaviour as there are compelling reasons in multi-national audits to involve local auditors practising in the same jurisdiction as the entities subject to audit.

Changing Behaviour

6. We noted in our 28 May 2010 response to the PCAOB on its original proposals that in order for the standard to be effective, a number of factors outside the standard need to be in place. These include the need:
- to address any issue of under-communication by auditors through the inspection process;
 - to recognise the importance of good quality audit committee members to audit committee effectiveness and the need for auditors and auditor committees to use their judgement in determining the nature and extent of communications;
 - for the PCAOB to set out the high-level improvements to audit quality it expects to see as a result of the implementation of these proposals. i.e. the overall objectives of enhancing the level of communication between auditors and audit committees, beyond the requirements, which inspectors can look to in evaluating whether the changes have been implemented successfully. This might be included in the basis for conclusions referred to in paragraph 9, below.
7. For these reasons, when the PCAOB issues its final standard we urge that it highlight its intention to seek changed behaviour in this area through its inspection process.

Two-Way Communication

8. We are disappointed that evaluation of the adequacy of the two-way communication process has been dropped as a requirement, and that the promotion of the two-way process has been dropped as an objective. We do not believe that the PCAOB has made an adequate case for this. Firstly, the fact that other standards require an auditor assessment of the audit committee's effectiveness does not substitute for this specific evaluation and 'obtaining information' is a poor substitute for two-way communication. Secondly, the difference this creates with ISAs is egregious. IAASB debated this subject long and hard in the development of ISA 260 and we encourage the PCAOB to revisit this area with IAASB.
9. We understand that auditing standard-setters set standards for auditors and they do not have locus to impose requirements on companies. None the less we do not believe that evaluation of the two-way communication process is a *de facto* imposition of a requirement on the audit committee. We do believe that it not only forces auditors to evaluate themselves, but it also forces them to engage with the audit committee, particularly if the audit committee is providing a bare minimum of information for compliance purposes. Evaluation provides auditors with a tool to improve audit committee performance without imposing requirements on the audit committee.

Accounting Policies, Critical Accounting Estimates, Misstatements

10. Paragraph 10 of our May 2010 response on the PCAOB's original proposals notes that the:

...requirement to report a detailed schedule of uncorrected misstatements seems unrealistic because in practice, summaries are reported and we would not expect audit committees to find additional value in being provided with the same level of detail as management.

11. We continue to maintain that summaries, which permit the auditor to use a modicum of judgement, will better serve audit committees' needs for high quality information than an unedited mass of raw data, provided of course that auditors are required to use appropriate categories for grouping misstatements and are not permitted to offset anything other than trivial amounts.

Basis of Conclusions

12. A great deal of what appears in appendix 4 is useful in understanding the proposed standard. Many standard-setters now routinely publish their bases of conclusions and we encourage the PCAOB to consider doing the same with the contents of appendix 4.

Alignment with Other Standards and Need for a Framework

13. We are confident that the work diligently performed by PCAOB staff means that there is a good chance that any misalignments between the risk standards and the proposals will be minor. However, absent a framework of fundamental principles underpinning auditing standards, it is inevitable that some misalignment will become apparent after the event, regardless of staff efforts. We re-iterate our belief that a framework of fundamental principles underpinning auditing standards would not only reduce the risk of misalignment, but would enable seasoned auditors and inspectors to exercise their judgement with confidence and skill, and form reasonable expectations about the likely shape of pronouncements in new areas. This would increase certainty and confidence, and avoid surprises, all of which are sorely needed in the capital markets. While we appreciate the enormous pressures brought to bear on the PCAOB to deal with specific issues at various time, and the often unrealistic expectations of some stakeholders, the PCAOB moved straight to standard-setting when it was set up and we believe that the continued absence of some sort of framework continues to hamper its efforts. Once again, we urge PCAOB to think about developing some framework of fundamental principles for its standard-setting activities.

RESPONSES TO SPECIFIC QUESTIONS

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?*
14. We note above our confidence that the proposed conforming amendments mean that misalignments between the risk standards and the proposals should be minor. But we also note that absent a framework of fundamental principles, it is inevitable that some misalignment will become apparent after the event. The continued absence of some sort of framework for standard-setting continues to impede progress.
15. We are not aware of the need for any further specific conforming amendments either on a detailed basis, or at a higher level but we have not performed a review of the alignment of the proposals and the risk standards.
 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?*
16. We are not aware of any such procedures.
 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? 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?

17. The requirement is clear. However, some documentary record of the oral acknowledgment would always be expected and we can see little justification for omitting such an elementary requirement.
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?*
18. We do not believe it is necessary to communicate significant unusual transactions separately because all such transactions will be reported as significant risks in any case. This catch-all requirement could trap matters of little interest to the audit committee and we believe its inclusion betrays a lack of confidence in existing standards. PCAOB should deal with any residual uncertainty in this area through enforcement, not further regulation, because the existing requirements are not deficient.
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?*
19. It is helpful that the communication requirement has been narrowed to areas in which auditors have identified a concern.
6. *Are the amendments to other PCAOB standards appropriate? If not, why?*
20. We refer to our comments in paragraphs 13 and 14, above.
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.*
21. We do not comment on this matter.

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