

**PROPOSED ETHICS AND INDEPENDENCE RULE CONCERNING  
COMMUNICATION WITH AUDIT COMMITTEES  
AND  
PROPOSED AMENDMENT TO RULE 3523  
Statement of Daniel L. Goelzer  
JULY 24, 2007 OPEN MEETING**

This recommendation deals with two distinct issues. In order to understand the proposal, I think it is important to keep in mind the differences between those issues.

The first issue is rather narrow: Should an accounting firm that has assisted company executives with their taxes be able to accept an assignment as the company's auditor later in the same year? The Board already prohibits accountants from simultaneously auditing a company's financial statements and providing personal tax services to the executives responsible for its financial reporting. That principle is not open to debate. But, in its current form, Rule 3523 would also prevent a firm from accepting the audit assignment, even if the executive tax work occurred during the early part of the fiscal year and ended before the firm became the financial statement auditor.

Most, but by no means all, of the comments the Board received urged that Rule 3523 be amended to permit such a firm to compete for the audit engagement. The proposed change to Rule 3523 would implement those suggestions. The amendment would remove an obstacle to selecting the accounting firm that best fits the company's needs. It would do so without compromising basic principles of independence. I support publishing it for comment.

The second issue is more fundamental: When should an incoming auditor communicate with the audit committee regarding independence? The current independence rules, which the Board inherited when we adopted our interim standards in 2003, require the auditor to inform the audit committee annually about matters that

might bear on independence. Surprisingly, however, nothing in those rules says that such a communication should take place before the audit committee hires the auditor.

Proposed Rule 3526 would address that anomaly. Prior to accepting an initial audit engagement pursuant to PCAOB standards, the would-be auditor would have to inform the audit committee of any present or past relationships with the client or its financial reporting executives, that may reasonably be seen as bearing on independence. This common sense requirement would make sure that audit committees have the relevant independence information in front of them when they select the auditor, not after they have already made the decision and the work has been performed.

As the staff is aware, I have had some reservations about the amount of time that has been devoted over the past year to the first issue -- the narrow question of whether to remove the words "audit period" from Rule 3523. However, I view proposed Rule 3526 differently. I am pleased that all the effort that has gone into this project has now lead to a proposal that, in my view, has the potential to help audit committees in better fulfilling their responsibilities.