

February 22, 2012

Office of the Secretary  
PCAOB  
1666 K Street, NW  
Washington, DC 20006-2803

Transmitted by email to: [comments@pcaobus.org](mailto:comments@pcaobus.org)

RE: PCAOB Rulemaking Docket Matter No. 030

We are pleased to respond in this letter to the Board's re-proposed standard entitled, *Communications with Audit Committees* that is contained as Appendix 1 to its Release No. 2011-008 (the Release) of December 20, 2011.

Some of the comments below are general in nature and some are specific to paragraphs in the proposed standard. We have also commented on some of the PCAOB's specific questions regarding the re-proposed standard. Please note that we have shortened audit committee to "AC" in the comments below.

## Comments

1. This standard should better address the needs of smaller reporting companies. It is our experience that a majority of these companies have no AC's as they are not required by the exchanges they are listed on. Appendix A does address the definition of "audit committee" and acknowledges that an auditor may have to make these communications to a body other than an AC, like the full board. However, the full board most likely includes the same management that we are supposed to be reporting about or in other words we would be making required communications to those who are already intimately involved in the selection of accounting principles and drafting of financial statements, etc. Thus making these communications with them often seems silly and does not accomplish any of the objectives of the standard. Therefore, it seems there should be language added that the "required" communications can be tailored where necessary to meet the needs and to make sense for smaller reporting companies. In general this standard, as is typical for US standard setters, is very rules based and does not allow much room for auditor judgment.
2. In reading the proposed standard, we are most concerned with the requirements of paragraphs 9-11, regarding communicating to the AC an overview of our audit strategy. We're not sure what purpose this would serve other than to add more steps to our checklists, make audits more costly and take longer to perform. What does the AC gain from knowing the details of our audit strategy? We certainly don't want the AC to influence the independent auditor's audit procedures or to tell us not to focus attention in a certain area because they don't think there is a significant risk there. They could use such information to try and influence our audit (hopefully un-intentionally), but in the end any involvement by the Company, which includes the audit committee, on our selection of audit procedures, infringes on our independence. Management should be communicating to the AC their views of risk in regards to the financial statements,

(shouldn't this be part of the Company's risk assessment procedures), not the independent auditor. Furthermore, as an audit is a fluid process, where new risks may be identified as fieldwork begins; it seems again like an extra burden to have to communicate to the AC about changes in our strategy. Why don't we just make the AC chair a member of our audit team who receives all our planning documents and changes thereto? That must sound ridiculous when stated like that, but aren't we making them a part of our team by imparting such information to them. We think communication with the AC is important and should be taken seriously, but the requirements of paragraph 9-11, infringe on the concepts of auditor judgment and independence.

3. In general we're not opposed to the requirements of paragraph 10e, but information such as this is determined based on technical audit standards, that the average AC member won't be familiar with and frankly we can't imagine they would care about how that determination was made.
4. In regards to whether the communication should be required to be written, we believe oral communication is adequate and also gives the AC an opportunity to ask questions as the auditor goes through the results of the audit and the other required communications. The memo our firm adds to our audit documentation regarding this communication is more than sufficient and in most cases would resemble the same document we would send to the AC anyhow. It may be that a firm has an oral conversation that is followed-up by a formal letter, but it seems counterintuitive to have the auditor send a letter to the AC and think that this will improve two-way communication. Sending a letter with no oral conversation is pretty one-sided.

#### **PCAOB Questions**

**Q1.** 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 not?

**A1.** See comment 2 above.

**Q2.** 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 performance obligations?

**A2.** No, in fact we believe the existing audit committee communication standard is adequate and that most of the new items included in this proposed standard do not meet cost/benefit considerations.

**Q3.** 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 standards clear? (b) As stated, the new proposed standard allows the acknowledgement 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 acknowledgement sufficient?

**A3.** (a) Yes, the requirement is clear. (b) In this case it seems acknowledgment in a written form should be required. The standard should just say the engagement letter should be signed by the AC chair, as based on the premise of this whole standard shouldn't it be an exception if it is someone other than the AC chair or a board member to sign the engagement letter?

**Q4.** Is the requirement for the auditor to communicate significant unusual transactions to the audit committee appropriate? If not, how should the requirement be modified?

**A4.** This appears to be a redundant requirement. If there was any accounting application issue or other disagreement with management regarding significant unusual transactions wouldn't that come out when discussing the requirements already in paragraphs 12, 13, 18, 21 or 22? Shouldn't management have already informed the AC of such matters?

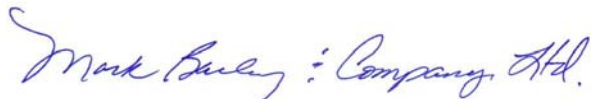
**Q5.** Is the requirement appropriate for the auditor to communicate to the audit committee his or her views regarding significant accounting or auditing matters when the auditor is aware that management has consulted with other accountants about such matters and the auditor has identified a concern regarding these matters? If not, how should the requirement be modified?

**A5.** Yes, but only if the auditor disagrees with the accounting treatment ultimately applied to the matter at hand. In this case we believe the disagreement would be covered by other paragraphs of the proposed standard, so again it seems this requirement would be redundant. We're not sure what other concerns the auditor could have regarding matters where management has consulted with other accountants other than arriving at an incorrect accounting treatment.

**Q6.** Not considered for comment.

We would like to thank the PCAOB for the opportunity comment and believe that the comment process is a valuable part of the standard setting process, as long as the PCAOB takes seriously the comments made by those most affected by the proposed standard. Please let us know if you have any questions regarding our comments.

Very truly yours,

A handwritten signature in blue ink that reads "Mark Bailey : Company Ltd." The signature is written in a cursive, flowing style.

Mark Bailey & Company, Ltd.