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PCAOB
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PROPOSED AUDITING STANDARD RELATED TO COMMUNICATIONS WITH AUDIT COMMITTEES; RELATED AMENDMENTS TO PCAOB STANDARDS; AND TRANSITIONAL AMENDMENTS
PCAOB Release No. 2011-008
December 20, 2011
PCAOB Rulemaking Docket Matter No. 030

The Accounting Principles and Auditing Standards Committee ("the Committee" or "We") of the California Society of Certified Public Accountants ("CalCPA") is grateful for the opportunity to comment on the proposed auditing standard referenced above. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 35,000 members. The Committee is comprised of 43 members, of whom 56 percent are from local or regional firms, 21 percent are from large multi-office firms, 12 percent are sole practitioners in public practice, 9 percent are in academia and 2 percent are in an international firm.

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?

The Committee believes the new proposed standard is appropriately aligned with the performance requirements in the risk assessment 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?

The Committee does not believe there are additional matters that should be communicated to the audit committee.

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?

The Committee believes the requirement in the proposed standard is sufficiently 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?

The Committee believes the communication should be evidenced by the audit committee, either in writing through direct signature or acknowledged in the official minutes of the audit committee, or through electronic communication. It is sufficiently important that it should not be solely oral.

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?

As stated in the Committee's response to the initial exposure draft of this topic, management should have the primary responsibility to communicate these matters to the company's board of directors, and the audit committee should initially get the information on significant unusual transactions in this manner.

Appendix 1, paragraph 12. a. (2) requires the auditor to communicate methods used by management to account for significant unusual transactions and paragraph 14. requires other communication related to these same transactions,

Paragraph 12. b. requires the auditor to communicate data on critical accounting policies and practices, and

Paragraph 12. b. also points out that the critical accounting policies and practices relate to events in the current year.

Paragraph 12. c. requires the auditor to communicate data on critical accounting estimates.

Paragraph 12. (in the note at the end) acknowledges that management might communicate matters related to critical accounting policies, practices and estimates, and how that might affect the auditor's communication to the audit committee.

The Committee believes that all of the foregoing communications should be made by management to the board of directors, which includes members of the audit committee, although this is a corporate governance matter and this proposal is not the vehicle in which to mandate such communications. The acknowledgement that management might communicate matters related to critical accounting policies, practices and estimates should be extended to significant unusual transactions, and that this would affect the auditor's communication to the audit committee. The auditor can then be charged with reviewing management's communications to determine they are complete and supplementing them as may be necessary.

Further, the Committee fails to see the distinction between accounting policies and practices related to "significant unusual transactions" and "critical accounting policies and practices" and suggests the disclosure requirement for these and the communications in paragraph 14 be combined and be stated only once.

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?

The Committee believes the proposed requirements are reasonable.

6. Are the amendments to other PCAOB standards appropriate? If not, why?

The Committee assumes this question addresses the mechanics of reflecting the proposed changes in the PCAOB standards. The Committee has no exception to how this was done.

However, the following amendments are not appropriate and should not be made. References are all to Appendix 1

Paragraph 10 d. Other independent accounting "firms" should not include affiliates of the accounting firm. The disclosure could be lengthy, and would not be meaningful. These have long been regarded as part of the principal auditor, and it is common knowledge that affiliates outside the country of the principal auditor are separate entities. While we understand problems have been reported with affiliates in some countries, the proposed disclosures, as they relate to affiliated firms, will do nothing to communicate information concerning potential problems with a foreign affiliate. The audit committee will know the countries where the auditor is performing procedures, and that should be sufficient.

Paragraph 13. a. appears to require communication about the qualitative aspects of ALL significant policies and practices, rather than just the ones with which the auditor took exception. The Committee does not know how this would be operative, since if the modification is really significant it should require an exception in the auditor's report; since

such an exception is not permitted under SEC certification requirements; management would make the proposed modification.

Paragraph 13. e. and Paragraph 10. a. requires communication of the nature and extent of specialized skill or knowledge needed for the audit, as further explained in Appendix 4, paragraph VI.A. Paragraph 13.e. states a different requirement for communication of consulting outside the "engagement team." The scope of the definition of the engagement team can be very broad, and include personnel in regional and national offices. We suggest the communication requirement in 13.e. be amended to reflect the communication in paragraph 10.a.

Paragraph 13. g. appears to require communication of all alternative accounting treatments permissible and the accounting treatment preferred by the auditor. The Committee believes the auditor's role is to determine the acceptability of management's accounting and disclosure, and the auditor may not have formally established a preference for any alternatives, **or have discussed such preferences with management. The auditor is under no current professional responsibility to explore all conceivable alternatives for which the auditor might develop a preference.** The Committee recommends this required communication be clarified to apply to only those alternatives that have been discussed with management, consistent with the language in SEC Reg. S-X, Rule 2-07.

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?

The Committee supports applying the proposed standard to brokers and dealers because of the benefits the communication is designed to provide. However, the Committee is concerned that smaller brokers and dealers may not have designated anyone to oversee the accounting and financial reporting processes of the company and audits of its financial statements, or that the person so designated may not have the status and authority in the company to conduct meaningful communication with the auditor on any but routine matters. This concomitant lack of independence of the company's personnel subverts any pretension of the independence that an audit committee would normally have.

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?

As stated in the Committee's response to 7 a., in principle, we support applying the proposed standard to brokers and dealers because of the benefits the communication is designed to provide. However, the Committee is not certain, as we stated in our response to 7 a. that the communication would always be meaningful. We recommend the PCAOB evaluate the appropriate internal governance standards for smaller brokers and dealers through the PCAOB's inspection plan for brokers and dealers, and subsequently determine if the proposed standard ought to be applied to them.

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.

The Committee does not have any specific recommendations on this matter.

The Committee would be glad to discuss our comments further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink that reads "Howard Sibel". The signature is written in a cursive, flowing style.

Howard Sibelman, Chair
Accounting Principles and auditing Standards Committee
California Society of Certified Public Accountants