



# FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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

Via internet: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Re: PCAOB Rulemaking Docket Matter No. 030  
*Communications with Audit Committees*

Dear Board Members:

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the "Committee") has reviewed and discussed PCAOB Rulemaking Docket Matter No. 030, "Communications with Audit Committees" (hereinafter, the "proposed standard"). The Committee has the following comments:

## **Objectives of the Auditor**

### **1. Are the objectives of the auditor in the proposed standard appropriate? If not, why? Should other matters be included in the objectives?**

The Committee believes letters (a), (b), and (c) are appropriate, but that letter (d) is not appropriate. Evaluating the adequacy of the two-way communications between the auditor and the audit committee to support the objectives of the audit is very subjective. Such a requirement puts the auditor in an awkward situation as the auditor is figuratively only seeing one side of the mirror, the communications the auditor has made. What the auditor does not know is the adequacy of the communications from the audit committee. This assessment will create needless tension between the auditor and audit committee and could lead to the auditor requiring a representation letter from the audit committee. By adding this type of formality to the communications between the auditor and the audit committee, the proposed standard would actually hinder communication, rather than support it. Valuable communication between the auditor and audit committee can occur informally and should not be hindered by a standard.

### **2. Are the objectives adequately articulated? Should the articulation of the objectives focus on the outcome that should be achieved by performing the required procedures?**

The Committee agrees that the objectives are adequately articulated. The Committee also believes the articulation of the objectives should focus on the outcome, particularly in the level of output expected in regards to the adequacy of the two-way communication with the audit committee, since without more guidance, significant diversity in practice will exist.

### **Establish a Mutual Understanding of the Terms of the Audit**

**3. Is it appropriate for the proposed standard to require that an engagement letter be prepared annually? If not, why?**

The Committee believes it is appropriate to require that an engagement letter be prepared annually. Such a requirement fuels healthy discussion on the specifics of the engagement letter and the nature of the auditor's responsibilities on a regular basis.

**4. Are there other matters that would enhance investor protection that should be added to an engagement letter? If so, what other matters should be included in an engagement letter?**

The Committee believes that no other matters should be added to an engagement letter other than what the proposed standard requires. The investor is sufficiently protected by the fact the auditor is expressing an opinion and thus subjecting him or herself to the possible consequences of that action, particularly since the engagement letters of audits of public companies are not permitted to have indemnification wording.

### **Obtaining Information Related to the Audit**

**5. Is the proposed requirement to inquire of the audit committee appropriate? What other specific inquiries, if any, should the proposed standard include for the auditor to make of the audit committee?**

The Committee believes the requirement of the auditor to inquire of the audit committee is appropriate due to (1) the fact the audit committee likely has unique insight into management, and (2) such dialogue contributes to a healthy dialogue between the auditor and the audit committee.

### **Overview of the Audit Strategy and Timing of the Audit**

**6. Are the requirements to provide information on the auditor's audit strategy and timing of the audit appropriate? Does the auditor need more guidance related to the requirement to provide information on the auditor's audit strategy? If so, what type of guidance would be helpful?**

The Committee believes inasmuch as the requirements apply to pre-audit communications, the requirements are appropriate. However, the Committee believes the following requirements are arbitrary and too subjective:

1. The requirement to communicate significant changes to the planned audit strategy
  2. The auditor's determination of whether persons with specialized skill or knowledge are needed to apply the planned audit procedures
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1. By instituting a requirement to communicate significant changes to the planned audit strategy, the proposed standard will interfere with the conduct of the audit as the auditor will spend an excessive amount of time determining what is and what is not a significant change to the planned strategy and what is the appropriate time to communicate.

2. Regarding the determination of whether persons with specialized skill or knowledge are needed to apply the planned audit procedures, the Committee notes existing standards allow an auditor to obtain expertise. The need to communicate consultations or the use of other firms, particularly if just for a brief dialogue, should be left to the auditor's judgment. The way the proposed standard is worded would result in a diversity of practice among auditors and may potentially dilute the whole communication process with the audit committee with potentially needless information about brief dialogues with other accountants, even if in the same firm.

**7. Is it sufficiently clear which types of arrangements should be communicated to the audit committee related to the roles, responsibilities, and locations of firms participating in the audit?**

The Committee believes that while the proposed standard is sufficiently clear as to which types of arrangements should be communicated to the audit committee related to the roles, responsibilities, and locations of firms participating in the audit, such a communication should not be required. Since many firms make use of affiliates for items such as an inventory observation all the way through audits of entire subsidiaries, the significance to the audit committee would reasonably vary and communicating immaterial arrangements would clutter communications with the audit committee. The Committee believes that if the audit area is material and is being subcontracted, the proposed standard should require the auditor to "consider" communicating the arrangement to the audit committee.

**Accounting Policies, Practices, and Estimates**

**8. Are the proposed requirements regarding the auditor's communication responsibilities with respect to accounting policies and practices sufficiently clear in the proposed standard (e.g., is the difference between a critical accounting policy and a significant accounting policy or practice adequately described)?**

The Committee believes the proposed standard is sufficiently clear regarding the auditor's communication responsibilities with respect to accounting policies and practices.

**9. Is it helpful to include in the proposed standard the audit committee communications required by the SEC relating to accounting matters?**

The Committee believes the required communications to an audit committee should be as integrated as possible. From the audit committee's standpoint, it is communication to the auditor, regardless of the body requiring the communication. The requirements from the SEC should be incorporated by reference; thus if the SEC guidance changes, the PCAOB's proposed standard would automatically change and avoid a situation where there are two-similarly worded communications (one SEC, one PCAOB) going to the audit committee causing possible information overload that dilutes the effectiveness of the communication.

**10. Is the definition of critical accounting estimates appropriate for determining which estimates should be communicated to the audit committee?**

The Committee believes the definition of critical accounting estimates is appropriate as the definition focuses on subjective items that would likely be of the most interest to the audit committee.

**11. Are the communication requirements regarding critical accounting estimates appropriate? If not, how should the proposed standard be modified to provide appropriate information to the audit committee?**

The Committee believes the communication requirements regarding critical accounting estimates are appropriate. Communications of estimates that are material due to the levels of subjectivity and judgment necessary, with a material impact, should be communicated to the audit committee.

**Management Consultations with Other Accountants**

**12. Should this requirement be expanded to include consultations on accounting or auditing matters with non-accountants, such as consulting firms or law firms?**

The Committee acknowledges the potential benefits of expanding audit committee communications to include consultations with non-accountants on accounting or auditing matters as this would facilitate discussions between the auditor and the audit committee. However, the length to which auditors should go to verify the information obtained should be specified in the proposed standard. Will auditors be required to test the information (for example would the auditor be required to examine invoices, or would management's representations be sufficient?) If testing is required, a potentially significant amount of work will be added to the auditor's procedures that likely would not add support to the opinion on the financial statements.

**Going Concern**

**13. Is the communication requirement on going concern clear? If not, how could the requirement be clarified?**

The Committee believes the requirement in the proposed standard is clear. However, the requirement for the auditor to assess management's plans is not appropriate. The auditor is responsible for opining on the financial statements as a whole and under current standards, is responsible for determining whether there is a need in the auditor's report for an additional paragraph indicating there is substantial doubt a company can sustain operations for a reasonable period of time not greater than a year. This proposed standard to assess management's plans, regardless of whether or not a going concern opinion is issued forces the auditor into the role of valuation expert and soothsayer.

## **Corrected and Uncorrected Misstatements**

### **14. Are the requirements appropriate regarding the communications for uncorrected misstatements?**

The Committee believes that, overall, the requirements are appropriate, particularly the requirement that the communication indicate that future periods may be misstated. What the Committee does not feel is appropriate is the requirement to communicate the basis for the auditor's determination that the uncorrected misstatements were immaterial including qualitative factors. Such a requirement takes away from the statement that emphasizes that management has determined the uncorrected misstatements are immaterial individually and in the aggregate. Accounting literature (such as guidance on the GAAP hierarchy and on subsequent events) has leaned recently toward emphasizing the responsibility of management; this proposed standard would place too much emphasis on the auditor's determination. While the goal of the overall standard to improve the auditor's communication with the audit committee is a desirable one, such improved communication should not come at the expense of management's communication with the audit committee. Also, a variety of factors enter into the determination of the immateriality of uncorrected misstatements. The auditor is responsible for providing an opinion, if possible, on the financial statements and is not required to disclose every factor that entered into decisions made in the audit. As such, the auditor should not be required to disclose the reasons why he or she determined the uncorrected misstatements to be immaterial.

### **15. Should all corrected misstatements including those detected by management be communicated to the audit committee?**

The Committee believes that all corrected misstatements, including those detected by management, should be communicated. Such a communication will allow the audit committee to obtain a sense of the quality of financial information provided to the auditor at the start of an engagement. Such information will help illustrate to the audit committee the quality of management's accounting, the timeliness of that accounting, and possibly, if applicable, part of the reason for the length of the audit.

## **Form and Content of Communications**

### **16. Like the existing standard, the proposed standard would allow the auditor to communicate many matters orally or in writing. Should the standard require that all or certain matters be communicated to the audit committee in writing? If only certain matters should be communicated to the audit committee in writing, what are those matters?**

The Committee agrees with the wording in the proposed standard that allows the auditor to communicate many matters orally or in writing. Auditors should be allowed to appropriately cater the presentation to the audit committee to effectively communicate. The Committee also agrees with the requirement that oral communication be appropriately documented.

### **Timing**

**17. Are the requirements in the proposed standard on the timing of the auditor's communications appropriate? Should only certain matters be communicated annually? If so, which ones?**

The Committee believes the proposed standard's requirements regarding the timing of the auditor's communications as the proposed standard leaves appropriate room for interpretation by the auditor and avoids a bright-line requirement.

### **Adequacy of the Two-way Communication Process**

**18. Does the requirement to evaluate the adequacy of the communication process promote effective two-way communications? Is more information on this requirement needed?**

The Committee believes the requirement does not promote effective two-way communication. As noted in the Committee's response to Question 1, evaluating the adequacy of the two-way communications between the auditor and the audit committee is very subjective and may actually hinder communication, rather than support it. The requirement should be removed from the proposed standard.

### **Other Communication Requirements**

**19. Are these other communication requirements appropriate and sufficiently clear? What other communication requirements should the proposed standard include, if any?**

The Committee believes the other communication requirements are appropriate and sufficiently clear. The Committee believes the proposed standard should include the following communication requirement:

- Management's unwillingness to sign the representation letter.

While the proposed standard focuses on the auditor's communication with the audit committee, by requiring the auditor to communicate management's unwillingness to sign the representation letter, the audit committee's communication with management will be reinforced which will likely foster healthy discussion for all three parties on the content of the representation letter.

**20. Are the matters included as significant difficulties in paragraph 21 of the proposed standard appropriate? What other matters should be included as significant difficulties?**

The Committee believes the significant difficulties in paragraph 21 of the proposed standard are appropriate. We recommend the following matter should be included as a significant difficulty (refer to the Committee's response to Question 19):

- Management's unwillingness to sign the representation letter.

**21. Are any of the requirements included in the proposed standard inappropriate for auditors to communicate to audit committees based on the size or industry of the company under audit?**

The Committee does not believe that any of the proposed requirements for auditors to communicate to audit committees are inappropriate based on size or industry of the company under audit.

## Appendices

**22. Is the information included in Appendices A - C to the proposed standard sufficiently clear? Should the appendices include other matters, e.g., should other items be included in an audit engagement letter?**

The Committee does believe that the information in Appendices A-C is sufficiently clear and does not believe any additional matters are necessary other than additional clarification to the requirements of Question 12.

The Committee appreciates the opportunity to share our views and concerns and to comment on PCAOB Release No. 2010-001. Members of the Committee are available to discuss any questions you may have regarding this communication.

Very truly yours,

FICPA Accounting Principles and Auditing Standards Committee

Committee members coordinating this response:

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