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By E-mail: [comments@pcaob.org](mailto:comments@pcaob.org)

February 29, 2012

Dear Mr. Baumann

**Re.: PCAOB Rulemaking Docket Matter No. 030  
PCAOB Release No. 2011- 008, December 20, 2011  
Proposed Auditing Standard Related to Communications with Audit  
Committees;  
Related Amendments to PCAOB Standards;  
And Transitional Amendments to AU SEC. 380**

The IDW commented in a letter dated May 28, 2010 on the previous draft relating to Rulemaking Docket Matter No. 030. We appreciate that a number of changes have been made which address concerns we had raised previously. We would like to thank you for 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 (hereinafter collectively referred to as the "proposed standard") released December 20, 2011.

In this letter, we have not responded to individual questions raised, but comment instead on those areas with which we have concerns. We submit our comments as follows:

***Alignment with Auditing Standards Promulgated by the IAASB***

As we have previously commented in a number of letters to the PCAOB, we welcome the updating of the PCAOB's interim standards, and particularly wel-

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come the efforts made to align the proposed standards with the ISAs as a measure towards the international convergence of auditing standards needed for international capital markets. In this context, we would like to refer to our previous letters in which we addressed this issue more fully, as we have chosen not to repeat our comments. We nevertheless confirm our previously stated views.

Indeed, our main areas of concern in respect of this proposed standard revolve around the issue of compatibility with the respective IAASB standards dealing with communications between an auditor and those charged with governance, which we discuss in more detail below.

### ***Fostering Effective Two-Way Communication***

We support the addition of a new subset to the proposed objective in para. 3 b: “Obtain information from the audit committee relevant to the audit”. However, we are concerned that the rest of the standard is not sufficiently geared toward the auditor achieving this aspect of the objective.

Paragraph 8 aside, the standard concentrates on matters the auditor is to communicate (one-way) to the audit committee, since paragraph 8 alone requires the auditor inquire of the audit committee whether it is aware of matters that might be relevant to the audit. Of further concern is that paragraph 8 itself places emphasis – albeit specifically without limitation thereto – on 2 specific areas (violations of laws or regulations and complaints or concerns re financial reporting matters), which could distract from a potentially wide range of other matters that ought to be discussed. We appreciate the fact that in sections V and VI of Appendix 4 of the Release, the PCAOB does refer to certain other such matters (compare also ISA 260.4(b)). However, we believe that specific mention of these other matters would be equally useful within the text of paragraph 8.

In addition, we do not understand why, although the PCAOB has entitled the Standard “Communications with Audit Committees” implying that communication may be a two-way act, the PCAOB has chosen not to use the term “communicate with” in a single paragraph of the draft Standard. We are aware that paragraph 1 explains that “communicate to,” as used in the standard is meant to encourage effective two-way communication between the auditor and the audit committee throughout the audit to assist in understanding matters relevant to the audit. Nevertheless, for the reasons discussed more fully in our previous letter, we remain concerned that the use of the phrase “communicate to the audit committee” throughout the standard is not optimal, as it might not foster appro-

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appropriate two-way communication in practice. In many instances the communication of information required by this Standard may well be one-way by nature, but not in all cases. We believe it would be more appropriate to use “communicate with the audit committee” where a two-way discussion would be appropriate in ensuring the auditor will obtain information on particular matters or aspects relevant to the audit.

For example, as we had also explained in our previous letter, paragraph 9 (discussion of significant risks) ought to lead to an open and frank two-way discussion, as it is conceivable – particularly if such communication occurs at a relatively early stage of the audit – that the auditor may obtain further information concerning significant risks (both in relation to risks already identified by the auditor and potentially other risks not yet identified) from the audit committee of which the auditor was previously unaware. We appreciate that as part of risk assessment procedures, PCAOB AS 12-54 also foresees the auditor obtaining information from the audit committee, but are nevertheless concerned that in limiting paragraph 9 of this draft standard to a communication to the audit committee of the significant risks identified during the auditor’s risk assessment procedures only, information on potential additional risks, i.e., due to new information becoming available or subsequent developments may not be forthcoming from the latter. In our view, if it is to be effective, communication of risk assessment should not be limited to initial inquiries and a subsequent one-sided reporting of the auditor’s own risk assessment.

### ***Assessment of the Adequacy of the Two-Way Communication***

As we had pointed out in our previous letter, we support fostering a constructive working relationship between auditors and those charged with governance, including audit committees, as effective communication may potentially help enhance the quality of the audit.

We, therefore, do not support the PCAOB’s decision to delete without substitution the part of the objective and corresponding requirement regarding the auditor’s assessment of the adequacy of the two-way communication and effects of inadequate two-way communication on both the auditor’s assessment of risk and the auditor’s ability to obtain appropriate audit evidence.

Whilst we appreciate that the auditor’s consideration of the company’s control environment is covered by PCAOB AS 12, we do not believe this is the only aspect that the requirement and objective originally proposed needs to cover. For example, if the auditor’s attempts to communicate with the audit committee were

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to meet with a lack of cooperation on the part of the audit committee (or, in extreme cases, a refusal to respond to inquiries the auditor makes pursuant to paragraph 8 or pursuant to other PCAOB ASs), the auditor may evaluate this part of the desired communication as inadequate on the basis of suspecting information may be being withheld. (Compare ISA 260.A43 last sentence: “There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements”). We therefore believe that the auditor does need to make an assessment in this context, albeit, as other commenters have pointed out, not on the understanding the audit committee obtained, but based on whether the auditor perceives the two-way communication as having been adequate for the purposes of the audit.

#### ***Including Guidance within the Standard to Foster Consistent Application***

The PCAOB has included useful guidance and explanation relating to the application of particular requirements in material accompanying the draft standard (in particular in Appendix 4). For example, material regarding the timing of required communications (page A4-10), the definition of the audit committee (page A4-3 last two sentences in Subsection I “Definition of Audit Committee”) which is helpful in clarifying what the term “the audit committee” is to mean in practice in non-US jurisdictions that may have other legal forms etc., and the discussion on form and documentation of communications and the timing thereof (see page A4-42- 44). In many instances, we believe that such guidance – possibly in the form of a Note – would be helpful both to auditors and to the PCAOB in ensuring consistent application of the standard.

#### ***Role of Management vs. Role of the Auditor***

Paragraph 12 requires the auditor communicate to the audit committee specific information concerning accounting policies, practices and estimates. In our opinion management should provide this information. Since paragraph 13 requires the auditor to communicate the auditor’s own evaluation of the quality of the company’s financial reporting including qualitative aspects of significant accounting policies and practices and conclusions regarding critical accounting estimates, this seems to us to cover this area appropriately.

Furthermore, in comparison to the previous draft, certain new aspects have been added, which cause us concern:

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- 12 a (3) the PCAOB is proposing the term “diversity in practice” be added to the end of this sentence – auditors may not be in a position to provide accurate information on areas for which there is diversity in practice, e.g., for new situations no one may yet know what is used in practice by other entities – it also raises the question as to whether this is meant to be a US-only diversity or a diversity at a world wide level? (NOTE: this additional wording also goes beyond the wording of AU sec. 380.07).
- 12 b the inclusion of “anticipated future events” is problematical. Despite commenters having noted that the auditor cannot predict the future, the PCAOB rejected recommendations to delete this. We do not see the justification for rejecting these comments.

### ***Danger of Information Overload to the Audit Committee***

We noted in our previous letter that specific information required to be communicated by the then proposed standard exceeds but does not necessarily appear to equate with that specified in Section 204 of the Sarbanes-Oxley Act of 2002 (SOX) for an auditor to report to the audit committee. We had also argued in that letter that there is a danger that auditors and audit committees may become overly focused on adhering to the required informational exchange as set forth in the then proposed standard and “fail to see the woods for the trees”. As a result important information – irrespective of which party is communicating it – may be overshadowed such that its significance is not readily apparent to the recipient. Such over prescription may also be detrimental to an effective two-way exchange of information, since if a matter is not listed in the requirements of the standard it may not be communicated at all. Whilst we appreciate that the PCAOB has subsequently used the thresholds “significant” or “critical” in a number of instances, our concerns in this area have not been fully addressed.

For example, in this context, we would like to note that although the IDW did not comment on the PCAOB Release no. 2011-007 relating to auditor reporting, we would not support proposals for the auditor to disclose detailed information on audit work performed by other participants in the audit externally. In our opinion the usefulness of this (retrospective) information to the public is questionable. However, the audit committee might well be in a position to assess and discuss implications for the audit (prior to appointment). In this context, we support the disclosure of significant work performed by another external auditor to the audit committee, but not so as to overload with the details of every other firm or person irrespective of the significance of their participation in audit procedures. We

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therefore suggest paragraph 10 d. should be amended to include the term “significant” between “perform” and “audit procedures”.

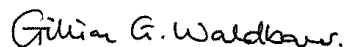
A further example is discussed in Appendix 4 section XIII. Despite “several” comments received the Board did not change the requirement to report the schedule of uncorrected misstatements. In line with our comments above concerning the desirability of closer alignment with the ISAs, we believe that ISA 450.12 solves the problem of overloading the audit committee with the communication of all misstatements in a more appropriate way. In addition, ISA 450.8 requires the auditor at least request management correct all misstatements as “good practice” as explained in ISA 450.A9 – it is not clear why the PCAOB differs in its approach, notwithstanding management’s actual legal responsibilities. It is not entirely clear to us why the PCAOB rejected calls for change in this instance.

We hope that our comments are useful for the Board’s further deliberations. Should you have any questions about our comments, we would be pleased to be of assistance.

Yours very truly,



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Executive Director



Gillian Waldbauer  
Technical Manager