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Public Company Accounting Oversight Board
c/o Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803
USA

By E-mail: comments@pcaob.org

May 28, 2010

Dear Mr. Baumann,

**Re.: PCAOB Rulemaking Docket Matter No. 030
PCAOB Release No. 2010- 001, March 29, 2010
Proposed Auditing Standard Related to Communications with Audit
Committees
And Related Amendments to Certain PCAOB Auditing Standards**

We would like to thank you for the opportunity to comment on the PCAOB's Proposed Auditing Standard Related to Communications with Audit Committees and Related Amendments to PCAOB Standards (hereinafter collectively referred to as the "proposed standard"). We are commenting on this proposed standard because it is directly relevant to the members of the German Wirtschaftsprüfer profession that audit the financial statements of SEC-registrants or their subsidiaries, and because PCAOB standards do influence standards setting elsewhere, including that of the International Auditing and Assurance Standards Board (IAASB). 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 welcome the efforts made to align the proposed standards with the ISAs as a

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measure towards the international convergence of auditing standards needed for international capital markets. We would certainly encourage the PCAOB to continue doing so, and even to increase its efforts in this regard.

Indeed, our main area of concern in respect of this proposed standard revolves 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

The IAASB has recently revised ISA 260 “Communication with Those Charged with Governance” and developed a new auditing standard, ISA 265 “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management”, both of which cover communications between the auditor and those charged with governance of the entity subject to audit.

One particular aspect the IDW considers to be especially helpful in potentially enhancing audit quality is the move away from the so called “one-way” approach of the predecessor version of ISA 260 whereby an auditor communicates certain matters arising from the audit of financial statements to those charged with governance in order to assist them in fulfilling their governance role. The new approach, whilst retaining this aspect, is also aimed at fostering a constructive working relationship between auditors and those charged with governance. It is conceivable that those charged with governance will possess information to which the auditor may otherwise not, or not readily, become privy. Effective two-way information of this nature may potentially help enhance the quality of the audit. Therefore the revised ISAs aim to promote a more balanced two-way exchange of information such that when those charged with governance have additional information relevant to the audit (e.g., their views on risks affecting the entity, knowledge pertaining to possible fraud involving collusion), the auditor will become privy to this and the quality of the audit will potentially be enhanced (e.g., risk responses can be more effective, procedures can be sensitized to the potential for fraud involving collusion).

Whilst we recognize that there are necessarily certain differences between “those charged with governance” as used in the ISAs and the “audit committee” dealt with in the proposed standards, we would expect that being a committee of the board of directors, the audit committee would possess a detailed knowledge of the entity. The PCAOB, however, does not appear to view the propensity for the audit committee to provide information to the auditor as particularly signifi-

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cant in the proposed standard, since other than the one requirement of paragraph 8 for the auditor to inquire of the audit committee whether it is aware of matters that may be related to the audit, including complaints or concerns raised regarding accounting or auditing matters, this aspect is less prevalent in the standard than is the case of ISA 260. The proposed standard concentrates primarily on the auditor imparting specified information to the audit committee.

For example, in respect of risk assessment, we recognize that the currently Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk would also require the auditor to inquire of the audit committee about the risks of material misstatement. However, we are not aware of other required communicative measures aimed at having auditors promote a two-way exchange of information beyond this initial inquiry and that of paragraph 8 mentioned above. Indeed, paragraph 9 of the proposed standard requires the auditor discuss the significant risks identified (by the auditor) during risk assessment procedures, without suggesting that two-way discussions could be useful, particularly if further information has become available to the audit committee or the committee believes the auditor's assessment may be incomplete or incorrect. In our view, if it is to be effective, such a two-way exchange should not be constrained to initial inquiries and subsequent one-sided reporting of the auditor's own risk assessment.

In addition, the requirement of paragraph 26 as to the adequacy of the two-way communication appear to revolve around matters communicated to the audit committee and their reactions thereto, rather than any additional information the audit committee may impart to the auditor. This seems incongruent with the requirement in paragraph 27 for the auditor to evaluate the effects of inadequate two-way communication on the auditor's assessment of risk and ability to obtain appropriate audit evidence.

Furthermore, it is unclear to us how, based on the remainder of the proposed standard, an auditor may reach a determination that the two way-communication was so inadequate as to warrant the measures to be considered in paragraph 28, which include modification of the auditor's opinion on the basis of a scope limitation and withdrawal from the engagement.

Formulation of Objectives

Comparison of the objectives of the proposed standard with those of ISA 260, whilst revealing similarities, also reveals significant differences in approach. Paragraph 9 (b) and (d) of ISA 260 specify the following two objectives:

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- *“To obtain from those charged with governance information relevant to the audit “, and*
- *“To promote effective two-way communication between the auditor and those charged with governance”.*

Paragraph 3d. of the proposed standard merely includes:

- *“Evaluating the adequacy of the two-way communications between the auditor and the audit committee to support the objectives of the audit”.*

Our concern is twofold. Firstly, in relation to fostering two-way communication as discussed above, the proposed standard’s objectives are inadequate in comparison with those of ISA 260. Also, as we explain below, this objective is, in any case, not supported by requirements sufficient to ensure such evaluation could conclude that the two-way communications were indeed adequate to support the objectives of the audit. Secondly, the wording of paragraph 3 is not akin to that of true objectives; rather it reads as a list of requirements. The auditor needs to be able to use objectives as a sort of “benchmark”, such that having complied with the requirements of a standard, he or she can ask the question “have the objectives been met?”. Where this is not the case, the auditor would determine further audit work to be performed to meet the objective, or where the objective cannot be so met, determine the impact on the audit and ultimately the auditor’s report.

Prescriptive Nature of the Proposed Standard as to Communication Content

We note that specific information required to be communicated by the 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. SOX Section 301 provides that the audit committee oversee the auditor’s work (including resolution of disagreements between management and the auditor regarding financial reporting), and also provides that the audit firm shall report directly to the audit committee, although without detailing the informational content of such reporting. We therefore presume that the PCAOB intention is that the information specified in the proposed standard is, when taken as a whole, aimed at enabling the audit committee to fulfill this responsibility under Section 301 of SOX.

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In our opinion, the level of detail within the requirement paragraphs is, however, overly prescriptive, in particular, in comparison to the corresponding more principles-based requirements of ISA 260. The PCAOB has not made a convincing case that all such differences arise from the US legal environment.

In our view, it may be counterproductive to construe the role of the audit committee in overseeing the auditor's work as necessitating a list of specific information designed to provide evidence that the auditor has performed certain routine quality control measures and specific, often routine procedures. Yet the matters identified in the standard seem to imply a move towards this "checklist" mentality, which, we are concerned, will encourage auditors to produce copious reports in an attempt to "cover their backs". In contrast, we believe it is the *significant* matters and audit findings that need to be communicated. 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 proposed standard and "fail to see the wood 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.

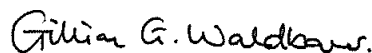
Such overprescription may also be detrimental to an effective two-way exchange of information, since, if a matter is not listed in the requirements of the standard it may not be communicated at all. Furthermore, as we have commented on a number of previous occasions, overprescription discourages auditors from exercising their professional judgment appropriately, and this may not be conducive to enhancing audit quality.

If you have any further questions about our comments, we would be pleased to discuss our comments with you.

Yours very truly,



Klaus-Peter Feld
Executive Director



Gillian G. Waldbauer
Technical Manager