



The Association of
Accountants and
Financial Professionals
in Business

February 29, 2012

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

Rulemaking Docket No. 030

Dear Members of the Board:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is pleased to comment on the PCAOB's proposed auditing standard relating to *Communications with Audit Committees*.

The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies, representatives from the largest accounting firms, valuation experts, accounting consultants, academics, and analysts.¹ The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

While we believe that the proposal largely represents a codification and expansion of existing PCAOB requirements, we recommend greater clarity as to precisely which requirements are new. We believe that it would be very helpful if the PCAOB included in the final standard an easy-to-read table summarizing the new requirements from carryover and expanded requirements. We believe that the additional requirements are communications covering:

- a written engagement letter to the audit committee,
- an overview of audit strategy and timing,
- reasons that critical policies and practices are critical, information about changes in such policies and practices, concerns regarding related disclosures and the basis for auditor's conclusions regarding reasonableness of critical policies and practices,
- certain matters for which the auditor consulted outside of the engagement team,
- auditor concerns regarding new accounting pronouncements,
- details of significant unusual transactions, including business rationale,
- going-concern matters and,
- any departure from the standard auditor's report.

¹ Additional information about the IMA Financial Reporting Committee can be found at www.imafrc.org.

FRC members find that these new requirements cover matters that are customarily discussed in audit committee meetings. We do not object to any of the carryover, expanded or additional communication requirements and believe that the items in the proposal should be discussed with audit committees. We are fully supportive of the PCAOB objective of effective two-way communication between the auditors and audit committees. We do, however, have several concerns regarding the proposal.

First, we have an overriding concern that the proposal adds to a growing list of check-the-box type requirements governing the dialog between auditors and audit committees. The experience of FRC members (which includes preparers, auditors and audit committee members) is that a robust dialog currently exists between the auditors and audit committees and includes most of the new or expanded requirements. It is our experience that audit committee meetings are currently lengthy and time compressed. We are concerned that the proposal could increase compliance type communication, some of which is redundant of information communicated by management in the presence of the auditors, rather than ensuring that meaningful dialogue takes place. We suggest that the auditors be encouraged to issue written communications to the audit committee covering the required matters in advance of meetings, allowing meeting discussions to focus on the vital areas and address any questions or concerns. Revising the proposal in this manner is consistent with the PCAOB's objective of promoting robust two-way dialog.

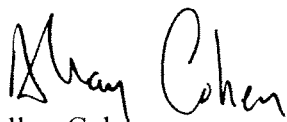
Second, we believe that the proposal and certain existing requirements may not appropriately distinguish the roles of the auditor and management. We believe that the auditor should be the primary communicant for activity that is attest related and that management should be the primary communicant for activity that is management led. Accordingly, we believe that the communication regarding accounting policies, practices and estimates (paragraph 12), significant unusual transactions (paragraph 14) and management consultation with other accountants (paragraph 16) is absolutely the responsibility of management. While we believe that management should take the lead in discussing their conclusions, we recognize that the auditor's views on these matters are also important to the audit committee. That is, the auditor's comments on management led issues should not be restricted to a "agree" or "disagree".

It is our experience that management discusses the matters in paragraphs 12, 14 and 16 with the audit committee as a matter of course and management would certainly be queried by audit committees in the absence of management initiated discussion regarding these matters. It is also our experience that, as a matter of course, auditors are asked by management (and if not by management, by audit committees) to add their comments and perspective during these discussions. We believe that the PCAOB standard should be limited to requiring that the auditor ensure that such discussion takes place between management and the audit committee. If the PCAOB is concerned about the all-inclusiveness of management's discussions with the audit committee then the standard could include language that requires the auditor to comment in the written communication with audit committees on the sufficiency of management's communication on these matters and that they are not aware of anything else requiring the audit committee's attention.

Finally, while we believe that accounting issues related to significant unusual and difficult and contentious transactions should be discussed with the audit committee, we believe that without specific definitions in the standard for the terms "significant and unusual", as well as "difficult and contentious", inconsistencies in interpretations especially in light of subsequent PCAOB inspection may result.

We would be pleased to respond to any questions you have about our comments. You can reach me at (212) 664-1733.

Sincerely,

A handwritten signature in black ink that reads "Allan Cohen". The signature is written in a cursive style with a large, prominent "A" and "C".

Allan Cohen
Chair, Financial Reporting Committee
Institute of Management Accountants