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

PCAOB Rulemaking Docket Matter No. 030

Gentlemen,

Mayer Hoffman McCann P.C. (MHM) appreciates the opportunity to comment on the Board's proposed auditing standard on communications with audit committees. Following are our comments on the specific questions which the Board requested feedback.

Objectives of the Auditor

We support the Board's objectives regarding communication of the auditors' responsibility and providing timely observations from the audit process to the audit committee.

As more fully described below in the section entitled "Adequacy of the Two-way Communication Process", we believe the objective of "evaluating the adequacy of the two-way communications between the auditor and the audit committee to support the objectives of the audit" would be highly subjective and may not enhance the audit process. This objective may be better achieved through the issuance of PCAOB staff guidance for both auditors and audit committees.

Establishing a Mutual Understanding of the Terms of the Audit

MHM supports the Board's proposal that the terms of the engagement be documented and provided on an annual basis to the audit committee. The engagement letter should clearly identify the responsibilities of audit committee, management and the auditor. We support that this communication should outline the responsibilities of the above mentioned parties for performance of the audit as well as for the quarterly reviews.

MHM does not believe that the engagement letter is the appropriate means for enhancement of investor protection. However, we do support a requirement for the engagement letter to clearly state the estimated time commitment of Partners and Managers to high risk areas.

Obtaining Information Related to the Audit

MHM agrees with the Board as to the need for robust substantive discussions between the auditor and audit committee regarding significant matters including those involving accounting or auditing matters, irregularities and fraud. We believe that the audit committee, as part of their governance duties and responsibilities for overseeing the auditor and the audit process, should initiate discussions with their auditors regarding their knowledge of the following matters:

- Significant accounting estimates emphasizing those that are sensitive or complex
- Unusual or complex transactions which the company completed outside their routine or standard processes of the company
- Disclosure of outside experts used for accounting, tax, valuation, control or systems in the current period, and the effects of those projects on the financial statements

MHM also believes that the audit process could be strengthened by having the audit committee in their governance responsibility for the audit process provide written representation to the auditors (or as an alternative as a certification included in the 10-K or 10-Q) of significant matters which occurred during the audit period and confirmation of certain actions required of the audit committee in carrying out its role in the financial reporting and governance process. Examples of the types of representations that the audit committee could provide include:

- Whether or not the audit committee was aware of any fraud allegations (either from its fraud hotline or any other source),
- Whether the audit committee agreed with management's conclusions regarding significant estimates and the related assumptions used in reaching those conclusions
- Whether the audit committee placed reliance on outside experts in reaching such conclusions regarding significant estimates or subjective areas and their agreement as to sufficiency of the objectivity and qualifications of the experts employed by management,
- If management chose not to employ experts (when outside experts would be used in similar circumstances), that the audit committee agreed that management possessed the appropriate expertise and that outside experts were unnecessary,
- Whether the audit committee believes that management has provided them information, in sufficient detail and on a timely basis, to allow them to effectively carry out their oversight role over financial reporting as an audit committee.

We believe that requiring these types of representations from audit committees to auditors would have a significant positive impact in achieving the Board's goal of fostering more open and robust communication between the auditor and the audit committee because the shared responsibility of both groups would stimulate a dialogue on the significant areas affecting the financial reporting process.

Overview of the Audit Strategy and Timing of the Audit

MHM supports the proposed required communication of the audit strategy to the audit committee for the matters concerning the auditor's use of people with specialized skills on behalf of the engagement team, as well as the roles of participating firms or offices and the basis for auditor's determination for serving as the principal auditor. We agree that the auditor should also communicate the planned use of the company's internal audit personnel, company personnel and or third parties working on the behalf of management.

However we are concerned regarding the proposed standard communication requirements regarding network affiliations. We believe that this requirement may create an artificial barrier and a further concentration of audit firms available to registrants with global operations. MHM believes that this requirement would place local, regional and national firms who have network affiliations at a disadvantage to the large International Firms for their lack of singular branded audit name recognition.

Accounting Policies, Practices and Estimates

MHM supports the proposed standard retaining the provisions of "*AU Section 380: The Auditor's Communication with Those Charged with Governance*" for the auditor to communicate the auditor's evaluation of the quality, not just the acceptability, of the company's significant accounting policies, as well as the practices and the quality of disclosure related to the company's accounting policies and practices. MHM does support a dialogue with audit committees concerning accounting policies, disclosures, and alternatives; however, we believe that these judgments are the responsibility of the company's management and that of the audit committee. We believe the proposed standard could potentially confuse the fact that management is responsible for the financial statements.

MHM supports the Board's position in the proposed standard requiring the auditor to communicate or determine that management has adequately communicated to the audit committee the application of new accounting or regulatory pronouncements which are not yet effective, but which may, upon adoption, have a significant effect on the company's financial reporting. However, we believe the proposed language stating "the auditor may develop a view regarding changes to processes or systems that could impact the financial reporting process that would not be included in management's disclosures in the financial statements, but which the auditor may wish to communicate to the audit committee" is beyond the scope of the attest engagement.

The proposed standard's requirement for the auditor to communicate to the audit committee significant accounting matters on which the audit team has consulted outside the engagement team is a position MHM believes will reduce consultations between audit teams and subject matter experts and will therefore be harmful to audit quality. We also do not see how this improves communication between the audit committee and the auditor.

MHM believes that the Board should provide staff guidance to assist audit committees with the types of transactions or situations which the Board believes the audit committee should discuss with experts.

In addition, the proposed standard introduces the terminology of "critical accounting estimate" which the Board has defined similar to the SEC; however, the proposed standard introduces new requirements for the auditor to evaluate management's communication and discussion with the audit committee regarding critical accounting estimates. While we commend the Board in their efforts to improve governance and understanding of risk between management and the audit committee, we do not believe that this responsibility should be the role of the auditors. MHM also believes that terminology introduced by the Board in the proposed standard would create confusion for audit committee members, especially those members who may serve on smaller market capitalization companies. In addition we would request that the Board work with SEC and the AICPA's Auditing Standards Board to provide consistent and similar terminology in regulatory and standard setting matters.

Management Consultations with Other Accountants

We support the Board's efforts to expand the requirements regarding management consultations beyond that of other accountants but also include attorneys and consulting firms who provided consultation on accounting and auditing matters. We believe as a practical matter that the communication with outside parties regarding accounting and auditing are a governance function and should be required to be brought to the auditors' attention by the audit committee and management. MHM further believe that investors' interests would be best served by having this information disclosed in the proxy statement in addition to the fees paid to the auditor.

Going Concern

MHM believes that determination of going concern is a management responsibility, and believes that the Board should defer action on this topic until the Financial Accounting Standards Board and the International Accounting Standards Board converge on this issue.

Corrected and Uncorrected Misstatements

MHM supports the Board proposal that the audit committee be provided with the same information regarding uncorrected misstatements relating to accounts and disclosure, as is presented to management. MHM also supports the proposed requirement that the audit committee have access to all corrected misstatements even those detected by management. We believe this will allow the audit committee to understand potential risks in the financial statement close process.

We do not believe that the proposed standard's requirement that the auditor communicate their basis for determining that the uncorrected misstatements were immaterial should be the only information provided to the audit committee on these uncorrected misstatements in accounts and disclosures. The audit committee should also evaluate management's position on these items as well, since the primary responsibility for the fair presentation of the financial statements resides with management.

Form and Content of Communications

MHM is supportive of the Board's effort to support and enhance effective two-way communication between the audit committee and the auditors. We believe that certain matters such as independence, engagement terms, audit plan, summary of uncorrected misstatement and such should be communicated in writing. We would caution against the need for all communication to be in written format. If the goal is effective communication which includes open and robust dialogue to improve the quality of the audit and provide greater protection to investors, the Board should not dictate the form of communication.

Timing

MHM agrees with the Board's assessment that communication with the audit committee is a vital part of the audit process. We believe that certain matters such as independence, summary of uncorrected misstatements in accounts and disclosures, as well as control deficiencies should be communicated annually in writing to the audit committee.

Adequacy of the Two-way Communication Process

We are supportive of the Board's position that effective two-way communication between the auditor and the audit committee may help to strengthen the audit process. However, we believe this could be best achieved by the Board issuing staff guidance, rather than requiring the auditor to make a formal evaluation of the process. We do not see how the performance of an evaluation alone will effect meaningful change. In addition, the Board has not provided any mechanism or incentive to improve a situation that is considered by the auditor to be inadequate. Is it the Board's intent that an inadequate communication process between the auditor and audit committee be reported as a significant deficiency or material weakness in controls or in the company's SEC filings? Also, what happens if the auditor communicates such an inadequate two-way communication process and the audit committee either disagrees or is not interested in making any changes? Should the auditor be expected to resign from such a situation? It is unclear as to what results or actions would be expected to be undertaken if a situation is determined to be inadequate. It is for these reasons that we believe that a requirement for such an evaluation will be ineffective and have little impact in achieving the Board's objective of improving the quality of the communications between auditor and audit committee.

Other Communication Requirements

The proposed standard requiring the auditor to communicate to the audit committee significant difficulties encountered in dealing with management is a position which we believe would enhance the audit process and provide the audit committee with effective insight to perform their governance responsibilities.

Mayer Hoffman McCann P.C. is grateful for the opportunity to provide input on this matter. Should the Board have any questions regarding our responses or if we can provide further assistance regarding this issue, please do not hesitate to contact us.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to either Rich Howard (949-450-4402) or Ernie Baugh (423-870-0511).

Sincerely,

Mayer Hoffman McCann P.C.

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