

October 21, 2010

By Email

Office of the Secretary  
The Public Company Accounting Oversight Board  
1666 K Street N.W.  
Washington, D. C. 20006-2803  
By e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

**Re: Exposure Draft - Proposed Auditing Standard Related to Communications with Audit Committee and Related Amendments to Certain PCAOB Auditing Standards**

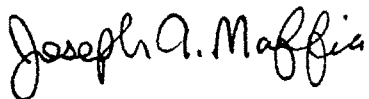
Dear Sir or Madam:

The Advanced Auditing class (Eco 775) at the Hunter College Graduate program in New York City appreciates the opportunity to comment on this exposure draft.

The class discussed the above proposed exposure draft and have attached our comments.

If you would like additional discussion with us, contact Professor Joseph A. Maffia, at 212-792-0404.

Sincerely,



Professor Joseph A. Maffia, CPA

**Hunter College Graduate Program  
Economics Department  
Advanced Auditing Class  
ECO 775**

**COMMENTS ON PROPOSED  
AUDITING STANDARD RELATED TO  
COMMUNICATIONS WITH AUDIT COMMITTEES AND RELATED AMENDMENTS TO  
CERTAIN PCAOB AUDITING STANDARDS**

**DOCKET No. 030**

**October 18, 2010**

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**Professor Joseph A. Maffia, CPA**

As graduate students we appreciate the opportunity to comment and address particular questions in the proposed standards relating to communication with audit committees. We have reviewed the exposure draft and offer the following comments for consideration by the PCAOB.

### **Overview of Proposed Standard**

We support the Board’s direction in enhancing effective communication between auditors and the audit committees. We also compliment the Board’s consideration for the existing standards issued by the IAASB and the Proposed SAS “terms of engagement” by the ASB.

We believe the proposed standard will enrich and promote further involvement of the audit committee with the engagement of the audit. With respect to the proposed objective and certain requirements, we comment on the following matters:

### **Evaluation of the Adequacy of Two-Way Communications**

#### **The Objective**

*Q2: 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 objectives are clear, concise and well articulated. These objectives allow the audit committee to enrich their oversight responsibilities.

We propose that the last objective be more focused on the outcome of evaluating two-way communications between the auditor and the audit committee. Rather than the objective being focused on the *evaluation* itself, this improvement can be made by adding requirements to focus on *promoting the effectiveness* of the communications.

We suggest the following revision to the objective:

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

The word *promote* is more appropriate as an objective and the word *effective* emphasizes the desired outcome of two-way communications between the audit committee and the auditor.

Methods of promoting effectiveness such as the performance of an evaluation will be further explained by the related standards in paragraphs 26-28 of the proposed standard.

## **Paragraph 26-28**

*Q18: Does the requirement to evaluate the adequacy of the communication process promote effective two-way communications? Is more information on this requirement needed?*

While we agree that the effective two –way communication between the auditor and the audit committee benefits the audit and can strengthen the audit process, we don't believe that the one way evaluation of this communication will benefit the relationship between the auditor and the committee and therefore the success of the audit. The evaluation alone will be insignificant to the quality of the communication since it will be obligatory and has no value added.

For that reason we propose that paragraphs 26-28 be removed from the proposed standard. We believe that ISA 260<sup>1</sup> provides clear guidance on this matter and should be adopted in place of paragraphs 26-28 of the proposed standard.

We believe that the communication should be independent and it can definitely gain from guidance by the Board but not from regulations imposed by the Standard which can make the communication issue even more challenging. This part of the proposed standard – paragraph 26 through 28 – conditions the auditor's action when the communication is not adequate. The specifics of the relationship between auditors and audit committee need to be taken under consideration. Evaluating “your employer” will present an interesting challenge to the auditor and for that reason should be left to the auditor's professional judgment. As well as shift the responsibilities toward the auditor where the communication should actually involve the management – audit committee and the auditor (tree-way communication). Auditor cannot decide if the audit committee is in fact fully informed by the management on the issues or if the understanding of the matters communicated by the auditor is in place. Employing this responsibility solely on the auditor is taking the focus from the actual audit process and put the auditor in odd position to make a judgment without the knowledge of all the facts.

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<sup>1</sup> IAS 260: Adequacy of the Communication Process

22. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action.

## **Obtaining Information Relating to the Audit**

*Q5: 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?*

We believe that it is appropriate. We agree that it complements the Proposed Auditing Standard, *Identifying and Assessing Risks of Material Misstatement*.<sup>2</sup> One thing we suggest is an addition to the proposed statement. Since internal control is also as important as the matters provided in the proposed standards, the audit committee should be aware of the internal control system issues. It will also increase the dialogue between audit committee and the auditor. That can lead to a more effective communication.

We suggest the following revision to the proposed statement:

“The auditor should inquire of the audit committee whether it is aware of matters that may be related to the audit, including **internal control-related issues** and complaints or concerns raised regarding accounting or auditing matters.”

## **Accounting Policies, Practices and Estimates:**

*Q10: Is the definition of critical accounting estimates appropriate for determining which estimates should be communicated to the audit committee?*

The definition calls to demonstrate how management derived critical accounting estimates and their reasons for those decisions. We believe if the auditor is aware of critical estimates being done by management they have a duty to investigate where this logic came from and if it is well supported. The requirement is appropriate, especially when critical accounting estimates have an impact on the financial statements.

We suggest an improvement to definition iii. As follows:

“iii. Any significant changes to assumptions or processes made by management to the critical accounting estimates in the year under audit, a description of the reasons for the changes, the

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<sup>2</sup> Paragraph 51 of Proposed Auditing Standard, *Identifying and Assessing Risk of Material Misstatement*.

effects on the financial statements, and the information that ~~supports or~~ challenges such changes”

We believe “*the information that supports*” is redundant of “description of the reasons for the changes”. A description of the reasons for the changes would tend to include information that **supports** the change in assumptions or processes made by management to the critical accounting estimates. Leaving “challenges” as the last clause places further emphasis on the relevancy of disagreements to the changes of assumptions or processes.

### **Management Consultations with Other Accountants:**

#### **Paragraph 15**

*Q12: Should this requirement be expanded to include consultations on accounting or auditing matters with non-accountants, such as consulting firms or law firms?*

This requirement should be expanded to include consultations on accounting or auditing matters with non-accountants, such as **consulting firms** or **law firms**. These matters can affect the company’s long term stability and/or the actions the company plans to take. It may also suggest the company’s future is in jeopardy or its planned activities may negatively affect their financial statements and investor’s investments. The question is raised if extensive effort would be required to confirm these consultations. The length to which auditors should go about to verify the information obtained should be specified in the proposed standard.

We suggest the following revision to paragraph 15:

“When the auditor is aware that management consulted with other accountants, **consulting firms or law firms** about auditing or accounting matters, the auditor should communicate to the audit committee his or her views about significant matters that were the subject of such consultation”.

### **Corrected and Uncorrected Misstatements:**

*Q14: Are the requirements appropriate regarding the communications for uncorrected misstatements?*

We believe that the requirement is appropriate, especially the schedule of individual misstatements as this will give the committee the greater insight of the affect these misstatements may have.

We, however, don't believe that communication of the bases for immateriality has to be communicated to the committee. This communication would reveal more information than necessary of the auditor's methods of conducting the audit. Therefore, we propose the following part of paragraph 18 be removed from the proposed standard:

**~~“The auditor should communicate to the audit committee the basis for the auditor's determination that the uncorrected misstatements were immaterial, including the qualitative factors considered.”~~**

Furthermore, we believe that the note to paragraph 18 is a requirement; therefore should be elevated to be a part of the paragraph.

*Q15: Should all corrected misstatements including those detected by management be communicated to the audit committee?*

We strongly disagree that corrected misstatements detected by management should be reported to the audit committee. Even if the auditor would be able to determine which entries are corrected misstatements and which ones are end-of-year adjustments, it would still indicate the strength in internal control and as such would not need to be reported to the audit committee.

We propose following change to the paragraph 18:

“The auditor also should communicate those corrected misstatements that ~~might not have been detected except through the auditing procedures performed~~ were detected by the auditor, including the implications such corrected misstatements might have on the financial reporting process.”

### **Timing:**

*Q17: 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?*

We agree with the requirements regarding the timing of the auditor's communication, as we recognized the timely communication with the audit committee as a crucial part of the auditing process.

Information, especially those based on and related to Financial Reports are only useful if presented in the timely manner. Due to the changes in business, economic environment or the

audit committee like change in its members, communication should be executed on an annual basis. The volume of it should depend on the auditor's professional judgment with respect to the significance of the matters and necessary follow up and correction measures.

**Other Communication Requirements:**

**Paragraph 21**

*Q20: Are the matters included as significant difficulties in paragraph 21 of the proposed standard appropriate? What other matters should be included as significant difficulties?*

We believe “**inadequate communications with management**” should be added to paragraph 21 as a significant difficulty. Communication between auditors and management is vital to ensure necessary information related to the audit is obtained and understood. A difficulty is presented when management is often unavailable, busy or do not provide adequate time to communicate with the auditor about certain matters. Any concerns the auditor may have will be unjustified if there is a lack of adequate communication with management.

We suggest the addition of this significant difficulty to be included as follows:

The auditor should communicate any significant difficulties encountered during the audit. Significant difficulties encountered during the audit include:

- a. Significant delays by management or unwillingness by management to provide information needed for the auditor to perform his or her procedures;
- b. An unnecessarily brief time within which to complete the audit;
- c. Extensive, unexpected effort required to obtain sufficient appropriate audit evidence;
- d. Unreasonable restrictions imposed on the auditor by management;
- e. Management's unwillingness to make or extend its assessment of the company's ability to continue as a going concern when requested; and
- f. Inadequate communications with management.**