

PKF PERSPECTIVES

PCAOB Reproposes Auditing Standard: COMMUNICATIONS WITH AUDIT COMMITTEES

You may recall that in April 2010 we published a **PKF Perspectives** dealing with a new auditing standard on communications with audit committees proposed by the Public Company Accounting Oversight Board (PCAOB or the Board). On February 21, 2011, we advised that the adoption of the standard was postponed.

On December 20, 2011, the PCAOB announced that it has repropose for comment the auditing standard *Communications with Audit Committees*. Comments are due by February 29, 2012.

The proposed standard would supercede PCAOB interim standard AU sec. 380, *Communication with Audit Committees*, and AU sec. 310, *Appointment of the Independent Auditor*, and amend other PCAOB standards. Any new auditing standard and amendments to other standards adopted by the PCAOB will be submitted to the Securities and Exchange Commission (SEC or Commission) for approval.

Reasons for Reproposing

The original proposed standard was revised in response to comments received. In addition, subsequent to the original proposal, the Board adopted eight standards (the "risk assessment standards"), approved by the Commission on December 23, 2010, which include the following:

- ◆ AS 8, Audit Risk
- ◆ AS 9, Audit Planning
- ◆ AS 10, Supervision of the Audit Engagement
- ◆ AS 11, Consideration of Materiality in Planning and Performing an Audit
- ◆ AS 12, Identifying and Assessing Risks of Material Misstatement
- ◆ AS 13, The Auditor's Responses to the Risks of Material Misstatement
- ◆ AS 14, Evaluating Audit Results
- ◆ AS 15, Audit Evidence

These standards are effective for audits of fiscal years beginning on or after December 15, 2010.

The full text of these risk assessment standards can be found at:

<http://pcaobus.org/Standards/Auditing/Pages/default.aspx>

The revised repropose PCAOB standard aligns the audit communication requirements with the auditor performance requirements included in the risk assessment standards.

Furthermore, in July 2010, the Board was granted oversight of the audits of brokers and dealers registered with the SEC. Therefore, repropose the *Communications with Audit Committees* standard provides brokers and dealers, their auditors and their board members with an opportunity to comment.

New Proposed Standard

The new proposed standard adds a requirement for the auditor to communicate to the audit committee significant, unusual transactions that are outside the normal course of business for the company or that otherwise appear to be unusual and to communicate the auditor's understanding of the business rationale for such transactions.

The new proposed standard does not impose new performance requirements other than communications; rather, it improves and enhances current auditor communication requirements. Some of the communication requirements for the auditor with the audit committee include, but are not limited to, the following:

- Establish an understanding of the terms of the audit engagement, record the terms of the engagement in an engagement letter, and have the engagement letter signed by the appropriate party(ies) on behalf of the company, and determine that the audit committee acknowledged and agreed to the terms.
- Make inquiries of the audit committee regarding matters relevant to the audit, including, but not limited to, knowledge of violations or possible

violations of laws or regulations and complaints or concerns raised relative to financial reporting matters.

- Communicate an overview of the overall audit strategy, including significant risks the auditors identified, and update them on significant changes to the planned audit strategy or identified risks.
- Communicate information about other independent public accounting firms or persons not employed by the auditor who are involved in the audit, if applicable.
- Communicate the basis for the auditor's determination that he/she can serve as principal auditor if significant parts of the audit will be performed by other auditors.
- Communicate difficult or contentious matters for which the auditor consulted outside the engagement team.
- Communicate views regarding significant accounting or auditing matters when the auditor is aware that management consulted with other accountants about such matters and the auditor has identified a concern regarding these matters.
- Communicate the auditor's evaluation of going concern, if applicable.
- Communicate those situations in which the auditor concludes that a departure from the standard auditor's report is necessary.
- Communicate complaints or concerns regarding accounting or auditing matters that have come to the auditor's attention during the audit.
- Communicate other matters arising from the audit that are significant to the oversight of the company's financial reporting process.

Auditor communications with the audit committee should take place before the issuance of the audit report.

The full text of the PCAOB's repropoed auditing standard, *Communications with Audit Committees*, can be found at:

<http://pcaobus.org/Rules/Rulemaking/Pages/Docket030.aspx>

Audit Committee Considerations

The Audit Committee Institute recently issued "Ten To-Do's for Audit Committees in 2012" advising members of audit committees to:

- Stay focused on the audit committee's top priority: **financial reporting and related internal control risk**.
- Continue to monitor accounting judgments and estimates and prepare for accounting changes.
- Consider whether the financial statements and disclosures tell the company's story.
- Focus on the company's plans to grow and innovate.
- Reassess the company's vulnerability to business interruption and its crisis readiness.
- Understand how technology changes and innovation are transforming the business landscape – and impacting the company.
- Focus on asymmetric information risk and seek out dissenting views.
- Consider the impact of the regulatory environment on compliance programs and business plans.
- Understand the company's significant tax risks and how they are being managed and modeled.
- Monitor the PCAOB's initiatives on auditor independence and transparency and consider the implications for the audit committee.

Items in this publication should not be considered official statements of position, nor advice for individuals or organizations without consulting a professional advisor. This information is not intended to be, nor can it be, used by any taxpayer for the purpose of avoiding tax penalties. For more information, please contact Theo Vermaak, PKF's Director of Accounting & Auditing, or the partner in charge of your account.

PKF LLP

Certified Public Accountants

29 Broadway + New York, NY 10006

Telephone: (212) 867-8000 + Telefax: (212) 687-4346

www.pkfnewyork.com + E-mail: info@pkfny.com

December 2011