



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

15 February 2012

Ref.: AUD/PRJ/HBL/LAN/SHA

Dear Sir or Madam,

Re: FEE Comments on PCAOB Rulemaking Docket Matter No. 030 on Proposed Auditing Standard related to Communications with Audit Committees, Related Amendments to PCAOB Standards and Transitional Amendments to AU Sec. 380

FEE (the Federation of European Accountants) is pleased to provide you with its comments on the PCAOB Rulemaking Docket Matter No. 030 on Proposed Auditing Standard related to Communications with Audit Committees, Related Amendments to PCAOB Standards and Transitional Amendments to AU Sec. 380.

FEE commends the PCAOB for giving its stakeholders the opportunity to consider the new proposed requirements in relation to auditor's communication with audit committees. As mentioned in relation to the first exposure of this PCAOB standard, FEE welcomes the initiative to set a standard for auditors' communication with audit committees. A fruitful two-way dialogue with the entity's audit committee is an important part of the work of an auditor of public interest entities, and any initiative to strengthen this cooperation is beneficial to both parties. The re-exposed standard introduces enhancements that better enable the audit committee to carry out its monitoring role based on the information received from the auditor.

As the PCAOB may already be aware of, current discussions in Europe also focus on strengthening the role of audit committees. As part of this objective, it is proposed to enhance the communication between the auditor and the audit committee by introducing an additional internal report that the statutory auditor is to submit to the audit committee¹. The content of this report focuses on the audit and the uncertainties discovered by the auditor, as well as other matters. As audit committees of multinational companies may also be multinational, FEE encourages the PCAOB to work closely with its counterparts in other jurisdictions, for instance the European Commission as well as the IAASB, who are also considering this area.

The PCAOB appears to be updating its various auditing standards at different pace and on different topics. In order to get a coherent set of standards, the PCAOB is encouraged to develop an overall strategy for its standard setting activities. Such a strategy would allow auditors and other stakeholders to contribute to the prioritisation of these activities. Furthermore, it will facilitate consistency between the different standards.

¹ European Commission proposal for regulation on audit of public interest entities, article 23
http://ec.europa.eu/internal_market/auditing/docs/reform/regulation_en.pdf

Our general comments on the issues raised in the PCAOB proposed standard that are relevant from a European or international perspective are set out below and can be summarised as follows:

1. A number of the previous concerns expressed by FEE have been acknowledged and addressed as suggested. With certain exceptions, which are discussed below, we support the changes to the standard now proposed.
2. In general, FEE believes that alignment in auditing standards worldwide, to the maximum degree possible, is beneficial for capital market participants with cross-border interests and global activities. The new proposed standard introduces a closer alignment with the equivalent ISAs issued by the IAASB, for instance in relation to the emphasis on two-way communication. However, FEE remains of the view that an even closer alignment could further enhance the communication between the two parties.
3. Although the new proposed standard introduces improvements compared to the first exposure draft, FEE believes that further improvements can be introduced in the following areas:
 - a. The adequacy of the two-way communication should be included in the objective to the standard as proposed in the original exposure draft. This will even further foster the need for the auditor to ensure that there is effective two-way communication.
 - b. Information about the entity regarding accounting policies and estimates should be provided by the company itself and not by the auditor. The reporting responsibilities in paragraph 12 will lead to descriptive boilerplate information that will be duplicative of information already submitted by management. Removing paragraph 12 from the requirements will make the information submitted to the audit committee more concise and efficient.
 - c. The information required in paragraph 13 should be reported to the audit committee where relevant so that it can help them discharge their monitoring responsibilities. However, it could be reduced in length, as it still appears prescriptive. Instead, more flexibility in the information to be reported would be beneficial to the audit committee.

International alignment – Question 1

International alignment of auditing standards enhances the quality of audits based on globally accepted auditing standards at national level, including the acceptance of audit reports beyond home jurisdictions. In addition, aligning requirements worldwide regarding communication with audit committees facilitates the participation of non-national members in audit committees which is a corporate governance consideration that multinational companies face. In this context, FEE welcomes the comparison between the proposed standard and the ISAs included in Appendix 5. Currently, this appendix is mainly descriptive with references to the requirements in each set of standards. Appendix 5 could benefit from having specific explanations of differences as well as arguments from the PCAOB for retaining the differences. This would facilitate the application of the PCAOB audit standards by auditors of multinational companies that normally operate in an ISA environment. FEE would encourage the PCAOB to publish Appendix 5 together with the final standard, including the relevant amendments.

The use of professional judgement in audits is indispensable. It enables the auditor to make informed decisions about the appropriate course of action during the audit. The requirements related to the communication with audit committees in the proposed standard continue to appear prescriptive and rules-based, although some flexibility has been introduced. Therefore, the risk of limiting the auditor's ability to exercise professional judgement in deciding on the most appropriate and efficient way of communicating with the audit committee remains to exist.

Although the proposed standard remains essentially rules- rather than principles-based, quite a lot of guidance and explanation relating to the application of particular requirements is provided in material accompanying the draft standard (in particular in Appendix 4). In many instances, such guidance would be helpful if included in the standard itself in order to ensure consistent application of the standard. Examples include:

- a. The definition of the audit committee which is adapted from the original standard (page A4-1-2). This would facilitate comparisons with the term “audit committee” in non-US jurisdictions.
- b. Guidance regarding the timing of required communications (page A4-10).
- c. The form and documentation of communications and the timing thereof (page A4-42- 44).

Appendix 4 is quite extensive and could benefit from having more concise conclusions that clearly set out the reasons for the decision to amend a specific provision. With these amendments to Appendix 4, FEE recommends that it is published as a “Basis for Conclusions”. Such Basis for Conclusions is found very useful in practice which is also recognised by other standard setters, such as the IASB and the IAASB.

Two-way communication – Question 2

One of the main comments made by FEE in response to the original 2010 exposure draft, focused on the need for clear two-way communication consistent with the approach set out in ISA 260². This approach is generally preferable as it highlights the clear need for effective cooperation with the audit committee in order for the auditor to deliver high quality work. This is further emphasised in the recent proposals from the European Commission which also aim to strengthen two-way communication between the two parties.

FEE acknowledges and fully supports the addition of a new subset to the proposed objective in paragraph 3 b to “*Obtain information from the audit committee relevant to the audit*” as well as additional references in the Introduction to two-way communication throughout the audit instead of merely at the end of the audit.

However, the requirements of the standard could still be made clearer toward helping the auditor to achieve this aspect of the objective, for instance in relation to:

- a. The use of the phrase “communicate to the audit committee” throughout the standard leads to interpreting it as one-way communication. Although the auditor is to communicate to in some cases (for instance in paragraph 9 regarding the audit strategy), we find it more appropriate to use “communicate with the audit committee” in the instances where a two-way discussion is desired. Therefore, to use the example of paragraph 9, the submission of the information regarding the audit strategy ought to lead to an open and frank two-way discussion at an early stage of the audit. For instance, communication about significant risks identified by the audit committee will lead to a more effective performance of the audit.
- b. The standard concentrates on matters that the auditor is to communicate (one-way) to the audit committee. For instance, paragraph 8 requires the auditor to inquire of the audit committee whether it is aware of matters that might be relevant to the audit in relation to two specific areas (violations of laws or regulations and complaints or concerns regarding financial reporting matters). The reference to certain other matters in section V and VI of Appendix 4 of

² ISA 260 Communication with Those Charged with Governance

the Release (which is comparable to ISA 260 paragraph 4(b)) does take note of other areas and these other examples would be equally useful within the text of (or in the footnote to) the standard.

- c. The objective in the original proposal in paragraph 3(d) included the evaluation of the adequacy of the two-way communication, accompanied by requirements in paragraphs 26-28.

This particular point is not taken forward in the re-exposed standard as the PCAOB considers it duplicative of requirements in other PCAOB standards. Although this may be the case, FEE believes that the requirement to carry out such evaluation of the adequacy of the communication is an essential part of the quality review of the two-way communication from the viewpoint of the auditor. Furthermore, this difference is currently not highlighted in Appendix 5 which FEE believes it should have been as it is a substantive difference between the ISAs and the PCAOB standard.

In summary, FEE does not support the proposed deletion, as the auditor should make an assessment of whether improvements to the communication can be introduced to enhance the effectiveness of the audit.

Disclosures of composition of engagement team and experts – Question 2

The requirement in paragraph 9 of the standard to disclose details of the composition of the engagement team and others participating in the audit has been expanded compared to the original proposal. FEE believes that such information could be relevant to disclose to the audit committee, although the appropriate balance between useful information and boilerplate disclosures needs to be found. However, as mentioned in our response to the PCAOB Release no. 2011-007³, FEE did not support proposals for the auditor to disclose such detailed information in the audit report.

Therefore, FEE supports the proposal in paragraph 9 (d), but would recommend that the scope for disclosure is reduced to only significant work performed by another external auditor or a person involved in the audit, and is not supplemented by details, such as the percentage of hours. Furthermore, clarification of how the requirement relates to the definition of engagement team is needed to ensure that the disclosures are consistent from one company to another.

Communication regarding significant and critical accounting matters – Question 5

FEE appreciates that the extent of the information to be reported to the audit committee has been reduced compared to the original proposal, as this introduces some flexibility and allows the auditor to use professional judgement in assessing the relevant information to be provided.

However, FEE remains of the view that information about the entity regarding accounting policies and estimates should be provided by the company itself and not by the auditor. The reporting responsibilities in paragraph 12 will lead to descriptive boilerplate information that will be duplicative of information already submitted by management. Therefore, removing paragraph 12 from the requirements will make the information submitted to the audit committee more concise and relevant. This will be beneficial to the monitoring task of the audit committee.

³ PCAOB Release no. 2011-007 on “Improving Transparency of Audits”, FEE Comment Letter, 7 December 2011

The information required in paragraph 13 regarding the assessments made by the auditor is the useful part for the audit committee in the discharge of its monitoring responsibilities. However, it could be reduced in length, as it still appears prescriptive. Instead, more flexibility in the reporting will be beneficial to the auditors and to the audit committee.

The PCAOB is proposing to use the term "*could be substantial doubt...*" in paragraph 17a in relation to going concern evaluations. In contrast, section 10A of the US Securities Exchange Act requires the auditor to perform "... *an evaluation of whether there is substantial doubt about the ability of the issuer to continue as a going concern...*" The proposed PCAOB wording might set a too low threshold. In this context, we suggest the SEC term of "...*is substantial doubt...*" is used, or alternatively, that further clarification of what "*could*" is intended to mean is included.

For further information on this FEE⁴ letter, please contact Lotte Andersen at +32 2 285 40 80 or via email at lotte.andersen@fee.be from the FEE Secretariat.

Yours sincerely,



Philip Johnson
President

⁴ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

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