SUBJECT

PCAOB REPROPOSES AUDITING STANDARD ON COMMUNICATIONS WITH AUDIT COMMITTEES (AU 380)

SUMMARY

On December 20, 2011, the PCAOB reproposed its standard on auditors’ communications with audit committees that would supersede PCAOB AU 380. The PCAOB originally proposed to amend AU 380 in March 2010 to establish requirements intended to enhance the relevance and quality of the communications between the auditor and the audit committee. The reproposed standard has been issued to respond to comments received through the comment letter process and the public roundtable held in 2010. In addition, the reproposed standard aligns with the communication requirements set out in other PCAOB standards, including the PCAOB risk assessment standards (Auditing Standard Nos. 8-15) that became effective in December 2010. Further, as a result of the Dodd-Frank Act of 2010, the PCAOB has expanded authority over SEC-registered brokers and dealers and the new proposal now provides these brokers and dealers an opportunity to comment.

The new proposed standard is intended to improve current requirements regarding auditor communications by linking these to the related performance requirements in other auditing standards, and thus does not otherwise impose new performance requirements other than communications.

Some of the more significant proposed requirements to improve and enhance current required communications within AU 380 include:

- Requiring communication of significant unusual transactions and the auditor's understanding of the business rationale for such transactions; and
- Requiring communication of the auditor’s evaluation of going concern, if applicable.
Other enhancements to current auditor communication requirements within the proposal include:

- Requiring the auditor to establish an understanding of the terms of the engagement with the audit committee, include those terms within the engagement letter, and determine that the audit committee has acknowledged and agreed to the terms;
- Enhancing inquiries regarding matters relevant to the audit, including, but not limited to, knowledge of violations or possible violations of laws and regulations and complaints or concerns raised regarding financial reporting matters;
- Providing an overview of the overall audit strategy, including the significant risks the auditor identified, and updating the audit committee regarding significant changes to the planned audit strategy or identified risks;
- Providing information about other independent public accounting firms or persons not employed by the auditor that are involved in the audit, if applicable;
- Establishing a basis for the auditor’s determination that he or she can serve as principal auditor, if significant parts of the audit will be performed by other auditors;
- Enhancing communication about the company’s accounting policies, practices, and estimates by aligning the communication requirements with the auditor’s performance requirements;
- Requiring communication about difficult or contentious matters for which the auditor consulted outside the engagement team;
- Enhancing communication about the auditor’s evaluation of the quality of the company’s financial reporting by aligning the communication requirements with the risk assessment standards, and incorporating certain SEC communication requirements;
- Enhancing communications of the auditor’s 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;
- Requiring communication of those situations in which the auditor concludes that a departure from the standard auditor’s report is necessary;
- Requiring communication of complaints or concerns regarding accounting or auditing matters that have come to the auditor’s attention during the audit;
- Requiring communication of other matters arising from the audit that are significant to the oversight of the company’s financial reporting process; and
- Requiring communications to occur before the issuance of the audit report.

The reproposed standard removes the previously proposed requirement that the auditor evaluate the two-way communication between him/herself and the audit committee. It also removes the original proposal to communicate how management subsequently monitors critical accounting estimates, and if estimates involve a range, how various selections within the range would affect the company’s financial statements. The reproposed standard also streamlines the process for communicating critical accounting estimates.

Specific matters to be communicated by the auditor, as set out in other PCAOB rules and standards, may be found in Appendix B to the reproposed standard. While the new proposed standard establishes certain requirements regarding auditor communications to the audit committee, the new proposed standard does not preclude the auditor from providing additional information to the audit committee, nor does the new proposed standard preclude the audit committee from requesting additional information from the auditor.

The new proposed standard and related amendments are anticipated to be effective, subject to SEC approval, for audits of fiscal years beginning on or after December 15, 2012. Comments on this reproposal are due February 29, 2012.

To access the PCAOB’s reproposed standard, along with supplemental materials, refer to:

Material discussed in this report is meant to provide general information and should not be acted on without professional advice tailored to your firm’s individual needs.

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