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United States Government Accountability Office
Washington, DC 20548

February 29, 2012

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Subject: PCAOB Rulemaking Docket Matter No. 030: PCAOB Release No. 2011-008: *Proposed Auditing Standard Related to Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU Section 380*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Public Company Accounting Oversight Board's (PCAOB) re-proposed auditing standards on auditor communications with the audit committee. Our comments will build upon those already transmitted to the PCAOB in our May 28, 2010 letter relating to PCAOB Release No. 2010-001: *Proposed Auditing Standards Related to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards.*

We appreciate the PCAOB's efforts to update its auditing standard on auditor communications with audit committees and agree that effective two-way communication between the auditor and the audit committee benefits the auditor in performing an effective audit. Similarly, we believe that well informed, proactive audit committees are necessary to protect the interests of investors, financial statement users, and other interested parties.

However, we do have concerns about the appropriateness of the auditor being primarily responsible for communicating to the audit committee significant unusual transactions and the business rationale for such transactions as discussed in paragraph 14 of the proposed standard. It is management's responsibility to communicate these matters to those charged with governance. Accordingly, the requirement to communicate significant unusual transactions in paragraph 14 of the proposed standard should include the following note similar to that following paragraph 12:

Note: As part of its communications to the audit committee, management might communicate some or all of the matters related to the company's accounting policies, practices, and estimates in paragraph 12. If

management communicates any of these matters, the auditor does not need to communicate them at the same level of detail as management, as long as the auditor (1) participated in management's discussion with the audit committee, (2) affirmatively confirmed to the audit committee that management has adequately communicated these matters, and (3) identified for the audit committee those accounting policies and practices that the auditor considers critical. The auditor should communicate any omitted or inadequately described matters to the audit committee.

We believe adding this note to paragraph 14 will enable the auditor and the audit committee to engage in a dialogue on the most important issues and is more likely to benefit the audit committee in conducting its role in protecting the interests of investors and the auditor in conducting an effective audit.

We caution that, absent the addition of such a note, requiring the auditor to perform an activity that is inherently a management responsibility or is outside the context of the audit may impair the auditor's independence. *Government Auditing Standards*¹ states that reporting to those charged with governance on behalf of management is an example of an activity that is considered a management responsibility if performed for an audited entity. Consequently, a requirement for the auditor to be primarily responsible for reporting significant unusual transactions to those charged with governance, including the audit committee, may constitute a management participation threat that impairs the independence of the auditor. If the auditor identifies significant unusual transactions that have not been previously disclosed to the audit committee by management, then the auditor, based on their professional judgment and in accordance with current auditing standards, may communicate these significant unusual transactions to those charged with governance.

We thank you for considering our comments on this important issue which will provide auditors valuable guidance for enhancing the substance of their communications with audit committees.

Sincerely yours,



James R. Dalkin
Director
Financial Management and Assurance

¹ GAO *Government Auditing Standards, December 2011 Revision (GAO-12-331G)*
Washington, D.C.: December 2011 (3.36)