

MEMO# 22468

April 29, 2008

PCAOB Adopts Rule Requiring Auditor Communications with Audit Committees Regarding Independence

[22468]

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TO: ACCOUNTING/TREASURERS MEMBERS No. 9-08
AUDIT COMMITTEE CHAIRS INDEPENDENT DIRECTORS COUNCIL No. 1-08 RE: PCAOB
ADOPTS RULE REQUIRING AUDITOR COMMUNICATIONS WITH AUDIT COMMITTEES
REGARDING INDEPENDENCE

The Public Company Accounting Oversight Board recently adopted Rule 3526, Communications with Audit Committees Concerning Independence. [\[1\]](#) Rule 3526 will require audit firms, before accepting an initial engagement, to describe in writing to the audit committee all relationships between the firm or any of its affiliates and the issuer or persons in a financial reporting oversight role at the issuer that may reasonably be thought to bear on the audit firm's independence. Audit firms will also be required to discuss with the audit committee the potential effects of any such relationships on the firm's independence. Rule 3526 will require audit firms to make a similar communication annually for continuing engagements. Under the rule, audit firms will be required to document the substance of their discussions with the audit committee of the issuer.

Rule 3526, if approved by the SEC, will supersede Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees ("ISB No. 1"). Rule 3526 is similar to ISB No. 1 in many respects. Rule 3526, however, requires the audit firm to provide information to the audit committee about the firm's independence in connection with becoming the issuer's auditor (i.e., before the firm becomes the issuer's auditor). According to the Release, the Board proposed Rule 3526 because it believed that the audit firm should discuss with the audit committee before accepting an initial engagement any

relationships the firm has with the issuer that may reasonably be thought to bear on its independence.

The Board also adopted amendments to Rule 3523 relating to tax services provided to persons in a financial reporting oversight role. The amendment excludes from the scope of the rule tax services provided during the portion of the audit period that precedes the beginning of the professional engagement period. As originally adopted by the Board, the rule provided that an audit firm is not independent if it provides any tax services to a person in a financial reporting oversight role or an immediate family member of such person during the audit and professional engagement period. The amendments to Rule 3523 recognize that providing tax services to such a person during the portion of the audit period preceding the beginning of the professional engagement period does not necessarily impede the audit firm's independence. The amendments to Rule 3523 should provide issuers with additional flexibility in changing auditors.

Rule 3526, if approved by the SEC, will become effective on the later of September 30, 2008, or 30 days after SEC approval. The amendment to Rule 3523 will become effective immediately if approved by the SEC.

Gregory M. Smith
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endnotes

[1] See PCAOB Release No. 2008-003 (April 22, 2008). The Release is available on the PCAOB's website
http://www.pcaobus.org/rules/docket_017/2008-04-22_release_2008-003.pdf.

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