

**MEMO# 26401**

August 20, 2012

## **PCAOB Adopts Auditing Standard Addressing Auditor Communications With Audit Committees**

[26401]

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TO: ACCOUNTING/TREASURERS MEMBERS No. 12-12

DIRECTORS ISSUES

INTERNAL AUDIT ADVISORY COMMITTEE No. 3-12 RE: PCAOB ADOPTS AUDITING STANDARD ADDRESSING AUDITOR COMMUNICATIONS WITH AUDIT COMMITTEES

The Public Company Accounting Oversight Board recently adopted a new auditing standard intended to enhance the relevance and timeliness of communications between the auditor and the audit committee, and to foster constructive dialogue on significant audit and financial statement matters. [\[1\]](#) AS No. 16 supersedes existing audit standards on appointment of the independent auditor and communications with audit committees, and will be effective for public company audits for periods beginning after December 15, 2012, subject to approval by the SEC.

The recently adopted standard provides a definition of audit committee, retains or enhances existing communication requirements, incorporates certain SEC auditor communication requirements, and adds new communication requirements that are generally linked to performance requirements in other PCAOB standards. AS No. 16 enhances certain existing auditor communication requirements by requiring the auditor to communicate:

- Certain matters regarding the company's accounting policies, practices, and estimates;
- The auditor's evaluation of the quality of the company's financial reporting;
- Information related to significant unusual transactions, including the business rationale for such transactions; and
- 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.

AS No. 16 adds new communication requirements that provide the audit committee with additional information about significant aspects of the audit. These communications are

generally linked to the results of audit procedures. Under AS No. 16 the auditor is required to communicate:

- An overview of the overall audit strategy, including timing of the audit, significant risks the auditor identified, and significant changes to the planned audit strategy or identified risks;
- Information about the nature and extent of specialized skill or knowledge needed in the audit, the extent of the planned use of internal auditors, company personnel or other third parties, and other independent accounting firms, or other persons employed by the auditor that are involved with the audit;
- The basis for the auditor's determination that he or she can serve as the principal auditor, if significant parts of the audit will be performed by other auditors;
- Situations in which the auditor identified a concern regarding management's anticipated application of accounting pronouncements that have been issued but are not yet effective and might have a significant effect on future financial reporting;
- Difficult or contentious matters for which the auditor consulted outside the engagement team;
- The auditor's evaluation of going concern;
- Departure from the auditor's standard report; and
- Other matters arising from the audit that are significant to the oversight of the company's financial reporting process, including complaints or concerns regarding accounting or auditing matters that have come to the auditor's attention during the audit.

AS No. 16 sets the minimum level of required communication and does not preclude the audit committee from requesting, or the auditor from providing, additional information.

## Investment Companies

AS No. 16 requires communications to be made to the audit committee in a timely manner and before the audit report is issued. The change in the timing of communications is intended to enable the audit committee and auditor to take appropriate action to address the matters communicated prior to the issuance of the audit report. AS No. 16, however, provides an exception for registered investment companies that tracks the exception provided in the SEC's rule related to communications with audit committees. Consistent with Rule 2-07 of SEC Regulation S-X, investment company audit committee communications must take place annually. If the annual communication is not within 90 days prior to the filing, the auditor should provide an update in the 90-day period prior to the filing, of any changes to the previously reported information.

Gregory M. Smith  
Senior Director of Fund Accounting and Compliance

### endnotes

[1] PCAOB Release No. 2012-004, Auditing Standard No. 16 – Communications with Audit Committees ("AS No. 16") [August 15, 2012] is available at [www.pcaobus.org](http://www.pcaobus.org).

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