

Attachment A

The Institute of Internal Auditors Response to the PCAOB Proposed Auditing Standard Related To Communications With Audit Committees And Related Amendments

A. Objectives of the Auditor

1. Are the objectives of the auditor in the proposed standard appropriate?

Except as noted below, we agree with objectives (a) - (c). For objective (d), we see the need for the auditor and the audit committee to assess the adequacy of two-way communication throughout the audit to ensure a productive and professional relationship that meets the objectives and responsibilities of both parties.

The auditor should provide sufficient information to the audit committee to allow the committee to fulfill its responsibility of overseeing the work of the auditor and evaluating the auditor's effectiveness. This objective should be added to the Standard and consideration given to identifying specific information requirements. At a minimum, the Standard should require the auditor to discuss with the audit committee the level, frequency, and timing of the information that will be provided. Please see our response to Question 18 for additional comments.

See below for additional suggestions.

If not, why? Should other matters be included in the objectives?

In addition to the above, consider revising objective (b) as follows: "(b) communicating to the audit committee an overview of the audit scope, strategy, and timing of the audit, including a description of the process and the results of the auditor's risk assessment process."

2. Are the objectives adequately articulated? Should the articulation of the objectives focus on the outcome that should be achieved by performing the required procedures?

Yes

B. Establish a Mutual Understanding of the Terms of the Audit

3. Is it appropriate for the proposed standard to require that an engagement letter be prepared annually? If not, why?

Yes - In addition, the Standard should address the timing of the engagement letter.

4. Are there other matters that would enhance investor protection that should be added to an engagement letter? If so, what other matters should be included in an engagement letter?

The engagement letter should address the responsibilities of the auditor and audit committee in support of two-way communication.

Additional engagement letter considerations should include:

- **The use of a global audit team, including its use of other firms, affiliated firms, and relationships with and among those parties, including whether they are subject to quality control procedures performed by the auditor.**
- **The firm's planned use of internal subject matter experts, outside of the members of the audit team, and the focus areas of these experts.**
- **Clear description of fee arrangements. (Comment – please review this suggestion together with our response to question 6 below.)**

C. Obtaining Information Related to the Audit

5. Is the proposed requirement to inquire of the audit committee appropriate?

Yes

What other specific inquiries, if any, should the proposed standard include for the auditor to make of the audit committee?

The auditor should ask the audit committee about the independence and objectivity of the internal audit function, the adequacy of internal audit resources, the frequency and quality of the committee's communications with internal audit, and the quality and significance of the internal audit function's observations about internal controls and financial reporting.

D. Overview of the Audit Strategy and Timing of the Audit

6. Are the requirements to provide information on the auditor's audit strategy and timing of the audit appropriate? Does the auditor need more guidance related to the requirement to provide information on the auditor's audit strategy? If so, what type of guidance would be helpful?

The extent of "planned use" of an organization's internal auditors should be consistent with previously accepted agreements and the audit fee. The proposed standard implies the auditor can use the organization's internal audit staff without limit and without regard to other chartered or mandated

responsibilities, the previously approved audit plan, or other organization responsibilities. This planned use of internal audit staff should have been previously discussed and agreed upon with the Chief Audit Executive. There should be more focus in the Standard on the external auditors' use of the internal auditors' work and that cooperative and coordinated relationship.

The auditor's strategy should include the approach to risk assessment and evaluation of the control environment.

7. Is it sufficiently clear which types of arrangements should be communicated to the audit committee related to the roles, responsibilities, and locations of firms participating in the audit?

Communicate the process for informing the audit committee when there are changes in key personnel and the potential impact on the quality of the audit.

Explain how the quality of the extended audit firm (including any global teams) will be managed. Specifically,

- **Paragraph 10d of the proposed standard should be expanded to require communication of the percentage of the reporting entity's assets/revenues/risk areas that is audited by other firms, affiliates, or global offices of the firm.**
- **Paragraph 10e should include steps taken by the auditor to manage the quality of the work done by other firms, affiliates, or other offices of the firm.**

E. Accounting Policies, Practices, and Estimates

8. Are the proposed requirements regarding the auditor's communication responsibilities with respect to accounting policies and practices sufficiently clear in the proposed standard (e.g., the difference between a critical accounting policy and a significant accounting policy or practice adequately described)?

The auditor should inform the audit committee of alternative GAAP accounting policies or practices that, if followed, could result in improved transparency and accountability in financial statement reporting. This communication may be helpful even though the accounting policy or practice currently followed complies with GAAP.

The discussion of policies, practices and estimates should be the responsibility of management. The auditor's primary role should be as summarized in the note at the bottom of paragraph 12 in the exposure draft.

9. Is it helpful to include in the proposed standard the audit committee communications required by the SEC relating to accounting matters?

Yes - as a reference, but not to replicate.

10. Is the definition of critical accounting estimates appropriate for determining which estimates should be communicated to the audit committee?

Yes

11. Are the communication requirements regarding critical accounting estimates appropriate? If not, how should the proposed standard be modified to provide appropriate information to the audit committee?

Yes

Please see Question 9 - these should be responsibilities of management; the auditor's responsibility should be to comment on the adequacy of the communications between management and the audit committee.

F. Management Consultations with Other Accountants

12. Should this requirement be expanded to include consultations on accounting or auditing matters with non-accountants, such as consulting firms or law firms?

Yes

G. Going Concern

13. Is the communication requirement on going concern clear? If not, how could the requirement be clarified?

Yes

H. Corrected and Uncorrected Misstatements

14. Are the requirements appropriate regarding the communications for uncorrected misstatements?

Yes - however consistent with item 9 above, these should be responsibilities of management; the auditor's responsibility should be to comment on the adequacy of the communications between management and the audit committee. Additionally, significant deficiencies and material weaknesses should be discussed.

15. Should all corrected misstatements including those detected by management be communicated to the audit committee?

Yes - for auditor identified mistakes. Misstatements detected by management should be reported only when they related to a failure in internal controls significant to the preparation of the financial statements.

I. Other Matters

We have no comments.

J. Form and Content of Communications

16. Like the existing standard, the proposed standard would allow the auditor to communicate many matters orally or in writing. Should the standard require that all or certain matters be communicated to the audit committee in writing? If only certain matters should be communicated to the audit committee in writing, what are those matters?

Except for matters clearly considered inconsequential, important matters supporting the achievement of the overall objectives of the audit and the objectives of the auditor as previously described should be communicated to the audit committee in writing. This will provide a record and avoid later disputes, confusion, and misunderstanding about what was said.

Paragraph 23 of the proposed standard indicates auditor communication should be in sufficient detail to enable "an experienced auditor" to understand the communication. This sentence should be changed to "auditor communication should be in sufficient detail to enable reasonably competent audit committee members to understand the communication made to comply with the provisions of the standard." As an alternative to the above, "auditor communication should be in sufficient detail to enable financially literate audit committee members to understand the communication." Ideally, all audit committee members should understand auditor communication and that should be the communication objective of the auditor. The purpose of auditor communication with the audit committee is not so experienced auditors understand the communication.

K. Timing

17. Are the requirements in the proposed standard on the timing of the auditor's communications appropriate?

Yes - see question 4 relating to the timing of when the engagement letter should be delivered.

Should only certain matters be communicated annually? If so, which ones?

No additional comments.

L. Adequacy of the Two-way Communication Process

18. Does the requirement to evaluate the adequacy of the communication process promote effective two-way communications? Is more information on this requirement needed?

Paragraphs 26 - 28 seem to focus on the auditor "evaluating" the two-way communications at the end of the engagement and prior to issuance of the report. Suggest the paragraph be amended to: "The auditor should communicate with the audit committee throughout the audit to promote two-way communications and enable both parties to fulfill their responsibilities, including the audit committee's oversight of the auditor." (Comment - this Standard places the auditor in a difficult position as the audit committee selects the auditor, they negotiate the audit fee, and they provide oversight of the auditor's work. The independence of the auditor to make an objective and impartial assessment of the audit committee is problematic.)

M. Other Communication Requirements

19. Are these other communication requirements appropriate and sufficiently clear? What other communication requirements should the proposed standard include, if any?

Paragraph 20 of the proposed standard does not adequately explain what "matters" means. Examples or more descriptive discussion should be added.

20. Are the matters included as significant difficulties in paragraph 21 of the proposed standard appropriate? What other matters should be included as significant difficulties?

Paragraph 21.b. identifies "An unnecessary brief time within which to complete the audit;" as an impediment imposed by management. Should management attempt to impose such requirement, the auditor should report this communication to the audit committee for its review and direction.

An additional bullet should be added stating "Other factors indicating a severe weakening in internal control."

21. Are any of the requirements included in the proposed standard inappropriate for auditors to communicate to audit committees based on the size or industry of the company under audit?

No additional comments

N. Appendices

22. Is the information included in Appendices A - C to the proposed standard sufficiently clear? Should the appendices include other matters, e.g., should other items be included in an audit engagement letter?

Yes