



SOCIETY OF CORPORATE SECRETARIES & GOVERNANCE PROFESSIONALS

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June 1, 2010

Office of the Secretary

Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: Proposed Auditing Standard Related to Communications with Audit Committees
Rulemaking Docket Matter No. 030

Ladies and Gentlemen:

We are pleased to have the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Release No. 2010-001 "Proposed Auditing Standard Related to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards" (the "Proposing Release"). By way of background, the Society of Corporate Secretaries & Governance Professionals (formerly The American Society of Corporate Secretaries) ("we" or the "Society") is a professional association, founded in 1946, with over 3,100 members who serve more than 2,000 issuers. Our members are generally responsible for their companies' compliance with the securities laws and regulation, corporate law and stock exchange listing requirements. The majority of Society members are attorneys, although our members also include accountants and other non-attorney governance professionals.

General Comment

The Society supports the Board's efforts to strengthen communications between audit committee members and auditors. We believe that most of the new requirements are appropriate and will help improve the information available to the audit committee. We also believe that many of the requirements are already reflected in the best practices of audit firms and public companies. However, we do want to take this opportunity to express some of our concerns or disagreements with portions of these proposals.

As an initial matter, we are concerned that the new requirements, when taken as a whole, may imply a requirement that audit committee members demonstrate expertise in auditing. We believe that this implied expertise goes beyond the existing audit committee member financial literacy or audit committee financial expert requirements. Currently, companies listed on the New York Stock Exchange and Nasdaq stock market are required to have all members of their audit committee be financially literate. The

listing standards also require that at least one member of the audit committee must have accounting or related financial management expertise. In addition, public companies are required to disclose whether or not the committee includes an “audit committee financial expert.”

Despite these qualifications, directors do not necessarily have expertise with respect to an auditor’s performance of the annual audit. If the Proposing Release is finalized in its current form, we question whether the objectives of the proposed Auditing Standard can be met to the extent that audit committee members do not demonstrate a level of auditing expertise when communicating with the auditor. We are also concerned that audit committee members may be subject to potential increased liability if they do not have such auditing expertise. We would therefore suggest that the final release make clear that it is not the Board’s intent to create a new auditing expertise qualification for audit committee members.

Questions 1 and 2

In response to the Board’s inquiry as to whether the objectives of the auditor specified in Section 3 of the proposed Auditing Standard are appropriate and adequately articulated, we believe that the objectives are appropriate and well articulated, with the exception of Item (d), “Evaluating the adequacy of the two-way communications between the auditor and the audit committee to support the objectives of the audit,” which we discuss under Question 18 below.

Question 3

In response to the Board’s inquiry with respect an annual engagement letters, we support the proposed new requirement that an engagement letter be prepared annually setting forth a mutual understanding of the terms of the audit engagement. We believe that such practice is already the norm for most public company audit committees.

Question 6

In response to the Board’s inquiry regarding the proposed requirements to provide information on the auditor’s audit strategy and timing, we support the proposed new requirement that the auditor communicate to the audit committee an overview of the audit strategy and any significant risks identified by the auditor, as well as the timing of the audit. We believe that such communication should be provided to the audit committee as early in the year as is reasonable in order to allow the audit committee to monitor progress during its regularly scheduled meetings.

Question 8

Section 13(f) of the proposed Auditing Standard would require an auditor to communicate to a company’s audit committee any significant accounting matters for which the auditor has consulted outside the engagement team. The Proposing Release explains that this could include discussions with the auditor’s national office or industry specialists, or consultations with external parties when the firm does not have a national office. The Proposing Release further states that this information “would benefit the financial reporting process by providing the audit committee with information about complex transactions that may be high risk or controversial.”

The Society supports efforts to increase meaningful communications between the auditor and the audit committee. However, we believe the proposed requirement is too broad and are concerned that the broad language in Paragraph 13(f) is unnecessary and will have unintended consequences. In particular, we believe that (i) communications between the engagement team and other individuals at the audit firm (including the firm's national office or industry specialists at the firm) should not be covered by this requirement and (ii) the requirement should be limited to matters discussed with external parties that are material to the company.

In the normal course, engagement teams consult with their national office or industry specialists at the firm on a variety of issues. These consultations may be with regard to specific items in connection with an audit or more general discussions about evolving issues with regard to the financial reporting process. These communications are invaluable to engagement teams as they exercise their due professional care in performing their audits in accordance with the standards established by the PCAOB, and they serve to keep both the engagement team and management informed on significant items that may or may not have an impact on the company. Moreover, they are consistent with the fact that the audit committee's engagement of the auditor is not limited to the engagement team -- i.e., the audit committee has approved the engagement of the audit firm and therefore assumes that the engagement team is consulting as appropriate with other professionals at the firm.

To be clear, engagement teams often communicate to audit committees about significant accounting matters for which the auditor has consulted the national office or industry specialists at the firm. However, not every significant accounting matter discussed by the engagement team with other individuals at the audit firm merits communication to the audit committee. We believe requiring that every such matter be raised at the audit committee level will potentially dilute other more meaningful communications from the engagement team to the audit committee and would necessitate that a communications hierarchy be established to assist the audit committee in distinguishing between matters that are material to the financial statements and internal control effectiveness and matters that are of lesser significance. We think the auditor should have the discretion to discuss only those matters it believes are material to the company or otherwise appropriate, in the auditor's professional judgment, to discuss with the audit committee.

Audit firms are currently required to communicate with audit committees on a wide variety of matters, including any disagreements with management about matters that could be significant to the company's financial statements or the auditor's report, any serious difficulties encountered in performing the audit, auditor independence, material errors, fraud or illegal acts, and significant deficiencies and material weaknesses in internal controls.

In the normal course, auditors also communicate to the audit committee on significant accounting matters as they deem appropriate in their professional judgment. The Proposing Release, however, would not permit the auditor to exercise discretion about whether a matter merits the attention of the audit committee, which would result in communications about items that are not high risk, controversial or otherwise material to the company. Moreover, the Proposal does not define “significant accounting matters,” which could lead to additional confusion. We believe that the requirement should be limited to those matters that are qualitatively or quantitatively material to the company. This would provide the appropriate standard for the auditor and would be consistent with the audit committee’s oversight role of accounting matters that may pose risk to the financial statements.

Based on the foregoing, we respectfully suggest that this proposal be modified as follows to limit it to consultations outside the audit firm and to matters that are material to the company:

13 f. “Significant accounting matters **that are qualitatively or quantitatively material to the company** for which the auditor has consulted ~~outside the engagement team~~ **external parties.**”

Question 12

In response to the Board’s inquiry regarding consultations with non-accountants, we do not believe that the requirement that the auditor communicate to the audit committee when the auditor is aware that management consulted with other accountants about auditing or accounting matters should be extended to conversations with non-accountants, such as consulting firms or law firms. It is our experience that management discusses accounting matters with non-accountants, such as law firms or executive compensation consultants, in the ordinary course of business. These conversations assist management in any number of ways. We fail to see, however, the value to the audit committee of having the auditor inform it of such conversations. In addition, the proposed requirement would impose a burden on both the auditor and audit committee that would have limited value to the audit committee in discharging its duty.

Question 16

In response to the Board’s inquiry regarding the manner of communications between auditors and audit committees, the Society strongly supports that the Board proposes to continue the current practice of enabling auditors to communicate either orally or in writing. Audit committee members certainly receive a significant amount of written information in advance of their meetings. A requirement that all communications from the auditor be produced in writing may, in fact, have a negative impact on auditor communications with the audit committee during audit committee meetings, by unduly limiting the dialog at those meetings to only those items that were covered by the written materials provided in connection with the meeting. In addition, it is important to note that detailed minutes are kept of the matters discussed at Audit committee meetings. For

the foregoing reasons, we support the proposal to allow the auditor the continued flexibility to communicate with the audit committee either orally or in writing.

Question 18

In response to the Board's inquiry regarding the proposed auditor evaluation requirement, we note that each public company audit committee has a different style by which it interacts with the company's auditor. We do not believe communications between the audit committee and auditor will benefit from a one-sided evaluation and request that the Board eliminate the proposed requirement that the auditor evaluate the adequacy of two way communications. We note that audit committees already carry out annual self-evaluations of the effectiveness of the committee, which generally include consideration of how well they communicate with the outside auditor.

To the extent that the Board does adopt the proposed requirement that the auditor evaluate the adequacy of two way communications, we request that the Board provide clear guidance on the parameters that should be considered by the auditor in performing the evaluation. For example, should the auditor take into consideration that all members of a specific audit committee may not have auditing expertise? What process should be followed by the auditor in order to tailor the evaluation to each audit committee?

In addition, we request that the Board provide specific guidance on issues such as:

- What are the implications of the auditor determining that the communication process is inadequate?
- Does a negative evaluation create potential liability for the audit committee?
- How and to whom should the final the evaluation be communicated?
- Does the audit committee have the ability to challenge the auditor's conclusion?

As the above questions indicate, we are concerned that the proposed evaluation process could create the potential for conflict between the audit committee and auditor, and accordingly, believe any such requirement only be made effective once these conflict concerns are more fully understood and addressed.

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We appreciate this opportunity to share our views with you, and would be happy to provide you with further information to the extent you would find it useful.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Julie B. Kavanagh".

The Society of Corporate Secretaries and
Governance Professionals