

■ Public Company Financial Executive Briefing ■

CHANGES TO AUDITOR COMMUNICATIONS WITH AUDIT COMMITTEES MAY BE COMING

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TUESDAY, APRIL 6, 2010

EXECUTIVE SUMMARY

The PCAOB is proposing an auditing standard that would supersede the current standards on communication requirements for certain significant matters with the audit committee. The proposed auditing standard, Communications with Audit Committees, would supersede interim standards AU Section 380, "Communications with Audit Committees," and AU Section 310, "Appointment of the Independent Auditor."

EXPECTED CHANGES IN THE NEW STANDARD

The significant differences between the proposed PCAOB standard and the prior standards are as follows:

The auditors must specifically identify their objectives and:

- Communicate to the auditor's responsibilities relating to the audit and to establish a mutual understanding of the terms of the engagement,
- Communicate the audit strategy and timing,
- Provide timely observations arising from the

audit that are significant and relevant to the financial reporting process, and

- Evaluate the adequacy of the two-way communications between the auditor and the audit committee.

Establish an understanding of the services to be performed and record such an understanding in a written audit engagement letter.

Communicate in a timely manner significant changes to the planned audit strategy or to the significant risks that have changed during the audit.

Provide the schedule of uncorrected misstatements,

- Communicate on what basis the uncorrected misstatements are immaterial.

Communicate the following:

- Anticipated application of new accounting or regulatory pronouncements that will have a significant impact on the company's financial reporting.
- Significant accounting matters on which the auditor has engaged in consultations outside

of members of the engagement team (national office, industry specialists).

- Matters involving critical accounting estimates.
- Matters relating the auditor's conclusion regarding the company's ability to continue as a going concern.
- Other matters arising from the audit that are deemed significant to the oversight of the financial reporting process.
- The auditor's reasons for expecting to modify the opinion.

All required matters must be communicated prior to issuance of the auditor's report;

- The communication of recurring matters would be required each year.

EFFECTIVE DATE:

The PCAOB wants the proposed standard to be effective for audits of fiscal years beginning after December 15, 2010, subject to approval by the SEC. The comment deadline is May 28, 2010.

FOR FURTHER INFORMATION, PLEASE CONTACT ONE OF THE FOLLOWING:

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