

PCAOB Reproposes Standards for Auditor Communications with Audit Committees

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After receiving comments and hosting a roundtable, the [PCAOB has reproposed for comment an auditing standard on Communications with Audit Committees](#) by making modifications to its [original proposal from March 29, 2010](#). [Both proposals update existing AU 380](#). Comments are due by February 29, 2012, with the new standard anticipated to be effective for audits of fiscal years ending on or after December 15, 2012.

Overall, the proposal as it currently stands covers almost all of the existing topics under AU 380, and in addition contains specific enhancements or new requirements, such as:

- providing the audit engagement letter to the audit committee and determining that the committee has acknowledged and agreed to the terms of the engagement;
- inquiring of the audit committee about matters that might be relevant to the audit, including knowledge of violations or possible violations of laws or regulations or complaints or concerns raised regarding financial reporting matters;
- discussing with the audit committee an overview of the audit strategy, including significant risks identified during the auditor's risk assessment procedures, whether specialists will be needed and the extent to which the auditor plans to use the work of the company's internal audit function or other parties;
- with respect to critical accounting estimates, describing the process that management used to develop those estimates and changes to the process as well as any assumptions used by management that the auditor believes have a high degree of subjectivity;
- informing the audit committee about difficult or contentious matters that triggered consultation outside the engagement team and that the auditor believes are relevant to the audit committee's oversight of the financial reporting process;
- discussing significant transactions that are outside the normal course of business for the company or otherwise appear to be unusual due to their timing, size or nature; and
- communicating matters from the audit that are significant to the oversight of the company's financial reporting process, including concerns regarding accounting or auditing matters that have come to the auditor's attention.

In addition, the auditor must inform the audit committee of certain matters related to an evaluation of the company's ability to continue as a going concern, and when the auditor expects to modify its opinion or include explanatory language in the auditor's report. The audit committee communications, which will be required to be conducted prior to the issuance of the report, may continue to be handled either orally or in writing, so long as they are noted in the auditor's work papers.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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