



22 November 2010

Mr Jeffrey Lucy AM  
Chairman  
Financial Reporting Council  
c/- The Treasury  
Langton Crescent  
Canberra ACT 2600

Dear Jeffrey,

**Public Company Accounting Oversight Board (PCAOB)  
Proposed Auditing Standard on Communications with Audit Committees**

I am writing in response to your request to the Auditing and Assurance Standards Board (AUASB) to consider whether there are any elements of the Public Company Accounting Oversight Board (PCAOB) proposed auditing standard on *Communications with Audit Committees* (“proposed PCAOB auditing standard”) that would merit adoption in Australia. The AUASB has performed an analysis of the proposed auditing standard, including a comparison of its key requirements against the corresponding *Clarity* Australian Auditing Standards (“ASAs”). The results of the analysis are discussed below and in Attachment 1.

The enactment of the Sarbanes-Oxley Act of 2002 (“SOX”) has led to significant changes in the role of audit committees for listed companies in the United States of America (U.S), including their relationship with the auditor. These changes have expanded and strengthened the governance role of audit committees, which now includes the appointment and compensation of the auditor, and oversight of the auditor’s work. In view of these changes, the auditor now reports directly to the audit committee on matters relating to the audit engagement.

The PCAOB has developed the proposed auditing standard on *Communications with Audit Committees* within the context of the above changes. Its proposed auditing standard is intended to replace the PCAOB’s interim standards, AU sec. 380 *Communication With Audit Committees* and AU sec. 310 *Appointment of the Independent Auditor*, which were originally issued prior to the SOX enactment. The primary aim of the proposed PCAOB auditing standard is to enhance the effectiveness of auditor communications with audit committees, as well as highlight the relevance of auditor communications with audit committees in achieving audit objectives.

The PCAOB issued the draft of its proposed auditing standard for public exposure in March 2010 and the comment period ended in May 2010. The PCAOB held a public roundtable discussion in September 2010 to further consider key stakeholders’ comments raised during the public exposure period, and also reopened the comment period for the original exposure draft until 21 October 2010. To date, the PCAOB has not issued a revised auditing standard.

In Australia, communications with audit committees are primarily addressed in Australian Auditing Standard ASA 260 *Communications with Those Charged with Governance*. ASA 260 recognises that audit committees are a subgroup of those charged with governance. In addition to ASA 260, there are a number of other ASAs that require the auditor to communicate with those charged with governance under specific circumstances. Appendix 1 to ASA 260 provides a list of these other ASAs.

Our analysis disclosed that the majority of the key requirements in the proposed PCAOB auditing standard have equivalent requirements and guidance in relevant ASAs. A summary of these ASAs with equivalent requirements and guidance to the proposed standard is shown in Attachment 1. We noted, however, the following key differences between the proposed PCAOB auditing standard and ASAs (summarised in Attachment 2):

1. The proposed PCAOB auditing standard has been drafted using a rule-based approach; as such, it is prescriptive in nature. The ASAs have been developed using the principles-based approach, which requires the auditor to use professional judgement in the specific circumstances of the engagement. This is further emphasised in ASA 260 [paragraph 16(d)] which requires the auditor to communicate with those charged with governance “other matters, if any, arising from the audit that, in the auditor’s professional judgement, are significant to the oversight of the financial reporting process”. An equivalent requirement is not contained in the proposed PCAOB auditing standard.
2. ASA 260 [paragraph 17] requires the auditor to communicate to those charged with governance of listed entities the auditor’s compliance with relevant ethical requirements regarding independence. In particular, ASA 260 [paragraph Aus 17.1] requires the auditor of entities audited under the *Corporations Act 2001* to communicate to those charged with governance the auditor’s compliance with the independence requirements of the *Corporations Act 2001*. There is no equivalent requirement in the proposed PCAOB auditing standard for communication of compliance with ethical requirements, including independence.
3. Under the U.S reporting and regulatory framework, the auditor performing an audit of internal control integrated with the audit of the financial statements is required to issue a report on internal control over financial reporting. The proposed PCAOB auditing standard requires the auditor to communicate to the audit committee the auditor’s considerations in using the entity’s internal auditors and other personnel, as well as third parties, in performing this type of audit. There is no equivalent requirement in ASA 260 or other ASAs, as there is no applicable Australian law that requires an audit of and reporting on internal control over financial reporting, that is integrated with the audit of the financial report. However, there are specific prudential requirements for auditors of certain financial institutions (such as insurance entities and authorised deposit-taking institutions) regulated by the Australian Prudential Regulation Authority to review and report on internal systems and controls that address compliance with prudential requirements, separately from the audit of the financial report.

The ASAs have equivalent requirements with the PCAOB’s proposed auditing standard. The differences between these standards are primarily due to the differences in standard-setting approach and regulatory framework between Australia and the U.S. At the core is the fundamental distinction between the US PCAOB prescriptive standards and the ASAs’ principles-based approach which emphasises the use of professional judgement in the specific circumstances of the audit engagement.

The AUASB believes that the ASAs are sufficiently robust in respect of their requirements relating to communications with those charged with governance, including audit committees. Nothing in the proposed PCAOB auditing standard leads us to believe that ASA 260 needs to change. Accordingly, the AUASB does not propose to make any further amendments to ASA 260 nor to the suite of ASAs.

Please do not hesitate to contact me should you have questions regarding the matters discussed above.

Yours sincerely,

Merran Kelsall  
*Chairman*

cc Richard Mifsud  
*Executive Director*

encl. *Attachment 1*  
*Attachment 2*

**Summary of Requirements in the PCAOB Proposed Auditing Standard on *Communications with Audit Committees* and the Equivalent *Clarity* Australian Auditing Standard ASA 260 *Communications with Those Charged with Governance* and Other Relevant *Clarity* Australian Auditing Standards**

Requirements in the PCAOB Proposed Auditing Standard	Equivalent <i>Clarity</i> Australian Auditing Standards
1. Communication of significant issues discussed with management prior to the auditor's appointment or retention	<p>ASA 260 <i>Communication with Those Charged with Governance</i></p> <p>ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment</i></p>
2. Communication of significant accounting policies, practices and estimates	ASA 260 <i>Communication with Those Charged with Governance</i>
3. Communication of auditor's evaluation of the quality of the company's financial reporting	ASA 260 <i>Communication with Those Charged with Governance</i>
4. Establishing and agreeing terms of engagement in writing	ASA 210 <i>Agreeing the Terms of Audit Engagements</i>
5. Communication of audit strategy and timing of audit (including significant changes) <sup>1</sup>	<p>ASA 260 <i>Communication with Those Charged with Governance</i></p> <p>ASA 300 <i>Planning an Audit of a Financial Report</i></p> <p>ASA 600 <i>Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)</i></p> <p>ASQC 1 <i>Quality Controls for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements</i></p>
6. Enquiry as to whether the audit committee is aware of matters related to the audit, including complaints or concerns regarding	ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding</i>

<sup>1</sup> It should be noted that ASA 260 [paragraph A12] cautions the auditor to exercise care when communicating with those charged with governance “*about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity*”.

<b>Requirements in the PCAOB Proposed Auditing Standard</b>	<b>Equivalent <i>Clarity</i> Australian Auditing Standards</b>
accounting or audit matters	<i>the Entity and its Environment</i>
7. Communication of auditor's responsibility for other information included in documents containing audited financial report	<i>ASA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report</i>
8. Communication of auditor's evaluation of key issues relating to the company's ability to continue as a going concern	<i>ASA 570 Going Concern</i>
9. Communication of auditor's schedule of uncorrected misstatements, including their impact on the auditor's report	<i>ASA 450 Evaluation of Misstatements Identified during the Audit</i>
10. Communication of modifications in the auditor's report, reasons for the modification and proposed wording for the report	<i>ASA 705 Modifications to the Opinion in the Independent Auditor's Report</i>
11. Communication of difficulties encountered by the auditor during the audit	<i>ASA 260 Communication with Those Charged with Governance</i>
12. Communication of auditor's views about significant accounting or auditing matters that management consulted with other accountants	<i>ASA 260 Communication with Those Charged with Governance</i>
13. Communication of disagreements with management that may have material impact on the financial statements or auditor's report	<i>ASA 550 Related Parties</i> <i>ASA 705 Modifications to the Auditor's Report</i> <i>ASA 260 Communication with Those Charged with Governance</i>
14. Communication of any other significant matters that have a significant impact to the oversight of the financial reporting process	<i>ASA 260 Communication with Those Charged with Governance</i> <i>ASA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i>
15. Timely communications with those charged with governance	<i>ASA 260 Communication with Those Charged with Governance</i>
16. Communications to be oral or in writing	<i>ASA 260 Communication with Those Charged with Governance</i>
17. Evaluation by the auditor of the adequacy of the two-way communications with the audit committee	<i>ASA 260 Communication with Those Charged with Governance</i>

**Summary of Broader Differences between the PCAOB Proposed Auditing Standard and the  
Clarity Australian Auditing Standards**

<b>PCAOB Proposed Auditing Standard</b>	<b><i>Clarity Australian Auditing Standards</i></b>
1. Prescriptive, has been drafted using the rules-based approach	1. Use of principles-based approach (requires the exercise of professional judgement in specific engagement circumstances)
2. No equivalent requirement	2. Communication to those charged with governance of other matters, that in the auditor's professional judgement, are significant to the oversight of the financial reporting process (ASA 260)
3. No equivalent requirement	3. Communication to those charged with governance of listed entities of the auditor's compliance with independence requirements (ASA 260)
4. Communication to the audit committee of the auditor's considerations in using the entity's internal auditors and other personnel, as well as third parties, when performing an audit of internal control integrated with the audit of the financial statements (a required form of audit under the U.S reporting and regulatory framework)	4. No equivalent requirement in ASAs, including ASA 260, as there are no Australian statutory requirements for an integrated internal control audit and audit of financial statements