

Heads Up

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SEC Approves PCAOB Auditing Standard on Communications With Audit Committees

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On December 17, 2012, the SEC issued an [order](#)¹ approving [PCAOB Auditing Standard 16](#)² on communications with audit committees.

Auditing Standard 16 is the culmination of a standard-setting process that included an original proposal (issued by the PCAOB on March 29, 2010), a reproposal (issued on December 20, 2011), and consideration of feedback from [comment letters](#) and a September 2011 roundtable session. On August 15, 2012, the PCAOB issued Auditing Standard 16 and subsequently sought final approval of the standard by filing [Form 19b-4](#) with the SEC on August 28, 2012. As part of its approval process, the SEC exposed Auditing Standard 16 for additional public comment on September 17, 2012. [Five comment letters](#) were submitted during the SEC's exposure period. On November 9, 2012, Martin F. Baumann, chief auditor and director of professional standards at the PCAOB, submitted a [letter](#) to the SEC in response to some of these comments.

Auditing Standard 16 supersedes PCAOB AU Sections 310³ and 380,⁴ which are interim auditing standards. The new standard is effective for audits and quarterly reviews of issuers for fiscal years beginning after December 15, 2012.

This *Heads Up* provides a high-level overview of Auditing Standard 16 and discusses its application to audits of emerging growth companies (EGCs)⁵ and broker-dealers. For additional information on the original proposal, the reproposal, and the approved PCAOB standard, see Deloitte's [April 19, 2010](#); [February 10, 2012](#); and [September 18, 2012](#), *Heads Up* newsletters, respectively.

Overview of Auditing Standard 16

The PCAOB's primary objectives in issuing a new standard on audit committee communications are to (1) enhance communications between auditors and audit committees and (2) improve audits by fostering constructive dialogue between the auditor and the audit committee.

¹ SEC Release No. 34-68453, *Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules on Auditing Standard No. 16, Communications With Audit Committees, and Related and Transitional Amendments to PCAOB Standards*.

² PCAOB Release No. 2012-004, *Auditing Standard No. 16, Communications With Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU Sec. 380*.

³ PCAOB AU Section 310, *Appointment of the Independent Auditor*.

⁴ PCAOB AU Section 380, *Communication With Audit Committees*.

⁵ The *Jumpstart Our Business Startups Act* (the "JOBS Act") states the following regarding the application of the standard to EGCs:

Any additional rules adopted by the Board after the date of enactment [April 5, 2012,] shall not apply to an audit of any emerging growth company, unless the Commission determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation.

On December 17, 2012, the SEC issued an order approving PCAOB Auditing Standard 16 on communications with audit committees.

To help the SEC determine whether Auditing Standard 16 should apply to audits of EGCs, the PCAOB included an analysis, Exhibit 4, in its August 28, 2012, filing with the SEC.

The PCAOB expects that Auditing Standard 16 will improve auditors' communications with audit committees by expanding on and adding to previously required communications, including those related to significant accounting policies, practices, and estimates; significant unusual transactions; and the auditor's evaluation of the quality of the company's financial reporting. The new standard carries forward substantially all of the communication requirements of superseded standards and, in certain circumstances, requires auditors to provide additional communications.

Auditing Standard 16 states that the auditor's objectives are to:

- a. Communicate to the audit committee the responsibilities of the auditor in relation to the audit and establish an understanding of the terms of the audit engagement with the audit committee;
- b. Obtain information from the audit committee relevant to the audit;
- c. Communicate to the audit committee an overview of the overall audit strategy and timing of the audit; and
- d. Provide the audit committee with timely observations arising from the audit that are significant to the financial reporting process.

The standard further describes the requirements that would fulfill these objectives.

Editor's Note: Because Auditing Standard 16 was not changed during the SEC's approval process, Deloitte's September 18, 2012, [Heads Up](#), which contains detailed information about the new standard's requirements, continues to be relevant.

Application to Audits of EGCs

In accordance with the JOBS Act, the PCAOB had requested the SEC to "approve the application of Auditing Standard No. 16, and the related amendments, to the audits of EGCs." To help the SEC determine whether Auditing Standard 16 should apply to audits of EGCs, the PCAOB included an analysis, Exhibit 4, in its August 28, 2012, filing with the SEC. The SEC ultimately concluded the following in its approval:

[T]he Commission finds that the application of the Proposed Rules to EGC audits is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation.

Editor's Note: Auditing Standard 16 is the first auditing standard issued by the Board after the passage of the JOBS Act; therefore, it is the first auditing standard for which the SEC needed to determine EGC applicability.

Application to Audits of Broker-Dealers

Auditing Standard 16 will apply to all audits of broker-dealers at the time such broker-dealer audits are required to be performed under PCAOB standards. Section 982 of the [Dodd-Frank Wall Street Reform and Consumer Protection Act](#) gave the PCAOB authority to oversee audits of broker-dealers registered with the SEC (including by setting standards for such audits). However, the SEC has stated in interpretive guidance that for transitional purposes, auditors should continue to conduct audits of broker-dealers in accordance with generally accepted auditing standards (GAAS) established by the AICPA until the SEC (and the PCAOB) reconsiders its rules related to such audits. As a result, for the time being, audit committee communication requirements under U.S. GAAS continue to apply to audits of brokers-dealers.

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