

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

ASSURANCE



► SUBJECT

PCAOB ISSUES AUDITING STANDARD NO. 16, *COMMUNICATIONS WITH AUDIT COMMITTEES*

► SUMMARY

On August 15, 2012, the Public Company Accounting Oversight Board (PCAOB) adopted Auditing Standard (AS) No. 16, *Communications with Audit Committees*, and transitional and related amendments to other PCAOB standards. AS 16 largely retains current guidance contained in AU 380, *Communication with Audit Committees*, and does not impose any new performance requirements (i.e., audit procedures) on the auditor. Rather, it expands and/or enhances requirements emphasizing the relevance, timeliness and quality of the communications between the auditor and the audit committee while better aligning auditing standards with the requirements of the Sarbanes-Oxley Act of 2002 (“the Act”) to facilitate audit committees’ financial reporting oversight, thus fostering improved financial reporting.

Before becoming effective, AS 16 requires SEC approval, which is currently pending. Upon approval by the SEC, AS 16 will supersede the PCAOB’s interim auditing standards AU 310, *Appointment of the Independent Auditor*, and AU 380, and will also amend other PCAOB standards. The standard, if approved by the SEC, is expected to be effective for public company audits and audits of nonissuer¹ brokers and dealers of fiscal periods beginning on or after

¹ AS 16 recognizes that some nonissuers, including brokers and dealers, may have governance structures that do not include boards of directors or audit committees. In those cases, the auditor would identify those persons at the nonissuer company who oversee the company’s accounting and financial reporting processes and audits. This modification is meant to indicate that senior persons in an oversight role in such circumstances would be the recipients of the auditor communications. During the PCAOB’s open meeting to approve AS 16, the PCAOB staff indicated that, generally, AS 16 would apply to audits of nonissuer brokers and dealers to the extent the SEC brings those audits under PCAOB jurisdiction and further, as an example, would apply to any nonissuer that voluntarily adopts PCAOB standards (e.g., nonissuers preparing for a future IPO). Note: The SEC currently has an outstanding proposal to amend its Rule 17a-5 to essentially scope in *all* audits of brokers and dealers to be performed in accordance with PCAOB standards.

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December 15, 2012. Under Section 104 of the Jumpstart Our Business Startups Act (“JOBS Act”) of 2012, the standard and related amendments do NOT apply to audits of “emerging growth companies” (EGCs) unless the SEC makes such a determination under that Act that the application of such additional requirements is necessary or appropriate in the public interest. The PCAOB has indicated that it intends to request the SEC to make such a determination with regard to AS 16 and EGCs.

For further information, including an archive of the open PCAOB meeting approving AS 16, refer to the [PCAOB website](#). The final rule may be accessed at: [PCAOB Release No. 2012-004](#).

▶ UPCOMING TRAINING OPPORTUNITY

In anticipation of the ultimate issuance of AS 16, as well as completion of our evaluation of the recent PCAOB release, *Information for Audit Committees about the PCAOB Inspection Process* (refer to the PCAOB website at: [PCAOB Release No. 2012-003](#)), BDO will provide an update pertaining to audit committee communications within the scheduled *Ac’sense 2012 Board Matters Quarterly Update - Q3* webinar taking place on September 25, 2012. For further details on this program and to register, click [here](#).

Material discussed in this report is meant to provide general information and should not be acted on without professional advice tailored to your firm’s individual needs.