
PCAOB Adopts New Auditing Standard on Audit Committee Communications

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On August 15, the Public Company Accounting Oversight Board adopted a new [Auditing Standard No. 16](#) that prescribes the communications that an auditor must make to the audit committee of its client. The new standard seeks to enhance the “relevance, timeliness and quality” of the information conveyed by the auditor to the audit committee, particularly with respect to the auditor’s assessment of significant risk of financial statement misstatement and other matters that could affect the integrity of the financial statements, and to promote constructive dialogue, as opposed to “check the box” communications, between the auditors and the committee. While the Board emphasized that it has no authority over audit committees as such, it expressed the view that its new standard should assist the committee in fulfilling its oversight responsibilities.

Auditing Standard 16 is the first PCAOB standard adopted since passage of the JOBS Act. The JOBS Act provides that new auditing standards may be applied to audits of emerging growth companies only if the SEC specifically determines that the application of the standard “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.” The PCAOB’s standard by its terms will apply to emerging growth companies, and the PCAOB will ask the SEC to approve that.

In many respects, Auditing Standard 16 codifies communications practices already followed by many auditors and audit committees. Subject to SEC approval, it will be effective for audits for periods beginning after December 15, 2012.