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September 28, 2012

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

By e-mail to rule-comments@sec.gov

Re: File Number PCAOB-2012-01

Dear Ms. Murphy:

Piercy Bowler Taylor & Kern is pleased to have the opportunity to comment upon Auditing Standard No. 16 (AS 16) adopted by the Public Company Accounting Oversight Board (the PCAOB or the Board) and contained in both Release No. 34-67807 of the Securities and Exchange Commission (SEC or the Commission) and PCAOB Release No. 2012-004 (the PCAOB Release). We understand that AS 16 is now subject to approval by the SEC pursuant to Section 107(b) of the Sarbanes-Oxley Act of 2002. We further understand that our comment letter will be available for website viewing and printing in the Commission's Public Reference Room and public inspection and copying in the principal office of the PCAOB.

We previously commented in letters to the Board dated May 28, 2010, and February 28, 2012, upon what is now AS 16 when it was in its proposal stage. Our comments are a matter of public record and available along with those of others on the Board's website under PCAOB Rulemaking Docket Matter No. 030 at http://pcaobus.org/Rules/Rulemaking/Pages/Docket030Comments.aspx.

The most significant concern expressed in our earlier comment letters [1] remains so in AS 16, as it is now drafted, which is that AS 16 inappropriately shifts primary responsibility to communicate to audit committees matters of the selection and identification of significant and critical accounting policies, estimates and significant unusual transactions from management to the auditors. The language that effectively misplaces this responsibility appears principally in paragraph 12 but also in related passages in Section II on p. 8 and in Appendix 4 of the PCAOB Release.[2] We see no advantage to retaining the structure of paragraph 12 as it now appears in AS 16 that might serve to offset our concern.

The Board's acknowledged approach to addressing our concern, which was widely shared by other commentators (examples cited at the bottom of p. 3 of this letter), was to subject all the requirements of paragraph 12 to a "note" at its end that provides an exception to what would appear to be a normal expectation, such exception being that "management ***might*** communicate some or all of the matters discussed in paragraph 12 [emphasis added]" and that if so, the auditors commentary on such matters, therefore, may be limited under certain specified conditions, most significantly that the auditor has observed that management has adequately communicated such matters to the audit committee.

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1 Comment letters nos. 23 and 4 to the Proposed and Reproposed Rules, respectively.

2 Section VII, pp. A4-16 to 24.

We firmly believe that this afterthought or "band aid" approach serves only to magnify the PCAOB's "upside down" view that inappropriately reverses the roles of auditors and management (which is further exacerbated by referring to management's communication of such matters with the word "might"). In our opinion, this "upside down" view will have the probable adverse effects of fostering weak and unhealthy corporate governance environments among issuers characterized by both low audit committee expectations of management and excessive and inappropriate audit committee reliance on auditors as a source of original information about the financial statements, rather than solely to corroborate the assertions of management. We see the latter as an unnecessary and undesirable erosion of the attest function.

In this regard, we observe that paragraph 3 of AS 16 sets forth four objectives (a-d) of the auditor with respect to audit committee communications, all four of which focus appropriately on the audit process. However, the responsibilities set forth in paragraph 12 focus instead on the accounting process to an extent that goes considerably beyond merely reporting audit observations (as set forth in objective (d)) Such responsibilities appear to require communication of matters that may not have come to the auditor's attention without additional otherwise unplanned audit effort; therefore, are not consistent with any of the stated objectives of paragraph 3. Our recommendations would correct this flaw in a manner that is consistent with the attest function.

As noted on p. 4 of the PCAOB Release, we understand that the Board has no authority to compel management directly to communicate with audit committees nor can it compel audit committees to seek such information from management. However, the Board can establish (and has established in Appendix C to AS 16 and earlier standards) requirements for the contents of an audit engagement letter. By expanding the engagement letter requirements in Appendix C, the Board can certainly (and should) require auditors to establish with management and audit committees a contractual agreement as to the respective responsibilities of management and the audit committee to provide and to seek communications of these matters and that would appropriately limit the auditors' responsibilities only to comment upon such communications as may be necessary in the circumstances.

Views similar to ours (that we believe were inadequately addressed in AS 16) were articulated in various ways in several letters submitted to the PCAOB by notable other individuals and organization in response to the original and revised proposals, for example, as follows:

- "… by placing the reporting responsibility squarely on the shoulders of the auditor rather than on management where it belongs, the PCAOB has reversed the normal relationship. … the final standard should be reworded such that the matters in question are described solely as management's reporting responsibilities and the auditor's role as informing the audit committee only when the information is materially misreported."[3]

- "I believe the document should recognize management as the primary source of such communications with audit committees, with auditors participating directly in such communications."[4]

- "I believe management has the primary responsibility to communicate the information about accounting methods, etc. to the audit committee. … my suggestion is that the auditor be required to provide the specified information only when he determines that it has not been provided by management."[5]

These views were likewise expressed, more or less, in the comment letters submitted by both the California and New York State Societies of CPAs,[6] perhaps among others.

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[3] Denis R. Beresford, comment letter no. 1 to the Reproposed Rule dated January 10, 2012, p. 4.

[4] J. Michael Cook, comment letter no. 6 to the Reproposed Rule dated February 20, 2012, pp. 1-2.

[5] Arthur Siegel, comment letter no. 6 to the Proposed Rule dated April 16, 2010, p.1.

[6] Howard Sibelman and Richard E. Piluso, comment letters nos. 7 and 13 to the Reproposed Rule dated February 14 and 28, 2012, respectively.

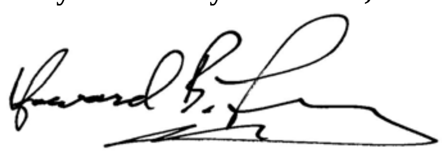
In fact, as suggested by one of the foregoing commentators,[7] we believe that AS 16 would be improved if it were to contain a suggestion that auditors consider whether management's failure to discuss such matters adequately with, and obtain advance approvals from, the audit committee constitutes a material weakness or other control deficiency that may require consideration in determining the scope of the audit and be reportable pursuant to the provisions of AU sec. 325.

It is clear throughout the PCAOB Release that AS 16 is not intended to change the requirements of Rule 2-07 of the SEC's Regulation S-X.[8] However, we believe the Commission should give serious consideration to the foregoing views and to making appropriate revisions to Rule 2-07 for the purpose of benefitting investors by preserving both the proper balance among the responsibilities of management, audit committees and auditors with regard to such accounting matters, and the integrity of the attest function, and by strengthening the corporate governance function among issuers.

Whether revisions to paragraph 12 of AS 16 and related material elsewhere in the PCAOB Release are requested by the Commission in consideration of these views or not, we recommend the Board be asked to re-examine paragraph 13 and related material (also in Appendix 4[9]) for the purpose of eliminating apparent redundancies with the responsibilities set forth in paragraph 12.

Thank you for this additional opportunity to comment. Please contact the undersigned at [redacted] or 702/384-1120 if there are any questions about these comments.

Very truly yours,
Piercy Bowler Taylor & Kern, Certified Public Accountants



Howard B. Levy, Principal and
Director of Technical Services

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[7] Siegel, *op cit*.

[8] 17 C.F.R. § 210.2-07.

[9] Section VIII, pp. A4-26 to 31.