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TO: Office of the Secretary, PCAOB

DATE: July 19, 2016

SUBJECT: Comments on PCAOB Rulemaking Docket Matter No. 034, *Proposed Auditing Standard – The Auditor’s Report on an Audit of the Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*

We appreciate the opportunity to submit comments regarding the Board’s Proposed Auditing Standard on the Auditor’s Report (hereafter referred to as the Proposed Standard). We are pleased to see the Board’s continued efforts to improve the transparency of the audit process. We applaud the Board’s efforts to increase and enhance the information provided in the audit report to provide investors and others important information about the audit. Our comments below are in response to question 26 in the Proposed Standard and are based on our research.¹ We believe there is an effective and efficient way to include an important audit quality indicator in the auditor’s report.

Additional Improvements to the Auditor’s Report

Question 26. Are the repropoed amendments to the PCAOB standards appropriate? If not, why not? Are there additional amendments related to the repropoed standard that the Board should consider? If so, what are they?

We believe there is an additional amendment that should be considered regarding the date when the auditor completed fieldwork to convey to users the level of deadline imposed time pressure the auditor may have faced. The listing requirements for publicly traded companies impose deadlines for the filing of audited financial statements with the Securities and Exchange Commission (SEC). In a 2014 speech, PCAOB board member, Jay Hanson, stated:

“One of the biggest impediments to auditor skepticism...is the calendar. Public companies have filing deadlines to meet, and they are rarely missed. When they are missed, the consequences can be serious, including declining share prices and harm to investors. If potential issues are discovered late in the audit process, or an issue is not resolved in a timely manner, auditors may feel pressure to cut corners. We have seen it in inspections and enforcement matters: Auditors recognize that there may be a problem with management’s estimates or conclusions but allow themselves to be talked out of doing anything about it. Staying organized and proactively dealing with problems far ahead of filing deadlines will

¹ For additional information, see: Glover, S.M., J.C. Hansen, & T.A. Seidel (2016), “*The Informational Value of the Audit Report Date and the Effect of SFAS No. 165.*” Working paper, Brigham Young University and Weber State University. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2561713.

help the auditor avoid running out of time as well as the pressure to accept insufficient audit evidence.”²

Additionally, PCAOB Staff Audit Practice Alert No. 10, issued in December 2012, states that “scheduling and workload demands can put pressure on partners and other engagement team members to complete their assignments too quickly, which might lead auditors to seek audit evidence that is easier to obtain rather than evidence that is more relevant and reliable, to obtain less evidence than is necessary, or to give undue weight to confirming evidence.”³

Recent research by Christensen, Glover, Omer and Shelley (2015) finds that the timeliness of completing audit fieldwork is an important attribute of audit quality.⁴

In 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 165, *Subsequent Events* (SFAS 165) (now codified in ASC 855). Although SFAS 165 contains no auditor related requirements, the standard, which requires public companies to evaluate subsequent events through the financial statement filing date, resulted in a change in practice regarding the dating of the audit report. Before the issuance of SFAS 165, auditors would date their report at the *end of audit fieldwork* when they had obtained sufficient audit evidence to support the audit opinion. As such, in many instances prior to SFAS 165, auditors dated the audit opinion well before the filing of the financial statements. In response to SFAS 165, auditors of public companies began dating their opinions on or very close to the date the financial statements are filed with the SEC.⁵ In our research study (Glover, Hansen and Seidel, 2016) we examine companies with fiscal years ending between December 2003 and May 2014. Companies with fiscal years ending prior to June 2009 are considered pre-SFAS 165 observations. We find that the mean (median) number of days between the audit report date and the filing of the 10-K with the SEC has decreased significantly from 9.75 (3.00) days in the pre-SFAS 165 period to 1.00 (0.00) day following the passage of SFAS 165.

The histograms below present the difference in days between the audit report date and the filing date. The histograms reveal that although the distribution of *the days between dates* varies widely in the pre-SFAS 165 period, in the post-SFAS 165 period, the entire distribution is close to zero. The tight distribution in the post-SFAS 165 period provides support for the practice of dating the audit report close to or on the date of filing.

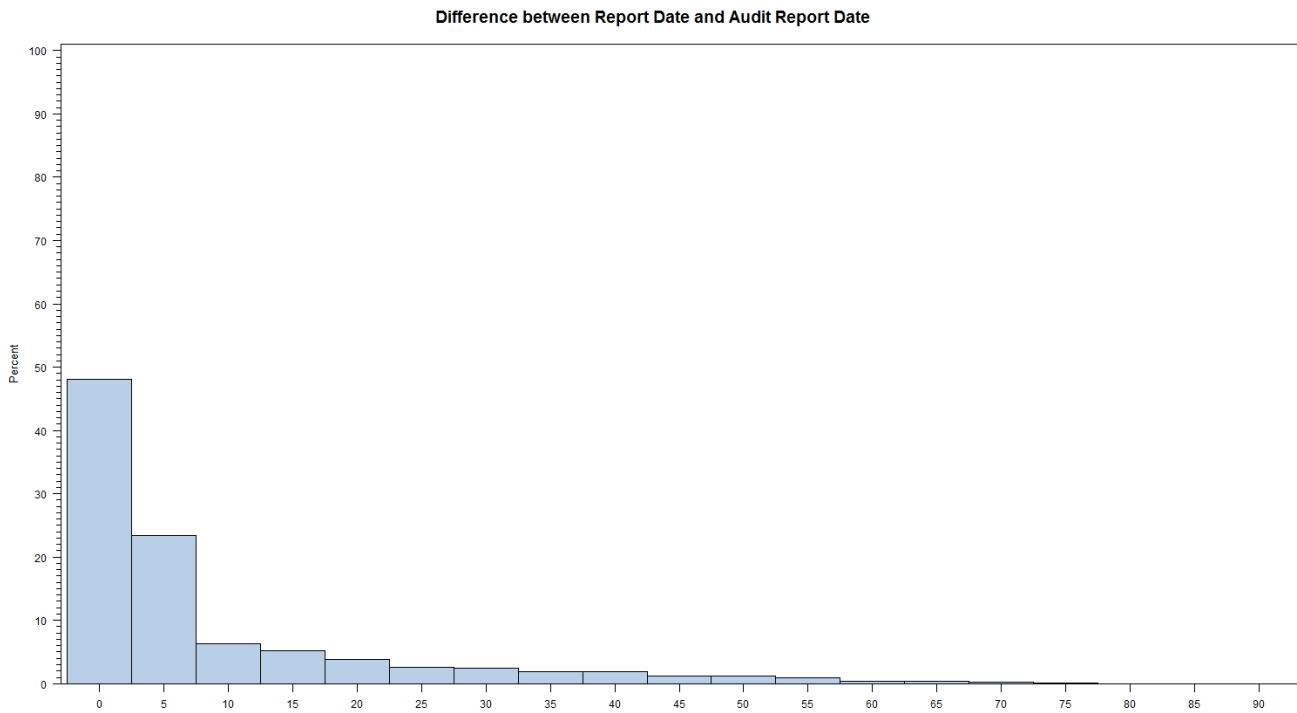
² See Hanson, J.D. ‘*A Call to Action for Future Auditors*,’ Indianapolis, IN (March 28), 2014. Available at http://pcaobus.org/News/Speech/Pages/03282014_BAS.aspx.

³ See PCAOB. *Staff Audit Practice Alert No. 10: Maintaining and Applying Professional Skepticism in Audits*. Washington, D.C.: PCAOB, 2012, p. 7.

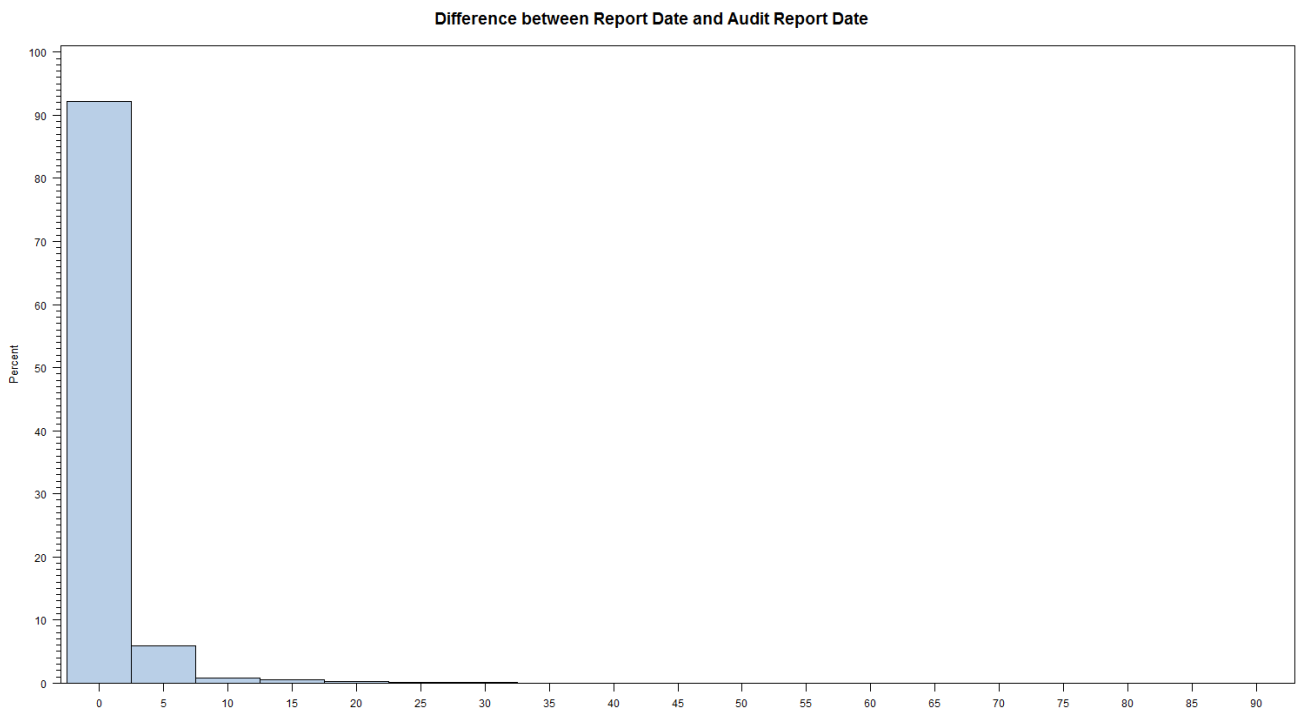
⁴ See Christensen, B.E., S.M. Glover, T.C. Omer and M.K. Shelley (2015), “*Understanding Audit Quality; Insights from Audit Professionals and Investors*,” forthcoming in *Contemporary Accounting Research*. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2358163.

⁵ In Session 3 of the July 15, 2010, PCAOB SAG meeting it was noted that auditors began dating their opinions on the date the financial statements are filed with the SEC in response to SFAS 165.

Pre-SFAS 165:



Post-SFAS 165:



The majority of companies (~ 60 percent) file their annual report within one week of the required filing deadline. While the proportion of companies filing within the last week has remained stable pre- and post-SFAS 165, when we examine this set of companies we find that the proportion of

companies with an *audit report date* within a week of or on the required filing deadline increased significantly from 64.5 percent in the pre-SFAS 165 period to 96.5 percent in the post-SFAS period.

The change in practice in dating the audit report limits the ability of financial statement users to identify auditors facing heightened deadline imposed time pressure. We find in our research that the ability of users to identify auditors under heightened deadline pressure provides a potentially important indicator of audit quality.

In our study we find that the nearness of the audit report date to the client's required filing deadline provided a useful signal of reduced audit quality (as measured by financial statement misstatements). However, after SFAS 165, there is no longer any observable association between an audit report date close to the required filing deadline and audit quality. In other words, the financial statement users lost a potentially important signal of audit quality due to the change in practice post SFAS 165.

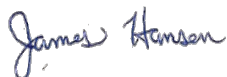
The Board currently has audit quality indicators on its agenda.⁶ We believe the findings in our study and Christensen et al. (2015) have important implications for auditor reporting and the ability of the audit report date to provide a signal of variation in audit quality. Although statements from the Board suggest a concern with the potential negative effect of deadline imposed time pressure, the Proposed Standard does not include a measure of the timeliness of the completion of audit fieldwork. We believe that an additional amendment to the Proposed Standard to help investors and users of the financial statements identify auditors under heightened deadline pressure would be the inclusion of the date the auditors completed fieldwork in the audit report. This could be accomplished in the form of dual-dating of the audit opinion to clearly convey the date of the end of audit fieldwork (first date) as well as the date through which subsequent events were considered (second date).

We appreciate the opportunity to provide the Board with our research findings and offer suggestions regarding the proposed Auditor's Reporting Standard.

Kind regards,



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⁶ See PCAOB. *Strategic Plan: Improving Relevance and Quality of the Audit for the Protection and Benefit of Investors*, 2012-2016, 2012; PCAOB. SAG meeting briefing paper, Audit Quality Indicators, May 15-16, 2013 (http://pcaobus.org/News/Events/Documents/05152013_SAGMeeting/Audit_Quality_Indicators.pdf); and PCAOB Session on Audit Quality Indicators, 2014 PCAOB/AAA Annual Meeting memo and meeting materials, April 17, 2014.