December 11, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Subject: PCAOB Rulemaking Docket Matter No. 34

Submitted via comments@pcaobus.org

Members of the PCAOB:

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to share its views on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") Release No. 2013-005, *The Auditor's Report on an Audit of Financial Statements when the Auditor expresses an unqualified opinion; The Auditor's Responsibilities regarding other information in certain document's containing audited financial statements and the related auditor's report* (collectively "the Release"). FEI is a leading international organization of senior-level financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

Before discussing the current Release, CCR wishes to acknowledge the Board's decision not to pursue imposing a requirement for Auditor Discussion and Analysis (AD&A) contemplated in the 2011 Concept Release. For reasons outlined in our letter dated September 30, 2011, we believe that this was the appropriate action for the Board to take and sincerely appreciate the Board's consideration of the views expressed by CCR and others on this matter.

CCR's Position on the Release

CCR understands that the Board's underlying objective in proposing these changes is to enhance the informational value, usefulness and relevance of the auditor's report. CCR has significant concerns as to whether certain of the proposed requirements will accomplish that objective. We therefore believe it is imperative that the Board perform its own due diligence to examine the potential consequences of these requirements on the financial reporting process, auditor behavior, and communications amongst auditors, management and audit committees. We are concerned that the new procedures necessary to comply with the proposed requirements have the potential to be a significant distraction from the primary focus on the audit and consume valuable time and resources during the most critical phases. We believe that the Board needs to re-evaluate the scope and associated costs of the proposed rule, taking into consideration the effect on disclosure overload and other potential unintended consequences. Given these concerns, CCR is unable to support the requirements in the Release as proposed. In our comments below, we have made a number of recommendations which we believe would address these concerns.

CCR believes that the Board should ensure that the final standard will not alter or dilute the fundamental roles and responsibilities of management, auditors and the Audit Committee. We therefore concur with the Board's decision to retain the existing pass/fail model as we believe that this provides the clarity and accountability that investor's desire. We also believe that the current option for auditors to include an emphasis paragraph in the opinion, where appropriate, should be preserved.

Field Testing by the PCAOB

Before providing our views on the specific proposals, we wish to emphasize the value of robust and thorough due process in producing a high quality standard. We acknowledge and appreciate the steps the Board has already taken to solicit views from industry and the audit profession and welcome the opportunity to participate in the roundtables planned for the first half of 2014. However, we believe that with a proposal of this nature additional steps are essential to gain an understanding of the practical implications and effects on the audit processes prior to moving forward with these proposed requirements.

CCR believes that a comprehensive field test is the most effective way to address these questions and concerns. We believe it will be useful and insightful for the Board and Staff to determine whether the proposal will produce the information investors are seeking at an acceptable cost to preparers and auditors. We also believe that this work will provide the Board with the opportunity to study the impact that this proposal would have on the audit process to ensure the additional work does not unintentionally adversely affect audit quality.

It is the responsibility of the PCAOB to evaluate the benefits and costs of its proposals. CCR believes that, by playing a leading role in the conduct of a field test, the Board would gain valuable insights into the usefulness of the resulting disclosure and the likely costs (including those related to unintended consequences) of these requirements. It is possible that many of the issues that arose in the application of Auditing Standard (AS) 2 - *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements* could have been avoided had there been some form of field testing performed prior to issuance of the final standard. While we are aware that the major audit firms have undertaken some informal work on their own to assess the effect of the proposal, we also understand the scope of this work is limited and unlikely to serve as an effective substitute for formal field testing conducted by the Board. CCR, therefore, believes that the Board should directly undertake this work as part of its due process.

Critical Audit Matters

We do not agree with the PCAOB's proposal for auditors to provide disclosures of Critical Audit Matters ("CAMs"). While CCR agrees that there is an opportunity to make targeted improvements in the auditor's reporting model, we do not believe reporting of CAMs will make the audit report more informative.

Based on our reading of the proposal, it appears that one of the desired outcomes of the proposed rule would be to provide investors with additional insights into how an auditor has dealt with the complex and difficult issues that normally arise during the process and are highlighted by management in the financial statements. To the extent the information provided by management is not sufficient to enable investors to adequately understand the underlying financial statements; we believe any perceived shortcomings are better addressed by improved footnote or management discussion and analysis. Accordingly, improvements in this area are better addressed by the FASB or the SEC. As it is implicit in an unqualified opinion that an auditor is satisfied with the reasonableness of such matters, we do not believe that the proposed information regarding steps the auditor took in reaching that conclusion, will provide information value in excess of the associated incremental costs.

The Board defines CAMs as the audit matters that involved the most difficult, subjective, or complex auditor judgments; posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; and posed the most difficulty to the auditor in forming an opinion on the financial statements. The sources for CAMs include engagement completion documents, items reviewed by the engagement quality reviewer, and information communicated to the audit committee. In practice, we would expect the proposed documentation requirements for CAMs could draw upon any matters from these sources. If the auditor determines certain items should be excluded, he or she would need to document why these items were not CAMs. We expect that these judgments, like others of similar importance made during the audit, would be subject to close scrutiny by PCAOB inspectors. Accordingly, it is reasonable to assume that auditors will err on the side of being more inclusive, producing lengthy audit reports that include many CAMs.

CCR is concerned that such reports will give undue prominence to items of lesser importance that were ultimately deemed immaterial or resolved satisfactorily during the course of the audit. We also are concerned that these items may become “boilerplate” in nature due to their normal occurrence and the prevalence of accounting standards that require the use of judgment and/or significant estimates. We also believe that inclusion of CAMs could create the impression of a fragmented audit that provides differing levels of assurance on specific areas. Furthermore, if the information in the CAM disclosure is misinterpreted and leads to questions from the investment community, there is no obvious mechanism for the auditor to respond to them. This would put the issuer in the untenable position of feeling compelled to explain or speculate, after the fact, on what the auditor meant while adhering to the requirements in Regulation FD.

CCR observes that extensive information related to matters that may qualify as CAMs is already available in existing disclosures (e.g., critical accounting policies, significant estimates, business and operating trends, as well as financial and operating risks). Given the volume and complexity of the existing disclosure regime, and considering the concern investors have expressed regarding disclosure overload, we believe it is reasonable to expect that they may have difficulty in evaluating and assimilating this new information with other information provided by management.

CCR agrees with the Board that management should be the original source of information in external financial reports. In addition to the redundancy concerns expressed above, we observe that the Release provides examples which appear to suggest that disclosure will be compelled of certain additional information that is not currently being disclosed under existing requirements. For example, the implementation guidance appears to suggest that significant deficiencies and immaterial uncorrected errors meet the definition of a CAM. We ask the Board to more fully consider the implications and practical consequences of that conclusion. In addition to violating the principle that management should be the original source information, such a requirement would result in further complications related to the limited auditor involvement in interim filings. Specifically, the Board should consider the implications of occurrence of such items in interim filings and what management would be expected to do with them in annual financial statements. Given that such items are immaterial to the respective interim filings and absence of a requirement to report them, we would not expect management to change its practices regarding disclosure. However, the inclusion of these as CAMs would put management in the position of feeling compelled to make such disclosures. If they choose not to and such items are included in the Auditor's Report, the principle that the auditor should not be the original source of information about the company would be violated. This is just one example of the type of unintended consequence that could result from this proposal.

If after considering the results of its due process and field testing, the Board decides to retain the concept of CAMs, CCR believes that the final standard should adhere to the following principles:

- *Auditors must not be the original source of information.* The examples in the proposal provide extensive information well beyond the level of detail that management would normally be expected to provide in notes to financial statements or in MD&A. The examples are inconsistent with the principle of management being the original source of information.

- *CAMs must be material to the audit of the financial statements.* If the company is not otherwise required to include a particular disclosure in accordance with generally accepted accounting principles, regulation or legislation, the requirements for CAMs should not compel disclosure by the auditor.

- *CAMs should not be a source for highly sensitive, prejudicial information (e.g. litigation)*

- *CAMs identified should only include those communicated to the Audit Committee in accordance with PCAOB Standards (including AS 16) that provides additional investor insight into the audit.*

- *The audit report should not describe the audit procedures related to CAMs* (We believe the examples in the Release are unclear and could lead audit firms to believe that such disclosures are required).

- *Auditors should not be required to separately document why audit matters are not considered to be CAMs.*

Other Information Outside the Financial Statements

As part of the proposed disclosures in the auditor's report, CCR agrees that clarification of the auditor's association with other information included in the filing would be helpful and informative. CCR understands from speeches made by members of the Board that this was not intended to introduce a dramatic change from existing requirements with regard to role of the auditor in reviewing such information or the level of assurance provided. However, we believe that the change in terminology from *consider* to *evaluate* could, in practice, lead to significant additional work. We therefore believe that that the Board should not change the terminology and should not expand the scope of information to be considered as relevant other information.

CCR observes that the term *evaluate* is used in other parts of the auditing literature with a specific meaning that potentially broadens the obligations of the auditor beyond what is performed in practice today by audit firms at leading reporting companies. For example, the following excerpt from AS 17 appears to imply a more expansive scope and elevated responsibility for the term *evaluate*:

> The proposed standard included a requirement for the auditor to evaluate whether the supplemental information, including its form and content, is fairly stated, in all material respects, in relation to the financial statements as a whole, including whether the supplemental information is presented in conformity, in all material respects, with the relevant regulatory requirements or other applicable criteria. The evaluation should encompass, among other things, whether the information: is complete and accurate, is consistent with the audited financial statements, and complies with relevant regulatory requirements, if applicable.

CCR believes that this level of assurance is different and higher than what is provided today under the requirement to read and consider. We are concerned this level of assurance will, of necessity, expand the scope of audit work performed and potentially lead to many challenging situations for the auditor, particularly with regard to qualitative statements and non-financial information. For example, we do not believe that auditors regularly collect data related to non-financial performance metrics and may, therefore, need to expand their audit scope and procedures to fulfill their obligations related to evaluating this information.

CCR observes that SEC regulations already require CEO and CFO certifications of disclosures that are required in the annual and quarterly reports, as well as the establishment of disclosure controls. Further the NYSE and NASDAQ listing rules require independent audit committee supervision of annual and quarterly reports. Those procedures are generally viewed as rigorous and effective. We, therefore, believe that investors can reasonably expect that non-financial information has been verified by the company, its disclosure committee, and audit committee and subjected to a certification process by management. Accordingly, we see little benefit to requiring the auditors to do more than what is already required to be performed under existing standards.

As stated above, CCR believes it would be helpful to investors to clarify the auditor's role related to "other information" in the audit report. We would therefore support a statement that clearly defines the types of information considered, a clear statement that the auditor has not audited and expresses no opinion on such information and a clearer explanation of actual procedures undertaken with respect to the information outside the audited financial statements. Such a statement might read as follows: "On the basis of relevant audit evidence obtained and conclusions reached during the audit, we have read and considered the other financial information contained in pages X to Y filed with the SEC. We did not audit the other information and do not express an opinion on the other information. Based on the work performed, we have not identified a material inconsistency or material misstatement of fact in that information."

CCR agrees with the Board's view that auditors should not be required to obtain additional audit evidence regarding other information that was not required to be obtained during the audit. With respect to the scope of the other information standard, CCR agrees that XBRL exhibits should be excluded but disagrees on the inclusion of information incorporated by reference contained within the Company's definitive proxy statement. Such information often is not available to the auditor until after the issuance of the audit report. We believe that the auditor's responsibility should be limited to information available prior to issuance of the audit report.

Clarification of the Standard Auditor's Report

The Release proposes to add new elements to the auditor's report related to auditor independence, auditor tenure, and enhancements to certain standardized language in the auditor's report (including the addition of the phrase "whether due to error or fraud").

CCR is generally in support of adding clarifying language to the existing standard auditor's report provided that it enhances investors' understanding of the scope, process and limitations of the audit process. We do not believe information related to the tenure of the auditor contributes to this understanding and is more suitably placed in the proxy statement, as it is more directly relevant to investor decisions on whether the independent auditor should be reappointed.

Concluding Remarks

CCR believes that the proposals in the Release have the potential to produce profound changes in the conduct and effectiveness of the audit. We believe that it is imperative for the Board to undertake its own due diligence to understand the implications of the requirements and to evaluate whether or not the proposal will yield the desired information at an acceptable cost and without adversely affecting audit quality. We are concerned that the Board will not be able to gather the necessary information solely from the planned elements of its existing due process steps. We therefore urge the Board to undertake a field test of this proposal and evaluate the results before proceeding to a final standard. Only then do we believe that there will be sufficient clarity regarding the efficacy of the resulting disclosures and the time, costs and resources that will be consumed by preparers, auditors and Audit Committees.

We appreciate the Board's consideration of these matters and welcome the opportunity to discuss any and all related matters. If you have questions, please contact Lorraine Malonza at (973) 765-1047 or lmalonza@financialexecutives.org.

Sincerely,

Stephen J. Cosgrove
Chairman, Committee on Corporate Reporting
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cc: Martin Baumann, PCAOB Chief Auditor
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