

THE LACLEDE GROUP, INC.  
720 OLIVE STREET  
ST. LOUIS, MISSOURI 63101



STEVEN P. RASCHE  
CHIEF FINANCIAL OFFICER

April 23, 2014

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

Re: PCAOB Rulemaking Docket Matter No. 034

Dear Board Members and Staff:

The Laclede Group, ("Laclede") appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "the Board") proposed auditing standards and amendments, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* ("the proposed auditor reporting standard") and; *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report* ("the proposed other information standard") and we respectfully submit our comments and recommendations thereon.

On December 11, 2013 the American Gas Association ("AGA") responded to PCAOB Release NO. 2013-05 with regard to the Board's proposed auditor reporting standard and the proposed other information standard included. Laclede strongly supports the comments made by the AGA and disagrees with the Board's proposed changes. A copy of AGA's response is included for reference.

Specifically, we disagree with the following provisions:

- We believe that the proposed auditor reporting standard would decrease the usefulness of the audit report and the clear separation of duties between management and our auditors.
- We believe the proposals undermine the role of the Audit Committee.
- We believe critical audit matters ("CAM") should be discussed directly with the Audit Committee in their role of overseeing the audit and controls over financial reporting, and that the discussion of CAM's in the audit report could cause confusion to the readers of the financial statements.
- Finally, we believe that the costs associated with the proposals and the inefficiency caused by the added work on the part of the auditors and our staff far outweigh the benefits of the proposals.

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We appreciate the opportunity to weigh in on this matter and look forward to continuing discussion on this vital topic.

Respectfully submitted,



Steven P. Rasche  
Chief Financial Officer



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Dear Ms. Brown:

The American Gas Association (“AGA”) respectfully submits our comments on the Public Company Accounting Oversight Board’s (“PCAOB” or “the Board”) proposed audit standards included in Release No. 2013-005 addressing both *The auditor’s report on an audit of the financial statements when the auditor expresses an unqualified opinion* (the “proposed auditor reporting standard”) and; *The auditor’s responsibilities regarding other information in certain documents containing audited financial statements and the related auditor’s report* (the “proposed other information standard”).

The American Gas Association, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States’ energy needs.

### **Overall concerns**

The AGA appreciates the PCAOB’s efforts to enhance the information provided to investors and financial statements users. We agree that financial statement users should have access to timely, accurate, objective and relevant information for purposes of making investment decisions. However, we strongly disagree with the proposed auditor reporting standard and proposed other information standard included in PCAOB Release No. 2013-005. We believe a company’s financial information and the communication of that information is management’s responsibility. We believe the SEC and the FASB should continue to serve as the standard setters for establishing the requirements for information to be provided to investors, and that management should be the sole party responsible for communicating such information.

The SEC has enacted various regulations over time (including designation of FASB as the organization responsible for promulgating US GAAP) on *what* information needs to be disclosed. Importantly, these rules designate management as the responsible party to determine *how* to communicate this information to most accurately reflect a company's financial results and position. The role of the external auditor is to verify that the information presented by management complies with the applicable SEC / FASB requirements and is presented fairly in all material respects. The audit committee, comprised of a company's shareholder-elected Board of Directors, is charged with oversight of both the auditor and management's financial reporting.

The SEC and PCAOB provide additional oversight of management, the audit committee and external auditors by reviewing the financial statements and the audits thereof to ensure these parties are performing their duties appropriately. If management, the audit committee, and the external auditors fulfill their respective responsibilities to communicate timely, accurate, objective and relevant information to financial statement users that is audited in accordance with existing professional standards, we believe the additional communications and requirements outlined in the proposed auditor reporting standard and the proposed other information standard are unnecessary.

In addition to these overall concerns, we provide the following specific observations regarding each proposal.

### **The proposed auditor reporting standard**

Of the various requirements proposed in the auditor reporting standard, we most strongly disagree with the requirement that the auditor disclose critical audit matters (CAMs) within the audit report. As such, we have limited our response on the auditor reporting standard to this matter. We believe the proposed standard would be detrimental to the usefulness and relevance of the audit report and would undermine the role of the audit committee. Further, we believe the proposed standard would result in lack of consistency and comparability of auditors' reports across companies while increasing the cost of regulatory compliance.

*The proposal would undermine the usefulness of the audit report and the role of the audit committee*

The auditor is expected to conduct an audit to obtain reasonable assurance that the financial statements are materially correct when taken *as a whole*. The auditor's report does not include, nor do we believe it would be appropriate or practical to include, all of the factors considered by an auditor when forming the overall audit conclusion. Therefore, without the full context of a company's financial transactions, business environment and internal controls obtained by the auditor throughout the audit process, an investor may inappropriately over-emphasize the importance of a CAM when making an investment decision. Likewise, highlighting CAMs in the audit report may lead investors to over-emphasize certain risks because they are disclosed as a CAM and under-emphasize other important business risks that may not meet the proposed CAM disclosure criteria. Additionally, disclosure by the auditor of the most difficult aspects of

the audit may be interpreted by some as the auditor expressing reservations in their report on those transactions or accounts affected by a CAM, or as the auditor providing a “piecemeal” opinion on the financial statements which would undermine the usefulness, authority, and credibility of the audit report.

Currently the audit committee, as part of the shareholder-elected Board of Directors, has the authority to oversee the audit and ensure the financial statements contain appropriate disclosure on behalf of shareholders. Under current rules, the auditor already discusses difficult, judgmental, complex and other key aspects of the audit with the audit committee. With its access to auditors, management and the Board of Directors, the audit committee has the requisite knowledge, perspective and authority to ensure the various risks faced by the entity are disclosed in a manner commensurate to their materiality and relevance to investors. The Board’s proposal would undermine this oversight role by requiring the auditor to effectively bypass the audit committee and disclose CAMs directly to shareholders in the audit report. We believe that the auditor’s role should remain that of attesting on information prepared by management, and the Audit Committee should retain its function as providing primary oversight of the audit process.

*The proposal would undermine the relevance of the audit report/financial statement disclosures*

The matters that would be required to be disclosed as CAMs are already provided in the financial statements or are not relevant to investors in making investment decisions. The proposal states that CAMs are those matters addressed during the audit that (1) involved the most difficult, subjective, or complex auditor judgments; (2) posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming the opinion on the financial statements. Many of those matters meeting the criteria above relate to subjective or complex accounting areas which are already disclosed within the financial statements as required by US GAAP or SEC rules. Examples include critical management judgments, risks and uncertainties, and accounting estimates and policies. Repeating these disclosures in the audit report would result in duplicative disclosure and would undermine the relevance of either the audit report or the financial statement disclosures. Further, if the auditor identifies a significant lack of internal control as part of the audit, the audit report on internal control already describes it as a material weakness. If any additional information or disclosure is deemed necessary, such disclosure should be addressed by the SEC and the FASB as part of the financial reporting standard setting process.

The proposed standard would also require that auditors disclose certain audit matters that we do not believe would be considered relevant to investors when making investment decisions. Examples include the level of audit effort applied to a particular account, immaterial or corrected misstatements, change in auditor risk assessment, and an auditor’s use of a specialist. Such items may provide information on a business’s accounting operations or an auditor’s approach, but do not impact the underlying economics of the business and therefore may not be considered relevant by investors.

*Auditor reporting would no longer be comparable or consistent across entities*

Under the proposed standard, the auditor's determination of what is considered to be a CAM will involve a considerable amount of professional judgment and will decrease comparability of the auditor's report. There is a risk that auditors may take a conservative approach and include numerous CAMs in order to avoid potential PCAOB inspection findings or litigation, resulting in voluminous disclosure within the audit report and thereby obscuring the overall opinion. Further, investors may incorrectly interpret longer auditors' reports as an indicator of higher investment risk rather than as a matter of an auditor's professional judgment or reporting policy. There is also the risk that each audit firm's interpretation of what meets the definition of a CAM will differ, resulting in lack of comparability between audit reports for similar companies or industries. We therefore have concerns that the auditor's subjective determination of what is considered to be a CAM could be used erroneously as the basis for, or at least influence, differences in investor decisions among otherwise comparable entities.

*Potential implementation challenges and cost considerations*

The increased costs of compliance with the proposal will outweigh any perceived benefit. A significant amount of additional time will be required by audit firms in order to develop, review and present CAMs, which will result in increased audit fees. Extensive discussion and consultation with Company management, legal and the audit committee would also be required, resulting in increased internal costs. Further, because some CAMs may not be identified until late in the audit process as the audit is performed, this additional work will be required during an already busy period within the audit and financial reporting cycle which would impact the timing of SEC filings and, consequently, the ability of investors to obtain financial information in a timely manner.

While we do not support the inclusion of CAMs in the auditor's report, if the Board ultimately determines to implement the rule as proposed, we request that the effective date be delayed to allow companies and auditors to field test how the CAM provision would be applied in practice and provide an opportunity to mitigate the potential issues identified above.

**The Other Information Standard**

We support adding language to the auditor's report that will *clarify* the auditor's procedures and responsibility for other information contained in SEC filings (such as the MD&A). We do not support *expanding* the auditor's responsibilities regarding other information, or including language in the auditor's report that could be perceived as an expansion of the auditor's responsibilities. We believe the proposal would lead to higher costs with no commensurate benefit to investors. Further, we believe the proposal as written would result in several practice issues that would result in inconsistent application among audit firms.

Management should continue to prepare and present the other information contained in the annual reports of public companies, with over-sight from the Audit Committee, without the

additional costs of such information being subject to additional procedures by the auditors. We support the retention of existing procedures contained in AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*, which require auditors to “read and consider” other information to ensure the information is consistent with the audited financial statements. We believe AU 550 provides an appropriate level of assurance for the other information considering both the costs and benefits of such assurance.

We believe the “read and evaluate” language included in the proposed standard implies, and is likely to result in, a level of additional procedures that is substantively different from and greater than the requirements set forth in AU sec. 550. We do not agree with this change in the proposed language as it will have far reaching impacts on the procedures currently being applied to other information. We believe that, in carrying out their professional responsibilities, auditors presently are conducting a sufficient level of review commensurate with the nature and purpose of that information.

In our opinion, the use of the term “evaluate” will prompt auditors to expand their procedures substantively beyond the existing requirements in AU sec. 550 resulting in unnecessary procedures and increased costs. Similar to the timing of CAMs, the additional work over other information will be required during an already busy period within the audit and financial reporting cycle and would lengthen the timing of a company’s SEC filings to the detriment of investors.

Alternatively, we recommend that the Board retain the existing procedures in AU sec. 550 but ensure that the language presented in the auditor’s report clearly communicates what those existing procedures entail. If the Board believes further clarity is warranted to differentiate the level of assurance provided within the financial statements, we request the Board consider a more cost effective approach. For example, the Board could consider adding headers or other disclaimers on each page of the audited financial statements that indicate if the information is audited.

While we disagree with the proposal, we believe several practice issues that would need to be addressed within the standard if the Board determines to adopt the standard as proposed. These practice issues include determining what information would be subjected to the expanded procedures, what procedures to perform on forward-looking statements, and how an auditor should determine materiality of non-financial information.

## **Conclusion**

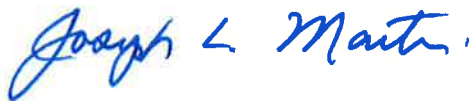
We appreciate the opportunity to comment on the Board’s proposals. As discussed above, we do not support the inclusion of CAMs in the auditor’s report or expanded audit procedures on other information contained in the annual report. We urge the Board to reconsider the proposals. We believe that auditor reporting of CAMs would decrease the relevance of the audit report, the role of the audit committee, decrease audit report comparability and increase costs of compliance all to the detriment of investors. Further, we believe guidance currently contained in AU sec. 550

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appropriately addresses the audit procedures to be performed over other information contained in the financial statements and the benefits arising from any further audit scrutiny would not justify the costs.

We would be pleased to discuss our comments in further detail and provide any additional information that you may find helpful in addressing these important issues.

Very truly yours,

A handwritten signature in blue ink that reads "Joseph L. Martin". The signature is written in a cursive style with a clear, legible font.

Joseph L. Martin, Controller, American Gas Association