

December 11, 2013

Mr. Martin F. Baumann  
Chief Auditor and Director  
Professional Standards  
Public Company Accounting Oversight Board  
c/o Office of the Secretary  
1666 K Street, N.W.  
Washington, D.C. 20006-2803  
USA

by electronic submission

Dear Mr. Baumann,

**Re.: PCAOB Release No. 2013-005, August 13, 2013**

**PCAOB Rulemaking Docket Matter No. 034 Proposed Auditing Standards –**

**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 Documents Containing Audited Financial Statements and the Related Auditor's Report**

**And Related Amendments to PCAOB Standards**

We would like to thank you for the opportunity to provide the Public Company Accounting Oversight Board (PCAOB) with our comments on PCAOB Rulemaking Docket Matter No. 034 Proposed Auditing Standards – 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 Documents Containing Audited Financial Statements and the Related Auditor's Report, And Related Amendments to PCAOB Standards (hereinafter referred to as "the draft").

Since the auditor's report is often the only product of the audit that external users see, auditor reporting is closely linked by users to the value of audits. If

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**Page 2/18** to the Comment Letter to the PCAOB, dated December 11, 2013

the value of an audit and perceptions thereof can be increased within the context of the related costs and risks by including more information in auditors' reports, then this should be attempted. For this reason, and the discussions about the content of the auditor's report in the EU and at the IAASB, we consider this exposure draft to be both necessary and timely.

We would like to emphasize that we believe that the draft ought to be restricted to matters that relate to improving auditor reporting only, without consideration of matters in connection with the modernization of the audit or expansions of audit scope, such as those proposed in relation to other information. These latter issues are important too, but may need to be considered by the PCAOB in future in a separate project. Having the audit of the financial statements cover information other than the financial statements, whether by means of an attest opinion or by reporting on audit procedures, is a matter that can only be determined by legislators, securities regulators and terms of engagement – not by auditing standards setters. For this reason, we are convinced that changes to the auditor's responsibilities for other information that go beyond reporting on what is currently required in PCAOB standards is not a matter for the auditor reporting project, but is in fact a broader issue relating to the scope of the audit that needs separate treatment. It is also unclear to us whether the PCAOB has a statutory mandate to expand auditor responsibilities for other information in this way.

We are also aware that the discussions of the European Commission, the European Parliament and the Council of Ministers on matters of audit policy, including on the content of the auditor's report, are due to be finalized soon, and indeed, may have been completed by early next year. We therefore encourage the PCAOB to maintain an intense dialogue with the European Commission, the European Parliament, and the Presidency of the Council of Ministers so as to help minimize the risk that the final European legislation is at variance with the PCAOB's proposals beyond those necessary under U.S. securities laws and existing PCAOB standards.

We also note that the PCAOB issued proposed auditing standards are in many ways similar to those of the IAASB, but that also contain differences. We encourage the PCAOB to engage with the IAASB to seek to minimize differences for audits of financial statements of listed entities.

We have responded in the Appendix to this letter to some of the questions posed by the PCAOB in the draft. However, not all issues are relevant to our members and therefore we have not chosen to respond to all question posed. In addition, we have focussed on what appear to us to be major issues and the

**Page 3/18** to the Comment Letter to the PCAOB, dated December 11, 2013

fact that we have not addressed every issue or relevant question is not indicative that we agree or disagree with the approach taken by the PCAOB for the issues that we have not addressed.

We hope that our views will be helpful to the PCAOB in its deliberations on auditor reporting. If you have any questions relating to our comments in this letter, we would be pleased to be of further assistance.

Yours truly,



Klaus-Peter Feld  
Executive Director



Wolfgang P. Böhm  
Director Assurance Standards,  
International Affairs

## **APPENDIX:**

### **Responses to Some of the Questions Posed**

#### **Appendix 5 of the Draft**

##### **Question Related to Section II:**

- 1. Do the objectives assist the auditor in understanding the requirements of what would be communicated in an auditor's unqualified report? Why or why not?**

Subject to our responses to other questions posed in the draft relating to the meaning or definition of critical audit matters (CAM), we agree that the objectives assist the auditor in understanding the requirements and what would be communicated in an auditor's unqualified report.

##### **Questions Related to Section IV:**

- 2. The proposed auditor reporting standard would require the auditor's report to be addressed at least to (1) investors in the company, such as shareholders, and (2) the board of directors or equivalent body. Are there others to whom the auditor's report should be required to be addressed?**

To whom an auditor's report ought to be addressed is, in our view, a matter of U.S. securities and contract law. It seems reasonable to us, given what we know about that law, that the report be addressed to the owners of the company (the shareholders, or in a master limited partnership, the partners) and to those engaging the auditor (the board of directors or equivalent body). It does not appear to be appropriate to address the auditor's report beyond these parties.

- 3. The proposed auditor reporting standard retains the requirement for the auditor's report to contain a description of the nature of an audit, but revises that description to better align it with the requirements in the Board's risk assessment standards. Are there any additional auditor responsibilities that should be included to further describe the nature of an audit?**

Page 5/18 to the Comment Letter to the PCAOB, dated December 11, 2013

We believe it to be crucial that, with the exception of the description of the audit of internal control, the description of the audit of the financial statements in the auditor's report for both audits performed in accordance with International Standards on Auditing (ISAs) and PCAOB standards to be equivalent to the extent that the other underlying standards are equivalent. We therefore encourage the PCAOB to liaise with the IAASB to harmonize the content of the auditor's report with respect to auditor responsibilities.

**4. The proposed auditor reporting standard would require the auditor to include a statement in the auditor's report relating to auditor independence. Would this statement provide useful information regarding the auditor's responsibilities to be independent? Why or why not?**

With respect to auditors' reports for audits of financial statements under PCAOB auditing standards, we believe that a statement relating to independence would be useful. The inclusion of the source of independence requirements (PCAOB independence requirements) is also acceptable in an audit performed under PCAOB requirements because there is only one source of such requirements. In audits performed under the ISAs, for example, we are not convinced that reference to sources would be useful, since there may be multiple, and in part overlapping, sources, which may confuse users. This is an instance in which we believe that there may be a justifiable difference between PCAOB standards and the ISAs.

**5. The proposed auditor reporting standard would require the auditor to include in the auditor's report a statement containing the year the auditor began serving consecutively as the company's auditor.**

**a. Would information regarding auditor tenure in the auditor's report be useful to investors and other financial statement users? Why or why not? What other benefits, disadvantages, or unintended consequences, if any, are associated with including such information in the auditor's report?**

We believe that information regarding audit tenure might be useful to investors, but we do not believe that enough research has been done to determine whether this is so. Even if after such research it were to be determined that such information were to be useful to investors, we are not convinced that this information is relevant to an audit report that

Page 6/18 to the Comment Letter to the PCAOB, dated December 11, 2013

relates to conveying an opinion on the financial statements (and on internal control) and to describing the audit – such a disclosure would misuse the auditor's report for purposes for which it is not designed. In this case, we would prefer that the SEC require that management or those charged with governance provide information about audit tenure in documents that are filed by registrants with the SEC.

**b. Are there any additional challenges the auditor might face in determining or reporting the year the auditor began serving consecutively as the company's auditor?**

We are not aware of particular challenges in this matter.

**c. Is information regarding auditor tenure more likely to be useful to investors and other financial statement users if included in the auditor's report in addition to EDGAR and other sources? Why or why not?**

As noted in our response to a., we believe that such information is more likely to be useful if included in filings by SEC registrants to the SEC, such as EDGAR.

**6. The proposed auditor reporting standard would require the auditor to describe the auditor's responsibilities for other information and the results of the evaluation of other information. Would the proposed description make the auditor's report more informative and useful? Why or why not?**

We would agree that having the proposed auditor reporting standard require the auditor to describe the auditor's current responsibilities under extant PCAOB standards for other information would make the auditor's report more informative and useful. However, we believe that actually expanding the responsibility of the auditor to additional procedures or other form of evaluation is not just an auditor reporting matter and therefore requires deliberation in a project that is entirely separate from a project on auditor reporting. This is also the view we take with respect to the IAASB's proposals on these matters.

We would like to emphasize that we are, in principle, in favor of enriching the audit of financial statements by having the audit extend procedures or attest opinions or conclusions to beyond the financial statements. However, we are not convinced that a proper cost-benefit analysis of this issue has been done. We believe that investors will understand the procedures as

Page 7/18 to the Comment Letter to the PCAOB, dated December 11, 2013

providing some form of attest opinion or conclusion on the other information, when in fact it is not. Furthermore, we believe that this is a matter that needs consideration at statutory (i.e., Congressional) level, if not at least at SEC level that should not be dealt with by auditing standards setting alone.

For this reason, we would also request that the PCAOB consider whether expanding the scope of the audit beyond the financial statements is within its statutory mandate. We note that Section 101 (c) (2) of the Sarbanes-Oxley Act (hereinafter referred to as the “Act”) empowers the PCAOB to “establish or adopt, or both, by rule, auditing ... and other standards relating to the preparation of audit reports for issuers in accordance with Section 103.” Section 103 (a) (1) in turn empowers the PCAOB to “by rule, establish...such auditing and related attestation standards ... to be used by registered public accounting firms in the preparation and issuance of audit reports, as required by this Act or the rules of the Commission, or as may be necessary or appropriate in the public interest or for the protection of investors.”

In this respect we note that, with the exception of the blanket phrase “as may be necessary or appropriate in the public interest or the protection of investors” both Sections 101 (c) (2) and 103 (a) (1) limit the powers of the PCAOB to establishing auditing and other (including attestation) standards to the preparation of audit reports as required by the Act or the rules of the Commission. An “audit report” is defined in Section 2 (a) (4) of the Act as “a document or other record (A) prepared following an audit [*underlined italics added*] performed for the purposes of compliance by an issuer with the requirements of securities laws; and (B) in which a public accounting firm either (i) sets forth the opinion of that firm regarding a financial statement, report or other document...”. Section 2 (a) (2) in turn defines an “audit” as “an examination of the financial statements...for the purpose of expressing an opinion on such statements.” Neither rules of the Commission nor both the Securities Act of 1933 and the Securities Exchange Act of 1934 appear to mandate anything other than an *audit of the financial statements* (and as required by Sections 103 (a) (2) (A)(iii) and 404 (b) of the Act, an audit of internal control over financial reporting). Furthermore, the “blanket phrase” noted above seems to us not to represent a “blank check”, but rather should be interpreted narrowly given the clear intentions of both Congress and the SEC to limit attestation or assurance opinions or conclusions to the financial statements (and internal control over financial reporting) – that is, the

Page 8/18 to the Comment Letter to the PCAOB, dated December 11, 2013

PCAOB is being given the power necessary to improve the *quality* of audits of *financial statements* (and internal control) as needed in the public interest and to protect investors – not to unilaterally expand the scope of the audit. Hence, there is a question as to whether there is a statutory mandate to expand the scope of the audit beyond the financial statements and internal control over financial reporting, even if such an audit could be extended by the terms of engagement (which appear covered in the interim standards AU 551, AU 623, AU 634 and AU 711). The interim standard AU 550 is limited to “reading”, unless the auditor becomes aware of a potential material inconsistency or material misstatement of fact because the objective is to identify material inconsistencies between the financial statements and the other information that are obvious to users and that thereby undermine the credibility of the audited financial statements, and hence the audit. It is not the objective of an audit as currently defined in securities legislation to provide an attestation or assurance opinion or conclusion on the other information. We believe that the current proposal with its reporting of an “evaluation” and its required procedures will intimate to users that in fact such an opinion or conclusion is being provided. It also seems to us that the procedures being required in proposed paragraphs 4 a. to d. on page A2-3 would in fact lead to the auditor being able to provide an opinion on the consistency of the other information with the financial statements AND the audit evidence obtained during the audit, and would lead to the basis for an opinion on the other information in line with paragraph 12 of extant AU 551. We therefore believe that this represents a clear extension of audit scope “through the back door” that may exceed the PCAOB’s statutory authority. We also expect that the work effort required to perform the procedures proposed on page A2-3 is much greater than the PCAOB probably anticipates.

**7. Should the Board require a specific order for the presentation of the basic elements required in the auditor's report? Why or why not?**

Based on our discussions with users and preparers on a similar question posed by the Invitation to Comment from the IAASB, it appears to us that users and preparers would welcome some comparability among auditors’ reports worldwide. Changing the order for individual reports could also involve signaling effects for users. Hence, to increase the comparability of audit reports under PCAOB standards worldwide and to avoid unintended signaling effects, we suggest that the PCAOB require a specific order to the auditor’s report. We recommend that the PCAOB liaise with the IAASB on this matter so that the structure of the two reports remains similar.



Page 9/18 to the Comment Letter to the PCAOB, dated December 11, 2013

**8. What other changes to the basic elements should the Board consider adding to the auditor's report to communicate the nature of an audit, the auditor's responsibilities, the results of the audit, or information about the auditor?**

Other than the additional elements or content that might arise due to our suggestions in our response to Question 3 above, we do not believe that there should be any additional elements to communicate the nature of an audit, the auditor's responsibilities, the results of the audit, or information about the auditor.

**9. What are the potential costs or other considerations related to the proposed basic elements of the auditor's report? Are cost considerations the same for audits of all types of companies? If not, explain how they might differ.**

Other than for critical audit matters (CAM) and for increasing the work effort for other information, no cost increases other than the one-off change in the form and content of the auditor's report are expected. The new requirements with respect to CAM are expected to result in a cost increase for the additional time needed and potential delays in finalizing the auditor's report with regard to the following areas:

- Drafting the additional information (CAM) to be included in the auditor's report;
- Discussing these matters as well as any matters ultimately not determined as CAM internally within the audit firm, including with the engagement quality control reviewer, perhaps the firm's legal counsel, and possibly with others outside the firm (e.g., in some cases recourse may be had to advisory services by a professional institute); and
- Discussions with both management and those charged with governance.

Management and those charged with governance (TCWG) are also likely to spend additional time reviewing and discussing wording and presentation with the auditor. Nevertheless, we regard the added benefit to users in increasing the usefulness of audit reports to outweigh the costs.

We note our concerns about the likely underestimation of the costs involved in expanding the work effort on other information in our response to Question 6.

Page 10/18 to the Comment Letter to the PCAOB, dated December 11, 2013

**Questions Related to Section V:**

- 10. Would the auditor's communication of critical audit matters be relevant and useful to investors and other financial statement users? If not, what other alternatives should the Board consider?**
- 11. What benefits or unintended consequences would be associated with the auditor's communication of critical audit matters?**

As a matter of principle, we welcome the idea that the auditor's report provide more relevant information to users (note: when we speak of users in our comment letter, we mean "intended users", which may be narrower than "users", and are referring to "external users" – that is, neither management nor those charged with governance, who have additional access to information about the audit) of financial statements because it would increase the value of audits to users. However, it seems to us that based on our roundtable of users, regulators, and preparers and from our consultation with members of our profession, not enough research has been done to determine which information is really of interest to users and what they would do with that information if it were available through the auditor's report.

For this reason, we do not believe that we are able to conclude as to whether the introduction of CAM into the auditor's report will in fact enhance the usefulness of the auditor's report. In particular, we expect a continuing danger of boilerplate and user misunderstanding of the nature of CAM (with the resulting increase in the expectations gap) in this respect to remain. On the other hand, we note that the inclusion of CAM may provide users with additional information about matters in the financial statements involving auditor judgment and that therefore the expectations gap may also be reduced with respect to the nature of the audit opinion. For these reasons, overall we believe that the arguments for including some form of CAM in such auditors' reports outweigh the arguments against. It is therefore important that the PCAOB monitor the implementation of CAM to review the application of CAM in practice after a few years of experience in practice.

We welcome the fact that CAM is focused on having the auditor report on matters that are important to the audit, and that therefore CAM no longer serves the purpose of having the auditor help users "navigate" through the financial statements, which we believe is the role of management – not the auditor.

Page 11/18 to the Comment Letter to the PCAOB, dated December 11, 2013

However, in this context, we believe that the PCAOB has not emphasized the purpose of CAM in relation to user needs enough. Ultimately, like the content of the financial statements depends on the financial information needs of users, the contents of auditors' reports must be driven by the information needs of users with respect to the audit. It is inconsistent to claim, on the one hand, that auditors must use their judgment to determine materiality for the financial statements and consider materiality for the fair presentation of the financial statements based on the financial information needs of users, but at the same time claim that auditors are not able to determine what the contents of CAM ought to be based upon the auditor's judgment of the information needs of users with respect to the audit.

It is the lack of a connection to user information needs with respect to the audit that we believe causes some weaknesses in the proposed draft for the determination of when audit matters ought to be CAM. On the whole, we do not perceive a reasonable alternative to some form of CAM, properly defined and with clear criteria for its determination.

However, we do not believe it would be at all helpful to investors, auditors and regulators if the PCAOB and the IAASB were to use differing terminology, definitions and criteria in their respective final pronouncements. We have not been able to determine whether the differences in the proposals would lead to different reporting, and would encourage cooperation between the two Boards in this respect.

**12. Is the definition of a critical audit matter sufficient for purposes of achieving the objectives of providing relevant and useful information to investors and other financial statement users in the auditor's report? Is the definition of a critical audit matter sufficiently clear for determining what would be a critical audit matter? Is the use of the word "most" understood as it relates to the definition of critical audit matters?**

In line with our views in our response to Question 11, we believe that the definition of CAM ought to be as follows:

"Those matters critical to the audit that the auditor judges are reasonably expected to influence decisions of intended users."

We believe that a definition should serve to identify the distinguishing characteristic of CAM – not serve as a set of criteria based on the definition to determine which matters are CAM. In our response to

Page 12/18 to the Comment Letter to the PCAOB, dated December 11, 2013

Question 14 below we explain our views on the appropriate criteria for CAM that would clarify the determination of CAM.

We also believe that the use of a relative test (“most”), rather than an absolute test (e.g., the “critical” in the “critical audit matters”), suggests that number of matters identified as CAM must always be similar across all audits and that consequently, there can never be no CAM. It would be confusing to users as to why a matter that is critical for two registrants is not included in both audit reports because one of the registrants has more matters that are critical. It may also lead matters that are not critical to be included in CAM simply because they were “most” significant. We therefore suggest dispensing with the term “most”.

**13. Could the additional time incurred regarding critical audit matters have an effect on the quality of the audit of the financial statements? What kind of an effect on quality of the audit can it have?**

We assume that additional time incurred regarding critical audit matters would have an overall positive effect on audit quality, but could pose challenges to the timely completion of the audit.

**14. Are the proposed requirements regarding the auditor's determination and communication of critical audit matters sufficiently clear in the proposed standard? Why or why not? If not, how should the proposed requirements be revised?**

We believe that there is room for further improvement in the requirements regarding the determination of CAM. We have been informed that field tests undertaken in the firms in relation to KAM as defined by the IAASB appear to suggest that auditors intuitively identify those matters that they believe ought to be KAM or CAM. However, we do have some concerns that the criteria as currently conceived may not lead to reasonably consistent auditor judgments about which matters ought to be CAM across firms, and therefore may be difficult to enforce because the PCAOB may have a different view as to what is CAM: therefore the intuitive process applied by auditors needs to be reflected in a clear “filter”.

As we note in our response to Question 12 above, basis for the determination of CAM must be user information needs with respect to the audit: the objective of CAM ought to be to increase the value to users of the auditor's report. Consequently, the filter gleaning matters of interest to users of the auditor's report that ought to be CAM needs to be based on the

**Page 13/18** to the Comment Letter to the PCAOB, dated December 11, 2013

decision-usefulness of the information about the audit to users, which in turn depends upon the use to which auditors expect users to put that information.

We believe that unless the matter in question relates to a significant risk of material misstatement, the matter is not likely to be a matter that ought to be CAM because it is unlikely to be of interest to users. This means that the starting point for the determination of CAM ought to be whether a matter has been identified as a significant risk (or perhaps a high risk of material misstatement for which substantive procedures alone do not provide sufficient appropriate evidence and for which a significant deficiency in internal control is relevant). We note that the concept of significant risks of material misstatement is more than just an audit planning or risk assessment concept because an auditor is required to evaluate before the conclusion of the audit whether the risks of material misstatement at the assertion level remain appropriate (which implies determining whether the identification of significant risks remains appropriate).

However, this does not imply that all such significant risks of material misstatement ought to be CAM. In particular, those risks that are always significant risks or are presumed to be significant risks under the PCAOB standards (e.g., fraud risk, revenue recognition, management override of controls) need not be CAM unless the nature of such risks of material misstatement are of critical importance to the audit of the financial statements due to their being peculiar to the entity, the information about which would therefore also be decision-useful to users. This means that only those significant risks ought to be regarded as CAM that involve significant auditor judgment in relation to significant matters. Such auditor judgment would occur when the matter relates to significant management judgment as to the appropriateness of accounting treatment of recognition, measurement, presentation or disclosure issues, the use of grooming transactions, or in relation to auditor judgment that sufficient appropriate evidence has been obtained.

This approach would provide a clear set of criteria, directly related to items in the financial statements, to which auditors can apply professional judgment to filter out those matters that ought to be CAM.

In relation to the criteria for the determination of CAM, we suggest that the criteria be worded as follows:

**Page 14/18** to the Comment Letter to the PCAOB, dated December 11, 2013

“The auditor shall determine those matters that are critical audit matters by:

- (a) Identifying those matters that have been identified as significant risks of material misstatement or a high risk of material misstatement for which substantive procedures alone do not provide sufficient appropriate evidence and for which a severe significant deficiency in internal control is relevant;
- (b) Excluding those risks of material misstatement that are always required to be treated as significant risks of material misstatement in an audit (the risk of material misstatement due to fraud, including the risk of management override of controls) or are always presumed to be a significant risks of material misstatement due to fraud (revenue recognition), unless the nature of such risks of material misstatement are of critical importance to the audit of the financial statements due to their being peculiar to the entity, the information about which would therefore also be decision-useful to users.
- (c) Excluding those significant risks of material misstatement not relating to significant management judgments about recognition, measurement, presentation or disclosure issues in the financial statements or grooming transactions, or not relating to significant auditor judgment that sufficient appropriate audit evidence has been obtained.”

This approach would help clarify the filtering process that auditors intuitively use to identify CAM and would aid documentation and enforceability.

With respect to the communication of critical audit matters, we believe that communication of the following matters is essential:

- A description of the matter
- An explanation as to why the matter is CAM
- A reference to where the matter is disclosed in the financial statements

We would not support including audit procedures performed in the communication of CAM because such inclusion is likely to raise more questions than answers for users. Furthermore, we believe that including a conclusion about the resolution of CAM would be regarded as a piecemeal opinion by users, and therefore such conclusions should not be included.

Page 15/18 to the Comment Letter to the PCAOB, dated December 11, 2013

**15. Would including the audit procedures performed, including resolution of the critical audit matter, in the communication of critical audit matters in the auditor's report be informative and useful? Why or why not?**

As noted in our response to Question 14, we do not believe that including the audit procedures performed would be useful due to the fact that users will not understand that the description of the procedures would never be complete (and therefore this would raise more questions than answers to users). In addition, addressing the resolution of CAM would be construed by users as a piecemeal audit opinion, which we believe ought to be avoided.

**16. Are the factors helpful in assisting the auditor in determining which matters in the audit would be critical audit matters? Why or why not?**

**17. Are there other factors that the Board should consider adding to assist the auditor in determining which matters in the audit would be critical audit matters? Why or why not?**

We regard the factors not to be particularly useful; as long as the criteria for identifying CAM are clear as noted in our response to Question 14, we believe that such factors are not necessary. In particular, we note the following:

- The factor listed in a. on page A5-30 (degree of subjectivity) is already covered by the criteria we note in (a) and (c) in our response to Question 14, but in a manner linked to significant risks of material misstatements and management and auditor judgment.
- The factor listed in b. on page A5-30 (the audit effort required) may not be indicative that a matter has been resolved conclusively; users are not interested in matters that have been conclusively resolved, even if they required considerable audit effort.
- The factor listed in c. on page A5-31 (difficulty in obtaining sufficient appropriate audit evidence) is already covered by the criteria we note in (c) in our response to Question 14.
- The factor listed in d. on page A5-31 (severity of control deficiencies) is covered by the criteria we note in (a) in our response to Question 14.
- The factor listed in e. on page A5-32 (change in risk assessment and procedures) does not imply that this is necessarily of interest to users – particularly if the evidence obtained as a result is conclusive and therefore not critical.

Page 16/18 to the Comment Letter to the PCAOB, dated December 11, 2013

- The factor listed in f. on page A5-33 (nature and significance of corrected misstatements) is not of interest to users once conclusively corrected,
- The factor listed in g. on page A5-33 (extent of specialized skill or knowledge) would not be relevant to users when that skill or knowledge led to the conclusive resolution of the matter.
- The factor listed in h. on page A5-33 ( nature of consultations outside engagement team) would not be of interest to users when the results of such consultations are conclusive.

Overall, we have come to the conclusion that it is more important to get the criteria for the determination of CAM “right” than to list factors.

Hence, we do not believe that additional factors are necessary either.

- 18. Is the proposed requirement regarding the auditor's documentation of critical audit matters sufficiently clear?**
- 19. Does the proposed documentation requirement for non-reported audit matters that would appear to meet the definition of a critical audit matter achieve the Board's intent of encouraging auditors to consider in a thoughtful and careful manner whether audit matters are critical audit matters? If not, what changes should the Board make to the proposed documentation requirement to achieve the Board's intent?**
- 20. Is the proposed documentation requirement sufficient or is a broader documentation requirement needed?**

We believe that the proposed requirement is sufficiently clear, but we do not support the notion that auditors should be documenting matters considered for inclusion in CAM that were subsequently rejected. This list could be very long and would lead to the PCAOB second-guessing the list with hindsight. We believe that the documentation requirement is otherwise sufficient and that a broader requirement is not needed.

- 24. Are there specific circumstances in which the auditor should be required to communicate critical audit matters for each period presented, such as in an initial public offering or in a situation involving the issuance of an auditor's report on a prior period financial statement because the previously issued auditor's report could no longer be relied upon? If so, under what circumstances?**



Page 17/18 to the Comment Letter to the PCAOB, dated December 11, 2013

We believe that the auditor should first and foremost concentrate on those critical audit matters arising from the audit of the current period, even in the case of comparative financial statements, when the auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year's audit.

Nevertheless, due to the fact that these critical audit matters are likely to recur in the risk assessment of the audit of financial statements and internal control report year on year, there might be a need to consider whether critical audit matters of the previous period remain crucial audit matters in the current period.

**26. What challenges might be associated with the comparability of audit reports containing critical audit matters? Are these challenges the same for audits of all types of companies? If not, please explain how they might differ.**

It is likely that users will look for comparability of reports in particular industries or where circumstances giving rise to critical audit matters are pervasive. However, such reporting is intended to be non-boiler plate and specific to the audit on the financial statements and internal control report of a specific period, so comparability cannot be an overriding goal – rather information useful to users about the audit should be the overriding goal.

**27. What benefits or unintended consequences would be associated with requiring auditors to communicate critical audit matters that could result in disclosing information that otherwise would not have required disclosure under existing auditor and financial reporting standards, such as the examples in this Appendix, possible illegal acts, or resolved disagreements with management? Are there other examples of such matters? If there are unintended consequences, what changes could the Board make to overcome them?**

There may be circumstances when law or regulation effectively prohibits the dissemination of information by the auditor. In these cases, the draft needs to recognize that there may be legitimate limitations on what can be included in CAM. For example, law or regulation may effectively preclude the reporting of identified or suspected fraud or non-compliance with law or regulation.

Page 18/18 to the Comment Letter to the PCAOB, dated December 11, 2013

#### Questions Related to Section VI:

**29. Is it appropriate for the Board to include the description of the circumstances that would require explanatory language (or an explanatory paragraph) with references to other PCAOB standards in the proposed auditor reporting standard?**

**30. Is retaining the auditor's ability to emphasize a matter in the financial statements valuable? Why or why not?**

We believe that it would be appropriate to retain the concept of emphasis of matter paragraphs and to introduce the concept of other matter paragraphs in line with ISA 706 as issued by the IAASB, even when the auditor is required to communicate CAM. In this respect it is important for the PCAOB to clearly differentiate these from CAM. The reason is that the definition (whether that proposed in the draft or our proposed definition) of CAM will not cover all of the circumstances for which emphasis of matter and other matter paragraphs can be used. It is therefore entirely appropriate that the former be retained and the latter introduced.

**31. Should certain matters be required to be emphasized in the auditor's report rather than left to the auditor's discretion? If so, which matters? If not, why not?**

**32. Should additional examples of matters be added to the list of possible matters that might be emphasized in the auditor's report? If so, what matters and why?**

The only matter that ought to require emphasis is the identification of substantial doubt with respect to whether the entity will continue to operate as a going concern. However, given the IAASB's direction on this matter, once FASB has completed its relevant accounting standards on this matter, the PCAOB may wish to consider whether going concern reporting requires a separate section rather than an emphasis of matter.

We do not believe that more matters should be added to the list of possible matters that might be emphasized.

#### Appendix 6 of the Draft

We note our response to Question 6 of Appendix 5 of the draft, which summarizes our views with respect to the requirements for auditor responsibility for other information.