

PREPARED REMARKS OF

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PUBLIC MEETING ON THE AUDITOR'S REPORTING MODEL OF THE PCAOB – APRIL 3, 2014

Chairman Doty, members and staff of the PCAOB, the SEC, the FASB and others: I appreciate the opportunity to provide feedback today on the Board's proposed auditing standards related to the auditor's reporting model and other information.

First, let me recognize that these proposals represent the culmination of several years' work by the PCAOB that has taken place in the context of a global re-examination of the auditor's reporting model with an objective of making the auditor's report more informative. I commend the PCAOB for this effort and applaud the continued outreach, including this public meeting, to seek feedback from all stakeholders. As the Board has noted, the auditor's current pass/fail model is still highly valued; therefore, it is extremely important for the Board to consider the feedback from all stakeholders to look for ways the audit report and the role of the auditor can evolve to better meet the needs of stakeholders today and minimize any unintended consequences.

Speaking on behalf of PwC, we support changes to the auditor's report, including reporting with respect to other information, that will be responsive to feedback while (1) maintaining or improving audit quality (2) avoiding the auditor becoming the original source of information about the company and (3) ensuring the benefits exceed the costs. I believe these proposals represent a strong step in how we can enhance the current auditor's reporting model. In addition, we are challenging ourselves to continuously explore ways to enhance the role of the auditor beyond what the profession does today in order to address the evolving needs and complexity of the global capital markets.

While we believe there is much in the Board’s proposals that has merit, we also have concerns that some of the fundamental changes included in the proposals pose significant challenges. Today I will describe certain of these challenges and then offer suggestions that we believe will still achieve the intended outcomes of the proposals while mitigating the unintended consequences. I will briefly touch on Critical Audit Matters and then focus my comments on Other Information.

Critical Audit Matters

We understand the focus of this panel is on other information; however, our comment letter also addressed critical audit matters. While we support including critical audit matters in the auditor’s report, we believe they should be limited to matters that were material to the financial statements and that resulted in the most significant interaction with the audit committee. We believe these changes, and the others we suggest in our comment letter, would add meaningful information to the audit report while not placing the auditor in the position of being the original source of information about the company. It will also minimize the potential that including critical audit matters in the audit report will chill the dialogue between auditors and management, something which could have an adverse effect on audit quality.

Other Information

Now, let me turn my attention to the proposed “Other Information” standard.

We support the Board’s intent to enhance the existing standard by requiring communication about the nature of the auditor’s responsibility for other information in the auditor’s report. However, we believe the proposed standard as drafted will increase rather than decrease the expectation gap, and risk inconsistent execution by the use of language that is ambiguous and susceptible to varying interpretation. In addition, we believe the proposed other information standard will result in a

significant increase in audit effort, particularly with respect to information not directly related to the audited financial statements with a corresponding significant increase in costs that in our view will exceed the benefits. To be clear, we are not opposed to enhancing the performance standard beyond what it is today if there is a market demand for such an enhancement. However, enhancing the performance standard will, by definition, require additional work which will increase cost. It is our understanding that the intent of the Board with this standard was to have the auditor report on other information generally based on the level of work performed under existing practice. If that is the objective, we believe certain changes should be made to the proposed standard as I'll describe.

An example of language that is ambiguous and susceptible to varying interpretation is the use of "evaluate" in the proposed standard which could be misread to mean the auditor is expressing an opinion on the other information or performing audit-type procedures. The term "evaluate" is more commonly associated with the auditor's responsibility in an audit to determine whether the evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.

We recommend replacing the proposed performance standard of "read and evaluate" with one that is more likely to result in consistent execution and more efficient in terms of the value provided for the effort involved. Specifically, we believe the proposed other information standard should include an overall requirement that the auditor read all of the other information regardless of whether the other information is directly related to the audited financial statements. The auditor should then perform a prescriptive set of procedures, similar to comfort letter procedures, with respect to material other information directly related to the audited financial statements.

Finally, we recommend the language in the audit report explicitly describe the limited procedures the auditor performed, as opposed to a conclusion, thereby decreasing the expectation gap and eliminating the practical challenges associated with including a conclusion.

If stakeholders would find value, and demand exists, for the auditor to perform procedures on nonfinancial information, then perhaps a separate attestation engagement with separate reporting on other information could be considered. For example, an attestation standard exists today related to Management's Discussion and Analysis. Alternatively other attestation standards could be developed with respect to sections within Management's Discussion and Analysis within the auditor's expertise.

Summary

In closing, I'd again like to thank you for this opportunity to provide feedback on the Board's proposals. The recommendations I have outlined today, and the others provided in our comment letter, are intended for the proposals to meet their intended outcomes while minimizing unintended consequences. These proposals represent a strong step in how we can enhance the current auditor's reporting model and I look forward to continuing the dialogue as we evaluate how we can further enhance the role of the auditor in the capital markets beyond what we do today.