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Via e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

Re: Docket 034: Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments

Ladies and Gentlemen:

Tim Hortons Inc. ("Tim Hortons" or "we") appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board (the "PCAOB") with respect to its Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments.

Tim Hortons is one of the largest quick service restaurant chains in North America by market capitalization and the largest in Canada based on system-wide sales and number of locations. Our common shares are listed on the Toronto Stock Exchange and the New York Stock Exchange. We file annual reports on Form 10-K, quarterly reports on Form 10-Q and periodic reports on Form 8-K with the U.S. Securities and Exchange Commission (the "SEC") as well as with Canadian securities regulators.

We share the PCAOB's goal of improving the quality and transparency of financial reporting, but we are concerned about certain aspects of the new proposals, as described below.

#### Critical Audit Matters

The proposed auditing standard entitled, *The Auditors Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion*, requires the auditor to disclose "critical audit matters" in the auditor's report. Critical audit matters are those that: involve the most difficult, subjective or complex audit judgments; pose the most difficulty to the auditor in obtaining sufficient appropriate evidence; or pose the most difficulty in forming an opinion on the financial statements. The description of critical audit matters in the auditor's report would require the auditor to: identify the critical audit matter; describe the considerations that led the auditor to determine that the matter is a critical audit matter; and refer to the relevant financial statement items and disclosures that relate to the critical audit matter, when applicable.

We are concerned that this:

- (1) could require auditors to disclose information that is not required to be disclosed by the company and may be of a sensitive or confidential nature;
- (2) could shift the role of the auditors from attesting information provided by the company to becoming an original source of disclosure, with negative effects for companies, auditors and investors; and
- (3) could result in increased costs, from additional auditor procedures, that in our opinion would greatly outweigh any actual or perceived benefits to investors, companies or regulators.

*1. Auditor Disclosure of Information Not Required to Be Disclosed By the Company*

Critical audit matters would include, not surprisingly, those issues that involve the most sensitive judgments for the company, including items that are not required to be disclosed by the company under existing accounting and regulatory requirements. For example, critical audit matters could include the resolution of a significant deficiency in internal control over financial reporting, the existence or results of an internal investigation, alternate considerations for accounting treatment, materiality judgments, or similar matters that are not required to be disclosed by the company in reports filed with the SEC. In many cases, these are highly sensitive items that the company is not currently required to disclose. In the case of an internal investigation, for example, the effectiveness of the investigatory process may depend on the assurance of confidentiality for certain communications; in other cases, the information may be competitively sensitive.

Requiring disclosure of a critical audit matter that is not required to be disclosed by the company changes the disclosure regime for companies without giving due consideration to the policies permitting nondisclosure by the company. Knowing that the auditor may be required to disclose confidential information may cause company officials to limit their discussions with auditors, and may limit the willingness of audit committee members to hold frank and candid discussions regarding sensitive topics during their meetings. The chilling effect on communications between the company and its auditors and potentially during audit committee meetings, could impede the audit process and potentially result in lower quality audits.

*2. Shifting the Role of Auditors from Attestation to Original Source of Disclosure*

Requiring auditors to disclose critical audit matters could create confusion over the roles of auditors and the company and interfere with effective communication between the auditors, on the one hand, and the company and its audit committee, on the other hand.

An essential feature of the reporting system governing public companies is that the company is responsible for disclosure about the company and is responsible for its disclosure controls and procedures, just as it is responsible for preparing its own financial statements. The company's disclosures are made by management through specific policies and procedures, including a disclosure committee and a

comprehensive disclosure policy, and under the oversight of the company's audit committee and full board of directors. The systems of internal control over financial reporting are the responsibility of management as well. The role of the auditor is to attest to certain information provided by management and to report separately to the audit committee. The current content of the auditor's report on the financial statements of the company, and management's assessment of the company's systems of internal control, reflect the fact that the auditor is not responsible for the reporting of specific information concerning the company. Rather, the auditor's role is to attest that overall financial results are free from material misstatements and whether effective internal controls over financial reporting are maintained in all material respects.

The proposals are not intended to change the role of the auditor from attestation to being an original source of disclosure concerning the company; they are intended to require the auditor to discuss matters pertaining to the audit process. We nonetheless believe that requiring the auditor to address critical audit matters in the audit report in the manner contemplated by the proposed standard will, in fact, require the auditor to make substantive disclosures concerning the company and will thus change the role of the auditor in ways that will not benefit companies, auditors or investors.

A frequent problem will be the development of two sets of disclosures of the same facts, one made by the company and the other made by the auditor. This poses the substantial risk of dueling narratives concerning the company on matters critical to it.

The fact that the auditor will become, in effect, a source for substantive disclosure concerning the company may increase the auditor's liability to investors, with the role of the auditor subtly shifting in the minds of investors. The auditor's need to protect itself from this liability is likely to affect the nature and substance of its disclosures. This could cause the auditor to, among other things, err on the side of over-inclusiveness and highlight issues involving subjective accounting and materiality judgments. In the alternative, auditors may fall back on standardized, boilerplate disclosures that vary little from company to company.

Whatever the nature of the auditor's disclosure, however, the fact that there will be two sets of disclosures about the same matters, driven by differing standards and interests, is likely to change the dynamics between the auditor and the company. This, in turn, is likely to have a chilling effect on communications between the company and the auditor, resulting in a more difficult audit process and potentially lower quality audits.

Determining what is a critical audit matter and how it should be disclosed will require the auditor to make significant subjective judgments that have not been part of the auditor's role in the past. The high degree of subjectivity could lead to a loss of investor confidence in the auditor's report.

### *3. Cost/Benefit Analysis*

The additional responsibilities of the auditor with respect to critical audit matters will increase audit costs. Review and comment on the critical audit matter disclosure will also result in increased costs in terms of management time and legal costs, and will place increased time burdens on audit committee members.

The increased costs of critical audit matter disclosure, in our opinion, greatly outweigh any related benefits. While the volume of disclosure will increase, there is little indication that the quality of

disclosure will improve. Instead, investors will face disclosure overload, with long boilerplate narratives and the confusion of largely duplicative disclosure. Much of the discussion of critical audit matters will repeat matters already disclosed in the MD&A or financial footnotes, and investors will find it burdensome and duplicative to review all three sets of disclosure. In addition, disclosure may be required of matters that, despite their complexity, are not material to the company, which may result in investor confusion.

#### Other Information

The proposed audit standard entitled, *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*, requires the auditor to "review and evaluate" other information included in or incorporated by reference in the company's annual reports filed with the SEC, such as selected financial data, MD&A and exhibits to the annual report. The auditor is then required to explain its responsibilities with respect to such information in the audit report. Under the current standard (AU Section 550), the auditor has a responsibility to "read and consider" other information in documents that contain the audited financial statements and related auditor's report, but there is no related reporting requirement to describe the auditor's responsibility with respect to other information. In our view, the additional work that the auditor may need to do to be satisfied that it has fulfilled its obligations under the enhanced standard will add to the audit costs without improving the quality of disclosure and may require the auditor to make subjective judgments about company disclosure that have not been part of the auditor's role to date.

#### Conclusion

For all of the foregoing reasons, we have significant concerns about the proposed auditing standards. Tim Hortons thanks the PCAOB for this opportunity to share its views.

Very truly yours,



Jill E. Aebker  
Executive Vice President, General Counsel  
& Corporate Secretary

cc: Lisa J. Coulman, PWC