



Via Email

April 10, 2014

Phoebe Brown
Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: *PCAOB Rulemaking Docket Matter No. 034*¹

Dear Ms. Brown:

The purpose of this letter is to follow-up on a question I was asked as a panelist at the Public Company Accounting Oversight Board's ("Board") April 2, 2014 meeting on the Auditor's Reporting Model ("Meeting"). The question sought more details on the Council of Institutional Investors' ("CII") proposed "modest revision"² to the Board's *Proposed Auditing Standards – The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* ("Proposal").³

Attached to this letter is a marked version of paragraphs 7, 11b, and A2 of the Proposal.⁴ The proposed revisions to those paragraphs illustrate the modest revision described in my opening statement at the Meeting,⁵ and in CII's comment letter in response to the Proposal.⁶

Please feel free to contact me directly with any questions at 202.261.7081 or jeff@cii.org.

Sincerely yours,

Jeff Mahoney
General Counsel

Attachment

¹ PCAOB Release No. 2013-005 (Aug. 13, 2013), available at <http://sddco.com/wp-content/uploads/5-PCAOB-Rulemaking-Docket-Matter-No.-034-Aug-13-20131.pdf>.

² Jeff Mahoney, Opening Remarks at Public Company Accounting Oversight Board Public Meeting on the Auditor's Reporting Model 2 (Apr. 2, 2014), http://pcaob.us/Rules/Rulemaking/Docket034/ps_Mahoney.pdf [hereinafter Remarks]; Letter from Jeff Mahoney, General Counsel, to Phoebe Brown, Office of the Secretary 3 (Dec. 16, 2013), http://www.cii.org/files/issues_and_advocacy/correspondence/2013/12_16_13_CII_letter_PCAOB_docket_034_proposed_auditing_standards.pdf [hereinafter Letter].

³ PCAOB Release No. 2013-005 at 1.

⁴ *Id.* at A1-6, 8 & 14.

⁵ Remarks, *supra* note 2, at 2; Letter, *supra* note 2, at 3.

Critical Audit Matters

Determination of Critical Audit Matters

7. The auditor must determine whether there are any critical audit matters in the audit of the current period's financial statements based on the results of the audit or evidence obtained.^{16/}

Note: It is expected that in most audits, the auditor would determine that there are critical audit matters- and that those matters would include, at a minimum, management's significant accounting judgments and estimates.

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11. For each critical audit matter communicated in the auditor's report the auditor must:^{21/}

- a. Identify the critical audit matter;
- b. Describe the considerations that led the auditor to determine that the matter is a critical audit matter; and

Note 1: For example, if the auditor identified the valuation of financial instruments with little, if any, market activity at the measurement date as a critical audit matter because the valuation involved the most difficult, subjective, or complex auditor judgments, then communication of that critical audit matter in the auditor's report must describe the considerations that led the auditor to determine that the matter is a critical audit matter, which might relate to the high degree of measurement uncertainty or the significant judgments and estimates involved.

Note 2: For management's significant accounting judgments and estimates, communication of those critical audit matters in the auditor's report also must describe the auditor's insights on, and assessments of, management's significant accounting judgments and estimates, including the degree of aggressiveness or conservatism of those judgments and estimates, and whether the related reported amounts are, in the auditor's judgment, within a reasonable range.^{22/}

²² See Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees 15 (1999), http://www.chugachelectric.com/pdfs/agenda/fcagenda_051403_ixd.pdf (Recommending that "outside auditor discuss with the audit committee . . . such issues as . . . [the] degree of aggressiveness or conservatism of the company's . . . underlying estimates and other significant decisions made by management in preparing the financial disclosure and reviewed by outside auditors.").

- c. Refer to the relevant financial statement accounts and disclosures that relate to the critical audit matter, when applicable.

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APPENDIX A – Definition

A1. For purposes of this standard, the term listed below is defined as follows:

A2. Critical audit matters – Those matters the auditor addressed during the audit of the financial statements 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 an opinion on the financial statements.

Note 1: “Critical audit matters,” as defined, would include, at a minimum, management’s significant accounting judgments and estimates.

Note 2: Use of the word “most” is not intended to imply that only one matter under each criteria would qualify as a critical audit matter. Depending on the facts and circumstances of the audit, there could be several critical audit matters. Also, an audit matter could meet one, two, or all three of the criteria in the definition.