



11 December 2013

Our ref: ICAEW Rep 172/13

Your ref: PCAOB Rulemaking Docket Matter No. 034

Office of the Secretary
PCAOB
1666K Street NW
Washington
DC20006-2803

Dear Sir

PCAOB Release No 2015-005: The PCAOB's Auditor Reporting Proposals

ICAEW is pleased to respond to your request for comments on:

PCAOB Release No.2013-005:

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.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

PCAOB RELEASE NO 2015-005: THE PCAOB'S AUDITOR REPORTING PROPOSALS

Memorandum of comment submitted in December 2013 by ICAEW, in response to the following PCAOB consultation published in August 2013:

PCAOB Release No 2015-005:

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.

Contents	Paragraph(s)
Introduction	1
Who we are	2-4
Major points - A: Auditor Reporting	5-18
Responses to specific questions	19-61
Major points - B Other Information	62-70

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the following auditor reporting proposals published by the PCAOB in August 2013, a copy of which is available from this [link](#):

PCAOB Release No 2015-005:

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;

Related Amendments to PCAOB Standards.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Audit and Assurance Faculty is a leading authority on external audit and other assurance activities and is recognised internationally as a source of expertise on audit issues. It is responsible for technical audit and assurance submissions on behalf of ICAEW as a whole. The faculty membership consists of nearly 8,000 members drawn from practising firms and organisations of all sizes from both the private and public sectors. Members receive a range of services including the monthly Audit & Beyond newsletter.

MAJOR POINTS - A: AUDITOR REPORTING

Investors would benefit from renewed efforts by standard-setters to converge auditing standards on auditor reporting

5. We are particularly grateful for this opportunity to comment on the PCAOB's auditor reporting proposals. The changes that will take place in auditor reporting over the next few years are unparalleled, and they constitute a rare, once in a generation opportunity to enhance the transparency of the audit process and investor confidence in the value of audit. We encourage the PCAOB, as we have encouraged other standard-setters, to seize this opportunity.
6. The PCAOB is an excellent position to exercise leadership in this area. We urge it and other standard-setters to take whatever steps are necessary to ensure that their auditor reporting requirements benefit investors, and are seen to do so, by streamlining those requirements globally. The growth in cross border capital flows over the last twenty years mean that the current, entrenched diversity in auditor reporting practices no longer reflects the needs of US and other global investors.
7. In our 30 September 2011 response to the PCAOB on its Concept Release on possible revisions to auditor reporting standards (Rep 91/11), we noted the effect of different corporate governance practices in different jurisdictions on convergence. We encouraged the PCAOB

and IAASB to be diligent in their attention to each other's work in this area and urged them to co-operate as much as they could on their respective consultations. We remain hopeful that both bodies will seek further dialogue before finalising their proposals because we firmly believe that there is more scope for convergence.

8. Genuine convergence achieved through dialogue and understanding will help raise standards of auditing globally. Standard-setters such as the PCAOB can, if they chose to do so, drive this convergence in the interests of investors. If they do not, international standard-setters risk being ignored locally, and national standard-setters will simply impose additional costs on local investors without corresponding benefits, and may weaken their own position internationally.
9. The methodologies of firms required to report under UK, US and international standards are based on ISAs. We understand that a principal objective of their field testing in this area is to establish the extent to which the requirements and proposals under the different regimes can be accommodated either within one audit report or with a minimum of variation across different audit reports. We also understand that they are finding that in most cases, there are no significant reporting differences when different reporting regimes are applied to the same companies. Risk management dictates that firms will seek to align their reports across different regimes as far as possible.
10. In our recent response to IAASB on its auditor reporting proposals, we urged it to take a pragmatic approach by working directly with other major players, especially the PCAOB, in order to achieve as much global consistency as possible. We now also urge the PCAOB, as the standard-setter in the largest capital market in the world, to take positive steps to deepen its dialogue with IAASB.
11. Leadership amounts to a great deal more than acting unilaterally and if leading standard-setters do not work together on these radical changes, there is a real risk that history will judge their efforts to find the right answers, however well-intentioned, to have been a waste of resources by people who should have known better. Together, leading standard-setters have the opportunity to leave a lasting legacy of genuine improvements in auditor reporting standards that will help rebuild trust and confidence in the financial reporting supply chain. Both are sorely needed even in economies that are beginning to recover, and they remain in short supply globally.

The PCAOB's consultation

12. We congratulate the PCAOB on its proposals. They are a substantial improvement on the preceding Concept Release not least because the basic principles, if not the detail, are aligned with the direction of travel internationally.
13. We have answered most of the PCAOB's questions regarding the proposed standard on auditor reporting. We have covered those issues that we believe to be important points of principle on other information. There is a total of 87 questions in the current consultation and with the best will in the world, developing a high quality response to all of them is a tall order, even for well-resourced respondents.
14. We encourage the PCAOB, going forward, to consider how best to obtain the widest range of input possible, especially on points of principle. Specifically, it might consider whether questions can be consolidated to make the overall task seem less daunting to those respondents with fewer resources, such as investors in smaller entities. We doubt that the PCAOB intends to over-burden its respondents with an excess of questions, but we fear that in this particular case, given the number of bodies that have recently published parallel and consecutive consultations and proposals, a certain amount of 'auditor-reporting-response-fatigue' is setting in. We therefore caution against taking silence in response to specific questions for assent to the proposals.

Apparent differences between the proposed reporting regimes

15. We encourage the PCAOB to do what it can to ensure that the apparent areas of difference between the different proposed reporting regimes are minimised. US investors send large amounts of money abroad, and foreign investors spend large amounts of money in the US. Neither group, however different their needs and desires, is likely to have the time or inclination to distinguish between 'key' audit matters and 'critical' audit matters, whatever the purported virtues of either regime, particularly where dual listed entities include audit reports prepared under both local and PCAOB standards in their filings.
16. Investors are well aware that wording differences in audit reports will not, in the long run, result in any significant differences in what is communicated in audit reports. The depth and quality of auditor reporting will be driven less by detailed wording differences in auditing standards, and more by investor demands, the regulatory approach to monitoring auditors, the approach taken by reporting firms and common practices that develop within and across industry sectors in the next few years. We think it unlikely that it will become clear that reporting under the PCAOB's regime is superior to reporting under other regimes, or vice versa, regardless of their respective virtues on paper.
17. In the UK, the FRC has chosen to introduce new reporting requirements before an international consensus has emerged. ICAEW is an international body and we have made our commitment to ISAs clear to the FRC. Our support for IAASB's proposals is not unqualified though and we have made it clear to IAASB that we believe its proposals could be improved and that IAASB must consider the need to make pragmatic changes, if they are necessary to achieve global consistency. Auditors and companies are making these changes for the benefit of investors and it is incumbent on all concerned to do whatever they can to make sure that investors do in fact benefit.

Auditor reporting is only the start

18. We note above the importance of the changes currently taking place in auditor reporting. This is the beginning of a journey whose outcome depends on the willingness of all of those with an interest in auditor reporting to co-operate constructively. Investors are a heterogeneous group with a range of information needs and we encourage them to lead the way by stepping up their level of engagement with audit committees and being clear about what they need to know. We encourage regulators to focus on fostering genuine innovation in communications as well as sanctioning non-compliance, and we encourage audit committees to seek better quality communications with both auditors and investors. Last, but not least, we encourage auditors to play their part by producing genuinely informative, high-quality audit reports and by resisting pressures to hide behind boilerplate.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

Question Related to Section II:

Q1. 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?

19. The objectives summarise the requirements of the proposed standard. To that extent they assist auditors in understanding the requirements. We have noted in past responses to the PCAOB and IAASB our belief that objectives should be more than mere summaries of the requirements, and that they should show the outcome that is to be achieved as a result of complying with the requirements. Real objectives, such as improving communications or enhancing transparency, are hard to measure, but they are a better measure than measuring whether auditors have complied with the requirements. At present, achievement of the objective is synonymous with having complied with the requirements.

Questions Related to Section IV:

Q2. 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?

20. There are no others to whom the auditors' report should be required to be addressed.

Q3. 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?

21. We do not believe that enhancing descriptions of auditor responsibilities will prove to be critical to enhancing transparency or improving communications with investors. There are no additional auditor responsibilities that should be included to further describe the nature of an audit.

Q4. 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?

22. We do not believe that requiring auditors to include a statement on their independence will result in any significant changes to their behaviour. Nevertheless, confidence in the independence of auditors is important and a statement in the auditors' report to this effect is unobjectionable, if superfluous.

23. The fact that the word 'independent' already appears in the audit report means that the bald statement to the effect that auditors are independent, a little further down in the report, manages to say very little and look repetitive at the same time. The statement does not add much to the word in the title and we have doubts as to whether it will in fact improve confidence in auditor independence. Merely stating that auditors are required to be independent does not make them so. The auditors' report should not be cluttered with poor quality information, particularly if it is repetitive.

Q5. 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?

24. We have yet to be convinced that such evidence as is available regarding audit firm rotation clearly shows that there is any relationship between auditor tenure and audit quality, regardless of the proxies that are used to measure it. The evidence, such as it is, is mixed. Nevertheless, while we agree that information regarding auditor tenure is of *interest* to investors, we do not believe that the auditors' report is the right home for it. Decisions regarding when and whether to replace auditors are based on policies that are in turn based on the reporting entity's corporate governance strategy. A better home for this information might therefore be the MD&A, or its equivalent.

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?

25. The terms 'mergers, acquisitions and changes in ownership structure' do not cover all of the possible changes in firms either in substance or in form. We doubt any watertight form of words could be devised to cover every eventuality and without an explanation of the basis on which the calculation had been performed, misunderstandings and inconsistencies will be hard to avoid. There is certainly scope for genuine disagreement as well as abuse and we see little value in debates about whether a firm has been in place for thirty, fifty or eighty years, when the firm name, staff and offices as well as the audited entity itself have changed out of all recognition during the shortest of these periods.

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?

26. We believe that the information about firms currently available outside the auditors' report is sufficiently widely available for investors to be able to make informed choices. We note above our belief that the auditors' report should not be cluttered with poor quality information, even if it is interesting.

Q6. 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?

27. The proposed description of the auditors' responsibilities for other information and the results of the evaluation of other information will make the report more informative and useful, but as we note in our major points on this issue below, we have serious reservations about the proposed requirements in this area.

Q7. Should the Board require a specific order for the presentation of the basic elements required in the auditor's report? Why or why not?

28. Yes, there should be a requirement for a specific order for the presentation of the basic elements required in the audit report. Audit reports are likely to be significantly longer under the new regime and a specific order will make it easier for experienced readers to navigate reports. We urge the PCAOB to align this order with the order proposed by IAASB as far as possible. Without this, reports will be less comparable.

Q8. 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?

29. There are no other changes to the basic elements the Board should consider adding at this time.

Q9. 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.

30. It is important that the costs of these changes are recognised. The example reports produced by the PCAOB are far longer than those proposed by IAASB or implemented by the UK's FRC. While the length of the report and the cost of producing it are not directly related, it is inevitable that the sheer length of some of these reports will, of itself, result in additional cost, regardless of the substance of what is actually reported. The most important issue here is not the absolute quantum of costs, even though they will be far from negligible, but the benefits which need to be evaluated by standard-setters in due course, particularly in terms of enhanced investor satisfaction.

Questions Related to Section V:

Q10. 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?

31. The auditors' communication of CAM will be relevant and useful to investors and other financial statement users if:

- investors continue to engage with audit committees and auditors, and are clear about what they want to know;
- auditors avoid boilerplate where possible;
- regulators, companies and investors do not drive auditors into the defensive reporting of boilerplate with threats of sanctions and litigation.

Q11. What benefits or unintended consequences would be associated with the auditor's communication of critical audit matters?

32. The main threat to enhanced transparency is that CAM disclosed will be irrelevant to investor needs, or will degenerate into boilerplate. We note in our main points above the behavioural changes needed among all stakeholders, and the fact that investors, audit committees and auditors need to step up their level of engagement with each other.

Q12. 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?

33. We do not believe that CAM as defined by the PCAOB and KAM as defined by IAASB are significantly different. The range, depth and detail of reporting will be similar, whichever regime is applied. Firms, needing to be efficient, will seek to align the requirements even if standard-setters do not.

34. IAASB's definition of KAM starts with the population of items communicated to the audit committee. The PCAOB casts a much wider net as a starting point and includes matters reviewed by the engagement quality control reviewer and matters included in the engagement completion document, as well as matters communicated to the audit committee. This list of potential issues for disclosure is, nevertheless, very likely to be whittled down quickly by applying the PCAOB's other requirements.

35. We understand that field testing within some firms suggests that CAM identified under the PCAOB's requirements are all matters already communicated to the audit committee. The PCAOB states that its wider net is intended to safeguard against auditors not communicating matters to audit committees to avoid having to classify them as potential CAM, but we believe that this is very unlikely in practice. If the PCAOB believes that its existing standards would somehow permit such important matters not to be communicated to the audit committee, which we doubt, there is a deficiency in existing standards that needs to be remedied. We therefore believe that the PCAOB can afford to consider the benefits of further alignment of its requirements in this area with those of IAASB. PCAOB's net of potential CAM is currently cast unnecessarily wide.

Q13. 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?

36. The disclosure of CAM is intended to benefit investors. Benefits have costs, and costs have to be absorbed somewhere. The additional time incurred on CAM is likely to have a neutral or beneficial effect on audit quality provided that the costs can be passed on to the audited entity. Where this is not possible, there will be a risk of an adverse effect on audit quality overall, i.e. a

risk that auditors will seek to cut costs elsewhere, in order to make up for the additional expenditure on CAM.

Q14. 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?

37. The proposed requirements regarding the auditors' determination and communication of CAM are reasonably clear.

Q15. 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?

38. We noted in ICAEW Rep 91/11 the need to cut clutter. While this is less of an issue in the US than it is elsewhere, the PCAOB would not wish to see US investors join the ranks of those jurisdictions in which investors have to navigate excessively lengthy and complex auditors' reports. It is clear, at least in Europe, that investors want better information, and not necessarily more information.

39. There is such a thing as too much information and we note below our belief that the example reports as they stand, are unwieldy. That said, auditors in the UK appear to be providing some high-level information of this nature voluntarily. If the PCAOB believes investors are calling for information about the procedures performed, it should consider whether to mandate it. If it chooses to do so, it should first make some effort to clear up some of the repetition in the existing examples and require auditors to report a summary of the principal procedures performed, rather than a full list.

Q16. Are the factors helpful in assisting the auditor in determining which matters in the audit would be critical audit matters? Why or why not?

40. IAASB's definition of KAM specifically refers to the use of auditor judgment. It is less prescriptive than the PCAOB's definition of CAM and includes more application material. The PCAOB's list of 8 factors to consider in paragraph 9 may encourage a checklist mentality and discourage the use of judgement. We understand that field testing in this area involves the use of spread-sheets with the factors across the top and 'high/medium/low' assessments in the respective columns for each potential CAM. We think the PCAOB could go further to allow for and encourage the use of judgement in this area.

Q17. 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?

41. Once again, we strongly urge the PCAOB to consider how it can align its requirements further with those of IAASB in this area.

Q18. Is the proposed requirement regarding the auditor's documentation of critical audit matters sufficiently clear?

42. IAASB's requirements for documentation focus on why KAM are KAM, with an option to describe why possible KAM were not considered to be KAM. PCAOB's requirements have more focus on documenting why possible CAM are not considered to be CAM, which seems to be more about preparing audit files for inspection than communicating information to investors. The requirements are tolerably clear, but they are not right.

Q19. 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?

43. We believe that auditors will invariably start with a very long list of potential CAM because of the subjective definition, and because of concerns regarding the approach taken by audit inspectors.

44. We understand that in field testing, the starting point under the PCAOB's requirements sometimes involves a very high number of potential CAM - over 100 in some cases. While these are very quickly whittled down, the need to document why something is not a CAM is a potentially onerous requirement. This is unlikely to make auditors more thoughtful or careful. Either the documentation requirement needs to be changed or the starting point for the determination of CAM needs to be narrowed, as suggested above.

Q20. Is the proposed documentation requirement sufficient or is a broader documentation requirement needed?

45. The proposed documentation requirement is potentially excessive, as noted above.

Q21. What are the additional costs, including indirect costs, or other considerations related to the auditor's determination, communication, and documentation of critical audit matters that the Board should take into account? Are these costs or other considerations the same for all types of audits?

Q22. What are the additional costs, including indirect costs, or other considerations for companies, including their audit committees, related to critical audit matters that the Board should take into account? Are these costs or other considerations the same for audits of both large and small companies?

Q23. How will audit fees be affected by the requirement to determine, communicate, and document critical audit matters under the proposed auditor reporting standard?

46. We note above our belief that there are additional costs associated with these requirements and that in some cases it may have an adverse effect on audit quality.

Q24. 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?

47. We do not comment on this question.

Q25. Do the illustrative examples in the Exhibit to this Appendix provide useful and relevant information of critical audit matters and at an appropriate level of detail? Why or why not?

48. The PCAOB's requirements for reporting CAM have resulted in some very unwieldy example audit reports that appear repetitive, pedantic and cumbersome. They are a hard read and as general communications, they do not score well. The PCAOB would do well to revisit the details of required disclosures in this area. They all include references to consultation with a 'national office' which may not be particularly meaningful to some investors: 'consultation with internal experts' might be more appropriate.

49. We note that the example reports in the UK proposals, which were useful in demonstrating the FRC's intentions, were dropped from the final standard to avoid boilerplate and artificially constraining the nature and style of reporting. We have suggested to IAASB that it follows suit.

Q26. 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.

50. There is a trade-off between boilerplate and consistency. Anything that does not use the same words is likely to be described as inconsistent and lacking in comparability and anything that does use the same words is likely to be described as boilerplate. The comparable and

consistent reporting of critical audit matters within the same companies and across different companies is not therefore necessarily desirable. Evaluating comparability and consistency in the absence of boilerplate is likely to be difficult. Not all boilerplate is bad. Auditors should not change the description of a CAM if the substance has not changed simply to avoid writing boilerplate. New investors not having read it before will find value in reading what to others is boilerplate.

Q27. 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?

51. It is inappropriate to require auditors to disclose information about the company that is not already disclosed by management. We therefore encourage the PCAOB to work with other regulators to avoid such situations. The proposed requirements as they stand are very likely to result in auditors and companies working together, harder than they do now, to avoid the need to disclose illegal acts or similar matters in the audit report that are not disclosed elsewhere in the filing. This may be a good thing.

28. What effect, if any, would the auditor's communication of critical audit matters under the proposed auditor reporting standard have on an auditor's potential liability in private litigation? Would this communication lead to an unwarranted increase in private liability? Are there other aspects of the proposed auditor reporting standard that could affect an auditor's potential liability in private litigation? Are there steps the Board could or should take to mitigate the likelihood of increasing an auditor's potential liability in private litigation?

52. We do not comment on this question.

Questions Related to Section VI:

Q29. 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?

53. Yes, it is appropriate for the PCAOB to include the description of the circumstances that would require explanatory language or an explanatory paragraph.

Q30. Is retaining the auditor's ability to emphasize a matter in the financial statements valuable? Why or why not?

54. Yes, retaining the auditor's ability to emphasise a matter in the financial statements is valuable not least because it allows for the use of judgement, for auditors to deal with unusual situations in an appropriate manner, and for alignment with IAASB's requirements to be maintained.

55. We believe it would be helpful to provide guidance on situations in which a matter may both be a CAM and appropriate for inclusion as an emphasis of matter.

Q31. 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?

56. Matters to be emphasised in the audit report should be left to the auditors' discretion as far as possible.

Q32. 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?

57. Additional examples of matters that might be emphasised are not required, but the standard should emphasise the fact that an emphasis of matter is not a CAM.

Questions Related to Section VII:

Q33. Are the proposed amendments to PCAOB standards, as related to the proposed auditor reporting standard, appropriate? If not, why not? Are there additional amendments to PCAOB standards related to the proposed auditor reporting standard that the Board should consider?

Q34. What are the potential costs or other considerations related to the proposed amendments? Are these cost considerations the same for all types of audits? If not, explain how they might differ.

58. We do not comment on these questions.

Questions Related to Section VIII:

Q35. Are the proposed auditor reporting standard and amendments appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

Q36. Is the requirement of the proposed auditor reporting standard to communicate in the auditor's report critical audit matters appropriate for audits of brokers and dealers? If not, why not?

Q37. Since a broker or dealer may elect to file with the SEC a balance sheet and related notes bound separately from the annual audited financial statements, should the Board address situations in which the auditor may issue two different reports for the same audit of a broker or dealer? Why or why not?

Q38. Are the proposed auditor reporting standard and amendments appropriate for audits of investment companies? If yes, are there any considerations that the Board should take into account with respect to auditors' reports unaffiliated investment companies, as well as companies that are part of master-feeder or fund of funds structures?

Q39. Are the proposed auditor reporting standard and amendments appropriate for audits of benefit plans? If yes, are there any considerations that the Board should take into account with respect to audits of benefit plans?

Q40. Should audits of certain companies^{127/} be exempted from being required to communicate critical audit matters in the auditor's report? Why or why not?

59. We do not comment on these questions.

Questions Related to Section X:

Q41. Is the Board's effective date appropriate for the proposed auditor reporting standard? Why or why not?

60. We believe that the PCAOB's effective date for 2016 year-ends could be brought forward. While we would not expect discussions between companies and their auditors on the audit report to commence after the year-end, they would be addressed after planning has commenced. In the UK, the FRC provided a limited grace period which does not appear to have caused any significant difficulties, although the requirements are applicable to a much smaller population. There may be some merit in phasing in the requirements, firstly for large accelerated filers whose auditors have more resources to address the new requirements to help establish best practice, and then for all other issuers.

Q42. Should the Board consider a delayed compliance date for the proposed auditor reporting standard and amendments or delayed compliance date for certain parts of the proposed auditor reporting standard and amendments for audits of smaller companies? If so, what criteria should the Board use to classify companies, such as non-accelerated filer

status? Are there other criteria that the Board should consider for a delayed compliance date?

61. We do not comment on this question.

MAJOR POINTS - B: OTHER INFORMATION

62. The time is not yet right for auditing standard-setters to make significant changes to auditor responsibilities for other information.
63. Accounting standard-setters are currently grappling with several difficult and interrelated issues, all of which affect other information. Accounting standard-setters have specific projects on materiality and disclosures, including projects on materiality in the context of qualitative disclosures and on non-GAAP quantitative disclosures. Other information typically contains a large amount of both.
64. The projects undertaken by accounting standard-setters need to be progressed further before auditing standard-setters can address these difficult issues in earnest. Clarity regarding the materiality of qualitative disclosures and non-GAAP measures in other information is critical if auditors' responsibilities regarding other information are to be changed. These proposals, which would significantly extend auditor responsibilities, are quite simply a step too far at this time.
65. While IAASB may re-expose a revised ISA 720 in this area shortly, the proposed guidance is likely to be high level and auditors will be left to use their judgement in determining whether, for example, non-GAAP financial measures or qualitative disclosures are materially misstated or misleading. We did not support IAASB's proposals when they were first issued for public consultation for these and the other reasons, and are unable to support the PCAOB's proposals now for similar reasons.

The scope of the proposed other information

66. The scope of the proposed other information standard is not clear. Information is now linked electronically and cross-referenced to an extent never before possible, and we do not believe that the boundaries proposed are sufficiently clear. Cross-referenced exhibits include thousands of pages of legal agreements relating to mergers and acquisitions, for example, and we do not believe that the PCAOB intends auditors to include these within the scope of the audit or even within the scope of the required 'evaluation'.
67. While we understand some of the problems caused by the SEC's integrated disclosure system, it seems difficult to justify requiring auditors to consider other information in an annual report but not in a registration statement in an IPO, when users arguably place greater reliance on the other information.
68. Is it not appropriate to apply the proposed other information standard to information incorporated by reference. Much of that information is likely to lie outside the auditors' competence, it may be unclear who has responsibility for it, and auditors may have no relationship with those who do have responsibility.

Requiring auditors to evaluate other information for material misstatements of fact

69. We have serious reservations about the PCAOB's and IAASB's current proposals to require auditors to 'evaluate' other information for material misstatements of fact. We remain of the view that this is tantamount to requiring auditors to provide assurance on the other information. The proposed requirements would substantially increase the scope of the audit, its cost, and the expectation gap. The current requirements to 'read and consider' other information for material misstatements of fact represent a much lower hurdle. 'Evaluation' implies some benchmark against which auditors can perform the evaluation and no such benchmark exists.

Work on other information has always been a by-product of the audit of the financial statements and if standard-setters wish to change that, they must recognise the extent of work involved in providing a meaningful level of assurance on the front half of the annual report. We noted in Rep 9/11 our belief that there is merit in exploring the provision of assurance on the front half of the annual report, and we remain of that view.

- 70.** If the PCAOB does not intend to require auditors to provide assurance on the front half of the annual report, and we do not believe that it does, it needs to find some other form of words to express what auditors do. In practice, many auditors do a great deal more than the current standards require: they 'tick' statements that can be 'tied' to the financial statements and they often 'check' statements that cannot be ticked and tied, to other supporting evidence. It is after all in their interests to ensure that the audited financial statements do not go out accompanied by misleading or erroneous other information. But requiring auditors to 'evaluate' all of the other material, including the enormous amount of material now routinely incorporated by reference, while maintaining that this is part of the audit rather than a substantial separate engagement, is another matter altogether, partly because of the sheer volume of information covered, and partly because there are some important figures and statements in other information that cannot be 'ticked and tied' or 'checked' to anything at all, such as the Pillar 3 disclosures for banks.

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