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## PCAOB Proposes Changes to Auditor Reporting Standards

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On August 13, the Public Company Accounting Oversight Board issued its long-awaited proposed modifications to auditor reporting standards. The proposals follow a process that included a concept release issued over two years ago that discussed possible changes to the standard auditor's report to provide more useful information to investors. The PCAOB proposes two new standards, one addressing the content of the auditor's report, and the other imposing new auditor responsibilities regarding other information contained in an issuer's annual report on Form 10-K. The proposals are contained in an almost 300-page [release](#) and summarized in a shorter [fact sheet](#).

*Reporting Standard.* The proposed reporting standard would retain the current "pass/fail" system, under which the auditor provides either an unqualified opinion or a qualified, adverse or disclaimed opinion on an issuer's financial statements. It also retains many other elements of the current form of audit report. The auditor's report would be expanded to include more information, most notably a discussion of "critical audit matters" that would be specific to the particular audit. As explained by the PCAOB, the report "would focus on those matters the auditor addressed during the audit of the financial statements that involved the most difficult, subjective, or complex auditor judgments or posed the most difficulty to the auditor in obtaining sufficient appropriate audit evidence or forming an opinion on the financial statements." The report would also include new elements related to auditor independence, auditor tenure and the auditor's evaluation of other information outside the financial statements. The proposal also includes enhancements to the existing language in the auditor's report related to fraud and notes to the financial statements.

Notably, the proposed reporting standard does not include a requirement for an "auditor's discussion and analysis," a controversial idea that had been floated in the 2011 concept release. At the same time, it appears to require more than just expanded "emphasis paragraphs," which was another idea in the 2011 release.

*Other Information.* The other proposed reporting standard would expand the auditor's responsibilities regarding information contained in the issuer's annual report besides the financial statements, such as selected financial data, MD&A, and certain information incorporated by reference. Under the existing auditing standard, the auditor has a responsibility to "read and consider" other information in a securities filing, but it is not required to report on that review. The

auditor considers whether the other information is materially inconsistent with the information in the financial statements. The new standard would 1) apply the auditor's responsibility for other information specifically to an issuer's annual reports on Form 10-K; 2) add procedures for the auditor to perform in evaluating the other information based on relevant audit evidence obtained and conclusions reached during the audit; 3) require the auditor to evaluate the other information for a material misstatement of fact as well as material inconsistency with the financial statements; and 4) require communication in the auditor's report about the auditor's responsibilities for, and the results of, the auditor's evaluation of the other information.

The PCAOB has invited comments on the proposals, which are due December 11, 2013, and indicated that it plans to host a roundtable on the proposals in 2014.