

MEMO# 27728

November 25, 2013

Draft Comment Letter On PCAOB Auditor Reporting Model Proposal; Member Comments Requested By December 3

[27728]

November 25, 2013

TO: INTERNAL AUDIT ADVISORY COMMITTEE No. 8-13 RE: DRAFT COMMENT LETTER ON PCAOB AUDITOR REPORTING MODEL PROPOSAL; MEMBER COMMENTS REQUESTED BY DECEMBER 3

The Public Company Accounting Oversight Board has proposed sweeping changes to the auditor's reporting model for public companies, including investment companies. [\[1\]](#) The PCAOB has proposed two new auditing standards that would change the form of the audit opinion and clarify the auditor's responsibilities relating to information outside the financial statements that is included in the annual report filing. [\[2\]](#) The proposed changes are intended to make the auditor's report more informative, thus increasing its relevance and usefulness to investors and other financial statement users. A draft comment letter from the Institute and the Independent Directors Council is attached and summarized below. The draft letter addresses application of the two new auditing standards to audits of investment companies.

Auditor Reporting Standard

The draft letter opposes disclosure of critical audit matters and argues that such disclosure would not provide useful additional information to fund investors. The letter indicates that critical audit matters in an investment company audit typically would be limited to auditing fair value measurements. The letter notes that investment companies currently provide extensive note disclosure regarding their fair value measurements and as a result, investors are well informed about extent of the fund's investment in securities that present difficult or subjective fair value measurements.

The letter argues that the manner in which critical audit matters are defined along with language in the proposal indicating most audits would involve critical audit matters would pressure auditors to communicate critical audit matters in virtually all audits. The draft letter indicates that the proposal would undermine the role of the audit committee and result in increased audit fees. The letter urges the PCAOB to perform outreach with fund investors to ensure that they see benefit in the proposed disclosures.

The draft letter supports the proposed changes to the auditor's report that would indicate that the auditor is independent, and that the auditor is responsible for providing reasonable assurance that the financial statements are free of material misstatement whether due to error or fraud. The draft letter does not object to the proposed disclosure of auditor tenure, but cautions that undue emphasis not be put on tenure, as it is only one of many factors that could influence audit quality. The draft letter seeks clarification of the measurement of auditor tenure in an investment company complex where funds may be organized as series trusts. The draft letter recommends that tenure be measured from the point in time when the auditor first audited any fund in the complex.

Other Information Standard

The draft letter recommends that the auditor's consideration of other information be limited to information included in the shareholder report that reasonably relates to the fund's financial statements. In particular, the auditor's responsibility for other information should be limited to management's discussion of fund performance, the expense example, and the graphic presentation of the portfolio. The letter recommends that the auditor have no responsibility for Form N-CSR as shareholders do not rely on information in that form to evaluate the performance of the fund. The draft letter also describes how Form N-CSR is typically produced and filed with the SEC only after the fund's shareholder report has been finalized, and as a result it is unclear how the auditor would be able to read and evaluate the form prior to signing off on the fund's financial statements.

If you have comments on the draft letter, please provide them to Greg Smith at smith@ici.org by Tuesday, December 3.

Gregory M. Smith
Senior Director of Fund Accounting and Compliance

[Attachment](#)

endnotes

[1] See Accounting/Treasurers Members [Memorandum](#) No. 27485 (August 22, 2013).

[2] The [proposed auditing standards](#), The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion and The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; PCAOB Release No. 2013-005 (August 13, 2013) are available on the PCAOB website.