

MEMO# 30075

July 27, 2016

Draft Comment Letter on PCAOB Auditor Reporting Model Reproposal; Member Comments Requested by August 3

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 14-16 RE: DRAFT COMMENT LETTER ON PCAOB AUDITOR REPORTING MODEL REPROPOSAL; MEMBER COMMENTS REQUESTED BY AUGUST 3

The Public Company Accounting Oversight Board recently repropoed an audit standard that would require auditors to include additional information in their reports intended to make them more informative for investors. [\[1\]](#) The Proposal retains the existing pass/fail model for auditor reports and requires auditors to include a description of “critical audit matters,” which would provide audit-specific information about especially challenging, subjective, or complex aspects of the audit as they relate to financial statement accounts and disclosures. Auditor reports for investment companies, other than business development companies, are exempt from the requirement to describe critical audit matters. The Proposal would also require the auditor to disclose the audit firm’s tenure in their reports. A draft comment letter from the Institute and the Independent Directors Council is attached and summarized below.

Please provide any comments you may have on the draft letter to Greg Smith (202/326-5851 or smith@ici.org) no later than Thursday, August 4.

Critical Audit Matters

The draft comment letter strongly supports the Board’s decision to exclude audits of investment companies from critical audit matter reporting. The letter argues that there would be little if any benefit to fund shareholders in light of funds’ purpose and structure. The letter notes that matters deemed to be critical for investment company audits would typically be limited to security valuation matters and that funds, pursuant to generally accepted accounting principles and SEC disclosure requirements, already provide extensive disclosure relating to security valuation. The draft letter also describes how different funds with the same fiscal year end often combine their shareholder reports. In these instances the auditor typically issues one auditor report that covers all the funds included in the shareholder report. The letter notes that reporting critical audit matters for some, but not

all of the funds included in a combined report may be confusing to shareholders.

Auditor Tenure

The draft letter expresses concern that reporting tenure in the auditor report may infer a relationship between auditor tenure and audit quality. In order to reduce the likelihood of any inappropriate conclusions on the relationship between auditor tenure and audit quality, the draft letter recommends that auditor tenure be disclosed in recently adopted PCAOB Form AP. When implemented, Form AP will provide investors with the name of the engagement partner for each audit in a searchable database. Tenure disclosure in Form AP will reduce the likelihood of any inappropriate conclusions on the relationship between tenure and audit quality.

The Proposal specifies that for an investment company that is part of a group of investment companies, the auditor's tenure would be measured from the year the auditor began serving consecutively as the auditor of any investment company in the group of investment companies. The draft letter supports the Proposal's methodology for measuring tenure, including its reliance on "group of investment companies" consistent with Section 12(d)(1)(G)(ii) of the Investment Company Act.

Internal Control over Financial Reporting

In the 2013 proposal, the Board sought comment on whether to require new explanatory language in the auditor's report in cases where the company is required to report on internal control over financial reporting (ICFR), but is not required to obtain an audit of ICFR. Certain companies, such as non-accelerated filers and emerging growth companies are required to report on ICFR, but are not required to obtain an audit of ICFR. In such instances, the Proposal would require the auditor's report to indicate that the company is not required to have, nor was the auditor engaged to perform, an audit of ICFR. The Proposal indicates that Board staff have observed that investment company auditor reports often include similar statements and requests comment on whether they should be required.

The draft letter recommends that auditor reports for investment companies be required to include a statement indicating that the auditor was not engaged to perform an audit of ICFR. The letter indicates that such a requirement would better inform investors that rely on auditor reports and increase consistency in auditor reports.

Gregory M. Smith
Senior Director of Fund Accounting and Compliance

[Attachment](#)

endnotes

[1] See Accounting/Treasurers Members Memorandum No. [29925](#) (May 23, 2016).

should not be considered a substitute for, legal advice.