



December 16, 2013

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

Via electronic mail: comments@pcaobus.org

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

Dear Ms. Brown:

I am writing on behalf of the Council of Institutional Investors, (“CII”) a non-profit association of pension funds, other employee benefit funds, endowments and foundations with combined assets that exceed \$3 trillion. CII is the leading voice for effective corporate governance and strong shareowner rights.²

The Council appreciates the opportunity to respond to the Public Company Accounting Oversight Board’s (“PCAOB” or “Board”) *Proposed Auditing Standards – 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 Amendments to PCAOB Standards* (“Release”).³ We commend the Board for continuing to pursue one of the most important recommendations contained in the U.S. Department of Treasury’s *Final Report of the Advisory Committee on the Auditing Profession – “to consider improvements to the auditor’s standard reporting model.”*⁴ Our detailed responses to select questions contained in the Release are included as an Attachment to this letter.

Our views on the Release are generally consistent with the views we expressed in response to the Board’s 2011 *Concept Release on Possible Revisions to the PCAOB Standards Relating to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards.*⁵ These views are derived from our membership-approved policies.

Our policies have long reflected the principle that “investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy

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 For more information about the Council of Institutional Investors (“CII”), please visit CII’s website at http://www.cii.org/about_us.

³ PCAOB Release No. 2013-005 at 1.

⁴ U.S. Department of the Treasury, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury VII:13* (Oct. 6, 2008), available at <http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf>.

⁵ Letter from Jeff Mahoney, General Counsel, CII, to Office of Secretary, PCAOB (Sept. 19, 2011), available at http://pcaobus.org/Rules/Rulemaking/Docket034/015_CII.pdf.

in a timely manner investors' information needs."⁶ Last fall, our membership reaffirmed that principle when approving substantial revisions to our policies on *Auditor Independence*.⁷ Those policies include the following provisions that we believe are relevant to issues raised by the Release:

2.13 Auditor Independence

2.13a Audit Committee Responsibilities Regarding Independent Auditors: The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to:

- the auditor's tenure as independent auditor of the company ...
- the incidence and circumstances surrounding the reporting of a material weakness in internal controls by the auditor
- the clarity, utility and insights provided in the auditor's report ...

The audit committee report should provide meaningful information to investors about how the committee carries out its responsibilities...The report should include a fact specific explanation for not changing the company's auditor if the committee chooses to renew the engagement of an auditor with more than 10 consecutive years of service

2.13b Competitive Bids:

The audit committee should seek competitive bids for the external audit engagement at least every five years.

2.13f Shareowner Votes on the Board's Choice of Outside Auditor: Audit Committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor.⁸

⁶ CII Statement on Independence of Accounting and Auditing Standard Setters (adopted Oct. 7, 2008), available at http://www.cii.org/policies_other_issues#indep_acct_audit_standards.

⁷ CII, Policies on Corporate Governance § 2.13 Auditor Independence (updated Sept. 27, 2013), available at http://www.cii.org/corp_gov_policies#BOD ("Investors are the 'customers' and end users of financial statements and disclosures in the public capital markets.").

⁸ *Id.*

In applying the above referenced policies, including the intent and basis thereof, to the issues raised by the Release, we have reached the following conclusions:

Proposed Auditor Reporting Model

We generally support the proposed auditor reporting model that requires the independent auditor to communicate in the auditor's report critical audit matters. However, we would revise the proposed model to provide that the auditor is required to communicate, at a minimum, an assessment of management's critical accounting judgments and estimates based on the audit procedures the auditor performed.⁹ We generally believe that this modest revision to the proposed model would result in an auditor's report that provides the kind of insights that are more responsive to investor's information needs and, therefore, more likely to achieve the Board's worthy goal of "increasing [the auditor's report] relevance and usefulness to investors and other financial statement users."¹⁰

Proposed Other Information Standard

We also generally support the proposed other information standard. However, we generally believe that the proposed standard's greatest benefit to investors is not from the additions to the auditor's report relating to other information, but rather from the proposed specific procedures for the auditor to perform with respect to evaluating the other information. We generally agree with the Board that those procedures and the resulting communication of any potential material inconsistencies or misstatements of fact to the company's management "could promote consistency between the other information and the audited financial statements, which in turn could increase the amount and quality of information available to investors and other financial statement users."¹¹

Proposed Standards and Amendments to Emerging Growth Companies

We generally believe that the proposed standards and amendments, as improved by our comments, should be applicable to audits of all public companies, including emerging growth companies ("EGC"). We are currently unaware of any legitimate basis for excluding an EGC from the proposed standards and amendments. We generally agree with the Board that the application of the proposed standards and amendments to EGCs could provide useful information that "could contribute toward investors making more informed decisions, resulting in more efficient capital allocation and lower average cost of capital."¹²

CII appreciates the opportunity to comment on the Release. We thank you for considering our views. We stand ready to continue to assist you in your efforts to improve the standard auditor's reporting model so that it is more responsive to the information needs of its key customer—investors.

⁹ Letter from Jeff Mahoney at 1-7 (Attachment) (providing a basis, with supporting citations, for the view that that investors believe the standard auditor's report should be improved to provide, at a minimum, the independent auditor's assessment of management's critical accounting judgments and estimates).

¹⁰ PCAOB Release No. 2013-005 at 16.

¹¹ *Id.* at 8.

¹² *Id.* at A7-19.

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Respectfully yours,

A handwritten signature in blue ink that reads "Jeff Mahoney". The signature is written in a cursive style with a long, sweeping tail on the "y".

Jeff Mahoney
General Counsel

Attachment