

PCAOB Plans to Re-Propose Standard Governing Critical Audit Matters in Auditors' Reports

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According to a [recent speech](#) by PCAOB board member Jay Hanson, the PCAOB is evaluating the comments they have received on their proposal to add a discussion of "critical audit matters" to an auditor's report, which we discussed in this [September 2013 client newsflash](#).

Hanson stated that a re-proposal of a standard governing the auditor's report is expected later in 2015, which is likely to result in a "narrower, more focused" requirement that would cover "only the most relevant information about the audit."

In the comment letters the PCAOB received, some suggested that the requirements do not go far enough, while others believe that most of the matters would be duplicative of disclosures already in financial statements or MD&A. Boilerplate disclosure may ensue, which would add to the abundance of information that many agree currently overwhelm Form 10-Ks. Some were concerned that the auditor would not disclose original information about the company that SEC rules do not require.

Auditors' reports have received attention internationally, Hanson notes. The International Auditing and Assurance Standards Board (IAASB) recently adopted a standard requiring auditors to address "key audit matters," which are issues that required significant auditor attention, such as areas of higher assessed risk of material misstatement, significant management judgment and significant events or transactions. Similarly, the U.K.'s requirements, adopted in 2012, require auditors to describe risks of material misstatements that affected the audit strategy and allocation of resources in the audit, as well as how the auditor applied the concept of materiality during the audit.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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