Joe Hall Discusses PCAOB’s Audit Report Proposals on Spreecast

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TheCorporateCounsel.net hosted a Spreecast with Davis Polk’s Joe Hall and re: The Auditors’ Francine McKenna focused on the PCAOB’s new audit report proposal, which we address in this **memo**.

On the Spreecast, Joe summarized the proposals’ main requirements, and focused on a few key points that companies may want to think about. One proposal would require the auditor to discuss “critical audit matters” in the audit report. Joe questioned whether this would result in much new information for investors beyond what a company already discloses in its “critical accounting policies” discussion, and was skeptical that it would produce anything like a robust and individualized discussion about the company’s financials. New boilerplate seems more likely.

A second proposal would require the auditor to state whether or not it had identified a “material inconsistency” or “material misstatement of fact” in disclosures outside of the financial statements in the company’s annual report. Joe pointed out that this would involve the auditors in making legal judgments that they usually disclaim professional expertise for, and questioned whether, in any case, the auditor would be able to make such a statement without substantially expanding the scope of the audit.

Joe noted that the PCAOB did not seem to have done a detailed cost/benefit analysis for either proposal, and expressed hope that the SEC would ask for more information on this topic before approving the proposals.

You can watch the Spreecast **here**.

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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