

Recent PCAOB Developments on Proposed Standards

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On April 2-3, the PCAOB will host a public meeting, available via webcast, to discuss its proposal from August 2013 to include additional information in the audit report as noted in our [client memo](#). Panelists and specific topics have not yet been announced, but is expected to include senior executives and audit committee chairs from companies.

In addition to our [comment letter](#), major companies weighed in to debate the usefulness of the inclusion of “critical audit matters” in the audit report. Microsoft’s [audit committee](#) expressed concern that the requirement could restrict the communication between the auditor and audit committee, provide too much information to be useful given the broad scope of the term and confuse investors if the matters cited are different than those the company discloses. While most of the comments were critical, Vanguard indicated that the concept of critical audit matters could prove important if limited to objectively difficult or complex matters, arguing that there should not be any implication that auditors would be required to make this disclosure in most if not all instances. [CII](#), however, suggests that the auditor should also communicate an assessment of management’s critical accounting judgments and estimates based on the audit procedures the auditor performed. In addition, CII noted that its principles regarding auditor independence asks audit committees to consider auditor tenure when evaluating auditor independence, and provide an explanation in the audit committee’s report as to why a firm’s engagement was renewed if the firm served for more than 10 consecutive years.

The PCAOB also recently extended until mid-March the comment period for a controversial [amendment](#) that would require the name of the engagement partner to be disclosed in the auditor’s report, as well as the names, location and extent of participation of other firms and non-employees of the auditor who participated in the audit. We previously summarized the proposal [here](#). PwC stated in a [comment letter](#) that including this information in audit reports could increase personal litigation risk for those named, which the firm believes has not been fully assessed by the PCAOB. The audit firm recommended alternative reporting mechanisms instead, such as in a public filing made with the PCAOB or even as part of the audited company’s proxy statement or other SEC report, which would require SEC action.

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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