

Public Meeting Does Not Clarify Direction of PCAOB's Proposal to Expand the Auditor's Report - Public Company Accounting Oversight Board

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While most commenters at the PCAOB's April 2–3 [public meeting](#) on the Auditor's Reporting Model proposal expressed support for additional reporting by auditors, the views as to the nature of such reporting were disparate and therefore future action by the PCAOB on its proposal is not clear. Some advocated for auditor association with the critical accounting policies disclosure in the Management's Discussion and Analysis (MD&A) in lieu of the PCAOB's proposed expanded auditor report. Others, including commenters from the UK, the EU, and the International Auditing and Assurance Standards Board (IAASB), endorsed the PCAOB's proposal, although some requested additional auditor disclosure. The international commenters noted the similarities of the PCAOB's proposal to the expanded auditor reporting already in place in the UK as well as the proposals of the EU and the IAASB. The PCAOB's proposal would require auditors' reports to, among other things, describe critical audit matters and the results of evaluations of information outside the financial statements and to identify the year when the company's auditor first began serving that role.

Auditor association with disclosure about critical accounting policies in the MD&A is not a new idea. For example, the Center for Audit Quality's [letters](#) regarding the PCAOB's 2011 Concept Release on the Auditor's Reporting Model suggested that the PCAOB should consider requiring a separate attestation report on the disclosure about critical accounting policies in the MD&A.

While we think that the disclosure about critical accounting policies would likely be improved by auditor association, an auditor association requirement suggests various questions that would have to be answered first. Would new SEC rules to require the MD&A disclosure and the auditor association be needed? What form of auditor association would be appropriate? Should the disclosure be moved to the financial statements, where it would be covered by the auditor's report but would not have the benefit of the safe harbor for forward-looking statements? Would auditors be able to audit any forward-looking information that issuers might include in the disclosure? Would auditor association in the form of providing negative assurance be just as effective in enhancing the critical accounting policies disclosure? Or should the PCAOB simply require auditors to discuss in their report key estimates and judgments they identified during the audit because those are apparently now being communicated to investors?

Commenters familiar with the expanded auditor reporting requirement in the UK and the efforts of the EU and the IAASB to expand the auditor's report noted the benefits of uniform global reporting by auditors about matters that were significant to the audit. The UK requirements are now effective and are leading to robust auditors' reports, as well as audit committee reports, since the UK's Financial Reporting Council also requires audit committee reporting, given its authority to set corporate governance standards for public companies. The EU's [recently adopted](#) expanded auditor reporting requirements include reporting about the most significant assessed risks of material misstatements, as well as a summary of the auditor's response to those risks, and, where relevant, the auditor's key observations with respect to those risks. The members of the EU still need to implement the EU provisions. The IAASB's proposal, which has received support from various global groups, such as the International Organization of Securities Commissions, the Basel Committee, and the World Bank, includes reporting on information outside the financial statements, similar to the PCAOB's proposal.

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