

Corporate & Financial Weekly Digest

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PCAOB Proposes to Change Form and Content of Audit Reports

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On June 21, the Public Company Accounting Oversight Board (PCAOB) issued a Concept Release in which it proposed potential alternatives for changing the content of audit reports in order to "provide investors with more transparency into the audit process and more insight into the company's financial statements or other information outside the financial statements." The proposed alternatives (which are not mutually exclusive) include:

- *Auditor's Discussion and Analysis* – A revised auditor reporting model could include a supplement to the auditor's report in which the auditor would be required to provide additional information about its audit and the company's financial statements in a so-called "Auditor's Discussion and Analysis" (AD&A). The AD&A could include information regarding audit risk identified in the audit, audit procedures and results, auditor independence and a discussion of the auditor's views regarding the company's financial statements, such as management's judgments and estimates, accounting policies and practices and difficult or contentious issues, including "close calls" reflected in the financial statements. The AD&A could also highlight areas where the auditor believes management could have applied different accounting or disclosures.
- *Emphasis Paragraphs* – Another alternative could require and expand the use of emphasis paragraphs in the auditor's report in order to emphasize a matter regarding the financial statements. Emphasis paragraphs could be required with respect to financial statement disclosure involving significant management judgments and estimates, significant measurement uncertainty and other areas that the auditor determines are important for a better understanding of the financial statements.
- *Auditor Assurance on Information Outside the Financial Statements* – Another alternative could require auditors to provide assurance on information outside the financial statements, such as Management's Discussion and Analysis or non-Generally Accepted Accounting Principles financial information disclosed in earnings releases.
- *Clarification of the Standard Auditor's Report* – The final proposed alternative would involve clarifying language in audit reports by requiring audit reports to include a description of the "reasonable assurance" auditing standard, statements as to the scope of the auditor's responsibilities under applicable auditing standards and clarification of management's responsibilities in preparing the financial statements.

Although the PCAOB noted that the proposals were not intended to change the fundamental role of the auditor in performing an audit, "depending on the nature and extent of additional information to be communicated by the auditor in the auditor's report, new auditing requirements and coordination with the Securities and Exchange Commission would likely be necessary." Further, certain alternatives might result in an increase in the scope of audit procedures beyond those currently required, which in turn would require new auditing standards.

The PCAOB is soliciting comments regarding the proposed alternatives (and other potential alternatives) for changing the current audit report model and expects to hold a public roundtable in the third quarter of 2011 to discuss the alternatives addressed in the Concept Release and other alternatives.

Click [here](#) to view the complete text of the PCAOB Concept Release.

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