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Eli Lilly and Company  
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U.S.A.

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February 29, 2012

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Office of the Secretary  
PCAOB  
1666 K Street N.W.  
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking docket matter No.30: Proposed Auditing Standard Related to Communications with Audit Committees

Dear Board Members:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment to the Public Company Accounting Oversight Board (“PCAOB”) on the PCAOB Release No. 2011-008, Proposed Auditing Standard Related to Communications with Audit Committees (the “Proposed Standard”). Lilly is a large, multinational pharmaceutical company, with presence in over 50 country jurisdictions, and creates and delivers innovative medicines that enable people to live longer, healthier, and more active lives.

Lilly supports the Proposed Standard to enhance the relevance and quality of communications between the auditor and audit committee. We commend the PCAOB for considering comments and feedback received in response to the initial proposal on audit committee communications issued in July 2010. It is clear that several areas of concern in the initial proposal were addressed in the Proposed Standard, including not requiring duplicative communications if the matters have already been adequately communicated by management, removing the communication requirements regarding critical accounting estimate ranges, and removing the evaluation of the communication process. These revisions to the Proposed Standard from the initial proposal improve the effectiveness of the communication to ensure the communications focus on the most important matters.

While we generally agree that the Proposed Standard improves the effectiveness of the communications between auditors and audit committees, we have some concerns about the level of detail required in the Proposed Standard as certain requirements may be more granular than is necessary or wanted by the audit committee and may take focus away from more important matters. It is important to understand that there is a significant amount of information to cover with the audit committee, and it is critical to focus the communications on the most significant matters. If more detail is provided than needed, it is possible that the truly important matters will get lost among all of the other communications. We believe there still should be the concept of materiality and professional judgment within the communications to the audit committee so the discussions can be focused on the issues that are most important. We are providing the following comments to address each of our concerns:

#### **Uncorrected and Corrected Misstatements**

We agree with the Proposed Standard’s requirements to communicate uncorrected and corrected misstatements identified by the auditor during their audit procedures. Our understanding is the Proposed Standard requires the same level of detail provided to management to be provided to the audit committee. We are concerned with the level of detailed required. While an aggregation of all uncorrected misstatements does not seem appropriate, we believe the use of materiality and professional judgment should be a consideration in determining the extent of communications around uncorrected

misstatements. The Proposed Standard indicates that aggregating at any level may be misleading. However, we believe that providing the audit committee too much detail may not provide the appropriate focus of the discussion related to these corrections or unadjusted differences (i.e. that audit committee may get lost in the details or may spend too much time on items that are immaterial). We believe that if the audit committee and auditors agree on a level in advance, it would not appear to be misleading. In addition, there could always be discretion by the auditor to communicate uncorrected or corrected misstatements based upon professional judgment if there were qualitative factors or systemic issues that warranted the audit committee's attention. For example, it is typical for auditors and the audit committee to agree upon a threshold that de minimus amounts be aggregated for communication of uncorrected misstatements. Except where there are qualitative factors, such as controls issues, systemic issues, fraud, etc, we do not believe communication of these de minimus amounts at an individual level would be an efficient or appropriate use of time. We suggest the PCAOB incorporate the concept of materiality and professional judgment within this communication.

### **Consultation with Other Accountants**

We support the revised language in the Proposed Standard to include Other Accountants. However, we suggest that the term Other Accountants be defined as other accounting firms that can render an audit opinion, and not other accountants that can provide technical accounting advice. It appears the risk that is being addressed relates to any consultations made by management with other accountants about auditing or accounting matters equivalent of "opinion shopping". This risk only relates to other accounting firms that have the ability to render an audit opinion and not other accountants who are consultants that have specialized practices that provide accounting advice. In today's accounting environment, accounting matters are complex and highly technical and in many cases require management to consult with experts to determine the proper accounting treatment. It is important to consider that it is not appropriate to consult with the external auditor on these accounting matters, and thus, other experts are often required. In our view, it should not be necessary to communicate these types of consultations to the audit committee as these types of consultations are not related to the risk that is being addressed. However, a broad interpretation of this provision may lead one to conclude these types of communications are within the definition of "other accountants". To avoid unnecessary communications to the audit committee, we suggest the PCAOB clarify the definition of Other Accountants to specify that the term relates to other accounting firms that have the ability to render an audit opinion.

### **Disagreements with Management**

We agree that any unresolved disagreements with management should be communicated to the audit committee; however, we are concerned with the requirement regarding communication of disagreements with management that have been satisfactorily resolved. First is it unclear as to what constitute a disagreement that is ultimately resolved. As many accounting matters are complex, highly technical and judgmental, there could be times throughout the audit process where there are disagreements or discussions as to the appropriate accounting. This is a normal course of the audit process. However, most, if not all, of these disagreements or discussions are resolved satisfactorily with no lingering issues by either the auditor or management. If the disagreement is satisfactorily resolved and there are no issues, the audit committee would question why this matter is coming to their attention. In addition, this requirement may add pressure to the communications between management and the auditor. If there is nothing for the audit committee to act upon and there are no qualitative factors that the auditor feels would warrant the audit committee's attention, we believe this communication would be superfluous. Of course, if the auditor feels there is a qualitative issue that requires the audit committee's attention, the auditor has the professional judgment to bring it to their attention. We suggest the PCAOB revise the requirement to communicate disagreements with management, unless satisfactorily resolved, or if satisfactorily resolved that the auditor feels require the audit committee's attention from a qualitative perspective.

**Conclusion**

Again, Lilly supports the PCAOB's efforts to enhance the relevance and quality of communications between the audit committee and auditors and believes the Proposed Standard is an improvement from the initial proposal. However, we believe it is important to focus the audit committee's attention on the most important matters and avoid having significant issues get lost among all of the detail. Our general concern relates to the general magnitude of the communication requirements and whether certain of the requirements are considered valuable to audit committees. We ask that the PCAOB consider our suggestions to refine the communications to the audit committee further to ensure the appropriate level of information is being communicated.

We appreciate the opportunity to express our views and concerns regarding the Proposed Standard. If you have any questions regarding our response, or would like to discuss our comments further, please call me at (317) 276-2024.

Sincerely,

ELI LILLY AND COMPANY

/s/Arnold C. Hanish

Arnold C. Hanish  
Vice President, Finance and  
Chief Accounting Officer