An Integrated Energy Company

December 10, 2013

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, N.W.
Washington, DC 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 034

We appreciate the opportunity to comment on Public Company Accounting Oversight Board (PCAOB) Release No. 2013-005, *Proposed Auditing Standards – The Auditor's Report On an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards* (the Proposed Standards). This letter contains the comments of both CMS Energy Corporation and Consumers Energy Company.

CMS Energy Corporation, whose common stock is traded on the New York Stock Exchange, is a domestic energy company engaged in electric and natural gas utility services and independent power production, operating through subsidiaries in the U.S., primarily in Michigan. CMS Energy Corporation's consolidated assets are $17 billion and annual operating revenues are over $6 billion. Consumers Energy Company, the principal subsidiary of CMS Energy Corporation, provides electricity and/or natural gas to more than 6 million of Michigan's 10 million residents and serves customers in all 68 counties of Michigan's Lower Peninsula.

We recognize that some investors have suggested that the auditor's report would be more useful and relevant if it contained more information. In response, the PCAOB previously issued Release No. 2011-003, *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* (the Concept Release), and has now issued the Proposed Standards. While we are pleased with the PCAOB's decision to move away from the major provisions of the Concept Release (i.e., proposed requirements for an Auditor's Discussion and Analysis and/or the expanded use of emphasis paragraphs in audit opinions), we do not believe that auditor reporting of critical audit matters will achieve the PCAOB's stated objective of increasing the informational value of the auditor's report. Rather, we believe that auditor reporting of critical audit matters could:

1. Decrease comparability among audit reports;
2. Confuse investors;
3. Lead the auditor to disclose non-public information about the company's business; and
4. Cast a shadow of doubt over the auditor's unqualified opinion as well as over the company's financial statements.

Decreased Comparability: The Proposed Standards would require the auditor to communicate in the auditor's report "critical audit matters", which are those matters addressed during the audit of the financial statements that:

1. Involved the most difficult, subjective, or complex auditor judgments;
2. Posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or
3. Posed the most difficulty to the auditor in forming an opinion on the financial statements.

Determining which audit matters are "critical audit matters" would be a highly subjective exercise for the auditor and would result in markedly decreased comparability among audit reports. Different auditors could reach very different conclusions on which audit matters are critical as well as how many such matters to communicate in the auditor's report. In many cases, whether an audit matter is considered critical will depend **not** on the quality or reasonableness of the company's accounting policies and practices, but rather on the expertise and experience of the auditor. Depending on experience level, what is complex to one auditor may not be complex to another. For example, a newly engaged auditor might need to devote a substantial amount of time and effort to developing audit procedures and gaining comfort with an industry- or company-specific accounting matter, while a tenured auditor would not. Given the difficulty involved in assessing the accounting matter, the newly engaged auditor might communicate this matter as a critical audit matter, while the tenured auditor might not. As a result, an investor reading the newly engaged auditor's report could reach a different (and perhaps inappropriate) conclusion regarding the quality of the company's accounting policies and practices compared with an investor reading the tenured auditor's report. As illustrated in this example, the subjectivity in determining critical audit matters will lead to decreased comparability among audit reports. In our view, this could diminish the usefulness and relevance of the auditor's report.

Investor Confusion: Our second concern with the proposal is that it could lead to duplicative discussion of certain accounting matters – once by company management and again by the auditor. Accounting matters deemed to be critical audit matters by the auditor are likely to be discussed in the "Critical Accounting Policies and Estimates" section of the Management's Discussion & Analysis, as well as in the notes to the financial statements. As we stated in our comment letter on the Concept Release, we believe that commentary on a company's financial statements should come from a single source, rather than from both management and the auditor. Providing two perspectives on a single set of financial statements has the potential to confuse users and to reduce confidence in reported information. Furthermore, we believe that management is the best source of commentary on a company's business and financial statements. Though an auditor's understanding of a company's financial statements is more extensive than that of other third parties, it is still less complete than that of management. The degree to which the auditor must gain an understanding of the company's business, industry, transactions, and financial statements in order to render an audit opinion is substantially less than the depth of understanding required of the company's management. Correspondingly, the time the auditor devotes to gaining an understanding of these matters is a small fraction of the time invested by management. For these reasons we believe that, in order to provide users with clear and reliable information, management should be the sole source of commentary on a company's business and financial statements.

Disclosure of Non-Public Information: Another concern is the possibility that the auditor will disclose non-public information about the company's business when explaining its determination of a critical audit matter. In reading the *Illustrative Examples of Critical Audit Matters* provided in Appendix 5 of the Proposed Standards, we noted several examples within the communications of critical audit matters in the auditor's report where the auditor may have been disclosing information not previously made public by management and not required to be disclosed in the company's audited financial statements. Again, as discussed above, we believe that any information about the company's business and financial statements should come from management, not the auditor.

Shadow of Doubt: Our final concern with the proposal is that investors could perceive the auditor's discussion of critical audit matters as "qualifying an unqualified opinion". While we understand the PCAOB does not intend that the auditor's communication of critical audit matters be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's opinion on the financial statements, that does not change how investors may perceive the communication. We noted that the *Illustrative Examples of Critical Audit Matters* included extensive discussion of why the auditor deemed the audit matter to be a critical audit matter as well as the additional audit procedures the auditor performed as a result. Following this extensive discussion, however, there is no clear statement of the auditor's final conclusion on the critical audit matter. The reader may be left with the basic question: Did the auditor become comfortable with the critical audit matter? We realize that, by virtue of providing an overall unqualified opinion, the auditor has reached satisfactory conclusions regarding all the critical audit matters communicated. We believe, however, that the context of the discussion could cause an investor to infer that the auditor has reservations about a particular matter or, in other words, that the auditor is, in essence, qualifying its unqualified opinion. For an investor, this could cast a shadow of doubt over the auditor's unqualified opinion as well as over a company's financial statements.

It may be suggested that, to overcome this perception, the auditor's communication of critical audit matters could simply include a statement that it did indeed gain comfort with the critical audit matter. In doing so, however, the auditor would be stepping into the realm of providing a piecemeal audit opinion, placing more emphasis on certain accounting matters when it should be providing an opinion on the overall financial statements. In addition, as more and more discussion is added to the auditor's opinion, the auditor's report begins to depart from the simple pass/fail model, which many commenters have lauded as providing a "concise and useful message."

In conclusion, we believe that the proposal to require auditor reporting of critical audit matters would not achieve the PCAOB's stated objective of increasing the informational value of the auditor's report, but would in fact have the opposite effect.

Thank you for the opportunity to comment on the Proposed Standards.

Sincerely,

Glenn P. Barba

Glenn P. Barba
Vice President, Controller and Chief Accounting Officer
CMS Energy Corporation and Consumers Energy Company