



Financial Security...for Life.

Michael Monahan

Senior Director, Accounting Policy

December 11, 2013

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board (PCAOB)
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Release No. 2013-005 Rulemaking Docket Matter No. 034 (Auditor's Report and Responsibility)

Dear Ms. Brown:

The American Council of Life Insurers (ACLI)¹ appreciates the opportunity to comment on the PCAOB proposals for two new audit standards, *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion* and *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*.

We support the intention of the auditor report proposal to improve the informative value of the auditor's report and to promote the usefulness and relevance of the audit and the related auditor's report. To that end, we support the following recommended changes to the auditor's report:

- Including a statement on the independence requirements of the auditor in accordance with U.S. federal securities laws and the rules and regulations of the PCAOB,
- Clarifying language that the financial statements "and related notes" are free of material misstatement "whether due to error or fraud," and
- Providing description of responsibilities relating to other financial information accompanying the audited financial statements.

¹ The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with more than 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American Families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Learn more at www.acli.com.

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American Council of Life Insurers

101 Constitution Avenue, NW, Washington, DC 20001-2133
(202) 624-2324 t (866) 953-4097 f mikemonahan@acli.com
www.acli.com

We do not, however, support the proposed requirement for the disclosure of critical audit matters, or CAMs, in the auditor's report. We believe that the audit report should maintain a simple, brief pass/fail approach that limits mention of items to "emphasis of a matter" in unqualified audit reports on financial statements and material weaknesses on internal controls over financial reporting. Expanding the auditor's report to include CAMs would duplicate management's disclosures on critical accounting estimates and risk factors, introduce unnecessary ambiguity to the auditor's opinion, potentially undermine the purpose of the audit committee, and increase the time and cost to develop audit reports. We are concerned about these increased costs to preparers for procedures that are duplicative to management's disclosures that already exist. Significant additional time will be incurred by audit firms, in consultation with their national professional practice offices, deliberating CAM wording, which will either detract from the time spent to perform audit procedures or result in significantly more hours and higher audit fees.

The CAMs illustrated in the proposal, included disclosure/reporting matters not promulgated by existing accounting or internal control guidance, such as:

- A control deficiency less severe than a material weakness.
- Identification of several misstatements that were corrected by the Company.

If these items were included in the auditor's CAMs, the auditor would be reporting on matters not currently required in reports to investors. There should not be information on accounting matters presented in the audit report that is not in the financial statements and there should not be information on control matters presented in the auditor's report that is not in management's report on internal control. We are also concerned that financial statement users would inappropriately view the auditor's report as a series of piece-meal opinions, which may lead to interpreting each matter as a qualification with respect to the identified critical audit matter. Furthermore, the identification of CAMs in the auditor's report could potentially be misleading to financial statement users by implying, in most cases inappropriately, that no other audit procedures were critical to the formation of their overall opinion on the financial statements. If a need for more disclosure of judgmental matters affecting the financial statements exists, those areas should be addressed within management's reporting or maintained as part of confidential communication to the audit committee and not through the auditor's report.

Finally, before issuing a standard that requires the auditor to report on more than the fairness of the financial statements, taken as a whole, and internal controls over financial reporting, we strongly recommend that field testing is performed where audit firms draft CAMs, and then auditors, preparers and users evaluate the usefulness of the information.

Further, we do not support the requirement to expand the auditor's responsibility over "other information" beyond the level of assurance given today. We also do not believe it is appropriate for the auditor to evaluate non-financial information or information that does not accompany the audited financial statements. The auditor's current responsibility is to review other financial information for material inconsistencies or material misstatements. That review includes evaluating whether quantitative and qualitative information is consistent with amounts and disclosures presented within the financial statements and audit evidence gathered in support of the audit. We have no objection for the auditor's report to include a description of the auditor's responsibility to this effect; however, "read and evaluate" may be a higher level of assurance than the "read and consider" requirement today and would, therefore, result in significantly more hours and higher audit fees. We believe increasing the level of assurance that the auditor provides over other information from "consider" to "evaluate" would provide little benefit to the users and does not justify the increased cost. Therefore, we encourage the

Board to ensure that the auditors will not be required to increase their level of assurance over other information relative to today's standard.

We hope that you will carefully consider our input and welcome your feedback and questions.

Sincerely,

A handwritten signature in black ink, appearing to read "M Monahan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mike Monahan
Senior Director, Accounting Policy