



June 28, 2011

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

**Re: Request for Public Comment: *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards, PCAOB Rulemaking Docket No. 034***

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants (AICPA). The CAQ appreciates the opportunity to respond to the Public Company Accounting Oversight Board's (PCAOB or the Board) *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* (the concept release). This letter and enclosures represent the observations of the CAQ, but not necessarily the views of any specific firm, individual or CAQ Governing Board member.

The CAQ wants to thank the PCAOB for its outreach to the profession and other stakeholders prior to publication of the June 21<sup>st</sup> concept release on the auditor's reporting model. The CAQ congratulates the PCAOB and its staff on the process and thoughtful content put forward for public consideration. In partial response to the concept release, the CAQ is

formally submitting the ideas we discussed and shared with the staff on June 9<sup>th</sup> as part of the PCAOB's outreach efforts (see enclosed illustrative example reports and accompanying letter). In addition, the CAQ will be submitting further comments on the concept release on or prior to the September 30<sup>th</sup> due date.

The auditing profession would be happy to meet with the staff to discuss the content of the illustrative example reports in greater detail, or answer any questions.

Sincerely,



Cynthia M. Fornelli  
Executive Director  
Center for Audit Quality

Enclosures

cc: PCAOB  
Martin Baumann, Chief Auditor and Director of Professional Standards



CENTER FOR AUDIT QUALITY



June 9, 2011

**EXECUTIVE DIRECTOR**

Cynthia M. Fornelli

**GOVERNING BOARD**

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Harvard Business School

John B. Veihmeyer, U.S. Chairman and CEO  
KPMG LLP

Jack Weisbaum, CEO  
BDO USA, LLP

Mr. Martin Baumann  
Chief Auditor and Director of Professional Standards  
Public Company Accounting Oversight Board  
1666 K Street  
Washington, DC 20006-2803

**Re: Changes to the Auditor's Report - Model Approach for Consideration**

Dear Marty:

The Center for Audit Quality (CAQ) was formed in 2007 and is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets by fostering high quality performance by public company auditors, convening and collaborating with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocating policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. We are a membership organization with nearly 700 public company auditing firm members that are registered with the Public Company Accounting Oversight Board (PCAOB). Our member firms are committed to the public interest role that auditors play in our markets.

As a public policy organization, we strive to assure that our efforts are infused with a public interest perspective. The members of our Governing Board (which includes the CEOs of the eight largest accounting firms, the American Institute of Certified Public Accountants, and three independent public members) have a keen understanding and appreciation of the important role the public company auditing profession has in serving the public interest and honoring the public trust. Our three independent public board members strengthen our focus on the public interest and also bring us expertise in financial reporting, securities law and corporate governance.

To realize our vision, the CAQ works with investors, academics, audit committee members, preparers, internal auditors, and policy makers to explore issues and collaborate on initiatives that can advance audit quality.

The CAQ consistently has supported the implementation of the Sarbanes-Oxley Act of 2002 and, working in collaboration with others with responsibility for financial reporting, has a number of initiatives underway to advance the deterrence and detection of financial reporting fraud. We also support research on issues relating to investor confidence, public company auditing and the capital markets in part by issuing grants that fund independent academic research. In all that we do, we are particularly interested in investors' views, as they are the ultimate users of the audited financial statements.

Recent views expressed by investors convey their need for further information on a number of different matters including, but not limited to, additional insight into accounting policies, particularly critical accounting estimates; information about the activities of public company audit committees, including discussions on critical matters with management and the external auditors; and more information about the independent audit.

In response to these calls for change, the PCAOB announced a standard-setting initiative focused on possible changes to the auditor's reporting model. The profession also recognizes that change is needed, is prepared to embrace the responsible calls for change in this area, and believes that a holistic approach where all stakeholders agree on a way forward will best serve investors and is a requirement if such change is to be meaningful. In this regard, the CAQ established a working group in 2010, comprised of members of the profession, to consider how to best serve investors given their information needs as we understand them.

The working group explored a variety of possible alternatives for communicating additional information about the audit, including changes to the auditor's report combined with expanded management disclosures and audit committee reporting to shareholders with corresponding auditor association. Members of this working group met with you and your staff on February 7, 2011 to discuss these possible alternatives, which were also the subject of my February 11, 2011 letter. CAQ member firm representatives have also participated in recent Standing Advisory Group discussions on this important topic.

Subsequent to our meeting on February 7, 2011, the PCAOB staff identified a number of possible changes to the auditor's reporting model under current consideration. In line with your efforts to identify changes that are both responsive to the needs of investors and can be practicably implemented, the CAQ working group has developed a model approach, described below for your consideration. The model provides examples of potential revisions to the auditor's reporting model that we believe: (i) are responsive to many of the information needs we have heard from investors (ii) can be practically implemented in a relatively short time frame and (iii) are consistent with the overarching principles discussed with you at our February meeting and outlined below. In presenting this potential reporting model for your consideration, we recognize that refinements in the actual language used may be necessary to align with other PCAOB professional standards, and that implementation guidance will need to be developed to address some of the concepts included in the model, such as the communication of component auditors and the "areas of audit emphasis" section.

### ***Overarching Principles***

In evaluating this topic, the CAQ working group established the following overarching principles, with investors in mind, to guide the development of possible areas for further consideration related to revisions to the auditor's reporting model:

- Auditors should not be the original source of disclosure about the entity; management's responsibility should be preserved in this regard.
- Any changes to the reporting model need to enhance, or at least maintain, audit quality.
- Any changes to the reporting model should narrow, or at least not expand, the expectations gap.
- Any changes to the reporting model should add value and not create investor confusion. Specifically, any revisions should not require investors to sort through "dueling information" provided by management, the audit committee, and independent auditors.
- Auditor reporting should focus on the objective rather than the subjective.

Conceptually, we understand the suggestion that an auditor deliver to investors the same information that is provided to the issuer's audit committee. However, it is important to understand (as is made clear in the PCAOB's proposed auditing standard on this topic) that such communication is prepared with the expectation that a dynamic two-way discussion between the auditor and audit committee will occur and that questions will arise and additional context and perspectives will be communicated during the course of this discussion. Such interaction can often clarify the specific points raised, particularly around certain accounting and financial reporting matters involving a high degree of subjectivity. This important two-way dialogue will not take place in connection with the general distribution of a report. Additionally, the audit committee obtains insight by virtue of its financial reporting oversight responsibilities which provide additional context for such communications from the auditor. Consequently, we believe that providing investors with the same information that is provided to the audit committee, without the context obtained from a two-way dialogue may be incomplete, generate greater confusion and not enhance the overall understanding of the readers of such a report.

### ***Illustration of a Potential Approach***

After evaluating various alternatives, the CAQ working group determined that the following approach would improve the auditor reporting framework, would help serve the interests of investors, and could be pragmatically implemented in relatively short-order. We recognize this is but one approach and there may be others that meet the objectives we have outlined above. In addition, while we have illustrated the approach in three separate reports; the reports could be combined.

1. Amend the standard financial statement audit report to include the following:
  - a. Explicitly identify that the footnotes are an integral part of the financial statements and are covered by the audit report (highlighted in the scope section)
  - b. Identify that the auditor is independent under all relevant U.S. Securities and Exchange Commission (SEC) and PCAOB standards
  - c. Where applicable, describe the accounting firm network structure, the responsibility of the member firm signing the audit report, and the participation of other member firms in the audits
  - d. Provide an expanded discussion covering management and audit committee responsibilities for the financial statements and the Form 10-K
  - e. Highlight that the auditor is responsible for planning and performing the audit to obtain reasonable assurance that the financial statements, taken as a whole, are free of material misstatement, “whether due to error or fraud”
  - f. Identify what is meant by the term “reasonable assurance,” “material misstatement,” and the approach used by the auditor to assess “materiality”
  - g. Highlight the necessity of using professional judgment in making audit risk assessments and in the selection of audit procedures and the consideration the auditor gives to the issuer’s internal control over financial reporting when making such determinations
  - h. Outline the auditor’s responsibility in the event a conclusion is reached that the financial statements are not in accordance with Generally Accepted Accounting Principles or in situations where the audit scope has been limited
  - i. Describe the auditor’s responsibility for information outside of the financial statements (including Management’s Discussion & Analysis (MD&A))
  - j. Address the audit report to the shareholders of the company in addition to the Board of Directors
  - k. Include a reference and link to where more information about public company audits and auditors can be found. For purposes of the illustrative reports attached, we have utilized as an example of this approach the *In-Depth Guide to Public Company Auditing: the Financial Statement Audit*, published by the CAQ and available on our website.

We have illustrated in Example A, attached to this letter, how the above suggestions would revise the current financial statement audit report. We believe these changes are responsive to many of the comments that have been raised.

2. Using an emphasis-of-matter like approach, the audit report would identify specific topics or events, unusual transactions or other matters that were viewed to be areas of audit emphasis by the auditor. Consistent with the overarching principles, we believe these descriptions should be objective, fact-based discussions and make specific reference to where such items appear in the financial statements. We have illustrated in Example A how this approach might look in practice. We believe this approach responds to the request that the auditor indicate areas of audit emphasis, and directs the user to where such matters are discussed in the financial statements. As noted above, we recognize that standard-setting activity and resulting implementation guidance will be necessary to help guide the auditor in assessing and consistently determining the type of

matters that should be identified in this section of the revised report, and the extent of the auditor's discussion relating to such matters.

3. Prepare a new report on the examination of the issuer's Critical Accounting Estimates disclosure in its MD&A. We have illustrated this new report in Example B attached to this letter. We believe auditor attestation will serve to continue to improve disclosures in this important area and will be responsive to the various suggestions that have been raised with respect to the need for more emphasis on the important judgment calls made in preparing the financial statements. The SEC would likely need to amend Regulation S-X to require this new report. Likewise, MD&A would need to clearly identify the Critical Accounting Estimates section that will be covered by the examination report. This may also likely require some SEC amendments, but we believe such changes should not be complex or time-consuming. (We note that Example B may also be written to include language from Example A, for example, language relating to the performance of procedures by member firms.)
4. Amend the standard audit report on internal control over financial reporting to reflect many of the changes outlined in 1. above. We have illustrated in Example C attached to this letter how these suggestions would change the present internal control over financial reporting audit report. We believe these changes are responsive to many of the comments that have been raised. (We note again that this Example C may also be written to include additional language from Example A, such as member firm considerations, when appropriate.)

While we have included in our model both an emphasis-of-matter like approach for specific areas of audit emphasis to be included in the financial statement auditor's report, and a separate examination report on the Critical Accounting Estimates disclosure, we appreciate that both of these enhancements may not be necessary. While we believe that the examination report is the enhancement most likely to address investor's needs, we recognize that each of these enhancements or a combination of the two has merit for consideration.

### ***Other Thoughts***

We also believe that an expanded audit committee report, which includes matters discussed with the auditor that the audit committee considered significant in discharging its responsibilities, accompanied by auditor association therewith, is worthy of further consideration as another means of providing additional information called for by certain investors. We continue to give thought to this idea, and would be pleased to collaborate with the PCAOB, SEC and others (importantly, representatives from the audit committee community) on the further consideration of this concept.

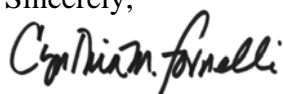
In connection with the potential expansion of the auditor's reporting model, we continue to have concerns about increasing the profession's liability risks. This is, of course, a matter that has been discussed in numerous forums for many decades, but we believe it would be a necessary component on any proposal for revised auditor reporting.



We appreciate the opportunity to share our views regarding possible revisions to the auditor's reporting model. We understand the PCAOB is working toward the issuance of a concept release on this topic by the end of June, and we look forward to reviewing and commenting on that document. At the same time, we want to go on record that we are fully committed to making progress and stand ready to embrace calls for responsible change in this important area. We sincerely believe the approach outlined above serves these purposes, will help serve investors, and can be implemented in a relatively quick time frame.

We also welcome the opportunity to work with the PCAOB staff following the issuance of the concept release and in your further evaluation of the auditor's reporting model. We stand ready to assist you in any way we can, including participation in any meetings or roundtables you are planning.

Sincerely,



Cynthia M. Fornelli  
Executive Director  
Center for Audit Quality

cc: PCAOB

James R. Doty, Chairman  
Lewis H. Ferguson, Member  
Daniel L. Goelzer, Member  
Jay D. Hanson, Member  
Steven B. Harris, Member

SEC

James L. Kroeker, Chief Accountant  
Paul A. Beswick, Deputy Chief Accountant  
Brian T. Croteau, Deputy Chief Accountant  
J.W. Mike Starr, Deputy Chief Accountant





## Example A

### **Revised Auditor’s Report on the Financial Statements with Reference to Separate ICFR and Critical Accounting Estimates Reports**

#### **Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements of Sample Company**

To the Board of Directors and Shareholders of Sample Company

We have audited the accompanying consolidated balance sheets of Sample Company and subsidiaries (the Company) as of December 31, 201Y and 201X, the consolidated statements of income, stockholders’ equity, comprehensive income and cash flows for each year in the three year period ended December 31, 201Y, and the related notes to the consolidated financial statements for all periods presented (collectively referred to below as the “consolidated financial statements”).

We are an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act of 1933 and the applicable rules and regulations thereunder adopted by the United States Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (United States) (PCAOB). XYZ LLP is the principal auditor for the Company for the periods cited above. XYZ LLP is the US member firm of XYZ Limited, a global network of affiliated auditing firms. [Each member firm in the network is a separate legal entity, and all member firms follow a common audit methodology and consistent quality control policies.]<sup>1</sup> Certain network member firms participated in our audits of the Company and such participation, in the aggregate, covered approximately Y% and X% of the Company’s consolidated assets as of December 31, 201Y and 201X and approximately X%, Y% and Z% of the Company’s consolidated revenues for each year in the three year period ended December 31, 201Y. We (XYZ LLP) take responsibility for the work performed by our member firms in connection with our audits.

#### **Management and Audit Committee Responsibilities for the Financial Statements and Other Information**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), and for establishing and maintaining adequate internal control over financial reporting to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to error or fraud.

Management is also responsible for the preparation and presentation of the Company’s Annual Report on Form 10-K in accordance with the rules and regulations of the SEC, including

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<sup>1</sup> Each firm would describe their member network affiliation.

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) appearing in Item 7 of the Annual Report.

The audit committee oversees the Company's financial reporting process and its internal control over financial reporting, areas for which management has the primary responsibility. Additionally, the audit committee is directly responsible for our appointment, compensation, and oversight of our work (including resolution of any disagreements with management regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

### **Auditor Responsibility for the Audit of the Financial Statements**

Our responsibility is to express an opinion on these consolidated financial statements, taken as a whole, based on our audits. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to error or fraud. In this context, reasonable assurance, although representing a high level of assurance, is not absolute and consequently an audit conducted in accordance with PCAOB standards may not always detect a material misstatement. Our judgments about materiality are affected by our understanding of the financial information needs of investors and other users of the consolidated financial statements. A material misstatement represents an omission or misstatement that would be viewed by a reasonable investor as having significantly altered the 'total mix' of information presented in the consolidated financial statements, taken as a whole.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. In the course of completing our audit, the audit evidence we obtain is often persuasive rather than conclusive. The procedures selected for performance depend on our judgment, including our assessment of the risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements in accordance with U.S. GAAP in order to design audit procedures that we believe are appropriate in the circumstances. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and related financial statement disclosures. Our audits also included such other procedures as we considered necessary in the circumstances.<sup>2</sup>

PCAOB standards require that we modify our report if we determine that the consolidated financial statements are materially misstated. If there are significant restrictions placed on the scope of our audit PCAOB standards prohibit us from expressing an opinion on the financial statements.

We believe that the procedures performed and the audit evidence obtained provides a reasonable basis for our opinion.

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<sup>2</sup> Additional information about public company audits and auditors can be found in the *In-Depth Guide to Public Company Auditing: the Financial Statement Audit*, published by the Center for Audit Quality and available on the organization's website at [http://www.thecaq.org/publications/In-Depth\\_GuidetoPublicCompanyAuditing.pdf](http://www.thecaq.org/publications/In-Depth_GuidetoPublicCompanyAuditing.pdf).

## **Auditor Responsibility for Other Information Presented Outside of the Financial Statements**

We have separately examined the Critical Accounting Estimates disclosure included as part of MD&A in the Company's December 201Y Annual Report on Form 10-K. Our responsibility with respect to all other information presented outside of the consolidated financial statements (including all other sections of the MD&A) is to read this other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the consolidated financial statements. We are required to follow up on any material inconsistencies and material misstatements of fact of which the auditor becomes aware with management, and with the Audit Committee if necessary, until properly resolved, but are not otherwise required to express an opinion on the other information, including all other sections of MD&A. Other than where identified in this report, our responsibility with respect to the other information in the Form 10-K does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate information presented outside of the consolidated financial statements.

## **Opinion on the Consolidated Financial Statements**

In our opinion, the consolidated financial statements, taken as a whole, present fairly, in all material respects, the consolidated financial position of Sample Company and subsidiaries as of December 31, 201Y and 201X, and the consolidated results of their operations and cash flows for each year in the three year period ended December 31, 201Y, in conformity with U.S. GAAP.

## **Areas of Audit Emphasis**

In connection with our audits, we also bring to your attention the matters listed below. This is not intended to be a complete list of all areas that our audit procedures addressed in response to identified risks of material misstatement.

1. In December of 201Y, the Company completed the acquisition of ABC Company. As of December 31, 201Y, the Company has completed the allocation of the purchase price on a preliminary basis, assigning approximately \$XXX million to goodwill and other intangible assets with indefinite lives. The Company will finalize the purchase price allocation during 201Z, and the amounts assigned as of December 31, 201Y could change. See Note B for further details.
2. In connection with the financing required to complete the ABC acquisition, the Company borrowed \$XXX million from a consortium of banks. The borrowing has a maturity date of March 31, 201A, or fifteen months from the date of the balance sheet. As of December 31, 201Y, the borrowing is classified as long-term debt, since it has a maturity date beyond the end of the 201Z fiscal year. The Company is in the process of exploring alternatives to refinance this borrowing on a longer-term basis. See Note D for further details.
3. The Company provides financing to certain customers of its [Example Segment]. Business conditions in this Segment led to a slow-down in collections and an increase in potential uncollectible balances. At December 31, 201Y, the gross financing balance

approximated \$X,XXX million and the Company maintained a reserve for uncollectible accounts of \$XXX million. The balance of accounts that were 90 or more days past due at that date approximated \$XX million. This compares to a gross financing balance, reserve for uncollectible accounts and amounts 90 or more days past due of \$X,XXX million, \$XXX million and \$XX million at December 31, 201X respectively. The net expense recorded for estimated uncollectible amounts approximated \$XXX million during 201Y. See Note E for further details.

4. The Company has goodwill of \$X,XXX attributable to its [Example Segment] reporting unit as of December 31, 201Y. The Company performed its annual impairment testing as of October 31, 201Y. No impairment was recognized because the Company's estimated fair value of this reporting unit exceeded its carrying value at that date; however, the comparison was close and a further decline in the fair value of this reporting unit could give rise to an impairment of the goodwill balance in the future. See Note H for further details.
5. The Company is exposed to various claims and contingencies in the normal course of business. We note two significant matters outstanding as of December 31, 201Y. The Company is a defendant in litigation involving a patent claim that has been ongoing for several years. The Company is also liable for the costs of remediating an environmental claim relating to a business that was sold in 201X. See Note J for further details surrounding these matters.

We highlight the above matters because they represent some of the areas of audit emphasis during the periods covered by our report. Our audits included performing procedures designed to address the risks of material misstatement associated with the above matters. Such procedures were designed in the context of our audit of the consolidated financial statements taken as a whole, and not to provide assurance on individual accounts or disclosures. As noted above, our audits also included procedures in response to identified risks and those required by professional standards that have not been specifically identified herein.

### **Other Reports**

We also have examined, in accordance with the standards of the PCAOB, Sample Company's Critical Accounting Estimates disclosure included as a part of MD&A in the Company's December 31, 201Y Annual Report on Form 10-K, and our report dated [date] expressed an unqualified opinion that the Company's presentation of the Critical Accounting Estimates disclosure includes, in all material respects, the required elements of the rules and regulations adopted by the SEC; that the historical financial amounts included therein have been accurately derived, in all material respects, from the Company's financial statements; and that the underlying information, determinations, estimates, and assumptions of the Company provide a reasonable basis for the disclosures contained therein.

In addition, we have audited, in accordance with the standards of the PCAOB, Sample Company's internal control over financial reporting as of December 31, 201Y, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated [date] expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

XYZ LLP

[City, State]  
[Date]

## **Example B**

### **New Report on Critical Accounting Estimates**

#### **Report of Independent Registered Public Accounting Firm on the Critical Accounting Estimates Disclosure of Sample Company**

To the Board of Directors and Shareholders of Sample Company

We have examined the Critical Accounting Estimates disclosure of Sample Company and subsidiaries (the Company) included as a part of the Company's Management's Discussion and Analysis (MD&A) that is included in the Company's December 31, 201Y Annual Report on Form 10-K.

#### **Nature of the Critical Accounting Estimates Disclosure**

The Critical Accounting Estimates disclosure is designed to present the Company's analysis of the uncertainties involved in applying its adopted accounting principles and policies at a given time or the variability that is reasonably likely to result from its application over time. The subjectivity of these disclosures is influenced by the availability and reliability of relevant data, the number and significance of assumptions that are made, and the degree of uncertainty associated with such assumptions. Consequently, actual results in the future may differ materially from management's present assessment of this information because events and circumstances frequently do not occur as expected.

#### **Management and Audit Committee Responsibilities for the Critical Accounting Estimates Disclosure**

Management is responsible for the preparation of the Company's Critical Accounting Estimates disclosure pursuant to the rules and regulations adopted by the U.S. Securities and Exchange Commission (SEC), and for such disclosure controls and procedures designed to ensure that information required to be disclosed pursuant to the securities laws is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. The preparation of the Critical Accounting Estimates disclosure requires management to interpret the criteria for disclosure, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information.

The Company's audit committee oversees the financial reporting process (including the Company's Critical Accounting Estimates disclosure) and its disclosure controls and procedures (which include internal control over financial reporting), areas for which management has the primary responsibility. Additionally, the audit committee is directly responsible for our appointment, compensation, and oversight of our work (including resolution of any disagreements with management regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

## **Auditor Responsibility for the Examination of the Critical Accounting Estimates Disclosure**

Our responsibility is to express an opinion on the Critical Accounting Estimates disclosure presentation based on our examination. Our examination was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and, accordingly, included examining, on a test basis, evidence supporting the historical amounts and other information disclosed in the presentation. An examination also includes assessing the significant determinations made by management as to the relevancy of information to be included and the estimates and assumptions that affect reported information. We believe that the procedures performed and the examination evidence obtained provides a reasonable basis for our opinion. In forming our opinion, we exercised professional judgment in evaluating the reasonableness of the disclosures based on information that was available at the time of our examination. In the course of completing our examination, the evidence we obtain is often persuasive rather than conclusive.

### **Opinion on the Critical Accounting Estimates**

In our opinion, the Company's presentation of the Critical Accounting Estimates disclosure referred to above includes, in all material respects, the required elements of the rules and regulations adopted by the SEC; the historical financial amounts included therein have been accurately derived, in all material respects, from the Company's consolidated financial statements; and the underlying information, determinations, estimates, and assumptions of the Company provide a reasonable basis for the disclosures contained therein.

### **Other Report**

We have audited, in accordance with the standards of the PCAOB, the consolidated financial statements of Sample Company and subsidiaries as of December 31, 201Y and 201X, and for each of the years in the three-year period ended December 31, 201Y, and in our report dated [date], we expressed an unqualified opinion on those consolidated financial statements.

XYZ LLP

[City, State]

[Date]



## Example C

### Revised Report on Internal Control over Financial Reporting

#### Report of Independent Registered Public Accounting Firm on Sample Company's Internal Control over Financial Reporting

To the Board of Directors and Shareholders of Sample Company

We have audited Sample Company's (the Company) internal control over financial reporting as of December 31, 201Y, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

#### **Management and Audit Committee Responsibilities for Internal Control over Financial Reporting**

Sample Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying [title of management's report].

The audit committee oversees the Company's financial reporting process and its internal control over financial reporting, areas for which management has the primary responsibility. Additionally, the audit committee is directly responsible for our appointment, compensation, and oversight of our work (including resolution of any disagreements with management regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

#### **Auditor Responsibility for the Audit of Internal Control over Financial Reporting**

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. In this context, reasonable assurance, although representing a high level of assurance, is not absolute and consequently an audit of internal control over financial reporting conducted in accordance with PCAOB standards may not always detect a material weakness. Our judgments about materiality are affected by our understanding of the financial information needs of users of this Report. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, giving rise to a reasonable possibility that a material misstatement of the Company's annual or interim financial results will not be prevented or detected by the Company on a timely basis. If one or more material weaknesses exist, the Company's internal control over financial reporting cannot be considered effective, and we are required to include in our report an opinion that the Company's internal control over financial reporting is not effective. If there are restrictions placed on the scope of our audit, we are prohibited from expressing an opinion on the effectiveness of the Company's internal control over financial reporting.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating

effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

We believe that the procedures performed and audit evidence obtained provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Opinion on Internal Control over Financial Reporting**

In our opinion, Sample Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 201Y, based on the criteria established in *Internal Control – Integrated Framework* issued by COSO.

### **Other Report**

We have audited in accordance with the standards of the PCAOB, the consolidated financial statements of Sample Company and subsidiaries as of December 31, 201Y and 201X, and for each of the years in the three-year period ended December 31, 201Y, and in our report dated [date], we expressed an unqualified opinion on those consolidated financial statements.

XYZ LLP

[City, State]

[Date]