



**MAPI**

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President and Chief Executive Officer

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

**Subject: Docket 034: Auditor's Reporting Model Proposal**

Dear Board Members and Staff of the PCAOB:

The Manufacturers Alliance for Productivity and Innovation ("MAPI") welcomes the opportunity to convey the views of its CFO and Financial Councils on the proposed Auditor's Reporting Model. The CFO Council is comprised of 107 corporate level CFOs with large publicly traded manufacturing companies while the Financial Council's has 86 members with publicly traded companies who are corporate level Controllers and Chief Accounting Officers. Together, there are 124 different publicly traded manufacturing companies represented on the two Councils.

The members of the CFO and Financial Councils were surveyed recently on their views regarding the PCAOB's proposed Auditor's Reporting Model. The results, based on responses from 63 companies, are briefly summarized in Part I and the detailed responses are presented in Part II. The companies that participated in the survey are very large manufacturers. Eighty-seven percent had annual revenues exceeding \$1 billion in the latest fiscal year. The revenues of 45 percent of the companies exceeded \$3 billion.

**Part I: Overview of Survey Results**

A majority of the respondents (97%) do not think expanded audit opinion letters will provide any value to investors or that any value would be nominal. At the same time, respondents believe that PCAOB's proposal will impose significant costs on companies. While the PCAOB's proposal is well intentioned, the association has three principle objections to the addition of critical accounting matters (CAM's) to the auditor opinion.

First, most respondents believe that the proposal will likely be interpreted as requiring auditors to disclose information not required to be disclosed by registrants. Generally, members believe that current FASB and SEC disclosure requirements, including those related to critical accounting policies, are sufficient to provide investors with necessary and appropriate information. However, if it is necessary to expand these disclosure requirements, members feel strongly that any new requirements should be required of registrants, not their auditors. Seventy-five percent of respondents said that the most important finding provided by the audit is that a firm's financial statements are presented fairly and that the stated financial position conforms to the financial reporting standards. Accordingly, members feel that the historical "pass / fail" basis for the audit opinion should remain intact, and auditors should opine on the accuracy of information provided by management, not provide original disclosure.

Secondly, 80 percent of the respondents indicated that the notion of "what keeps the auditor up at night" as a determinant of critical accounting matters is too subjective. In our existing litigious environment, this would result in auditors feeling compelled to identify a large number and broad

array of critical accounting matters in order to protect themselves from later shareholder suits, similar to what has happened with the requirements regarding risk factors. In this event, members feel it is unlikely that investors will realize any additional useful information.

Last, the majority of members believe that in its current form, the proposal will significantly increase audit fees with no resultant investor benefit. One-third of respondents believe audit fees would rise by 6 to 10 percent or more and 32 percent said fees could rise by more than 10 percent. MAPI's most recent audit fee survey found that the median audit fee paid by its members companies in 2012 was \$2.06 million.<sup>1</sup> A six percent increase in the median audit fee is equal to \$124,000.

Members have additional concerns about the proposed requirement that auditors evaluate "other information" outside of the financial statements. The additional level of review expected under the proposal will increase audit fees and may result in auditors opining, in some cases, in areas for which they have no expertise. The majority of members believe that reading MD&A for consistency with the financial statements and footnotes, as required by auditors currently, is sufficient to meet the needs of investors.

Additional detailed comments from more than 30 respondents are reproduced in Part II.

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Submitted by:

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<sup>1</sup> Manufacturers Alliance for Productivity and Innovation, *Survey on Audit Fees, 2013*. S-148.

## Part II: Survey Results

1. Of what value would expanded audit opinion letters addressing critical audit matters be to investors?

	Number	Percent
No value	34	55%
Nominal value	26	42%
Moderate to significant value	2	3%

2. If you do not believe information regarding critical audit matters would provide much if any value to investors, what are the main reasons? (Check all that apply)

	Number	Frequency (Percent of 61 Responses)
The notion of "what keeps the auditor up at night" is too subjective.	49	80%
The most important finding provided by the audit is that a firm's financial statements are presented fairly and that the stated financial position conforms to the financial reporting standards.	46	75%
Some of what the PCAOB proposal is asking for is already provided in MD&A critical accounting policies. Any problems with these would influence the auditor's communications with the Audit Committee.	37	61%
Investors would find little value in the additional information provided in expanded auditor letters.	28	46%
The proposal gives the auditor too much discretion.	26	43%
Much of the information provided by the audit is dated by the time it is published.	17	28%
The financial audit is just one source of information regarding a company's financial position; there are other sources of information that complement annual reports	15	25%
Other	17	28%

Those who indicated "Other" elaborated:

- Investors rely mainly upon the Earnings release information, script and Q&A together with any other management presentations and sector comparisons. They rely upon the 10Q/10K filings for a little of the extra data such as Pension deficits, Debt details etc. and the Audit opinion is mainly a point of comfort that the financials they have been using are reliable. Very few investors read the 10Q/10K in full detail and those that do are the most junior analysts who simply do compare analysis, e.g., did management change a risk factor?

- I believe it will be confusing.
- What is the ultimate value of the information relative to the effort required, i.e., the company and the audit firm are going to spend enormous amounts of energy "word-smithing" the final product.
- The auditor will be forced into over communicating critical audit matters to manage their legal liability. Auditors often have 10 to 15 key audit matters that are offered summarized for their concurring and national office reviews. Therefore, auditors will naturally need to include these as "critical audit matters" further contributing to the information overload in financial statements today.
- It will significantly drive up the cost of an audit.
- Matters that are complex and subjective are things such as impairments that are non-cash. For investors focused on cash flows, subjectivity does not come into play.
- The proposal could potentially confuse investors and cause unnecessary double-guessing.
- Investors are already overwhelmed with financial statement disclosures. This just adds to it.
- Creates more audit fees and provides little value. What does the auditor have that investors can't get from asking questions - other than the financial statement detail?
- Companies are already required to discuss risk factors and "seeing the company through the eyes of management in the MD&A" and auditors have to "sign off" on those. Management has to agree to "clawbacks", CEO's and CFO's have to personally sign off on controls, etc. We are being forced to jump through hoops for the black swan event and in the process becoming less competitive.
- The letter could become another "boilerplate" document that generally is carefully worded by lawyers and this could greatly reduce the significance to investors.
- Disclosures already exist.
- It is difficult to provide an objective standard of critical audit matters between companies and industries.
- There is potential to misinterpret the criticality of the issue.
- It is nearly impossible to succinctly state issues in document. Our litigious society will be addressed by more and more disclosures where the list will be long and ultimately un-useful. The "taken as a whole" should continue to be standard for investors.
- As I understand the proposal, the Auditor will have to come up with something, even if it's not substantive. I think the reader will be curious, but won't know how to process the data. What's the value to the investor in the end?
- There will be inconsistency between what different auditors might report for different companies and this may lead to inappropriate relative perceptions about companies.
- Because of the limitations of an audit, the auditor would be very measured in what he/she wrote. It would quickly become boilerplate.

## 3. What do you think is driving the PCAOB proposal?

What do you think is driving the PCAOB proposal?	Number	Percent
The PCAOB's view that more oversight is needed	52	83%
Academic accounting literature showing a need for information on critical audit matters	7	11%
Investor complaints regarding the inadequacy of current financial reporting	2	3%
Other	2	3%

Those who indicated "Other" elaborated:

- Probably a combination of all of the above.
- Government's view that they have to prevent any and all potential losses by investors, regardless of the cost. You can't govern and establish rules to catch the crooks that will always be crooks. There is enough governance in corporate America right now without increasing the workload and costs for companies to compete. Think about Conflict Minerals - this is just another example of over-reaching.

## 4. If the PCAOB proposal is adopted, to what extent do you think audit fees would increase?

	Number	Percent
There would be little or no impact on the cost of the audit.	1	2%
Audit fees would rise by 1% to 5%	20	33%
Audit fees would rise by 6% to 10%	20	33%
Audit fees would rise by more than 10%	19	32%

## 5. Briefly, what is your opinion of the PCAOB proposal?

Twenty respondents provided short statements to the effect that they do not like the PCAOB's proposal, that it is overreaching and unnecessary, that it will not provide investors with much in the way of additional or useful information, or that its costs exceed its benefits. The comments of the other respondents who elaborated their concerns follow.

- Continually looking for ways in which to provide additional useful information to investors is a commendable goal. However, the proposal appears to alter the basic fundamental model that has been in place for decades, a model that currently provides for disclosures of important information be made by registrants and not auditors, with the auditor communicating a simple, objective "pass / fail" opinion. As such, we believe much additional discussion and analysis should take place prior to any proposal such as this one takes effect and should be led by all parties responsible for financial reporting (such as but not limited to the SEC and FASB). In addition, the benefit related to the expansion of scope of work of an auditor to perform procedures on other documents (such as but not limited to the proxy statement) is not clear. The costs could be significant, and it is not clear what actual problems have occurred that would suggest such work would result in a meaningful benefit.
- The current yes/no status of an audit opinion letter has great value and is the main value that investors draw from the audit process - they want statements that they can rely upon that have had independent scrutiny. Adding shades of grey/emphasis of matter etc., will probably quickly become like the risk factors - an ever growing section that is driven by Attorneys and concerns over minimizing risk - in this case to the Auditors. The clarity of the current pass/fail audit opinion is profound and should be maintained. Furthermore, consider what would have happened back in 2008/2009 with all of the

concerns over corporations' ability to get refinanced or achieve Bank Covenant amendments during that period - the Auditors expressing such concerns in public would have led to Vendor confidence collapse, removal of terms and the achievement of a self-fulfilling prophecy - expressing concern over financial stability would have engendered financial instability and much heightened risk of financial failure.

- Unfortunately, the PCAOB's sensitivity to cost is low, as the effort of the audit firms and their clients both will be magnified, significantly in many circumstances, and the cost of risk paid as part of audit fees will necessarily rise as more information and opinion which can spawn and support lawsuits is exposed to our litigious environment. They also ignore the impacts from disclosure of competitive information. Differences of opinion which can safely persist under current disclosures will become more problematic, ultimately resulting in audit firms dictating even more judgmental decisions than they do today. I do not feel that is wise or helpful. In all, I feel it is a gross overreaction to a simple question of whether the opinion letter should be updated.
- It will only add to investor confusion. Every investor looks at different aspects of the company. It will be impossible for the audit firm to cover every item that the investment community might want to know about. Even after an audit, the auditors know about 10% of your business (they think they know much more, but they don't) so their ability to span the scope of investor needs is limited. Our auditors sometimes have a difficult time explaining issues to our audit committee (who are familiar with our company and financial policies). I can't imagine the gyrations we will have to go through with the auditors to have them try to put issues in writing for the world to see. It will create a lot of extra work for me and my staff.
- The information proposed for the auditor's report should remain solely the responsibility of the audit committee and not be added to the auditor's report. The PCAOB's proposal would likely invite an increase in litigation as litigious parties use the information to the disadvantage of public companies and/or their auditors. Most of the proposed information should be apparent in the financial statements if preparers are following the current disclosure rules properly.
- This proposal will put audit firms in a very difficult position with regards to audit committee and management communications. It will also be difficult to implement in an objective manner - the same issue at one company may be considered critical while at another, it does not reach that level.
- It is the companies' responsibility to report on the company, not the auditors. This proposal could result in a contentious working relationship between the company and auditor. I don't think the audit world wants this either. It is too subjective and provides little value to the investing community.
- The PCAOB is trying to prevent the black swan and wasting investors' money in the form of lower business competitiveness and lower profits. There is little pragmatism.
- It has merit in theory but auditors already read the MD&A. It is hard to believe that if they read something different in MD&A than their understanding of what is contained in the financial statements they would not let Audit Committees know. They would also be putting their firm reputation at risk.
- Another layer of regulatory controls for accounting companies to address, giving them reason to expand their scope, increase the fee-based revenue and wanting more protection from perceived liabilities at the detriment of the client. This moves further away from the simple concept that the company is responsible to provide all the required information in prescribed formats and standards with the auditor to attest that it did so properly.
- I disagree with their premise. The auditors should just audit and express their opinion on the overall financial statements.
- The proposal is of little value. While some of the PCAOB oversight has been positive, much of what

they have now evolved toward trying to require scientific conclusions and documentation around highly subjective matters.

- The proposal is not appropriate as it changes the role of auditor from solely opining to reporting on Company matters. Also, more attention than necessary could be placed on insignificant matters.
- It will not improve the quality of earnings, the quality of accurate financial records or of a quality audit.
- I disagree with the premise. Auditors cannot be all-knowing; expecting them to be will spiral out of control.
- Investors rely on the auditor to determine if the financial statements are presented fairly. They expect the auditor to adequately address the critical audit matters. Investors shouldn't have to make this determination on their own based on disclosures from the auditor.
- The proposal is a solution in search of a problem. I really doubt any sophisticated investors are reading much less relying on the auditor's opinion other than the financials have been subjected to audit. An audit can't prevent a business failure and that is what really concerns investors.
- I do not like the proposal at all. If it were implemented, I see too large an opportunity for adversarial relations to develop between client and audit firm. And, I see much more changing of audit firms due to these differences.
- The regulations that exist over financial reporting are adequate to address investor needs. This is another example of regulation overkill. Based on the PCOAB view, there will never be enough data to satisfy their needs. It would be interesting to see if investors would be willing to fund every new regulation from the PCOAB directly vs. corporation.
- An unneeded additional regulation. The audit already covered management estimates and management must disclose this. If the auditor had problems with them, you think they would sign the opinion?
- It is hard to get your hands around what they are concerned about. As we address critical accounting policies in the 10-K and the auditors opine on the filing, what isn't already covered? I believe it would add as much value as audit firm rotation would to the audit validity.
- It generates little or no value (comfort). It simply breaks out what the auditor should be doing anyway. Adding the additional disclosures will simply add exposure to the auditor and, consequently, fees to the audited.
- It is over-reaching PCAOB's authority. The SEC is accountable for this.
- I don't understand what's driving it. Who's pulling for this? There will be too much subjectivity in deciding what issues to discuss, and the Auditors will be compelled to have to report on something. I also worry about confidentiality of issues that would be disclosed.
- It is out of touch with reality. This is another compliance item that is being layered onto everything else that public companies are supposed to do that end of the day waters down the communications to shareholders. The more disclosures that are mandated the less meaningful the disclosures become.
- The proposal is not necessary and will result in higher audit fees and will add delays to the close process. Investors value information that is both timely and accurate. This proposal will not increase the accuracy of financial reporting. But it will delay the timing between 'closing the books' and publishing a set of audited financials.

- I believe that the PCAOB proposal, although well-intentioned, is misguided. The PCAOB proposal reflects an overestimate of the auditor's role in the financial reporting process and asks the auditor to comment on matters that are far better addressed by management.
- This seems like a solution looking for a problem. Plus, the audit firm is designed to opine on the financial statements and associated disclosures and whether they are in accordance with GAAP. The audit firm will be risk-averse, as any additional information they provide will only be a negative in the case of an issue with the company; therefore, the additional information will ALWAYS be biased to the negative. It is management's responsibility to fairly present all information that is relevant to an investor; the audit firms don't have expertise in this area and their views will likely only add confusion. Hard to see how this improves any information available for investors.
- The financial statements are either fairly stated or unfairly stated. Due to the more subjective nature of this request, I envision it leading to a more adverse relationship between audit firm and client.
- More regulation with minimal to no benefit. Don't believe this proposal would have avoided or provided headlights to the fraud at Enron, WorldCom, Global Crossing and Quest nor the financial meltdowns at Lehman Bros, Bear Stearns or Merrill Lynch.
- Not needed, would add little to no value and will result in nothing more than the regurgitation of what is already in MD&A.
- The PCAOB proposal would make U.S. companies more challenged to compete against other companies that are not subject to such rules.

6. If you think the PCAOB proposal does not provide benefits commensurate with the costs, is there an alternative that is more workable and less costly?

	Number	Percent
Yes	18	30%
No	43	70%

Those who indicated that there is alternative provided the following suggestions:

- Monitor and enforce the current audit standards.
- Put wrongdoers in jail for a long time.
- Expand discussions in the MD&A and footnotes.
- If a change is necessary, the opinion letter could list areas of greatest focus in the audit that were discussed with the company's Audit Committee (or a similar standard). (And, to be clear, that is just what I think.)
- If there are matters that aren't being adequately addressed then rules should be expanded for management to address them in the qualitative discussions in Forms Q and K with in MD&A or elsewhere. Greatly expanding the audit opinion only adds to information overload.
- Enhance information about critical accounting policies if that is not currently adequate.
- In my view, the board of directors should provide a letter annually to investors.
- Consider more disclosure in the footnotes on critical accounting policies.

- Require the auditor to review MD&A and raise concerns if inadequate (this is already part of the auditors' responsibility)
- Assuming the Auditors already read the MD&A have them say in their letter to the Board and Shareholders "that in conjunction with the audit they have read the MD&A and when considered in relation to the basic consolidated financial statements taken as a whole presents fairly, in all material respects the information set forth".
- Consider expanded disclosure on Significant Accounting Policies | Critical Accounting Estimates
- Manage audit firm expectations through the investigation process that is already in place.
- Rather than continuing to add more costs to US public companies there needs to be a risk based assessment of what is truly most important from an investor's point of view. Stop requiring anything that is not a priority and focus only on the priorities. Our costs continue to increase with every letter that the PCAOB issues to any of the accounting firms and yet I would argue that neither the investors nor the company are benefited by the resulting reactions/changes.
- Expand Critical Acct Policies section/MD&A Section.
- Limit the discussion of Critical Audit Matters to: (1) material items, (2) items required to be disclosed by registrants, (3) items discussed with a registrant's Audit Committee, (4) expand the scope of auditor responsibility to MD&A only, and within MD&A only to items that are generated by the registrant's accounting system.

7. What were your company's total worldwide revenues in its latest fiscal year?

	Number	Percent
Less than \$1 billion	8	13%
\$1 billion to \$3 billion	27	43%
\$3.01 billion to \$5 billion	14	22%
\$5.01 billion to \$10 billion	6	10%
Greater than \$10 billion	8	13%