



The WALT DISNEY Company

December 11, 2013

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

Re: PCAOB Rulemaking Docket Matter No. 034

Dear Secretary:

The Walt Disney Company is pleased to have the opportunity to comment on two auditing standards recently proposed by the Public Company Accounting Oversight Board (the "Board"):

- *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*

While we are supportive of the Board's efforts to improve audit quality and increase the informational value of the auditor's report, we recommend the Board reconsider certain aspects of the proposed standards before they are finalized. We believe there are a number of undesirable collateral consequences flowing from certain aspects of what is proposed, particularly related to the disclosure of "critical audit matters¹," that outweigh any benefits sought to be achieved.

Critical Audit Matters or "CAMs"

We do not believe that the proposed disclosure of CAMs will, in the end, make the audit report more useful. This is so for a number of related reasons:

- The breadth of the definition of a CAM and the requirement to document the rationale for non-disclosure of potential CAMs combine to create a dynamic that could well motivate auditors to disclose numerous CAMs to avoid the risk of being second guessed by third parties for non-disclosure. This would lead to a more voluminous auditor's report, which will both distract from the unqualified opinion and lead to doubt about the essential pass/fail objective of the audit. Such an outcome would be unfortunate as by definition the auditor would have resolved all CAMs to its satisfaction in order to render its opinion. In other words, the proposed disclosure may be read as creating doubt which, in the auditor's mind, does not fairly exist.

¹ The proposed standard defines CAMs as "those matters addressed during the audit 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 the opinion on the financial statements." In addition, the proposed standard places the responsibility with the auditor of determining which matters to communicate as CAMs and indicates that "critical audit matters ordinarily are matters of such importance that they are included in the matters required to be (1) documented in the engagement completion document, which summarizes the significant issues and findings from the audit; (2) reviewed by the engagement quality reviewer; (3) communicated to the audit committee; or (4) any combination of the three."

- CAMs may be misinterpreted by financial statement users as issues for concern rather than simply information about the conduct of the audit—a “piecemeal” audit report rather than a report on “the financial statements taken as a whole.” Further, if the information in the auditor’s CAM discussion is misinterpreted and/or leads to questions from the investment community, there is no disclosure venue for the auditor to respond. This would put the company in the position of explaining after the fact (in a Regulation FD compliant disclosure) what the auditor meant—potentially requiring management to “put words in the auditor’s mouth.”
- The definition of a CAM is sufficiently broad that there will be diversity in practice across audit firms in determining and describing CAMs. Such diversity will make it difficult for financial statements users to interpret the CAMs across companies, and users may make inappropriate inferences based on the number of CAMs reported for a company. For instance, numerous CAMs might be interpreted as an indication that there was contentiousness with the audit firm or extensive use of aggressive accounting practices when in fact, it was simply indicative of an audit that involved novel issues on which ultimately there was little or no dispute between the auditor and the company. Conversely, very few CAMs may be interpreted as an indication that the auditors were not thorough or are too comfortable in their relationship with management when in fact, it was simply indicative of an audit with few novel issues.
- Although the inclusion of CAMs in the auditor’s report is intended to improve the mix of information available to investors and enhance their understanding of the financial statements, we believe that management’s discussion and analysis (which is reviewed by the auditor) along with the footnotes to the financial statements (which are audited) is the most efficient way to highlight the most important factors investors should consider with respect to the evaluation of business performance. We don’t believe investors are interested in understanding the audit process and requiring them to cross reference between management’s disclosures and the auditor’s disclosures to get a complete picture is not an efficient approach for increasing their understanding of the company’s financial performance.
- In order to avoid incremental legal liability, there is a potential for auditors to make CAM disclosures boilerplate and redundant to standard accounting disclosures made by management, which will not aid investors in better understanding the financial statements of a company.

The CAM proposal also carries with it a number of undesirable collateral consequences that outweigh any perceived incremental value to the audit report.

The requirement will result in a chilling of communication between the auditor, management and the audit committee.

- We believe that open and candid dialogue between the three parties in the financial reporting process (i.e. the auditor, management and the audit committee) is integral to promoting the reliability and integrity of the audited financial statements and that the Board should avoid introducing any requirements that unduly interfere with that level of candor. We fear that the proposed CAM disclosure requirement would have precisely that effect. Management or the audit committee may hesitate to raise matters with the auditor on which they would otherwise seek input in order to minimize the risk of a matter unnecessarily becoming a CAM and triggering the disclosure of competitive or proprietary information, which would not be disclosed aside from the fact that it was discussed with the auditor. Auditors themselves may hesitate to discuss matters with management or the audit committee to minimize the risk that non-disclosure of a CAM would be second guessed or the risk that the auditor would be thrust into a position of having to disclose competitive or proprietary information that management would not otherwise be required to disclose. For these reasons, the proposed standard would inhibit

the open, transparent and timely communications between auditors and audit committees that we believe the Board should strive to promote.

The auditor will become a primary source of disclosure for companies and may disclose information, which would not otherwise be required for disclosure.

- The communication of CAMs in the auditor's report may blur the roles of management and the auditor with respect to communication of information about the company. The auditor could be put in a situation of being required to disclose original information, including confidential information or information that management would otherwise have no obligation to disclose. For example, the auditor may disclose as a CAM, a weakness in internal control over financial reporting which was appropriately determined to be a significant deficiency rather than a material weakness. Or, the auditor may disclose a litigation contingency that was determined to be a remote probability rather than a reasonable possibility. In such cases, companies may feel compelled to preemptively disclose matters that otherwise would not be required (nor informative for investors) in order to avoid initial disclosure by auditors. This will lead to more voluminous management disclosures, which will obscure important disclosures, and lead to redundancy between management disclosure and the auditor disclosure.

Disclosure of CAMs will increase audit cost without a clear benefit to financial statement users.

- The inclusion of CAMs will place pressure on achieving tight filing deadlines while increasing the cost of the audit. Auditors will spend incremental resources on CAM identification, documentation, drafting and the related reviews. At the same time, companies will be required to devote resources to provide additional information to auditors in respect of potential CAMs, increase disclosures beyond that which is required, and debate and review auditor CAM disclosure language internally and with the auditor. Much of this effort will be concentrated at the time when both the auditor and the company are focused on the accuracy of the financial statements and meeting the financial statement filing deadlines.

Reporting on "Other Information"

We support clarification within the audit report of the auditor's existing responsibility for other information in documents which contain the audited financial statements. However, we do not support an increase in the auditor's current scope of responsibilities since we don't believe there have been significant issues with investor use of information outside the financial statements.

Current reporting requirements provide comfort that "other information" has been verified by the company through the Section 302 certifications. The Board's proposal to change the standard of auditor involvement to "evaluate" from the current standard (read and note inconsistencies) will require the auditor to perform substantial additional procedures, increasing audit costs without a clear benefit to financial statement users.

Auditor Tenure

We don't believe the PCAOB has identified any linkage between auditor tenure and audit quality. In the absence of such linkage, including tenure in the auditor's report will not provide financial statement users with helpful information about the audit conducted, nor the information presented in the financial statements. If auditor tenure should be disclosed, the most appropriate place for such disclosure would be in the proxy statement materials discussing auditor fees and/or auditor appointment.

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Based on these factors, we do not believe that the disclosure of CAMs or the increase in the auditor's responsibility for other information is an effective or cost efficient solution to enhance the informational value of the auditor's report.

If the PCAOB continues to believe a change of this type is required to improve auditor reports, we recommend that the PCAOB explore whether increased use of "matters of emphasis" paragraphs in auditor reports would be a suitable alternative. With matter of emphasis paragraphs, the auditor could point to the management disclosures that the auditor believes would be of most interest to investors.

I would be pleased to respond to questions you have regarding this response.

Sincerely,

A handwritten signature in black ink, appearing to read "Brent A Woodford". The signature is written in a cursive, flowing style.

Brent A Woodford
Senior Vice President, Planning and Control
The Walt Disney Company
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