November 26, 2013

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

Re: Amendments to the PCAOB Standards (Rulemaking Docket Matter No. 034)

Dear Ms. Brown and Members of the Board,

Thank you for the opportunity to comment on the proposed new auditing standards. As an investor, I agree with what seems to be PCAOB's main assertion: that the pass/fail model does not address the current complexities of global business. However, the expanded disclosure requirements put an unnecessary burden on the audit committee and auditors; specifically, listing the critical audit matters (CAMs), may cause confusion for investors and become a liability for auditors and companies. The goal of the PCAOB can be met with less drastic changes to the current accounting standards.

I believe that the goal of "protect[ing] the interests of investors and further[ing] the public interest in the preparation of informative, accurate and independent audit reports" can be met with modest changes to the current pass/fail model. Slight revisions to the current model will help ensure that the new standards can be enacted seamlessly and will help prevent future fraud, which is starting to seem inevitable. According to *Audit Analytics*, there has been a sharp rise in earning restatements at large companies over the past three years. The PCAOB inspection reports issued in 2012, showed that 36% audits from the Big Four (Deloitte, E&Y, PwC, and KPMG) the inspectors scrutinized were deemed deficient, up from 14% two years before that.[1]

Below are suggested key edits to the proposed PCAOB standards.

Recommended Edits:

1. As mentioned in PCAOB's proposal, auditors should report how long they have been auditing the company. However, companies should also have a limit on the number of consecutive years the company can employ the same public accounting firm.

   Currently, a company hires and pays an accounting firm, typically one of the big four, to review their financial statements. This intertwined relationship does not encourage objectivity.

[1] Rapoport, Michael. "New Rules Expected for Annual Audit Reports." *Wall Street Journal*. N.p., 12 Aug. 2013. Web.

According to Barbara Roper, head of investor protection for the Consumer Federation of America, “when you look at some of the big audit failures over the years, whether it's Enron or Waste Management, you find instances where they've had the same auditor for in some cases decades.”[2]

2. In general, CAMs are subjective and should not be included in the auditor’s report. The name itself, “Critical Audit Matters” and complexity of listing every difficult or subjective decision made by the auditor, can cause unnecessary investor concern. Instead of CAMs, the audit opinion should include less subjective measures to express a company’s health. The auditors should include:

a. Divergence from industry norms. Auditors should possess knowledge of the company’s industry; if items in the financial statements are incongruent with industry norms, the public accounting firm should disclose that in the audit report.

b. Opinion on whether the company can continue as a going concern. As mentioned in the PCAOB proposal, if there is doubt that a company can continue as a going concern it should be disclosed to investors.

3. Auditors should review Management Discussion & Analysis (“MD&A”) along with the financial statements. The audit report should provide reasonable assurance that the MD&A is free from material error and covers material changes (increases or decreases) seen from the previous quarter and/or year.

To provide further insight, yet avoid redundancy, I answered select questions from sections IV and V.

Answers to Select Questions Posed in Sections IV and V:

2. The proposed auditor reporting standard would require the auditor's report to be addressed at least to (1) investors in the company, such as shareholders, and (2) the board of directors or equivalent body. Are there others to whom the auditor's report should be required to be addressed?

The audit report should be addressed to the company’s board of directors or the equivalent body and the entire investing public. The scope should not be limited to the company’s current investors; future investors are also relying on the audit report and they should be addressed.

5. The proposed auditor reporting standard would require the auditor to include in the auditor's report a statement containing the year the auditor began serving consecutively as the company's auditor. a. Would information regarding auditor tenure in the auditor's report be useful to investors and other financial statement users? Why or why not? What other benefits, disadvantages, or unintended consequences, if any, are associated with including such information in the auditor's report?

---

[2] Gao, Shirley. "Center for Public Integrity." *Center for Public Integrity*. N.p., 13 July 2011. Web.

The statement proposed would provide factual information to investors and potential investors about the relationship between the company and auditor. If there is not a limit placed on the number of years a public accounting firm can audit one company (I addressed this above), then this statement will allow shareholders to determine if the tenure of the auditor is a concern.

b. Are there any additional challenges the auditor might face in determining or reporting the year the auditor began serving consecutively as the company's auditor?

The PCAOB will need to create standards for mergers, acquisition, or other partnership agreements amongst public accounting firms.

15. Would including the audit procedures performed, including resolution of the critical audit matter, in the communication of critical audit matters in the auditor's report be informative and useful? Why or why not?

Including audit procedures performed and the resolution of CAMs would be an overwhelming amount of detail to include in the audit report for very little additional value. As it stands now, the auditor, as the expert, provides reasonable assurance that the financial statements are free from material misstatements. How the auditor arrived at that decision should not be important unless the expertise or judgment of the auditor is in question.

27. What benefits or unintended consequences would be associated with requiring auditors to communicate critical audit matters that could result in disclosing information that otherwise would not have required disclosure under existing auditor and financial reporting standards, such as the examples in this Appendix, possible illegal acts, or resolved disagreements with management? Are there other examples of such matters? If there are unintended consequences, what changes could the Board make to overcome them?

It is management's responsibility to prepare the company's financial statements and an auditor's responsibility to confirm accuracy; this proposal would shift that balance. The auditors should not disclose information that management is not required to reveal and has decided not to make public. Such information may be trade secrets that provide the company with a competitive advantage.

Again, I appreciate the opportunity to share my opinion. Thank you for your consideration on this matter.

Sincerely,

J. Edmunds