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The Office of the Secretary, PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 034

Dear Secretary of PCAOB:

As a member of the financial community and potential investor, I am writing to recommend the following revisions to improve the auditor's communication through the auditor report to better inform financial statement users through reporting on critical audit matters.

To do so, I will address the Critical Audit Matters Questions 10-28 specifically listed in Appendix 5, Section 5:

10. Yes, the auditor's communication of critical audit matters would be extremely relevant and useful to investors and other financial statement users who examine cash flows, assets and liabilities and overall financial health of companies. They are especially interested in errors and fraudulent issues in financial statements to which auditors may be privy.

11. The auditor's communication of critical audit matters would benefit investors and other financial statement users by shedding more light into potential areas of risk, the most significant matters found by auditors, the quality of accounting policies and practices, significant changes and events impacting the financial statements, and the areas where significant matters are disclosed in the financial statements. Furthermore, due to their regular interactions with management and by drawing more attention to critical audit matters, auditors may improve the quality of the audit.

On the other hand, unintended consequences include potentially higher audit fees and additional time needed for the auditor to determine and communicate critical audit matters. The Board should continue to ensure that the inclusion of critical audit matters does not compromise the quality of the audit report.

12. Yes, the definition of a critical audit matter is sufficient for purposes of achieving the objectives of providing relevant and useful information to investors and other financial statement users in the auditor's report. It also is sufficiently clear for determining what would be a critical

audit matter. Yes, the use of the word “most” is understood as it relates to the definition of critical audit matters.

13. Yes, providing that all current procedures are kept intact, the additional time incurred regarding critical audit matters is likely to improve the quality of the audit of the financial statements as auditors spend more time on these matters.

14. Yes, the proposed requirements regarding the auditor’s determination and communication of critical audit matters are sufficiently clear in the proposed standard. Determining and communicating critical audit matters will not expand beyond the scope of the auditing process and procedures, but rather be determined and communicated from the work already performed.

15. Yes, it would be informative and useful to include the audit procedures performed, including resolution of the critical audit matter, in the communication of critical audit matters in the auditor's report. This would provide financial statement users with more background on the critical audit matter facing the company, which allows for deeper understanding of the business and risks associated.

16. Yes, the factors are helpful in assisting the auditor in determining which matters in the audit would be critical audit matters. Specifically, “the degree of subjectivity,” “the nature and extent of audit effort required”, “the nature and amount of available relevant and reliable evidence,” “the degree of difficulty in obtaining such evidence,” “the severity of control deficiencies,” resulting “changes in the auditor's risk assessments,” “the nature and significance of misstatements,” “the extent of specialized skill or knowledge” required, and “the nature of external consultations” all provide more background on the financial health of a company.(Appendix 5) I recommend all factors be included.

17. No, there are no other factors that the Board should consider adding to assist the auditor in determining which matters in the audit would be critical audit matters. Documenting and communicating critical audit matters will require incrementally greater financial and staffing resources, so I recommend limiting the factors included to those already addressed in the document.

18. Yes, the proposed requirement regarding the auditor's documentation of critical audit matters is sufficiently clear. It outlines the need for enough detail for the conclusions by the auditor to be clearly understood by any experienced auditor and differentiates critical audit matters reported and not reported as well as mentions potential management pressures and additional recurring costs that could arise.

19. Yes, the proposed documentation requirement for non-reported audit matters that would appear to meet the definition of a critical audit matter encourages auditors to consider in a thoughtful and careful manner whether audit matters are critical audit matters. This provides reasoning for omission and the basis for determination of seemingly critical audit matters by the auditor in the auditor's report. It also notifies auditors of potential management pressures to exclude such matters from the auditor's report.

20. Yes, the proposed documentation requirement is sufficient. The Board should consider broader documentation after the initial implementation of the critical audit matters in auditors' report.

21. & 22. The additional costs related to the auditor's determination, communication, and documentation of critical audit matters that the Board should take into account revolve around time needed for preparation and review to include critical audit matters, both one-time costs and recurring costs, and vary given the types of audits being performed. As quality may improve in the auditor report, the Board should expect new quality control processes to arise as well as the need for additional training. These costs will affect auditors, companies and audit committees. The impact on companies will vary given size, as larger companies having more information available in the market than smaller companies. Thus, the inclusion of critical audit matters will reduce the market information asymmetry due to company size and potentially lower the cost of capital for smaller companies as lenders and investors gain more insight and confidence into financially sound small companies.

23. Audit fees will increase given the requirement to determine and communicate critical audit matters under the proposed auditor reporting standard. However, the quality of the auditors' reports is likely to increase.

24. Yes, special events encountered by a company should trigger the requirement of critical audit matters to be communicated by the auditor each period presented. The circumstances of the special events would need to directly impact the financial health of companies in order to trigger this requirement.

25. Yes, the illustrative examples provided offer useful and relevant information of critical audit matters and at an appropriate level of detail. Each of the three examples details the background, excerpts from company's notes to financial statements, determination and communication from the auditor. This provides a thorough way to understand how an auditor would determine and communicate the critical audit matter. I recommend that the examples be included.

26. The challenges associated with the comparability of audit reports containing critical audit matters include the type of audit performed, different auditors, varying levels of interactions with management of the auditors, and changes in accounting practices.

27. There are benefits and unintended consequences 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. Users of financial statements and investors generally may benefit from understanding the critical audit matters faced by the auditor in greater detail and, in doing so, improve their financial analysis of companies and investment decisions. But, an unintended consequence may be that the market overemphasizes the significance of the critical audit matter. When companies encounter economic, business or profitability issues, there may be a flight of capital away from companies reporting critical audit matters that the market deems too risky. The Board should not make changes to overcome this unintended consequence, but rather allow the market to react to the information with a hands-off policy.

28. The auditor's communication of critical audit matters under the proposed auditor reporting standard may increase the auditor's potential liability in private litigation. This communication should not lead to an unwarranted increase in private liability provided that the auditor does not misuse the critical audit matters as a way to influence investors and users of financial statements. The proposed steps the Board has outlined to mitigate the likelihood of increasing an auditor's potential liability in private litigation, including a description of the auditor's responsibilities, specific procedures, and specific responses, should be implemented.

Thank you for the opportunity to provide comments on PCAOB Rulemaking Docket Matter No. 034.

Best regards,

Lauren Craft