

**From:** [Hasan Andalib](#)  
**To:** [Comments](#)  
**Subject:** RE: PCAOB Rulemaking Docket Matter No. 034 - Comments  
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December 02, 2013

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Public Company Accounting Oversight Board  
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United States  
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**Subject: Comments on Release No. 2013-005; PCAOB Rulemaking Docket Matter No. 034**

Dear Sir,

Thank you for giving us the opportunity to comment on your Proposed Auditing Standards - *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; and Related Amendments to PCAOB Standards*. I am a banker by profession and a retail investor on the side. I have been working in banking for a number of years, have a MBA degree in finance and consider myself quite proficient in terms of identifying and analyzing investments.

As I understand that the recent proposals are designed to retain the current "pass/fail" audit report model while increasing the informational value and relevance of the

report. Auditors would be required to communicate "Critical Audit Matters" (CAM) as determined by the auditor. These would be defined to be those addressed during the current-period financial statements 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 in forming the opinion on the financial statements. Presumably these would entail items such as allowance for sales returns, valuation allowance for deferred tax assets, and fair value of fixed maturity securities held as investments that are not actively traded.

The auditor, in compiling the report, would need to identify the critical audit matter, describe the considerations that led the auditor to determine that the matter is critical, and refer to the relevant financial statement accounts and disclosures related to that matter, when applicable. If it is determined that there are no critical audit matters, the auditor would state that in the report. However, this subjective nature of CAM is something that I cannot support from the perspective of an experienced investor. The risk of including additional disclosures regarding critical audit matters in the audit report is that users of the financial statements may not have enough context to appropriately interpret them. It would most likely be vague as there is no set standard or criteria. It would be open to interpretation and might vary from one auditor to another. Due to this, investors could get confused and make wrong investment decisions. Also, this brings up the possibility of raising unnecessary red flags and driving away potential investors.

On another note, public disclosure of CAM might end up driving company strategy and eventually lead to fraudulent financial report or manipulating internal controls geared to meeting analyst expectations and favorable audit reviews. It could also cause tension between auditors and their clients, by the virtue of being more subjective. Interestingly this conflicts with another new aspect of reporting tenure of auditors. It is quite possible that firms will frequent change auditors until they find the ones giving them favorable reviews even overlooking CAM section. Due to the highly subjective interpretation of critical matters, the CAM section could also instigate legal battles between competitors or for fuel the fire to existing litigations that a company might have.

With respect to each Critical Audit Matter the auditor would be required to identify the matter, describe the considerations that led the auditor to determine that the matter is

critical and refer to the relevant financial statement accounts and disclosures that relate to the critical audit matter. This required disclosure would fundamentally change the content of an auditor report and could have significant implications on the audit process and the auditor/management/audit committee relationship. Currently, an auditor's judgments and views are communicated solely to management and the audit committee and the company is responsible for communicating accounting judgments to shareholders through disclosure of its accounting policies in the notes to the financial statements (which is audited). The Disclosure Proposal significantly alters this paradigm by requiring the auditor to communicate directly to shareholders its judgments with respect to these matters.

The auditor's communication of critical audit matters would be based on information known to the auditor and procedures that the auditor already performed as part of the audit. Thus, the proposal does not modify the objective of the audit of a public company's financial statements or impose new audit performance requirements, other than the determination, communication and documentation of critical audit matters.

The proposed changes to the audit report would also add a requirement to include information in the report related to auditor tenure and independence. This is another item in the proposal that I disagree with, i.e requirement for an audit firm to disclose the year it began serving as a company's auditor. Personally I would express concern about including that information in the audit report because it has not been empirically proven that there is a correlation or relationship between audit quality and length of an audit firm's tenure.

Based on these factors, I am doubtful about the impact that disclosure of critical audit matters would have on the general investor community. On one hand it may provide additional clarity to professional investors and help them analyze more. But on the other hand, the subjective nature has the risk of driving away or confusing non-professional/retail investors.

Thanks & Best Regards,

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