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Office of the Secretary, PCAOB  
1666 K Street N.W.  
Washington, DC 2006-2803

**PCAOB Rulemaking Docket Matter No. 034**

Dear PCAOB Board,

I am writing to communicate my perspective as an individual investor regarding the PCAOB's proposed auditing reporting standard. As articulated in the PCAOB Release No. 2013-005, the major purpose of these changes would be for the auditor to communicate critical audit matters addressed during the audit of a company's financial statements. Furthermore, these critical audit matters include mention of those topics the auditors found "most difficult, subjective or complex," as well as those which were the hardest for the auditor to obtain sufficient evidence for and proved the most challenging in providing an opinion on. While I recognize that the opinions and perspectives of all of the various stakeholders that are party to the auditing report must be considered and duly weighed, I felt compelled to express my perspective as one of the many individual investors who utilize the auditing report as a factor in making investment decisions.

The PCAOB Release No. 2013-005 articulates that one of the motivations behind the proposed rule changes is to make the auditor's report more relevant to investors looking to gain insights useful for potential financial decisions concerning the audited company. Since one of the main purposes of audited financials and the auditor's report is to alleviate the asymmetry of information between company management and investors, the PCAOB reasons that by increasing the relevance of the document to investors, the audits' mission is furthered. On the other hand, there is a counter-argument

to making changes to the auditor's report which reasons that it is not the responsibility of the auditors to communicate clear information about a company's financial position, but rather that of management. However, I argue that because a company's management is not an independent third party, it is not capable of objectively mitigating the information asymmetry which exists for investors. Therefore, the auditors alone should be charged with addressing this. After all, there is a benefit to the entire financial system to providing investors with clear, objective information about companies' financial positions which can be used by them to better understand and to price risk. These include a lowering of the cost of capital and increased availability of financing.

There are several other reasons for increasing information regarding an auditor's unqualified opinion. First, there is little disagreement that the current auditing environment is quite different from the one in which the auditing system was developed in the 1940s. Globalization and increased financial and operational complexity have created greater ambiguity in accounting and led to increased utilization of estimates and judgment by management in the creation of financial statements. As a result, financial statements that received a passing grade could still have misrepresentations that significantly affect the economics of a company's current and future financial position. Secondly, the spate of accounting scandals over the past decade, many of which went unnoticed, or unexposed, by auditors have changed investors' attitudes towards auditors' opinions and reports. I believe these two factors are intertwined and ultimately serve to reduce the value that investors derive from the pass/fail rating system currently in use.

While I do not argue the pass/fail standardization should be reevaluated at this juncture, I do believe that these two factors give credence to the argument that the current environment dictates a need for pass or fail opinions to be supported by a broader discussion or recognition of challenges, such as is currently proposed by the PCAOB. Such a discussion of critical matters would serve to better

inform investors who currently derive little to no comfort around risk levels based upon audited financial statements.

I agree with the auditors' opinions that any additional reporting which is required, such as around critical auditing matters, should be objective and factual. Page 10 of the PCAOB Release No. 2013-005 outlines alternatives for changing the auditor's report. I agree with the possible use of all of those listed except for the option which proscribes "auditor assurance on other information outside the financial statements." I believe that this option places auditors outside of their current, well understood role, and is a line that should not be crossed. As regards the other three options, as long as they do not place significant additional costs on auditors of time or resources, and if they adhere to objective and factual statements, each should be considered equally.

I believe that success or failure of PCAOB's recommendation to include a discussion on critical audit matters within the audit report will hinge upon how these changes are communicated to auditors and enforced. There are likely a large number of accounting matters which by definition may be quite subjective, complex, and difficult to obtain sufficient evidence around. Should all of these be termed critical auditing matters? If so, any discussion of critical auditing matters within the auditor report may risk becoming standardized and comprised of stock language, which would in turn take away from the effectiveness and relevance to investors which the PAOCB is hoping to achieve. Or, should the number of critical auditing matters addressed in the audit report be limited in order to really focus on the most pressing issues? If a limit is placed, how might this affect investors' understanding of a company's financial position if a significant issue is not included simply because it is the 4<sup>th</sup> most important matter, for example? I believe more guidance and detail needs to be given to how the PAOCB's recommendations will be implemented in order to know whether this will ultimately prove beneficial to investors.