December 10, 2013

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB Release No. 2013-005 Docket 034: Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments

The Accounting and Auditing Procedures Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed auditing standards revisions. The PICPA is a professional association of more than 20,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

Section I. Require the auditor to communicate in the auditor's report critical audit matters that were addressed during the audit of the current period's financial statements.

The committee understands that financial statement users would like greater transparency from companies and are looking to the auditors for this additional information. However, the committee disagrees with the underlying concept and role being proposed for the auditor in this proposal. The committee believes that the proposed communications are fundamentally flawed, are in direct conflict with professional ethics standards, and would not result in meaningful communication to the financial statement user.

1. As the requirement to communicate critical audit matters would likely greatly increase the auditor’s practice management exposure, it is unclear which risk areas that an auditor would be willing to leave out. As a result, the audit report would likely become a lengthy document noting all risk areas material and immaterial. Standardization would likely result, as each firm looking to manage its practice risk would centralize and standardize the communication process. The value of the proposed communications is questionable, as the end result would be a lengthy document that would read like an audit textbook.

2. The auditor is not permitted by many state statues and the AICPA Code of Professional Conduct to release confidential client information without the client’s permission. The Code defines confidential client information as follows:

"ET Section 92 – Definitions .05 Confidential client information. Confidential client information is any information obtained from the client that is not available to the public. Information that is available to the public includes, but is not limited to, information

- in a book, periodical, newspaper, or similar publication;
- in a client document that has been released by the client to the public or that has otherwise become a matter of public knowledge;
- on publicly accessible websites, databases, online discussion forums, or other electronic media by which members of the public can access the information;
- released or disclosed by the client or other third parties in media interviews, speeches, testimony in a public forum, presentations made at seminars or trade association meetings, panel discussions, earnings press release calls, investor calls, analyst sessions, investor conference presentations, or a similar public forum;
- maintained by, or filed with, regulatory or governmental bodies that is available to the public; or
- obtained from other public sources.

Unless the particular client information is available to the public, such information should be considered confidential client information.

Members are advised that federal, state, or local statutes, rules, or regulations concerning confidentiality of client information may be more restrictive than the requirements contained in the Code of Professional Conduct."

3. As the audit firm would be precluded from communicating any confidential client information, the client would have to approve the final wording of the audit report, including information about audit difficulties, negating the overall value of the communication. The auditors would likely involve their attorneys and the final audit opinion would result from a negotiation process involving the auditor, attorneys representing both parties, public relations specialists, and key members of a client's management. The process for issuing an audit opinion would not only be untenable, but if the process results in an adversarial situation, the auditor could lose independence and become unable to issue the opinion.

The auditor's role is to provide an opinion on the fairness of the financial statement presentation, not to provide communications regarding the overall health of the audited entity. If greater transparency is needed, the committee believes that financial statement users should look to the company's management for additional information (e.g., the "important information concerning the company, the company's environment, and the preparation of the company's financial statements" that is noted in the introduction to the proposal). If the financial statement users cannot ascertain this important information from the financial statements, then the communications included in the financial statements should be enhanced. The committee does not agree that the fundamental role of the auditor should change to correct a deficiency in financial reporting requirements.

Ultimately, the committee is supportive of proposed changes that would better communicate to the financial statement user the nature and limitations of an audit. The committee, for example, suggests that any proposed change to the audit report seek to minimize the gap between what financial statement users expect from the audit and what the audit is designed to accomplish. For example, improvements to the opinion could focus on further explaining the roles and responsibilities of the auditor and the audited entity's management, and that the audit is not designed to detect fraud due to the nature of fraud and the scope of the audit. The committee recommends that the PCAOB consider the findings included in the 103rd American Assembly Report, "The Future of the Accounting Profession," The American Assembly, Columbia University, which included tailoring the attestation level for the nature of the financial statement to remove the "illusion of exactitude." Two specific suggestions are as follows:

- More limited attestation on subjective judgments (e.g. accounting estimates and fair value determinations) instead verify reasonableness of process used.
- A new audit opinion to permit the external auditors to adhere to different attestation standards for different parts of the financial statements.

Section II. Add new elements to the auditor's report related to auditor independence, auditor tenure, and the auditor's responsibility for, and evaluation of, other information in annual reports containing the audited financial statements and the related auditor's report.

The question infers that the length of the auditor's tenure has a definite and measurable impact on the quality of the audit, with the longer the tenure the less the quality. The committee disagrees with this premise and believes that audit quality is lessened with mandatory firm rotation.

Section III. Enhance certain standardized language in the auditor's report, including the addition of the phrase "whether due to error or fraud," when describing the auditor's responsibility under PCAOB standards to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether due to error or fraud.

The committee supports the changes included in this area.

We appreciate your consideration of our comments, and members of the committee are available to discuss any of these with you at your convenience.

Sincerely,

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Chair, PICPA Accounting and Auditing Procedures Committee

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