

**From:** [Tae Kim](#)  
**To:** [Comments](#)  
**Subject:** comments of PCAOB change. \_Georgetown MBA 2nd year student\_Tae Kim  
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## INTRO

I spent more than 6 years in accounting field as an auditor in Big 4 accounting firm. So I have experienced limitation and difficulty of financial audit. I observed many companies receive an “Unqualified” opinion go bankrupt or become distressed within a couple of years of the judgment. The result was investors, who relied on the opinion, losing money. Why did this happened? The auditor didn’t do their work properly and therefore did not identify the problem. Still many investors and financial information users think auditors have better and unique insights based on their audits. In this regard, some believe auditors should provide information about their methods in the auditor’s report to make the reports more relevant and useful. On August 13, 2013, the Public Company Accounting Oversight Board (PCAOB) proposed two new auditing standards to enhance the reporting model.

Before we identify any potential problem or effect of new changes, we should understand the nature of audits; **auditors do not take responsibility for the financial statements on which they form an opinion and the responsibility for financial statement presentation lies directly in the hands of the company being audited.** As long as responsibility of financial statements does not fully fall on to auditors, a new initiative which PCAOB propose, **I believe there is higher chance that effect of new judgment call for auditors would be minimal.**

### Critical Audit Matters (CAMs)

First, the proposed standards would require the audit report to disclose and describe CAMs that were specifically examined during the audit. The PCAOB proposal define CAMs as matter involving the most difficult, subjective or complex auditor judgments, including areas that posed the most difficulty to the auditor in obtaining evidence or forming and opinion on the financial statements.

I experienced many difficulties during the audit when I was a low-experience staff auditor. I took care of “contingent liability”, I had contact with lawyers and experts in other fields regardless of level of complexity. In retrospect, personally I want to say those three cases were the extremely difficult for me. If this is the case, guideline of CAMs asks us to include those three cases within CAMs.

**However, I do not support this assertion.** Based upon CAMs guideline, many auditors will need to spend their time compiling and organizing facts for the CAMs rather than focusing on their traditional auditing. Regardless of industry, the auditor spends many hours to verify numbers on the financial statements such as account receivable and allowance for account receivable or verifying the number for impairment. Do those need to be included within the CAMs? In that case, all audit reports would require trivial information such as all the depreciation recalculation information and aging schedule. **I strongly believe that CAMs will not enhance the quality of audit information but it will just increase the load of the auditor's work. Requiring subjective standard would be hard justify in an objective manner.**

#### Other Information (OI)

The proposed standard would require the auditor to perform an evaluation of, and report on, information outside of the audited financial statements that is included in a company's annual report filed with SEC. This OI would include management's discussion and analysis of financial condition (MD&A), results of operations, exhibits, etc. Auditor should perform additional procedure to determine whether the OI contains a material misstatement of fact in the audited financial statements.

Auditors are not industry experts. They cannot judge management's future projection within MD&A for their business and are also not capable of verifying the reference data included within financial statements made by management. Based on Big 4 experience, having an interview for Discounted Cash Flow projection and having an interview for reconciling accounts are totally different. **As a whole, it is not feasible and adopting this procedure will require huge costs and generate little benefit to investors and financial users.**

#### Additional Changes

The proposed standard would require the audit report to contain a statement regarding the auditor's existing requirements to be independent from the issuer, and a statement disclosing the year that the audit firm began serving continuously as the company's auditor. In addition, the proposal would require auditors to address their responsibilities related to the notes to the financial statements, fraud and independence.

I do not think auditors' tenure information give some useful insights. Already, financial information users can find this data easily by checking the auditor's report. **This is obviously unnecessary suggestion. Also, addressing the responsibility for the fraud can bring side-effects. Auditor's job is not finding fraud;** maybe responsibility has to fall on the internal auditors or board members and financial executives. **Again, PCAOB has to understand that detecting financial statement fraud is not auditor's work.**

#### Conclusion

"Substance over form" and "Materiality" are the most important devices auditors use for their work. I truly understand the motive for this proposal, which increases the informational value and expands the auditor's responsibilities by improving current auditor reporting model. This proposal implies that current model do not work well and auditor should have more responsibility. This new initiative reminds me Sarbanes-Oxley Act of 2002

(SOX 404). I participated many SOX 404 engagements for US listed companies and even at that time, I had many doubts of effects if SOX 404 implementation; it was not only me who had doubts. By walking through this PCAOB's proposal, I sensed that there is strong similarity between SOX and the PCAOB's new initiative. This proposal would add value and not create misunderstanding if it designed and processed extremely well.

However, based on my observation, I believe it can be the next SOX 404 which has many controversial issues as an example, its failure to prevent the situations that led to the financial crisis of 2008. Many companies still tell me that it was expensive and useless. Lastly, I want to tell PCAOB who is taking care of this initiative; please focus the substance over form. Having a newly designed form does not enhance the value and quality of audit reports.

#### Reference

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2. Article from Perkins Coie (Aug 22, 2013)
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4. Journal of Accountancy\_by Ken Tysiac (Aug 23, 2013)
5. Article from The NY State Society of CPA\_Vol 16\_No 9 (Sep 23, 2013)

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Regards, Tae Kim

MBA Candidate 2014 | Georgetown University  
McDonough School of Business  
[hk559@georgetown.edu](mailto:hk559@georgetown.edu) | (202)304-3889