RETAIL INDUSTRY LEADERS ASSOCIATION
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1700 North Moore Street, Suite 2250, Arlington, VA 22209

August 15, 2016

Public Company Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

ATTN: Office of the Secretary

Re: PCAOB Rulemaking Docket Matter No. 034

TRANSMITTED VIA EMAIL: comments@pcaobus.org

Members of the Board:

The Retail Industry Leaders Association ("RILA") and its Financial Leaders Council ("FLC") are pleased to submit the following comments on the Board's Proposed Auditing Standard for *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion* ("Re-proposed Standard"), issued by the Board on May 11, 2016. RILA is an organization of the world's most successful and innovative retailer and supplier companies – the leaders of the retail industry. RILA members represent more than $1.5 trillion in annual sales and operate more than 100,000 stores, manufacturing facilities, and distribution centers nationwide. Our member retailers and suppliers have facilities in all 50 states and the District of Columbia, as well as internationally, and employ millions of workers domestically and worldwide.

RILA and its FLC commend the Board for engaging in a thoughtful process and re-proposing its views following its initial, proposed standard to address the subject, issued by the Board on August 13, 2013, and its Concept Release on *Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements*, issued by the Board on June 21, 2011. Most of our members are public companies and all of our members recognize that the efficient operation of our markets mandates that financial statements present fairly the financial position of the company and provide sufficient transparency so that investors and other users of financial statements can make informed investment or other decisions.

We believe two of the most important areas for improvement with respect to financial information are 1) to improve the timeliness of the auditor's report and 2) to provide necessary information but not create information overload. Unfortunately, changes discussed in the Re-proposed Standard, relative to the communication of critical audit matters, are still contrary to both of these objectives. The additional disclosures increase the length of time necessary to complete an audit and, as a consequence, increase the length of time required to make audited financial information available to investors. Investors interested in our member companies would prefer more timely disclosure as opposed to increased disclosures in the auditor's report. In addition, disclosure of critical audit matters only adds to information overload, without contributing to assurances that the financial statements are free of material misstatement.

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Our specific comments follow:

1. The Re-proposed Standard has been revised to define a critical audit matter as any matter arising from the audit that was required to be *communicated to the audit committee* and that *relates to accounts or disclosures that are material to the financial statements* and *involved especially challenging, subjective, or complex auditor judgment.* SEC rules already provide for disclosure of audit related information that the SEC believes is relevant to investors in the Management Discussion and Analysis ("MD&A"). Disclosure of critical audit matters, as defined in the Re-proposed Standard would not serve the best interests of investors or other users of financial statements. Simply providing information on critical audit matters that are defined as challenging, subjective, or complex in the opinion of professionals whose job it is to perform the audit function would simply provide more information, but not "good" or "better" information. Instead, we believe such disclosures would only increase confusion, speculation and the drawing of incorrect conclusions, potentially increasing litigation costs for both audit firms and preparers. Audit committees are charged with evaluating this information, in the context of the business at issue, and the company is required to follow SEC rules and U.S. GAAP standards governing related MD&A disclosures including, but not limited to, accounting estimates and policies, critical management judgments, risks and uncertainties. Further, we believe that the proposal would usurp the audit committee's oversight role, and the role of a company's Board, as auditors would, in effect, be making communications directly to investors.

2. According to the PCAOB release, *"communication of critical audit matters would be relevant to investors and other financial statement users by informing them of issues identified in the audit that were significant to the auditor and focusing their attention on issues that would be pertinent to understanding the financial statements."* We believe that the scope of a financial statement audit is to determine whether the financial statements are free of material misstatement. The issues that the auditor considered were obviously resolved to the auditor's satisfaction if the auditor is able to opine that the financial statements are free of material misstatement. What the auditor considered and discussed with the audit committee in order to reach the opinion that the financial statements are free of material misstatement will not provide investors with information that would allow a user of the financial statements to better understand those financial statements. The proposed inclusion of critical audit matters in the audit report distorts the auditor's function from an attestation role to a reporting role.

In sum, auditing standards are designed and audit firms are trained explicitly to obtain reasonable assurance that financial statements are free of material misstatement and therefore, are accurate. Frequently matters require communication to the audit committee. Most audits have subjective and significant auditor judgments related to accounts or disclosures that are material to the financial statements. Furthermore, many audits have areas that are challenging, subjective and complex to audit. This does not imply that a company is a good investment or a bad investment. The investor community is inherently in the best position to understand the risks and rewards of investing in a business; this ownership should not be delegated to an audit firm.

Although we appreciate the efforts and the outreach of the Board, we do not believe that the changes discussed in the Re-proposed Standard, relative to the inclusion of critical audit matters, is necessary. In our opinion, these disclosures would not improve the quality of audits or financial statements. Quite the contrary, the inclusion of critical audit matters in the audit report would increase audit costs, increase litigation costs resulting from confusion, speculation and drawing of incorrect conclusions, and protract the time necessary to complete an audit. We thank you for the opportunity to respond to the Re-proposed Standard and to provide our comments.

Respectfully submitted,

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