

Statement of Aulana L. Peters

PCAOB Roundtable

Washington, D.C.

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Chair Doty, Members of the Board, Director Baumann and Staff:

Thank you for the opportunity to share my views on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") Release No. 2013-005: 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 (the Release).

As members of the Board may already know, I firmly believe that users of financial statements could benefit from an expanded Auditor's Report and I support the PCAOBs efforts to improve the current form of Audit Report. Based on my experience as a lawyer who defended audits in court; as a former securities regulator, and as a member of several audit committees, I have concluded that the current standard form report used by auditors suffers from a lack of transparency as to how and why an auditor arrives at his/her conclusion that the financial statements, which are the subject of the auditor's opinion, are presented fairly. Thus, I agree with the Board's observation that, today, the auditor's report has symbolic value, but communicates little. Consequently, I support the Board's stated goal to enhance the informational value, usefulness and relevance of the auditor's report.

The question is: what should the auditor's report communicate? In my view, the contents of the auditor's report should relate directly to and illuminate the auditor's opinion. The report should include more information about the audit process and approach so that users/readers of financial statements better understand the role and responsibilities of the auditor. I believe that

the Board's proposed standard addresses this need by requiring the report to include additional information about the auditor's role (as in paragraph 6 of the proposed standard) and the audit process (as in paragraph 9(e)-(h)). However, the rationale stated in the Release in support of the Board's proposed standard, it appears that the Board's approach is designed, in some substantial part, to give the investor broader access to management information than is presently available. Significantly, disclosure of some of this information is not mandated by the Securities laws. I view this as very problematic. While I agree with the Board's position that the auditor's report should be designed to provide readers of financial statements useful information, that information should be directed at providing a better understanding of the audit process and resulting opinion. I do not agree that the auditor's report should be re-purposed to make generally inaccessible information about the issuer public; especially, where such disclosure is not related to the financial statements and is not mandated by the Securities Laws.

Critical Audit Matters

The Board's proposed standard for an audit report that expresses an unqualified opinion would require the auditor to identify and address in the report Critical Audit Matters (CAM) which are defined as matters which the auditor found to be the most challenging and difficult to audit with respect to the complexity of the issue presented; the amount of effort required, and the difficulty encountered in obtaining sufficient appropriate evidence. This definition, while it focuses on issues auditors must, and do address, does not seem to take into account the notion of "materiality" or the "risk based" approach commonly used today in planning and executing audits. I would like to suggest that the factors to be considered in identifying CAM should be based on what the auditor determines to present the greatest audit risk and the greatest risk of material misstatements in the financials, whether due to error or fraud. In my view, such information would be much more useful to

the reader of financial statements to understanding the auditor's opinion on those statements.

The Release and the language in the proposed standard focuses on requiring the auditor to publicly report problems encountered during the audit rather than to describe the process through which the auditor reached his/her opinion on the financial statements in question. My concern about this approach is that matters which present the auditor with significant challenges and require a lot of effort to resolve may not be material. Or present a risk of material misstatement in the financials. To the extent that they do they are resolved before the issuance of the opinion and reporting them as "challenges" and "difficulties" after they are resolved might serve to undermine the value of the unqualified opinion. In my view an audit report structured on a definition of CAM which focuses on identifying the most important or significant risks of misstatements in the specific financial statements, whether due to error or fraud, and the risk that audit procedures, applied selectively, might not uncover such misstatements would be more useful in understanding the auditor's opinion. Requiring a detailed account of "challenges" and "difficulties" all of which had to have been overcome and/or resolved before the unqualified opinion is issued, in my view, is more likely to cloud the reader's view of the final audit result. Significantly, if the auditor's report focused on how the auditor planned and executed the audit with the greatest risks in mind, the most complex, subjective and challenging matters should be revealed, albeit in a slightly different context - as risks, not as problems. It occurs to me that if the new reporting standard is structured along the line I suggest, not only will it address the investors desire to better understand the auditor's opinion but it should not create much in the way of added cost, since it does not require a different mind-set, and should not require much additional documentation. Finally, I think that such an approach makes it clear that the auditor is required to communicate information about the audit not the company.

Auditors' Responsibilities Regarding Other Information

I have two observations on this topic, based solely on my reading of the Release, which reflect my concerns about the proposed changes to AU sec. 550. First, if I understand the narrative in the Release correctly the increased responsibility imposed on the auditor for "other information" is being driven more by a desire to eliminate to some degree the asymmetry of information between Management and users of financial statement rather than to increase confidence in the fair presentation of those statements. Second, it is not clear whether in those cases where an auditor discovers an inconsistency or misstatement in "other information" not related to the financial statements and therefore is not required to undertake additional procedures in order to evaluate such information nevertheless has the obligation to disclose his knowledge of the inconsistent other information in the auditor's report. To what end?